

# SESSION GUIDE SEASON 2023, EPISODE SEVEN APRIL 5, 2023 FAR PARTS 12 AND 13: COMMERCIAL PRODUCTS/COMMERCIAL SERVICES AND SIMPLIFIED ACQUISITION PROCEDURES

#### I. Introduction

We have mentioned commercial items in passing frequently over the past several episodes. In this episode, we finally get to learn—in a more detailed way—how the Government procures these special types of products and services. There can be no doubt that the amount of Government dollars spent on commercial items since the passage of the Federal Acquisition Streamlining Act (FASA) and the Federal Acquisition Reform Act (FARA) has been extraordinary! The Department of Defense alone spent \$53 billion—approximately 9% of its total spending—on prime contracts for commercial items <a href="during FY">during FY</a> 2017.

To help you keep up with the growing trend, the majority of this episode will be devoted to helping you understand

- How the Government determines whether a product or service is "commercial" (believe it or not, it is not as simple as you might think);
- The special acquisition procedures that the Government should use to purchase commercial products and commercial services; and
- The types of terms and conditions that contractors and the Government should be aware of during the negotiation and formation of a FAR Part 12 commercial products and commercial services contract.
- Some of the issues the commercial products and commercial services focus has caused at the subcontracting level.

We will also learn about the simplified acquisition procedures in **Part 13**, and how those procedures—like those found in **Part 12**—fit in the grand scheme of the FAR Council's efforts to make the acquisition process more simple and cost effective.

# II. Acquisition of Commercial Products and Commercial Services

What exactly are commercial products or commercial services? During Episode 1, we discussed the FAR Council's final rule which replaced the definition of "commercial item" with "commercial product" and "commercial service." Commercial products and commercial services are defined in **2.101**:

# For **Commercial Products**:

• A product, other than real property, that is of a type customarily used by the general public or by nongovernmental entities for purposes other than governmental purposes, and:

- Has been sold, leased, or licensed to the general public; or
- Has been offered for sale, lease, or license to the general public
- Or, any item evolved from the above through technological advances or performance that:
  - Is not yet available in marketplace but will be available in time to meet government solicitation delivery requirements
- Or, any item that would meet either of the above qualifications, but for:
  - o Modifications of a type customarily available in the commercial marketplace
  - Minor modifications of a type customarily available in the commercial marketplace (i.e., does not significantly alter function or physical characteristics), made to meet government requirements
- Any combination of products meeting the requirements [above] of this definition that are of a type customarily combined and sold in combination to the general public
- Or, any combination of items meeting the preceding criteria that are of a type customarily sold in combination to the general public
- A nondevelopmental item, if the procuring agency determines the product was developed exclusively at private expense and sold in substantial quantities, on a competitive basis, to multiple State and local governments or to multiple foreign governments

#### For Commercial Services:

- Installation services, maintenance services, repair services, training services, and other services
   if
  - Such services are procured for support of a commercial product as defined in this section, regardless of whether such services are provided by the same source or at the same time as the commercial product; and
  - The source of such services provides similar services contemporaneously to the general public under terms and conditions similar to those offered to the Federal Government;
- Services of a type offered and sold competitively in substantial quantities in the commercial marketplace based on established catalog or market prices for specific tasks performed or specific outcomes to be achieved and under standard commercial terms and conditions. For purposes of these services
- Or, any item, combination of items, or service described above (notwithstanding the fact that they are transferred between or among affiliates of the contractor)

#### For **Nondevelopmental Items**:

Any previously developed item of supply used exclusively for governmental purposes by a
Federal agency, a State or local government, or a foreign government with which the United
States has a mutual defense cooperation agreement

- Any item described above that requires only minor modification or modifications of a type customarily available in the commercial marketplace in order to meet the requirements of the procuring department or agency
- Any item of supply being produced that does not meet the requirements above solely because the item is not yet in use

If you need to read that definition a few times to get your head around it, that's okay. In fact, you probably should read it several times! This definition has a lot of information to unpack!

# A. COTS and Nondevelopmental Items

What is the difference between a commercial product and a commercially available off the shelf (COTS) item? The big difference is that a COTS item is identical to the product offered by a contractor to the general public. A COTS item is basically something anybody could buy in large quantities at a store like Staples, Home Depot, Office.com or Wal-Mart. It requires no modification whatsoever to suit a Government purpose.

