

National Aeronautics and
Space Administration
Office of the Administrator
Washington, DC 20546-0001



August 1, 2008

TO: Officials-in-Charge of Headquarters Offices
Directors, NASA Centers

FROM: Deputy Administrator

SUBJECT: Implementing NASA's Procurement Tenets

NASA faces immense challenges over the next several years and must meet them with a fiscally-constrained budget. Some of these challenges are maintaining operations of the Space Shuttle and the International Space Station, continuing to perform valuable scientific and aeronautics research programs, and bringing the Constellation program to an operational capability as soon as possible. One of the areas we sometimes overlook in meeting these challenges is the fundamental role of procurement. NASA spends approximately 85 percent of its budget acquiring goods and services each year, which all go through procurement.

The enclosed Procurement Tenets are a set of principles defining a NASA way of doing business with an emphasis on procurements. The objective is to increase NASA's buying power. The tenets should be applied as early as possible during the development of strategies and requirements for NASA acquisitions. These tenets are written at a top level so that each office overseeing an acquisition has the flexibility to implement the appropriate strategy based on the circumstances (requirement, marketplace, capital investment, transition time and costs, and time required to complete the work). These tenets apply to the entire acquisition process, from strategy development through contract management to closeout.

The Procurement Tenets set a new framework of doing business for NASA. In some cases, they may require culture changes, but the rewards will be worth the effort. The tenets apply to all NASA personnel involved with the planning and management of NASA contracts. I endorse the enclosed tenets and want you to begin applying them. If you have questions about the tenets, please contact Bill McNally, the Assistant Administrator for Procurement. His e-mail address is william.p.mcnally@nasa.gov.


Shana Dale

Enclosure

NASA PROCUREMENT TENETS

Introduction:

The goal of procurement is to ensure the Agency executes its mission successfully by effectively and efficiently managing the acquisition process. NASA spends approximately 85 percent of its budget on acquiring goods and services. The Procurement Tenets are a set of principles defining a NASA way of doing business with the objective of maximizing NASA's return on investment and increasing its buying power when contracting out for supplies and services. These tenets are ancillary to other Federal and NASA regulations, policies, and core values. They apply to the development of strategies and requirements for NASA procurements. These tenets are written at a top level so that each acquisition can implement the appropriate strategy based on the circumstances (requirement, market place, capital investment, transition time and costs, and time required to complete the work) for each acquisition. These tenets apply to the entire acquisition process, from strategy development through contract management to closeout. Each principle shall be addressed in all of NASA acquisition and procurement strategies, processes, and procedures.

Integrated Acquisition Strategies/Product Teams

NASA programs/projects shall develop an integrated acquisition strategy that involves all functional representatives (engineering, safety and mission assurance, legal, financial, procurement, small business, and various technical authorities) early and throughout the acquisition process from acquisition planning to execution.

Acquisition is a multi-faceted process. Acquisition planning requires the formation of an Integrated Product Team (IPT) to ensure all aspects of the acquisition are considered in the early development of an acquisition strategy and detailed acquisition management plan. The program/project manager shall develop a risk-based master plan for program execution and establish an IPT environment early in the process for the planning and management of each acquisition. This will include representatives from the appropriate functional organizations. As part of the development strategy process, NASA shall communicate with industry, encouraging input and keeping industry informed throughout the acquisition process.

An acquisition or procurement strategy serves as an internal roadmap for Agency officials to obtain current and future requirements for programs/projects in the most cost effective manner possible. Strategies and management plans shall be continually reviewed and updated as conditions and technologies change internally at NASA and externally in the marketplace. IPTs should publish examples of best practices and lessons learned on Agency-accessible web sites for future teams' use. Contractor proprietary data shall not be included on these web sites. Acquisition information will be available through NASA business systems to IPTs across the Agency to ensure they have access to information about current practices, experiences, and innovations.

Turn the Contract Upside Down

It is critical to turn the contract and its acquisition planning process “upside down” to understand the supply chain for an acquisition.

This tenet requires that the IPT lay out the requirements for an acquisition to determine the right number of prime contracts required to effectively meet an outcome and to gain the desired insight of prime contractors’ supply chain management. This will allow NASA to maximize its strategic sourcing opportunities. Prime contractors remain responsible for the performance of their suppliers. Subcontract management shall be a factor in source selections, award-fee evaluations, and past performance assessments. Personnel, teams, subcontractors, and suppliers should share in the objectives and rewards of NASA contracts. Since many NASA projects involve large prime contractors, NASA shall aggressively pursue realistic, efficient, and effective socio-economic goals at all subcontract levels. All subcontracts and other supplier agreements shall be an integral part of the requirements being acquired under prime contracts and shall not be issued solely for the purpose of meeting the small business goal of a contract. NASA and its prime contractors shall be aware of and fully utilize the technology developed under the Small Business Innovative Research and Small Business Technology Transfer Programs Phase I and Phase II contracts.

