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**TITLE: DIRECT LABOR HOUR RATIO REQUIREMENTS**

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**1. PURPOSE.**

This policy prescribes the requirements to satisfy the overall direct labor hour (ODLH) ratio in order for a nonprofit agency (NPA) to be qualified to participate in the AbilityOne Program (Program). It also sets forth the documentation requirements and record-keeping responsibilities of an NPA, the review and evaluation responsibilities of a Central Nonprofit Agency (CNA), and the oversight responsibilities of the U.S. AbilityOne Commission (Commission).

**2. APPLICABILITY.**

This policy applies to the Commission, CNAs, and all NPAs seeking or receiving qualification to participate in the Program.

**3. AUTHORITY.**

- (a) 41 U.S.C. §§ 8501 – 8506, Javits-Wagner-O’Day (JWOD) Act
- (b) 41 CFR Chapter 51, Committee for Purchase From People Who Are Blind or Severely Disabled

**4. DEFINITIONS AND ACRONYMS.**

Definitions, abbreviations, and acronyms frequently used throughout this policy system are found in Policy 51.102, Definitions of Terms. Terms unique to a specific subject matter are defined below.

Term	Definition
AbilityOne Program Procurement List Project (Project)	A Federal government requirement added to the AbilityOne Program Procurement List is referred to as a Procurement List project (or PL project). One or more NPAs are then authorized to serve as a mandatory source for the PL project.



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Direct Labor	<p>All work required for <i>preparation, processing, and packaging</i> of a product, or work directly related to the performance of a <i>service</i>, but not supervision, administration, inspection, or shipping.</p> <p>(a) <i>Preparation</i> – Tasks involved in transforming raw materials into components of a product or the product itself, including operation of machinery that performs these activities.</p> <p>(b) <i>Processing</i> – Tasks involved in forming or finishing components or products, or in assembling components, or in assembling components into products.</p> <p>(c) <i>Packaging</i> – Tasks involved in preparing the finished product for shipment by placing it in one or more containers or wrappings to make it suitable for shipment.</p> <p><i>Service</i> direct labor is the performance of tasks directly required by, or specified in, the contract statement of work (SOW) or performance work statement (PWS).</p>
Indirect Labor	<p>Work that supports the manufacturing process or delivery of services but does not directly produce or add value to the products or services sold to a customer. This includes supervision, administration, inspection, and shipping.</p>
Participating Employee	<p>An individual who is blind and/or has a significant disability, is performing work that qualifies to be counted toward the direct labor hour ratio, and works on a Federal contract requirement on the Procurement List established by the Commission in accordance with 41 U.S.C. §§ 8501-8506.</p>
Qualifying Direct Labor (QDL) Employee	<p>An individual who is blind and/or has a significant disability and is performing work that qualifies to be counted toward the direct labor hour (DLH) ratio, whether or not the products or services are procured under the JWOD Act (per 41 U.S.C. 8501(6)(C) and (7)(C)).</p>

**5. RESPONSIBILITIES.**

- (a) The Commission:
  - i. Implements the statutory ODLH ratio requirement standards in the AbilityOne

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Program.

- ii. Approves the CNA's ODLH ratio monitoring, reviewing, and evaluation processes.
- iii. Oversees the effectiveness of the CNA's ODLH ratio monitoring, reviewing, and evaluation processes.
- iv. Conducts inspections as determined necessary.

(b) The CNA:

- i. Establishes an ODLH ratio review and evaluation process.
- ii. Provides ODLH ratio guidance, training, and technical assistance to the NPAs.
- iii. Provides ODLH ratio data to the Commission in an electronic format approved by the Commission.

(c) The NPA:

- i. Complies with ODLH ratio standards.
- ii. Establishes ODLH quality assurance measures that prevent and correct errors and conducts recommended quality audits of records.
- iii. Establishes a record-keeping system for all documentation necessary to determine ODLH ratio.
- iv. Transmits ODLH ratio data to the CNA in an electronic format directly and fully accessible and available to the Commission.
- v. Participates in all required training and education programs offered by the CNA and/or the Commission.

## **6. POLICY.**

(a) Overall Direct Labor Hours

- i. NPAs shall employ QDL employees for at least 74.5% of the total direct labor hours for production of products and/or services during a Federal fiscal year, whether those hours are performing requirements on the Procurement List (PL) or other contract requirements. This ratio is also called the ODLH ratio.
- ii. NPAs may request certain ODLH ratio exceptions, particularly to phase-in new PL requirements or to meet a surge in contract demand.
- iii. Project Level Ratio
  - 1. An NPA may request, and the Commission may approve, a direct labor hour ratio lower than 75% on an individual AbilityOne PL project or product family if the NPA maintains compliance with the 75% ODLH statutory requirement.
  - 2. Generally, project-level ratio requests must be approved by the Commission

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at the time of PL addition.

3. NPAs may also request temporary PL project DLH ratio exception and/or permanent PL project direct labor hour ratio change to meet a surge in contract demand, change in contract requirement(s), and/or other matter(s).
4. If a Commission and/or CNA qualification assessment finds that an NPA's project-level ratio is significantly lower than was proposed and approved at the time of PL addition or subsequently approved by the Commission, corrective action may be prescribed.

(b) Impact of Subcontracting on Direct Labor Hour Ratio

- i. The Commission may approve an NPA subcontracting a portion of a PL requirement when consistent with the Program's objectives to increase employment opportunities, ensure contract performance quality, increase workplace integration, and/or facilitate career mobility.
  1. As permitted by 41 C.F.R. 51-4.4(c), the Commission will consider approving subcontracts that create a workshare with the subcontractor of tasks (including direct labor) the NPA is capable of performing, to expand an NPA's capacity or workplace integration.
- ii. The portion of the PL requirement that is subcontracted is not counted in the prime contractor NPA's AbilityOne or ODLH ratio.
- iii. If the subcontractor is an AbilityOne-qualified NPA, whether or not the subcontractor NPA is named on the PL for that work, the subcontractor NPA shall count the direct labor hours in its (requirement-performing NPA's) AbilityOne and ODLH ratio.
- iv. Unless specifically authorized by the Commission, the requirement of a subcontracting NPA to count DLH towards its AbilityOne and ODLH ratio does not qualify the subcontracting NPA as a mandatory source under 41 U.S.C. 8504(a) and 41 C.F.R. 51-5.2.

**7. PROCEDURES.**

- (a) NPAs shall record and include in their ODLH ratio calculations the hours of any employee (regular employee or QDL employee – see Commission Policy 51.403, effective August 2, 2024) who performs direct labor, regardless of labor position and hours worked.
- (b) NPAs will submit corrected ODLH reports to the appropriate CNA, for the current fiscal year, when any employee's hours reported as direct labor are, after all technical deficiencies are remedied, subsequently reclassified for inappropriate QDL employee determination.
- (c) The CNAs will establish a process for collecting NPAs' overall direct labor hours and PL project direct labor hours and establish a method to submit the data, results, and recommendations in an electronic format that the Commission can directly and fully

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access.

- (d) NPAs will submit an updated Estimated Direct Labor Hour (EDLH) ratio form when they request Commission permission to perform an existing PL requirement at a lower project-level ratio than was approved at the time of PL addition. The CNAs will identify the procedures for NPAs to submit requests for revised project-level ratios.

**8. EXCEPTIONS.**

None.

**9. SUPERSESION.**

This Policy supersedes the version of Commission Policy 51.404 effective October 1, 2024.



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

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