What about nondevelopmental items? Those products are at the opposite end of the commercial products spectrum from COTS item. Nondevelopmental items are items used by other governmental entities but not available to the general public, but are still considered commercial products. This seems strange at first, but it makes more sense when we think about it in the context of the entire FAR.

Think back first to the Guiding Principles of the FAR, particularly the ones stated at **1.102(b)(1)(i)** and **1.102(b)(2)**. These Principles are all about cutting costs. Notice how the excerpt above from **2.101** defines nondevelopmental items. These items must be developed *solely at private expense* and must be sold in substantial quantities *on a competitive basis* to other governmental entities in the U.S., be they federal, state, or local. So while these items are not available to the general public, they were not developed at Government expense and have been sold to other governments beyond just the Federal Government. This is consistent with the cost reduction goals in the FAR.

Exercise 1 – Am I Commercial-y Enough for the Commercial Club?

For each of the following, determine whether the item would be considered a generic commercial product, a COTS item, a nondevelopmental item, or noncommercial item.

•	Charmin toilet paper:
•	Apple iPad (ruggedized to perform in battlefield conditions):
•	Water pumping system designed to be a critical component in a New York City Fire Department ("NYFD") Hook and Ladder Fire Truck :
•	M1/A2 Abrams Tank:

Which one of the items listed above would always be exempt from a "portion" of the Buy American – Supplies component test. [Hint: Check out **FAR 12.505**]

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#### B. Commercial Product and Commercial Services Acquisition Procedures

Now that we have a better handle on what constitutes a commercial product and a commercial service, we can look at the processes the Government uses to acquire them. Note that the FAR generally treats all commercial product and commercial service contracts the same for the purposes of procurement processes. There are a few exceptions, which we will touch on as we come to them.

The first topic that we need to discuss here is something that we talked about in Chapter 4 -- market research and acquisition planning. You may recall, a contracting officer needs to determine whether a "commercial product" or nondevelopmental item can meet the Government's needs in the all important pre-solicitation procurement stage?

Well, after the contracting officer has conducted market research and determined that there are commercial items available that will suit agency needs, he/she then must follow the nitty-gritty procedures described in the rest of **FAR 12.2**. In general, the **Part 12** procedures are a streamlined version of the more detailed and formal contracting procedures spelled out in **Parts 13**, **14**, **and 15**. We will talk more about **Part 13** later in this chapter, and about **Parts 14 and 15** in upcoming chapters. **12.204** indicates that agencies should use a Standard Form (SF) 1449 for all commercial item solicitations that exceed the simplified acquisition threshold, as well as for all solicitations issued on paper unless they match the exceptions for streamlined solicitations found in **12.603**. Agencies don't have to use the SF 1449 for other commercial item acquisitions, but the FAR encourages its use anyway.

The FAR prefers firm-fixed-price contracts (or fixed-price contracts with economic price adjustment) for the acquisition of commercial products or commercial services. If a CO decides that a Labor Hour or Time and Materials (T&M) contract (or purchase order) would work better, **12.207** mandates that the CO create a determination and findings (D&F) to support his or her decision. The rest of **12.2** tracks the requirements in other parts of the FAR, and simply applies them to commercial acquisition.

Subpart 12.3 details the provisions and contract clauses that a commercial product or commercial service contract should include. Some of these provisions are significantly different from those found in non-commercial contracts—note especially the changes provision (which does *not* allow the Government to make unilateral changes), the termination for convenience provision (which prescribes a simpler way to calculate termination costs), and the data rights provisions (which presume that the software or technical data was developed exclusively at private expense). The significance of these and other differences will be discussed in upcoming chapters. In addition, many laws, regulations, and certifications that generally are required in a non-commercial contract, such as the Truth in Negotiations Act (TINA) and the Cost Accounting Standards (CAS) regulations, are explicitly excluded from commercial item contracts. Furthermore, 12.302 indicates that some clauses and provisions may, in some cases, be tailored to fit commercial market practices—as long as they are not inconsistent with federal law. If the

clause doesn't conflict with any standard commercial market practices, it may not be altered without an approved waiver.

