

May 2006, Vol. 2, Issue 3

Guidance on the Proper Use of Award Fees

On March 29, 2006, James Finley, the Deputy Under Secretary of Defense for Acquisition and Technology, issued a memorandum addressing the use of award fees. The guidance addressed three major areas of concern expressed by GAO in December 2005 (<http://www.gao.gov/new.items/d0666.pdf>). Compliance with these three areas will have an impact on how you structure your contracts and the compliant recording of program revenues in your books and records.

- Link Award Fees to Desired Outcomes – It is imperative that award fees be tied to identifiable interim outcomes, discrete events or milestones.
- Award Fees Must Be Commensurate with Contractor Performance – Award fee arrangements must be structured to motivate excellent contract performance. Satisfactory performance should earn considerably less award fee than excellent performance while performance that is less than satisfactory is not entitled to any fee.
- Rollover of Award Fees – Award fee rollover provisions should be the exception rather than the rule allowing the contractor to only earn a portion of the rollover fee, even for subsequent excellent performance.

This memorandum is available at <http://www.acq.osd.mil/dpap/policy/policyvault/2006-0334-DPAP.pdf>.