

# Subcontract Management

## Policy Overview

In an effort to fully realize the benefit of a supplier base that reflects the diversity of the American supplier community, the United States Postal Service (USPS) encourages our suppliers to subcontract with small, minority, and woman-owned businesses (SMWOB). We support the use of SMWOB as subcontractors to the maximum extent consistent with effective contract performance. Activity surrounding subcontracting with SMWOB must be compiled and reported on at various levels throughout our organization.

It is important to understand the USPS Supplying Principles and Practices (SP&Ps) concerning subcontract reporting for SMWOB before the mechanics of the report process are discussed. The principles and practices are outlined in the USPS SP&Ps, effective May 1, 2002, Process Step 2, Task: Perform Pre-Award Activities, Topic: Define Supplier Diversity Objectives subcontracting with SMWOBs. The USPS SP&Ps require that each supplier awarded a contract valued at \$500,000 or more submit calendar-quarter reports. Purchase teams may require more frequent submittals on its subcontracting activity for that contract.

Additionally, subcontracting plans, which specifically address subcontracting with SMWOBs, are required for all contracts valued at \$1 million or more. The plan must be agreed to prior to the award of the contract. It may only be waived by the Contracting Officer (CO) for urgent and compelling business reasons or under the following circumstances as outlined in Process Step 2, Task: Perform Pre-Award Activities, Topic: Define Supplier Diversity Objectives:

- a) When the contract is awarded to a small business.
- b) When the contract is an indefinite delivery contract or ordering agreement and the purchase team determines that requiring a plan would be impractical or unworkable.

Contract Clause 3-1, Small, Minority, and Woman-owned Business Subcontracting Requirements and Clause 3-2, Participation of Small, Minority, and Woman-owned Businesses are referenced in the USPS SP&Ps, effective May 1, 2006, Process Step 2, Task: Perform Pre-Award Activities, Topic: Define Supplier Diversity Objectives subcontracting with SMWOBs covered in Section 3.2.3.d. Process Step 2, Task: Perform Pre-Award Activities, Topic: Define Supplier Diversity Objectives subcontracting with SMWOBs should be reviewed in its entirety in order to aid in your understanding of our policy in this area.

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### Subcontracting Plan Guidance

USPS Supplying Principles and Practices, effective May 1, 2006

So that the U.S. Postal Service (USPS) may fully realize the benefit of a supplier base that reflects the diversity of the American supplier community, buyers and purchase teams must continue to perform broad market research and analysis to identify and select the best suppliers.

Our principles and practices (Solicitation Provision 3-1, *Notice of Small, Minority, and Woman-Owned Businesses Subcontracting Requirements*, Contract Clause 3-1, *Small, Minority, and Woman-owned Businesses Subcontracting Requirements*, and Contract Clause 3-2, *Participation of Small, Minority, and Woman-owned Businesses*) promote and encourages supplier development and diversity throughout the supply chain. It establishes requirements for suppliers (with some exceptions) to submit contract-specific subcontracting plans with their proposals. Subcontracting plans which specifically address small, minority, and woman-owned businesses (SMWOB) are required for all contracts valued at \$1 million or more.

A supplier's plan is used in proposal evaluation and contract negotiation and then must be incorporated into the contract. Suppliers are encouraged to use SMWOB as subcontractors to the maximum extent consistent with effective contract performance. Once the subcontracting plan is incorporated in the contract, it is the responsibility of the Contracting Officer (CO)/buyer to monitor the supplier's progress against the goals established in the plan.

**The materials that follow describe basic techniques to assist buyers in evaluation, negotiation, and monitoring progress of the subcontracting plan.**

1. **Preparation. Fact-finding...know the market.** Market information gathered through market surveillance and investigation may be used to craft the purchasing strategy, solicitation, supplier selection, and contract (**including the negotiated subcontracting plan**). Market research can provide:
  - a. Current and projected availability of products
  - b. Reliable sources (relevant in the marketplace)
  - c. Extent of competition in the market and its effect on price, quality, special product features, and service
  - d. Types of available support services
  - e. Purchase histories (including previous market research documentation)

Use the Subcontracting Checklist to ensure that all of the requirements outlined in the clause are addressed in the subcontracting plan.

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2. **Objectivity. Make an assessment of resources.** The evaluation factors should be relevant based on the particular purchase and the business and competitive objectives.