Exercise 2 – Under what "condition" can I buy that Commercial Item?			
Identify where in the FAR you can find the standard terms and conditions that contracting officers must include in a procurement for commercial "services"?			
Under what circumstances is a contracting officer permitted to "tailor" the standard terms and conditions used to procure commercial items. [Hint: Check out FAR 12.302(c)]			

# C. A Quick Note on Administration of Commercial Item Subcontracts

When subcontracting for commercial items, prime contractors should be aware that 12.504(a) and (b) provide a list of statutes that may be contained in their prime contract, but should *not* be flowed down to their subcontractors. 12.504(c) modifies how certain statutes apply to subcontracts. More rules regarding subcontracting for commercial products will be addressed in further detail in Chapter 23, which addresses FAR Part 44 (Subcontracting Policies and Procedures). In particular, in that chapter, we will discuss which prime contract provisions are required by the FAR to be flowed down to commercial product subcontractors.

contract that should never be flowed down to a commercial product subcontract.				

# **III.** Simplified Acquisition Procedures

You probably noticed that Part 12 makes repeated reference to the simplified acquisition threshold (SAT) and simplified acquisition procedures. This is because the point of purchasing commercial products or commercial services is to take advantage of the competition and simpler purchasing procedures in the commercial marketplace. It follows that commercial products or commercial services acquisitions would use simplified procedures as much as possible. What is the SAT, though, and why is it so important?

Essentially, while the Government wants to conduct streamlined acquisition as much as possible, it also wants to maintain integrity within the Government procurement system. The processes that have been put in place to maintain price competition and integrity (rules, certifications, procedures, contractual requirements, etc.) are burdensome—they add time and costs to the process for both the Government and contractors. These burdens are justified by the resulting benefits in the case of \$100 million procurements. But these same burdens may be relatively high if the purchase price is \$100,000. Thus, the FAR allows contracts to use simplified acquisition procedures when the size of the procurement is small enough to justify elimination of some of the transaction costs and processes. The simplified acquisition threshold marks the boundary where simplified acquisition procedures are appropriate. Congress sets this amount and periodically adjusts it for inflation. We should note, however, that 13.003(a) specifically excludes required sources of supply (Part 8), existing ID/IQ contracts (Part 16.5), and already-established contracts, from Part 13 simplified acquisition procedures.

So what are these thresholds? Several dollar thresholds are relevant here. Let's jump into an exercise and figure it out!

Question 2 – On July 2, 2020, the FAR Council promulgated a final rule to amend the Federal Acquisition Regulation (FAR) to implement a section of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2017 and several sections of the NDAA for FY 2018 that increase the micro-purchase threshold (MPT), increase the simplified acquisition threshold (SAT), and clarify certain procurement terms. See <a href="https://www.federalregister.gov/d/2020-12763">https://www.federalregister.gov/d/2020-12763</a>.

What are the new thresholds identified in the new rule identified above?
Micro-purchase Threshold:
Simplified Acquisition Threshold:
Simplified Acquisition Threshold (Commercial Product or Commercial Service):
When did these new procurement thresholds take effect?
A. A Deeper Dive into Simplified Acquisition Procedures
The micro-purchase threshold is, as its name implies, the lowest procurement threshold identified in the FAR. 13.201(b) indicates that the Government-wide commercial purchase card is the preferred method of payment for procurements at or below the micro-purchase threshold. In general, purchases that fall at or below the micro-purchase threshold are exempt from the usual FAR requirements pertaining to a procurement. However, this does not mean that COs can use the Government-wide commercial purchase card willy-nilly! The required sources regulations in Part 8 and the various workplace requirements in Subparts 23.1, 23.2, 23.4, and 23.7 still apply. Additionally, 13.201(c) allows only trained and authorized Government personnel to use the Government-wide commercial purchase card, and 13.301 applies various other statutes restricting the use of the card. For example, an undergraduate intern will not have access to the card, and no one will be permitted to use the card to bet on horse races.

micro-purchase threshold to the lowest bidder/quoter? 13.203]	Explain your answer.	[Hint: Check out FAR

Question 3 – True or False? Contracting officers are required to award contracts valued under the

The SAT is the next procurement threshold. Although the Government-wide commercial purchase card may be used for purchases above the micro-purchase threshold but below the SAT, use of the card is not necessarily practical for every such purchase. The FAR describes other procedures agencies can, and sometimes should, use. **13.302** regulates the use of purchase orders, from general guidelines to modifications to cancellation. **13.303** regulates the use of blanket purchase agreements (BPAs). **13.5** regulates the use of simplified acquisition procedures for specific types of commercial products and commercial services.

