

Department of Energy
Contractor Performance Assessment Processes
May 2014

Unlike most federal agencies that obligate their procurement budgets across a large number of contracts, the Department of Energy (DOE) obligates approximately 85% of its contract dollars on thirty six large Management and Operating (M&O), Site Management and environmental cleanup contracts. The Department is different from most agencies in that it accomplishes the various missions of the Department through contractors rather than a large federal workforce supplemented by contract activities. The majority of these thirty six contracts are cost type in nature and contain either award fee or incentive fee provisions. A number of the contracts also contain award term provisions. Given the large dollar values and importance of these contracts it is imperative that the Department pay close attention to monitoring contractor performance. M&O contracts are unique to the Department of Energy. FAR Part 17.6 specifically applies only to DOE.

DOE is comprised of a number of programs each with a different mission. Thirty three of the thirty six contracts mentioned above are aligned with three primary programs; the Office of Science (SC), the Office of Environmental Management (EM) and the National Nuclear Security Administration (NNSA). The Office of Nuclear Energy, Office of Fossil Energy and Energy Efficiency and Renewable Energy (EERE) comprise the remaining three. For the purposes of this document we will focus only on the processes and procedures for SC, EM and NNSA.

Office of Science:

The Office of Science has ten Federally Funded Research and Development Center (FFRDC) laboratories performing basic science across a wide spectrum of scientific fields. They provide unique scientific capabilities beyond the scope of academic and industrial institutions to benefit the Nation's researchers and national strategic priorities. As FFRDCs and M&O contracts they are contract structures unique to the Department of Energy.

The Office of Science (SC) conducts an annual process to evaluate the scientific, technological, managerial, and operational performance of the contractors who manage and operate each of the ten national laboratories. These evaluations provide the basis for determining annual incentive awards, including performance fees and the possibility of winning additional years on the contract through an "award term" extension. They also serve to inform the decisions DOE makes regarding whether to extend or compete the M&O contracts for its laboratories.

The current laboratory appraisal process has been in place since Fiscal Year 2006. It was designed to improve the transparency of the process, to raise the level of involvement by the SC

leadership, to increase consistency in the way the laboratories are evaluated, and to more effectively incentivize contractor performance by tying performance to fee earned, contract length and the public release of grades.

The SC laboratory appraisal process uses a common structure and scoring system across all ten of its laboratories. Structured around eight performance goals, it emphasizes the importance of delivering the science and technology necessary to meet the missions of DOE; of operating the laboratories in a safe, secure, responsible and cost-effective way; and of recognizing the leadership, stewardship and value-added provided by the contractor managing the laboratory. The eight performance goals are:

1. Mission Accomplishment (Delivery of Science & Technology (S&T))
2. Design, Construction and Operation of Research Facilities
3. Science and Technology Project/Program Management
4. Leadership and Stewardship of the Laboratory
5. Integrated Environment, Safety and Health Protection
6. Business Systems
7. Facilities Maintenance and Infrastructure
8. Security and Emergency Management

Each performance goal is comprised of a small number of objectives. Within each objective, SC programs and site offices can further identify a small number of “notable outcomes” that illustrate or amplify important features of the laboratory’s performance for the coming year. The performance goals, objectives, and “notable outcomes” are documented at the beginning of each year in a Performance Evaluation and Measurement Plan (PEMP) that is appended to each laboratory contract. Information regarding an individual PEMP may be obtained by contacting the appropriate SC site Office. The PEMPs are approved at the highest management level within the Office of Science. Each contractor has a local federally staffed site office comprised of both technical and acquisition personnel responsible for the administration of the contract. These local site office personnel provide continual feedback to the contractor on performance to ensure the mission is accomplished and no surprises result at the end of the year. Performance feedback is continuous throughout the year which is enhanced by the use of the M&O contract structure.