Maximize and Optimize Competition

NASA programs/projects shall maximize and optimize competition opportunities when acquiring supplies and services.

Maximizing competition requires early and ongoing communication between NASA and industry and internally between the requiring activity and the Office of Procurement. Within NASA, the Office of Procurement shall work with programs/projects to develop requirements and to perform early top-level market research. Requirements are developed before conducting market research and then refined and validated afterward. Requirements shall be articulated in a clear and performance-based manner so that they will encourage as many companies as possible (both prime contractors and subcontractors) that are capable of performing to compete for the award. During the initial stage of the acquisition, there shall be a strong focus on obtaining, analyzing and, where appropriate, incorporating industry input into requirements and on determining the best ways to achieve the desired outcomes. Draft requirements documents, requests for information, a draft request for proposal, and industry days should be used when appropriate to encourage maximum input from industry.

Factors to consider in developing a competitive strategy are the knowledge level and complexity of the requirement, number of capable companies in the marketplace, capital investment, transition time, costs, and the time required to complete the work.

- The amount of NASA and industry investment and the time required to perform the effort are important factors in determining the length of a contract. When acquiring services that do not require a lot of industry capital investment, NASA shall take advantage of competition in the marketplace and plan for contracts of no longer than five years including options.
- Prior to exercising an option on a contract, the contracting officer shall use contractor performance as a significant factor for determining whether to exercise the option. Re-competitions shall be considered during the initial acquisition planning.
- On Design, Development, Test, and Evaluation (DDT&E) contracts (Phases A through C), NASA shall obtain the right data with unlimited data rights when prudent to effectively manage the existing contract and follow-on contracts. The ability to share the data, which is not company proprietary, will allow maximum industry opportunities for follow-on contracts and provide NASA the capability to compete requirements when appropriate.
- The programs/projects shall continually look for the right component breakout opportunities while in the production and operations phases (Phases D and E) that do not pose integration risks to NASA.
- Plans, procedures, and processes for all competitions (including the use of GSA contracts) shall be thorough and strictly followed but should not be overly complicated.

Requirements

NASA shall clearly specify the Agency's desired outcomes in the requirements documents (specifications, data requirements, and statement of work/performance work statement) for planned contracts and only apply requirements that are applicable to the supplies or services being procured.

All acquisitions should start with a requirement definition that clearly identifies the Agency's desired outcome for a contract. Program/project managers and teams shall employ a zero-based approach to develop requirements and then must maintain the zero-based approach in program execution. A zero-based approach means that all requirements shall be thoroughly evaluated for direct applicability to the planned procurement and thereby "earn" their way into contracts. Requirements shall be consistent with Agency policies and standards and shall relate to the desired outcomes of the project. The zero-based approach includes reviewing the number and frequency of data deliverable requirements and reviews. Additionally, there may be a need to modify institutional standards and processes in order to obtain a requirement in a more cost effective manner. Programs/projects shall develop a detailed plan for the correct number and type of data deliverables and insight on a planned contract prior to completion of the Request for Proposal documentation. Commonality of hardware, software, and data deliverables shall be part of the requirements development process.

NASA must maintain a close working relationship with industry in order to be successful. There should be a strong focus on performance outcomes, acquiring industry input regarding all requirements, and terms and conditions of planned contracts. Just as important, there should be a

strong focus on allowing industry to propose the best solution (e.g., performance-based contracting) to achieve these desired outcomes. Industry's recommended changes to NASA's requirements shall be analyzed, reconciled, and accepted when possible by the procurement and program/project offices, which will work with the appropriate technical authority in preparing final solicitations. When NASA is performing some of the work in an acquisition, the requirements documents shall clearly specify what NASA will do and what industry will do.

Streamlining

Working with procurement, the programs/projects shall streamline their requirements and processes to meet desired outcomes without compromising safety, good business decisions, or successful completion.

The objective of this tenet is to continually seek process improvements and efficiencies in acquiring supplies and services for NASA. Industry and the science communities incur financial and resource costs to respond to NASA solicitations. NASA must also strive to minimize the cost impacts and inconvenience that industry incurs in responding to solicitations, including Requests for Information. To minimize the burden to potential partners, NASA shall keep the information requested in a solicitation to a minimum. NASA shall continuously seek to streamline its processes to meet the desired outcomes without compromising mission success, safety, or good business decisions. NASA personnel shall seek industry input on ways to streamline the acquisition and eliminate non-value added requirements. Industry shall be encouraged and in some cases incentivized to streamline their processes to meet requirements in NASA contracts.