- a. Identify sources of information (factual, verifiable data, or hear-say)
- b. Determine the age of data
- c. Consider the amount of data analyzed
- d. Past performance – supplier’s record of meeting previously planned concerning subcontracting with SMWOBs

3. **Strategy. Setting goals.** Plan a course of action based on preparation and an objective appraisal of available resources. Our policy and the clauses that implement it, speak in terms of a goal...think of this as a “baseline”, which will become a contractual goal, once the subcontracting plan is incorporated into the contract.

The goal should be reasonable and achievable based on your market research and assessment of resources. Buyers are also encouraged to negotiate a “stretch” goal. The stretch goal should be clearly identified in the plan and does not become a contractual commitment. Rather, it focuses on promoting both effort and a commitment to continuous improvement by the supplier.

4. **Modifications.** If, and when, the scope or term of the contract changes, the subcontracting plan should be revisited and adjusted, if appropriate.

5. **Clarity of Communication. Defining terms.** Our principles and practices focus on the SMWOB business categories which are defined in the Supplying Principles and Practices. These terms do differ from those used by industry and Federal agencies. There are many established business terms that we do not use, (i.e., Small Disadvantaged Business, Veteran-owned, Hub zones, etc.), insure that the supplier is aware of the differences between terms used in the USPS and other Federal agencies. In reviewing subcontracting plans, insure that you and the supplier clarify business terms and jargon. If necessary, define terms in the written agreement so others will not get confused.

Clarifying *relative* words is just as important as asking others to explain specific terms and pieces of jargon. Relative words are non-specific descriptive words that only have meaning in relationship to something else, (i.e., high quality, large, many, substantial), these words can create a great deal of confusion. Insist that suppliers do not use generalities, get specific answers when negotiating the plan.

6. **Performance. Reporting and Monitoring results.** The reporting format, method, and submittal frequency are important topics for discussion during negotiations. The supplier must submit calendar quarter reports (unless required more frequently by the CO) following one of three required methods: (1) reports

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showing amount of money paid to subcontractors during the reporting period; (2) reports showing subcontracting activity that is allocable to the contract using generally accepted accounting practices; or (3) reports that are a combination of the two methods listed above.

The supplier's effort against the plan must be monitored as performance proceeds. This can be done by reviewing the supplier submittals –assessing the results being reported against the negotiated plan. Is the supplier on target? Are they doing the things they said they would do in the plan? Are the results in line with expectations? If not, have you taken appropriate action?

7. **Documentation.** All documentation of any negotiation should be retained for the life of the agreement. Market research results should be compiled, analyzed, and documented in a manner that clearly supports the negotiated plan. Consider the following when documenting your results:
- a. Identification of industry sources that were contacted and type of information obtained.
  - b. Potential suppliers identified in market, specifically, SMWOBs.
  - c. Summary of discussions regarding possible alternatives, requirements modifications, or trade-off analyses.
  - d. Existing market conditions...if new products or new firms are entering the marketplace.

Finally, document and retain all significant points of agreement and disagreement. In the event of a later dispute over what was agreed to or the manner in which unsolved issues or disagreements are to be handled, such documentation will prove invaluable. Documenting the results of the negotiation ensures that both sides fully understand all the points that have been agreed upon.

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USPS References: SP&Ps, Process Step: 2, Task: Perform Pre-Award Activities,  
Topic: Define Supplier Diversity, Section Name: Sourcing  
SP&Ps, Process Step: 1, Task: Conceptualize Need; Decide on  
Make vs. Buy, Topic: Develop Demand Management Strategy;  
Analyze State of Technology, Section Name: Existing Assets  
SP&Ps, Process Step: 2, Task: Develop Sourcing Strategy, Topic:  
Purchase from Mandatory Sources, Section Name: Workshops  
for People Who are Blind or Severely Disabled  
SP&Ps, Process Step: General, Task: General Practices; Topic:  
Supplier Disagreement Resolution, Section Name: Protests  
Received By Contracting Officers

### Provisions & Clauses Sections:

Provision 3-1, Notice of Small, Minority, and Woman-owned  
Businesses Subcontracting Requirements  
Clause 3-1, Small, Minority, and Woman-owned Businesses  
Subcontracting Requirements  
Clause 3-2, Participation of Small, Minority, and Woman-owned  
Businesses  
Clause B-18, Subcontracts

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## Subcontracting Plan Checklist

**Reference:** USPS Supplying Principles and Practices, effective May 1, 2006

**When to use:** To be completed by the Contracting Officer or Supply Management Purchasing Specialist for evaluation of the supplier's subcontracting plan that is specific to the contract as required by Clause 3-1: *Small, Minority, and Woman-owned Business Subcontracting Requirements* (March 2006) and Clause 3-2: *Participation of Small, Minority, and Woman-owned Businesses* (March 2006).

