

Contract Types

Contract types are generally grouped into two broad categories: fixed price contracts and cost reimbursement contracts.

1. Fixed Price Contracts:
 - a. A price that is not subject to any adjustments.
 - b. Places upon the contractor maximum risk and full responsibility for all costs and resulting profit.
 - c. It provides maximum incentive for the contractor to control costs and perform effectively.
 - d. Firm Fixed Price contracts are the preferred method of contracting from the government's perspective. Used when sealed bid is involved. Used for acquiring supplies and services and/or for acquiring commercial items.
2. Variations of fixed price contracts:
 - a. Economic price adjustment: revision of prices for specific contingencies.
 - i. Adjustments based upon increases or decreases from an agreed upon level in either published or established market prices for specific items.
 - ii. Adjustments based upon actual increases or decreases in the price of specific items of cost or specific labor that the contractor incurs.
 - iii. Adjustments based upon increases or decreases in the specific labor or material cost standards or indexes, such as Bureau of Labor Standards indices.
 - b. Incentive Contracts: An FPI contract specifies a target cost, a target profit, a price ceiling and a profit adjustment formula. The FPI contract provides a profit motive for the contractor to perform efficiently from a cost perspective. If the contractor completes the contract while incurring less cost than originally anticipated, the contractor will receive more profit.
 - i. Used when a fixed-firm contract is not appropriate
 - ii. Supplies/services can be acquired at lower costs, with improved delivery or improved technical performance.
3. Cost Reimbursement Contracts
 - a. Provides for payment of allowable incurred costs, to the extent prescribed in the contract. Establishes an estimate of total costs for the purpose of obligating funds and establishes a ceiling that the contractor may not exceed, except as his own risk.
 - b. Cost reimbursement contracts place the least cost and performance risk on the contractor.
 - c. Cost-reimbursement contracts are suitable for use only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use and type of fixed price contract.
 - d. Used for research and development contracts. Prohibited for the acquisition of commercial items.

An Example of a Cost Contract: Cost Plus Fixed Fee.

CPFF=Cost plus fixed fee. A detailed breakdown of estimated costs, both direct and indirect is provided, and the customer will allow certain specific dollar amount for profit and fee. You will be allowed to invoice for actual costs incurred, or for actual costs paid for and due for reimbursement (depending on the contract terms), and each invoice may include a proportion of the fixed fee. But you will not be allowed to bill for costs that exceed the agreed upon estimate without the advance approval which is not always granted.

Other Variations of cost reimbursement contracts:

Cost plus incentive fee

Cost plus award fee

And others

4. Time and Material Contracts
 - a. Direct labor hours at specified hourly rates
 - b. Materials at cost
 - c. Used only when not possible to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence. Used of supplies and materials.
5. Letter Contracts
 - a. Written preliminary contractual instruments that authorize the contractor to begin immediately manufacturing supplies or performing services.
 - b. A letter contract may be used when (1) the government's interests demand that the contractor be given a binding commitment so that work can start immediately and (2) negotiating a definitive contract is not possible in sufficient time to meet the requirement.
6. Indefinite Delivery Contracts: There are three types of indefinite delivery contracts: definite quantity contracts, requirements contracts, and indefinite quantity contracts.
 - a. Definite quantity contracts
 - i. Provides for the delivery of a definite quantity of specific supplies and service for a fixed period. Deliveries or performance to be scheduled at designated locations upon order. A definite quantity contract may be used when it can be determined in advance that:
 1. A definite quantity of supplies or services will be required during the contract period; and
 2. The supplies or services are regularly available or will be available after a short lead-time.
 - b. Requirements Contract:
 - i. A requirements contract provides for filling all actual purchase requirements of designated Government activities for supplies or services during a specified contract period, with deliveries or

performance to be scheduled by placing orders with the contractor. A requirements contract may be appropriate for acquiring any supplies or services when the Government anticipates recurring requirements but cannot predetermine the precise quantities of supplies or services that designated Government activities will need during a definite period.

c. Indefinite Quantity

- i. An indefinite quantity contract provides for an indefinite quantity, within stated limits, of supplies or services during a fixed period. The Government places orders for individual requirements. Quantity limits may be stated as number of units or as dollar values. Contracting officers may use indefinite-quantity contracts when the government cannot predetermine, above a specified minimum, the precise quantities of supplies or services that the Government will require during the contract period, and it is advisable for the Government to commit itself for more than the minimum quantity. The contracting officer should use an indefinite-quantity contract only when recurring need is anticipated.

7. Agreements:

a. Basic Agreements

- i. A written instrument of understanding, negotiated between an agency or contracting activity and a contractor that (1) contains contract clauses applying to future contracts between parties (2) contemplates separate future contracts.
- ii. Should be used when a substantial number of separate contracts may be awarded during a particular time period and significant recurring negotiating problems have been experienced.

b. Basic Ordering agreements

- i. A written instrument of understanding, negotiated between an agency, contracting activity and a contractor that contains (1) terms and clauses applying to future contracts (orders) between parties (2) a description, as specific as practical, of supplies or services provided and (3) methods for pricing, issuing and delivering future orders. This is not a contract.
- ii. Used to expedite contracting for uncertain requirements for supplies and services when specific items, quantities and prices are not known at the time of agreement inception, but a substantial number of requirements for the type of supplies or services are anticipated to be purchased. Blanket purchase agreements are under this category.

8. Purchase Orders:

- a. Are issued on fixed-price basis for acquisition of commercial items.
- b. Specific quantity of supplies and services

9. Government Commercial Purchase Card (Credit Card)
 - a. Used to make purchases for supplies and services
 - b. Used of micro purchases (less that \$2500)
 - c. Does not require provisions or clauses