

## Obligational Consequences of Federal Contracts

<b>Contract Type</b>	<b>Description of Contract</b>	<b>Obligational Consequences</b>	<b>GAO References</b>
<b>Firm-Fixed-Price Contract</b>	<p>A firm-fixed-price contract provides for a price that is not subject to any adjustment regardless of the contractor's cost experience in performing the contract.</p> <p>FAR<sup>1</sup> 16.202</p>	<p>Record fixed price stated in the contract.</p>	<p>B-255831, July 7, 1995; 62 Comp. Gen. 143, 146 (1983); 48 Comp. Gen. 497, 502 (1969).</p> <p>Red Book<sup>2</sup> at 7-23</p>
<b>Fixed-Price-Incentive Contract</b>	<p>A fixed-price incentive contract is a fixed-price contract that provides for adjusting profit and establishing the final contract price based on the contractor's performance. The contract will state a target cost that may be adjusted based upon an incentive provision or formula in the contract.</p> <p>FAR 16.403</p>	<p>Record target amount stated in the contract; obligation is adjusted upward as incentive payments become due. Generally an agency will set aside sufficient funds in its administrative funds control system to cover the potential liability.</p>	<p>B-255831, July 7, 1995; 55 Comp. Gen. 812 (1976); 34 Comp. Gen. 418 (1955); B-133170, Jan. 29, 1975.</p> <p>Red Book at 7-24</p>

<sup>1</sup> Federal Acquisition Regulation (FAR), 48 C.F.R. pt. 1 (2010).

<sup>2</sup> GAO, *Principles of Federal Appropriations Law*, vol. 2, 3<sup>rd</sup> ed., GAO-06-382SP (Washington, D.C.: Feb. 2006) (Red Book).

<p><b>Cost Reimbursement, Cost-Plus-Fixed-Fee Contract</b></p>	<p>A cost-plus-fixed-fee contract is a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. Contracts will have a ceiling amount that the contractor may not exceed without approval of the contracting officer.</p> <p>FAR 16.301, 16.306</p>	<p>Record ceiling amount stated in the contract. Generally, authorized increases above the ceiling amount are charged against the appropriation current at the time of the increase.</p>	<p>B-317139, June 1, 2009; 61 Comp. Gen 609 (1982); 59 Comp. Gen. 518 (1980).</p>
<p><b>Indefinite-Delivery, Indefinite-Quantity Contract</b></p>	<p>An IDIQ contract is a form of an indefinite-delivery contract under which the government is required to order and the contractor required to furnish a stated minimum quantity of supplies or services. The Government may place orders to meet its needs at any time during a fixed period.</p> <p>FAR 16.504</p>	<p>Record minimum contract amount. Amounts over the minimum are obligated as task or delivery orders are placed against the original contract. Thus, current year funds are used when placing orders above the guaranteed minimum.</p>	<p>B-318046, July 7, 2009; B-308969, May 31, 2007; B-302358, Dec. 27, 2004. Red Book at 7-20–21</p>

<p><b>Requirements Contract</b></p>	<p>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.</p> <p>FAR 16.503</p>	<p>Government does not incur an obligation until an order for goods or services is placed against the requirements contract. As orders are placed, obligate amounts of order.</p>	<p>B-318046, July 7, 2009; B-302358, Dec. 27, 2004; B-256312, June 6, 1994; 21 Comp. Gen. 961 (1942).  Red Book at 7-19-20</p>
<p><b>Letter Contract</b></p>	<p>A letter contract is a written preliminary contractual instrument that authorizes the contractor to begin immediately manufacturing supplies or performing services.</p> <p>FAR 16.603</p>	<p>Record maximum liability under the contract itself. If a contract is definitized in the following fiscal year, the recorded obligation should be the amount of the definitized contract minus either (a) actual costs incurred under the letter contract (when known), or (b) the maximum legal liability stated in the letter contract (when the actual costs cannot be determined). The remaining amount to be recorded is obligated against the appropriation current at the time of definitization.</p>	<p>B-197274, Sept. 23, 1983; 34 Comp. Gen. 418 (1955); 33 Comp. Gen. 291 (1954); B-197274, Feb. 16, 1982.  Red Book at 7-13-14</p>

<p><b>Basic Ordering Agreement</b></p>	<p>A basic ordering agreement is a written instrument of understanding, negotiated between an agency and a contractor, that contains (1) terms and clauses applying to future contracts (orders) between the parties during its term, (2) a description, as specific as practicable, of supplies or services to be provided, and (3) methods for pricing, issuing, and delivering future orders under the basic ordering agreement. A basic ordering agreement is not a contract.</p> <p>FAR 16.703</p>	<p>Government does not incur an obligation until a contract is entered into.</p>	<p>B-318046, July 7, 2009.</p>
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