At the conclusion of each fiscal year, the S&T (Goals 1-3) performance of the laboratory is evaluated by the organizations that fund work at the laboratory. In addition to the SC science programs, SC solicits input from organizations that spend more than \$1 million at the laboratory. This S&T input is weighted according to the dollars spent at the laboratory. Each site office evaluates the laboratory’s performance against the M&O Objectives (Goals 5-8). Site offices and science programs provide input regarding the contractor’s performance with respect to Goal 4 to the SC leadership who subsequently determine the laboratory’s score in this area. In determining these grades, the SC science programs and site offices consider the laboratory’s performance against the “notable outcomes,” defined in the PEMP, as well as other sources of

performance information that becomes available to DOE throughout the year. These include independent scientific program and project reviews, external operational reviews conducted by the Government Accountability Office (GAO), DOE Inspector General (IG), and other parts of DOE, and the results of SC’s own oversight activities. The evaluation process includes end-of-year normalization meetings for all the goals, during which rating organizations report their proposed scores/grades and work to ensure a consistent and fair scoring/grading approach across all ten Laboratories. At the conclusion of the fiscal year, the Office of Science meets with the Site Office’s to discuss their assessments and grades which are finalized through the head of the Office of Science. SC then meets with each laboratory leadership to discuss their overall performance prior to issuing the final laboratory appraisal report. These reports can be found at <http://science.energy.gov/lpe/performance-appraisal-process/>.

The SC appraisal process uses a scale from 0 to 4.3 for the scoring system with corresponding letter grades for the performance goals and objectives. A grade of “B+” is awarded for performance at the objective level that meets SC’s expectations. SC intentionally set its expectations associated with a B+ very high, and does not equate performance below a B+ as necessarily unsatisfactory, but as offering opportunity for improvement.

The grade for each of the performance goals is based on a weighted computation of the scores of the individual performance objectives identified for each goal, and SC uses the resultant performance goal grades to create annual “report cards” for each laboratory that are publicly available on the SC website. The scale SC uses for assigning scores and letter grades is provided in the table below. SC uses CPARS for all of these contracts. They have a crosswalk between the scores and the adjectival ratings as well as guidance on what CPARS criteria the Goals and Objectives should be entered.

Score/Letter Grade Scale

Final Grade	A+	A	A-	B+*	B	B-	C+	C	C-	D	F
Total Score	4.3- 4.1	4.0- 3.8	3.7- 3.5	3.4- 3.1	3.0- 2.8	2.7- 2.5	2.4- 2.1	2.0- 1.8	1.7- 1.1	1.0- 0.8	0.7-0

* SC defines a grade of “B+” as “meets expectations.”

National Nuclear Security Administration:

NNSA’s basic process is similar to that used within the Office of Science. NNSA has five FFRDC M&O laboratories, three M&O plants and one M&O test site each with varying mission support activities. These contracts support the design, development, production and maintenance of the nation’s nuclear arsenal, the Naval nuclear program, nuclear non-proliferation as well as other basic research activities. Performance assessment begins with the development of

Performance Evaluation Plans similar to those within the Office of Science. PEP's are NNSA's integrated corporate plans that clearly document the process, associated performance objectives, performance incentives including multi-site performance incentives, award-term incentives, and associated measures and targets by which the contractor's performance will be evaluated and rated.

NNSA also has a local, federally staffed site office at each contractor facility that provides continual monitoring of performance objectives and performance feedback to the contractors. Given the different objectives that each contractor has, their performance evaluation plans (PEPs) are different for each contractor. The development of the PEPs is a collaborative process within the NNSA beginning with meetings among the various NNSA program elements to determine what objectives must be met in the following fiscal year. Senior program element officials meet to design the PEPs for each contractor ensuring they provide for successful attainment of the NNSA's strategic goals. Each quarter, NNSA officials conduct formal performance reviews with each contractor.

At the conclusion of a fiscal year, the site office prepares a Performance Evaluation Report (PER) assessing the performance of the contractor for each of the PEP objectives. Each contractor PER is submitted to NNSA headquarter's where reviews are conducted by each major program element to ensure agreement between headquarters and field. The Fee Determining Official (FDO) is the head of NNSA for each contract. The FDO convenes a meeting during the first quarter of each fiscal year with all program elements in attendance to review the PERs for consistency in assessment and to make the final determinations. The PEPs and PERs can be found at <http://nnsa.energy.gov/aboutus/ouoperations/apm/perfevals>.