Performance Incentives

Contract incentives related to cost, schedule, and technical performance shall be considered in order to achieve desired outcomes.

Incentives shall be focused on how to motivate industry to achieve the desired outcome for the contract. In determining the type of incentive, consideration shall be given to the requirements being acquired (complexity, development phase, type of supplies, or services) and the marketplace (type of companies and number of companies capable of providing the supply or service). Areas for consideration when choosing incentives shall include life cycle cost (LCC), cost management, technical objectives, schedule, streamlining, safety, small business, and subcontract management. Objective performance incentives, in lieu of subjective ones, shall be utilized as much as practicable. In formulating award-fee contracts, consideration shall be given to establishing milestone-based performance evaluations with interim and final determinations. Award-fee determinations shall be made upon successful achievement of these milestones.

Use of past performance assessments and their feedback to industry is an invaluable incentive tool. To maximize the use of this incentive and ensure that NASA contracts are awarded to high-performing contractors, the program/project shall ensure that performance information is

systematically collected and submitted to contracting officers and their representatives for inclusion in NASA's business systems. Past performance shall be considered in the award of contracts, task and delivery orders, and the exercise of contract options. To support this objective, the Office of Procurement shall ensure performance assessments are available to support timely and effective award decisions.

NASA and Industry Relationships

It is critical that NASA merge its core expertise with industry's core expertise in acquisitions.

The expertise that resides within NASA and industry shall be fully utilized and merged to perform the required design, development, production, and integration of a particular program/project. This is particularly true in contracts in which NASA will take the lead in some or all of the design responsibilities. This requires a tight NASA and industry teaming arrangement and early interaction as acquisition strategies are established and contracts are developed. This relationship and level of responsibility shall be determined as part of the early acquisition strategy and be clearly described in the statement of work and/or clause in the planned contract. On all NASA contracts, the appropriate contractor and government relationship shall be maintained. This relationship, however, shall not result in the contractors performing inherently governmental functions.

Common NASA Contracts and Strategies

When developing acquisition strategies and managing contracts, NASA shall provide a common face to industry.

All contracts shall be structured and managed in a consistent manner throughout the Agency to make it easier for industry to do business with NASA. Contracts shall be referred to as NASA contracts, not Center or Mission Directorate contracts. Contracting officers shall only use Center and program specific clauses and requirements for unique situations and circumstances of a particular contract. To support this objective, the Office of Procurement shall incorporate the best of NASA contracting clauses and requirements from across the Agency into NASA's business systems. Additionally, contracting officers shall use standard evaluation criteria and proposal instructions for similar requirements. The IPT shall tailor the size of the evaluation team and the factors used in source selections to the type and complexity of the requirement. The IPT shall use only those factors that provide true discriminators for a best value award decision.

Reducing Cost and Cost Risk for Procurements

Cost risk for each requirement shall be properly allocated between NASA and industry.

Competition and the cost of managing contracts are enhanced by the appropriate allocation of cost risk. The IPT shall ensure that the cost risk for each requirement is properly allocated between NASA and industry. During the development phase of a project, NASA should take on the cost risk because of the difficulty of developing firm estimates for the cost of the work to be performed. However, once in the production and operations phases and for the acquisition of continuing services, industry should assume the cost risk of performance, and firm-fixed price (FFP) contracts should be used. Industry should earn the appropriate profit for assuming this cost risk. Program/project and procurement offices shall work together to develop workload projections for their requirements. This will allow the contracts for services to shift to FFP as soon as possible. Prime contractors shall not be used as buyers for NASA when they provide no value to the product or service being delivered to NASA. This practice, also known as “pass through” contracting, is prohibited.

Cost-reimbursement award-fee contracts are generally most appropriate for use on high-risk and complex science missions and DDT&E contracts, and not support service contracts. As products and services mature, contracting officers shall consider a movement toward FFP for production and operations. For FFP contracts, contracting officers shall incorporate payment amounts based on performance as measured by standards and metrics. The program/project shall use standards and metrics to manage contracts. The program/project can achieve further cost reductions by using the Shared Savings clause prescribed in Part 1848 of the NASA Federal Acquisition Regulation Supplement. This clause provides an incentive for contractors, with NASA approval, to propose and implement significant cost reduction initiatives. NASA will benefit as the more efficient business practices that are implemented lead to reduced costs on current and follow-on contracts. In return, contractors are entitled to share in cost savings subject to limits established in the contract.