# **B.** More Information on Simplified Acquisition Procedures

Now that we know what the different dollar thresholds are and why they exist, we can look at the actual simplified acquisition procedures. As we noted above, the Government-wide commercial purchase card is preferred for acquisitions at or below the micro-purchase threshold, and can also be used for certain purchases between the micro-purchase threshold and the SAT. But what about solicitations and RFQs and other good stuff like that?

Simplified acquisition procedures generally follow the requirements in the rest of the FAR, but in a more relaxed manner, although **13.005** and **13.006** specify laws and regulations that are per se inapplicable to a **Part 13** procurement. Otherwise, agencies can use purchase orders and BPAs in much the same way they would use these methods for procurements above the SAT. However, agencies do not need to document acquisitions below the SAT as meticulously as they must document acquisitions above the SAT. This is one way in which the SF 1449 is useful; it contains boxes for all the information a CO must obtain for purchases at or below the SAT. Remember, the SF 1449 isn't mandatory for purchases at or below the micro-purchase threshold, but that doesn't mean it's not a good idea to use it anyway!

Technically, procurements using simplified acquisition procedures are not subject to **FAR Part 6** "full and open competition" requirements. Nonetheless, **13.501** tells us that COs should still promote competition; albeit with a number of sources limited to a local trade area or solicitation sent to as few as three interested or responsible offerors. This same section also tells us that contracting officers must protect procurement integrity by, at a minimum, establishing deadlines for the submission of responses that "afford contractors a reasonable opportunity to respond", "consider all quotations or offers that are received", and use "innovative approaches" to the maximum extent practicable in awarding contracts in a simplified manner. Overall, the key guidance of **FAR Part 13** to contracting officers is it is perfectly okay to just keep it simple!!

# **Discussion Questions**

True or False? A DoD contracting officer is required by law to follow a determination and finding made by another contracting officer that a product or service is, in fact, a "commercial product or commercial service" as defined in FAR 2.101. Explain your answer. [Hint: Check out the "DoD Guidebook for Acquiring Commercial Items" included in the Original Source materials].				
com	R Part 12 notes that firm fixed priced contracts are preferred in commercial product and nmercial services procurements. What steps must a contracting officer take if he/she intends cure a commercial product or commercial service on other than a firm fixed price basis? [Hin:			
	eck out FAR 12.207.]			
Ciic	SK OUL FAIL 12.207.]			

CIIC	establishment of a BPA under FAR Part 13? [Hint: Check out FAR 13.303]
"im	ess otherwise deemed to be inconsistent with commercial industry standard, what type of plied warranty" is a contractor required to provide the Government under a <b>FAR Part 12</b> and <b>Part 13</b> procurement?

This one is from the folks working in the "Everything we Learn on Fun with the FAR is Inter-Connected" department". True or False? Contractor records created under a <b>FAR Part 13</b> contract are subject to the record retention requirements set forth in <b>FAR 4.7</b> ? Explain your answer. [Hint: Check out <b>FAR 13.006</b> ]
Identify two ways a contractor can indicate acceptance of a Government order issued under a FAR Part 13 procurement. [Hint: Check out FAR 13.004]
<b>FAR Part 13</b> is all about "small sized" procurements that still may cause "big" type problems for the Government if they are not administered properly. <b>FAR question</b> : Tell me what specific <b>FAR Part 13</b> procurement tool (which can be used by government employees other than a CO) has historically caused the biggest problems for the U.S. Government over the years because of multiple audits showing frequent abuse/neglect/misuse.

#### **Answer Key**

#### Exercise 1 -

- Charmin toilet paper:
  - COTS
- Apple iPad (ruggedized to perform in battlefield conditions):
   Generic commercial product
- Water pumping system designed to be a critical component in a New York City Fire Department ("NYFD") Hook and Ladder Fire Truck:
  - Nondevelopmental item
- M1/A2 Abrams Tank:
   Noncommercial item

Charmin toilet paper - because COTS items are exempt from part of the supplies component test.