NNSA ensures CPARs inputs by performing CPARs training, weekly emails to managers regarding overdue/due CPARs assessments, including CPARs compliance in each Contract Specialist's performance standards, monitoring semi-annual metrics and highlighting CPARs responsibilities in each Contracting Officer Representative's designation memorandum.

Office of Environmental Management:

The Office of Environmental Management has a single FFRDC M&O laboratory and fourteen "traditional" contracts for environmental remediation at former nuclear processing sites. These cleanup contracts are unique in that the types of hazardous substances are highly radioactive and require the design and development of truly unique processing facilities. As with the Office of Science and NNSA, EM also has a local, federally staffed site office at each location to perform contract administration and oversight functions.

Most of these cleanup sites have had ongoing cleanup contracts for many years and most began as M&O contracts. They generally contain performance incentives with some award fee components. These are extremely complex contracts given the nature of the cleanup activities, the large scale of hazardous substances and the environmental issues associated with each activity.

EM uses a decentralized approach for collecting and evaluating contractor performance data and determining the award fee and performance scores that are supported by strong oversight of the processes by the HCA. As part of this model, local site offices provide continual monitoring of each site's activities and feedback to the contractors regarding their individual performance and success in meeting mission requirements in their contracts.

The Office of Environmental Management has issued two Head of Contracting Activity (HCA) policy directives; one for "Fee Determination Officials Guidance for Office of Environmental Management Concurrence on all FDO Decisions" and one for "Contractor Performance Assessment Reporting System Guidance for Office of Environmental Management Peer Review on Contractor Performance Assessment Reporting System Reports for Active Contracts over \$20M". The purpose of these HCA directives is to:

- Provide instructions on completing Contractor Performance assessment Reports
- Establish headquarters peer review of CPARS inputs
- Ensure that all CPARS inputs are made independently by the designated assessing official
- Ensure that contract assessments are made against the contract requirements and not the project requirements
- Ensure summary ratings match the narrative comments and ratings
- Ensure that performance is adequately documented throughout the year
- Establish headquarters direct oversight and EM HCA review and validation of all FDO incentive fee decisions on contracts over \$20M
- Ensure that all incentive fee award decisions and/or award fee decisions are made independently by the designated FDO consistent with Federal regulations and agency policy
- Provide a reminder to Contracting Officers on the limitations regarding rollover of performance fees

The process for evaluating past performance requires for active contracts over \$20M, prior to sending the proposed evaluation to the contractor, the assessing official submits a copy of the draft evaluation and CPARS input to the EM HCA for headquarters peer review no later than 75 calendar days after the end of the contract performance period. Upon submission of the draft CPAR, the EM HCA reviews and provides feedback within seven business days to the assessing official/contracting officer focusing on consistency between the narratives and ratings, ensuring the assessment pertains to contract requirements and takes into account contract performance as noted in monthly and quarterly reviews as well as audits and any other pertinent performance information. The assessing official makes the final decision regarding any differences between the peer review comments and the original assessment prior to posting the official CPARS input.

The process for determining award fees also includes a similar review loop that allows the HCA to validate that the local site has followed all applicable procedural requirements as local site personnel evaluated contractor performance and determined the appropriate amount of fee to be paid for award fee and performance based incentives. The combination of both oversight processes allows the HCA to verify that the past performance and fee results align throughout the life of the various major contracts within the EM portfolio.

Summary:

All three major DOE programs have as a common theme robust oversight and routine feedback processes to ensure contractors meet their individual contractor and the Department's strategic goals. The use of local, federally staffed site offices responsible for oversight and contract administration plays a key role in the Department's ability to provide continual feedback to the contractors. Additionally, the use of Management and Operating contracts, unique to DOE, allows the Department to have a much closer working relationship with the contractors thereby facilitating communication and partnering to reach common goals and objectives. In addition to each program's appraisal process, the Office of Acquisition and Project Management conducts cyclical Procurement Management Reviews of each acquisition office that include reviews of the contractor performance assessment process. Certain performance evaluation management plans are also selected for review through a business clearance process prior to being formally issued by the contracting officer.