### PART I - DESCRIPTION OF REQUIREMENT

Date: \_\_\_\_\_

Type of Contract: \_\_\_\_\_ Solicitation No.: \_\_\_\_\_

Description of the Requirement:  
\_\_\_\_\_  
\_\_\_\_\_

Total Contract Value: \$ \_\_\_\_\_ Contract Period: \_\_\_\_\_

### PART II - SUBCONTRACTING PLAN CONTENT

1. Does the subcontracting plan include goals in terms of percentages of the total amount of this contract to be subcontracted to small, minority, and woman-owned businesses (SMWOBs)?  
 Yes       No  
What is the percentage for small business? \_\_\_\_\_  
What is the percentage for minority-owned? \_\_\_\_\_  
What is the percentage for woman-owned? \_\_\_\_\_
2. Are the SMWOB percentages acceptable based on current market conditions and your research?  
 Yes       No
3. How critical are the SMWOB subcontracts to the overall performance of the contract?  
 High       Medium       Low
4. Are all subcontracts that contribute to contract performance listed?  
 Yes       No
5. What is the percentage of subcontracts for large businesses? \_\_\_\_\_
  - a. How critical are these subcontracts to the overall performance of the contract?  
 High       Medium       Low

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6. Is there a statement that includes total dollars planned for subcontracting?  
 Yes       No
- a. What are the total dollars for small business? \_\_\_\_\_  
b. What are the total dollars for minority-owned business? \_\_\_\_\_  
c. What are the total dollars for woman-owned business? \_\_\_\_\_  
d. What are the total dollars for large business? \_\_\_\_\_
7. Is there a description of the principle types of supplies and services to be subcontracted?  
 Yes       No
8. Are the types of supplies and services identified for subcontracting to small, minority, and woman-owned businesses?  
 Yes       No
9. Does the plan describe the method used to develop goals?  
 Yes       No
10. Did the goal development include indirect/overhead cost?  
 Yes       No
- a. Is there a description of the method used to allocate indirect/overhead costs?  
 Yes       No
11. Does the plan describe the method used to identify potential sources?  
 Yes       No
12. Does the plan describe efforts the supplier will make to ensure that small, minority, and woman-owned businesses have an opportunity to compete for subcontracts?  
 Yes       No
13. Does the plan provide the name and duties of the subcontracting program administrator?  
 Yes       No
14. Is the program administrator given adequate authority and responsibility to administer subcontracting program effectively?  
 Yes       No
15. Does the plan include flow down assurances that the supplier will require subcontractors receiving subcontracts in excess of \$1 million to adopt a plan similar to the plan agreed to in this contract?  
 Yes       No  
Objective Evidence: Copy of appropriate subcontracting clauses or subcontract agreement.
16. Does the plan include a recitation of the types of records the supplier will maintain to demonstrate compliance with the requirements and goals in the contract?  
 Yes       No  
Does the list include?
- Contacts with business development organizations for SMWOBs?  
 Yes       No
  - Records to support internal activities to guide buyers (including workshops, seminars, and training programs)?  
 Yes       No
  - Attendance and participation in outreach activities?  
 Yes       No



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- Records to support subcontract awards data, including name, address, and business size of each subcontractor?  
 Yes  No

17. Which of the required subcontracting reporting methods will the supplier use to report results?
- Amount of money paid to subcontractors during the reporting period.
  - Subcontracting activity that is allocable to this contract using generally accepted accounting practices; or
  - Combination of both methods above

### PART III - SUPPLIER PERFORMANCE AND SUITABILITY OF PROPOSED PLAN

18. Is there an evaluation of the supplier's past performance in awarding subcontracts for similar services?  Yes  No
19. Does the supplier's management plan address relationships with subcontractors?  Yes  No  
Are the lines of authority and interface clearly defined?  Yes  No  
Who has the authority to make decisions? \_\_\_\_\_  
Who needs to be consulted for input on issues and decisions? \_\_\_\_\_  
Are there contingency plans for possible supply disruption related to capacity constraints, quality or production problems with subcontracts?  Yes  No
20. Is the Subcontracting Plan as submitted acceptable?  Yes  No
21. If the plan is unacceptable, was the supplier notified of the deficiencies?  Yes  No

### PART IV - POST-AWARD

Although the questions below address issues that occur after contract award, the Purchasing Specialist should consider this information in the preliminary planning of the negotiation session.