Exercise 2 -

FAR 52.212-4 Alt 1.

12.302 Contracting officers may, within the limitations of FAR 12.3, and after conducting appropriate market research, tailor the provision at 52.212-1, Instructions to Offerors-Commercial Products and Commercial Services, and the clause at 52.212-4, Contract Terms and Conditions-Commercial Products and Commercial Services, to adapt to the market conditions for each acquisition.

12.302(c), Tailoring inconsistent with customary commercial practice. The contracting officer shall not tailor any clause or otherwise include any additional terms or conditions in a solicitation or contract for commercial products or commercial services in a manner that is inconsistent with customary commercial practice for the item being acquired unless a waiver is approved in accordance with agency procedures. The request for waiver must describe the customary commercial practice found in the marketplace, support the need to include a term or condition that is inconsistent with that practice and include a determination that use of the customary commercial practice is inconsistent with the needs of the Government. A waiver may be requested for an individual or class of contracts for that specific item.

Answer 1 – The following laws are not applicable to subcontracts at any tier for the acquisition of commercial items or commercial components at any tier: However, a prime contract may have these requirements in its non- commercial contract.

12.504(c)(2) 41 U.S.C. chapter 35, Truthful Cost or Pricing Data, and 10 U.S.C.2306a, Truth in Negotiations (see subpart 15.4).

12.504(c)(3) 41 U.S.C. chapter 15, Cost Accounting Standards (48 CFR Chapter 99) (see 12.214).

The commercial exception in 10 U.S.C. 2306a, Cost or Pricing Data: Truth in Negotiations, prohibits contracting officers from requiring certified cost or pricing data from contractors and subcontractors when buying commercial items.

Prohibition on obtaining certified cost or pricing data (10 U.S.C. 2306 A and 41 U.S.C. CHAPTER 35). (a) Certified cost or pricing data shall not be obtained for acquisitions at or below the simplified acquisition threshold.

Answer 2 -

Micro-purchase Threshold: \$10,000

Simplified Acquisition Threshold: \$250,000

Simplified Acquisition Threshold (Commercial Product or Commercial Service): \$7.5 million

August 31, 2020

Answer 3 – False – FAR 13.203(a)The contracting officer must verify and document the awardee price to be reasonable through market research or competitive quotations. Hence, the contracting office cannot just award to the lowest bidder but is required to document the price is reasonable. Also 13.203(b) Purchase guidelines, provides if awardee price is not the low quoter the contracting officer must provide documentation explanation for the award decision. This also supports that the contracting officers are not required to award to the lowest bidder.

#### **Discussion Questions Answer Key**

- 1. False. DFARS 212.102(a)(ii)(A) states, "The contracting officer may presume (Note: not required) that a prior commercial item determination, or a determination that overturned a prior commercial item determination, made by a military department, a defense agency, or another component of DoD shall serve as a determination for subsequent procurements of such item."
- 2. In accordance with FAR 12.207 (b)(1)(ii) The contracting officer shall execute a determination and findings (D&F) to justify that no other contract type is suitable other than a firm fixed priced contract (except for indefinite-delivery contracts). Each D&F shall contain sufficient facts and rationale to justify that no other contract type authorized by the subpart is suitable. At a minimum, the D&F shall-
  - (i) Include a description of the market research conducted (see 10.002(e));
  - (ii) Establish that it is not possible at the time of placing the contract or order to accurately estimate the extent or duration of the work or to anticipate costs with any reasonable degree of confidence;
  - iii) Establish that the requirement has been structured to maximize the use of firm-fixed-price or fixed-price with economic price adjustment contracts (e.g., by limiting the value or length of the time-and-material/labor-hour contract or order; establishing fixed prices for portions of the requirement) on future acquisitions for the same or similar requirements; and
  - (iv) Describe actions planned to maximize the use of firm-fixed-price or fixed-price with economic price adjustment contracts on future acquisitions for the same requirements.
  - (3) See 16.601(d)(1) for additional approval required for contracts expected to extend beyond three years.
  - (4) See 8.404(h) for the requirement for determination and findings when using Federal Supply Schedules.
- 3. The following are circumstances under which contracting officers may establish BPAs:
  - (1) There is a wide variety of items in a broad class of supplies or services that are generally purchased, but the exact items, quantities, and delivery requirements are not known in advance and may vary considerably.
  - (2) There is a need to provide commercial sources of supply for one or more offices or projects in a given area that do not have or need authority to purchase otherwise.
  - (3) The use of this procedure would avoid the writing of numerous purchase orders.
  - (4) There is no existing requirements contract for the same supply or service that the contracting activity is required to use.
- 4. (a) Implied warranties. The Government's post award rights contained in 52.212-4 are the implied warranty of merchantability, the implied warranty of fitness for particular purpose and the remedies contained in the acceptance paragraph.
  - (1) The implied warranty of merchantability provides that an item is reasonably fit for the ordinary purposes for which such items are used. The items must be of at least average, fair or

- medium-grade quality and must be comparable in quality to those that will pass without objection in the trade or market for items of the same description.
- (2) The implied warranty of fitness for a particular purpose provides that an item is fit for use for the particular purpose for which the Government will use the items. The Government can rely upon an implied warranty of fitness for particular purpose when-
  - (i) The seller knows the particular purpose for which the Government intends to use the item; and
  - (ii) The Government relied upon the contractor's skill and judgment that the item would be appropriate for that particular purpose.
- (3) Contracting officers should consult with legal counsel prior to asserting any claim for a breach of an implied warranty
- 5. False In accordance with 13.006 Inapplicable provisions and clauses. While certain statutes still apply, pursuant to Public Law 103-355, the following provisions and clauses are inapplicable to contracts and subcontracts at or below the simplified acquisition threshold: (d) 52.215-2, Audits and Records-Negotiation, except as used with its Alternate I, when using funds appropriated or otherwise made available by the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5)
- 6. FAR 13.004(b)
  - (1) the contracting officer may ask the supplier to indicate acceptance of an order by notification to the Government, preferably in writing, as defined at 2.101.
  - (2) In other circumstances, the supplier may indicate acceptance by furnishing the supplies or services ordered or by proceeding with the work to the point where substantial performance has occurred.
- 7. Government Purchase Card

# **APPENDIX**

All of the following materials are linked below to PCI's website or to an online link. Because the FAR was just updated to change most of the commercial item references to commercial products and commercial services, materials before 2021 still use the commercial item language.

#### Federal Acquisition Regulation: Revision of Definition of "Commercial Item"

This is the final rule issued in the Federal Register by the FAR Council with the amended definitions of "commercial product" and "commercial service."

#### **CGI Federal FSS Case**

Court of Appeals for the Federal Circuit case decided March 10, 2015 regarding a pre-award bid protest appeal. CGI Federal Inc. challenged the payment terms of requests for quotes issued by HSS for Medicare and Medicaid Services.

# Department of Defense Guidebook for Acquiring Commercial Items

Part A and Part B

The Department of Defense's January 2018 issued guidebook for acquiring commercial items.

#### **USAID Simplified Acquisition Procedures Guide**

An acquisition guide issued by USAID in June 2018 regarding contracting with Simplified Acquisition Procedures.

#### Government Definitions of Commercial Items with Examples

A guide to government definitions of various commercial items and examples issued by the Contracting Academy at Georgia Tech.

#### Quantico Commercial Item Checklist

Commercial Item Determination per **FAR 2.101** checklist including questions and guides separated by either supplies or services.

# Standard Form 44 - Purchase Order

An example of a standard form 44 (SF-44) with a description and instructions. This form is a pocket size purchase order form, designed for on-the-spot, over-the-counter purchases of supplies and non-personal services while away from the purchasing office.

# T&M and LH Commercial Item Contract D&F Template

A template for a Determinations and Findings document for determining if a Time-and-Materials (T&M), Labor-Hour (LH), or a hybrid commercial item contract is the suitable acquisition method.

# FUN WITH THE FAR Episode 7 FAR Parts 12 & 13 Summary Outline

II.	FAR PART 12	
	A.	General Observations
	В.	Types of Commercial Items
	C.	Special Procedures for Acquiring Commercial Items
III.	<u>FAF</u>	R PART 13
	A.	General Observations
	B.	Dollar Thresholds
	c.	How Does Simplified Acquisition Work?

I. Introduction

**Closing Remarks** 

IV.