22. Are the supplier's submittals based on the agreed report method and time period indicated in the plan?  Yes  No
23. Is the supplier making progress towards meeting all contract-specific plan goals?  Yes  No
24. What methods are used by the supplier to monitor performance in meeting goals, including feedback mechanisms?
25. Is there documentation of efforts to identify additional small, minority, and woman-owned businesses as potential subcontractors?  Yes  No
26. Is there documentation to support solicitation of small, minority, and woman-owned business participation?  Yes  No
27. Does any part of the existing plan contain special features such as an incentive clause (e.g., continuous improvement)?  Yes  No  
Describe the supplier's performance on these efforts.  
\_\_\_\_\_  
\_\_\_\_\_
28. Is there evidence to support adoption of subcontracting plans of suppliers receiving subcontracts in excess of \$1 million similar to this plan?  Yes  No



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29. Does the supplier monitor subcontractor's performance against plan?  Yes  No
30. Was an annual meeting held with the supplier to ensure adequate understanding of USPS policies and performance expectation?  Yes  No

Plan Reviewed by: \_\_\_\_\_  
Signature: \_\_\_\_\_

Date: \_\_\_\_\_

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## Supplier Submission

(Instructions for completing the Small, Minority, and Woman-Owned Businesses Subcontracting Report)

- 1) Complete the Header Information.
  - a. Supplier's name
  - b. Contract Number
  - c. Contracting Officer's Name
  - d. Reporting Period (i.e., October-December 2003)

Complete steps 2-4 for each individual Small, Minority, and Woman-Owned Business (SMWOB) subcontractor under the contract identified in the heading. Your inputs here will be automatically calculated and carried to the top of the page as "Period Total". Your inputs to "Business Category" will be calculated and carried to the top of the page as "Actions".

- 2) Complete the Subcontractor Information.
  - a. Subcontractor's Name
  - b. Subcontractor's City/State
  - c. Subcontractor's Zip + 4
  - d. Number of subcontracts or expenditures awarded to the subcontractor
  - e. North American Industry Classification System (NAICS) code describing the product and services performed under this subcontract
- 3) Complete the Subcontracting Activity Information for the specific period.
  - a. Total amount of direct plus allocated subcontracting dollars (**3a=3b+3c**)
  - b. Amount of the direct subcontracting dollars
  - c. Amount of the allocated subcontracting dollars
- 4) Identify the business category of the subcontractor you are reporting on.
  - a. Place an "X" in **all** columns that apply

If a subcontractor falls under more than one category, place an "X" in all categories that apply.

Unless formally waived or exempted, all contracts valued at \$1 million or more must contain a negotiated subcontracting plan. In addition to steps 1-4 above, suppliers with negotiated subcontracting plans must also follow steps 5 and 6 below:

- 5) Complete the negotiated goals information. (This information will remain the same through the life of the contract unless plan is renegotiated.)
  - a. Enter the dollar amount of your negotiated goals for each business type, i.e., large, small, minority, and woman-owned businesses
  - b. Enter the percentage of total subcontracting goal for each business type, i.e. large, small, minority, and woman-owned businesses
- 6) Complete the cumulative to plan information. (This area recaps your subcontracting activity to date and shows it in terms of the goals. This information will change on each report when activity occurs.)
  - a. Enter the dollar total of your cumulative amounts for each business type, i.e., large, small, minority, and woman-owned businesses. (Add the amount of activity from the current period to the amount reported on the previous reports to obtain the cumulative to plan amounts.)
  - b. The percentage of negotiated goals that has been met for each business type, i.e., large, small, minority, and woman-owned businesses will be automatically calculated. (The formula will divide the cumulative to plan dollar total entered by the negotiated goal dollar amount.)