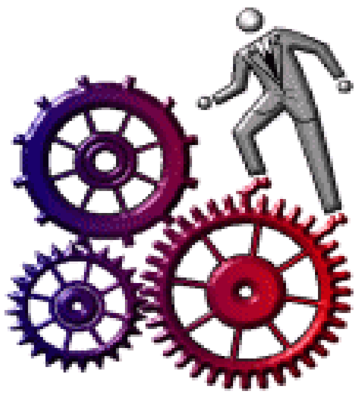
Performance Evaluation and Measurement Plans for Cost-Reimbursement, Non-Management and Operating Contracts



Guiding Principles

- Provide the Acquisition Team assistance in utilizing Incentive contracts
- Understanding the difference between a predetermined, formula-type incentive and an award–fee incentive

[Reference: FAR 6, FAR 16, FAR 22, FAR 32, FAR 46, DEAR 915.404-4-72, DEAR 916.405-2, DEAR 970.1504-1, and Acquisition Guide Chapter 16.1]

Overview

The policy of the DOE is to maximize contractor performance and to align costs with performance through the use of performance-based management as a strategic contract management tool to plan for, manage, and evaluate contractor performance.

An important function of contract administration is the ability, or the opportunity, to manage the environment within which the contracted effort is proceeding and, most importantly, to facilitate adjustments to that effort to meet the demand and changes as they occur. Performance Evaluation and Measurement Plans provide a tool or means of evaluating contractor performance.

The purpose of this guide is to provide guidance on PEMPS- the mandatory elements that must be contained in all PEMPS, and to provide the acquisition team assistance in utilizing Incentive contracts to support and implement this policy. Cost-reimbursement, incentive contracts are of two types. Award-Fee contracts are a type of incentive contract that utilizes a subjective method to evaluate performance and the conditions under which it was achieved to determine the award fee earned. Cost-reimbursement, incentive contracts that are not award-fee contracts utilize predetermined, formula-type incentives to measure performance. Under incentive contracts the contractor's profit rate varies based on its performance as measured against cost, technical, and/or schedule metrics.

Award fee criteria should be carefully selected to properly motivate the contractor's management and performance during the award fee period. Qualitative criteria are generally recommended, but clear distinctions should be established between the performance levels to guide the program personnel.

For non-M&O contracts that utilize Earned Value Management System (EVMS)(i.e., contain capital asset projects, major contracts for decontamination and decommissioning, environmental remediation, and other major site and facility contracts, and other contracts as appropriate) the goal should be to motivate effective performance management with EVMS. Award fee criteria should be based on the degree of effective management with EVMS and can be a mix of qualitative and subjective measures. While it seems obvious that earned value metrics, such as variances or indices, seem tailor made to provide incentives to the contractor in an award fee environment, experience shows otherwise. Using metrics such as cost or schedule variances, cost or schedule performance indices or variances at completion (VACs) to measure performance for award fee purposes should be avoided. Use of such metrics may result in overstating of performance or other improper actions that could undermine the objective of evaluation of the contractor's performance. Over reliance on EVMS metrics in contractor performance evaluation may lead to frequent baseline changes for short term profit gain and generally have not resulted in better cost control. The goal should be to reward proactive and effective contractor performance management. Types of information to consider could include:

Management

- EVM is effectively integrated and used for program management
- Prime contractor's management of major subcontractors
- Realistic and current expenditures and schedule forecasts
- Adequacy of cost proposals submitted during award fee period
- Cost control
- Meaningful variance analysis
- Timely incorporation of changes to the PMB
- Accuracy, timeliness, and consistency of billings and cumulative performance data and integration of subcontractor data
- Baseline discipline and system compliance

A fundamental requirement for managing any complex contract is insight into the contractors' performance specifically the program management and control. Proper EVMS implementation ensures that the project personnel are provided contractor performance data that:

- relates time-phased budgets to specific contract tasks and/or statements of work (SOW)
- accurately and objectively measures work progress

- properly relates cost, schedule, and technical accomplishment
- allows for informed decision making and corrective action
- is valid, timely, and able to be audited
- allows for statistical estimation of future costs
- supplies managers at all levels with status information at the appropriate level, and
- is derived from the same EVMS used by the contractor to manage the contract.

Sample criteria and varying levels of performance are shown in Attachment 5. These criteria should be selected and tailored as appropriate to the nature of the contract.

This guidance does not apply to Management and Operating contracts although the general principles herein discussed are applicable.

Chapter 1 - General

1.1 Introduction

FAR 16.401 through FAR 16.402-4 discuss incentive contracts and place incentives in two major categories: award-fee incentives and predetermined, formula-type incentives. This guide chapter addresses both award-fee incentives and predetermined, formula-type incentives. The term Performance Evaluation and Measurement Plan (PEMP) is used to address a fee plan that includes both types of incentives. When using award-fee incentives, Contracting Officers (COs) must use the adjectival ratings, associated descriptions, and award-fee earned percentages prescribed in Table 16.1 in FAR 16.401. For the list of acronyms and definitions, please see Attachment 1.

1.2 Establishing Total Fee for the Contract

The total fee for the contract may include: Base

Amount;
Fee Pool for Award-fee Incentives; and
Fee Pool for Predetermined, Formula-type Incentives (Commonly referred to Performance Based Incentives in DOE)

Establishing the total fee available for the base amount and for all of the incentives in the contract is critical and must be accomplished utilizing a structured approach in accordance with law, regulation, and DOE policy.

For award-fee contracts, FAR uses the terms base amount and award amount/award-fee pool; DEAR uses the terms base amount and award-fee pool. For a contact that includes both award-fee incentives and predetermined, formula-type incentives, it is possible the total available fee would comprise a base amount, an amount for award-fee incentives, and predetermined formula-type incentives.

DEAR 915.404-4-72 applies to cost-plus-award-fee contracts. It contains the DOE approach for determining the base fee and the award-fee pool. The maximum fee permitted for cost-plus-award-fee contracts shall also be the maximum fee permitted for contracts that contain both award-fee incentives and predetermined formula-type incentives.

1.3 Base Fee

There is no requirement that a contract include a base fee, with the exception of award- fee contracts (the base may be zero). If there is a base fee it is often appropriate to allocate it equally among the contract's evaluation periods for the award-fee incentives of the contract.

1.4 Incentive Fee

FAR 16.4 defines predetermined, formula-type incentives differently than award-fee incentives and requires predetermined, formula-type incentives be used in preference to award-fee incentives, which are permitted only if it is neither feasible nor effective to use predetermined, formula-type incentives. Predetermined, formula-type incentives fall into three categories: cost incentives; technical incentives; and schedule incentives. Because these types of incentives are earned based upon meeting objective performance measures, they are evaluated separately from award-fee incentives, which are earned based upon subjective performance measures.

Formula or objective performance measurement standards are based on well-defined parameters for measuring performance. They include customer surveys, inspection reports and test results. Quantitative measures should be used whenever the given performance can be precisely or finitely measured. Sufficient information or experience must be available to permit the identification of realistic standards against which quantitative measurements may be compared.

1.5 Award Fee

Award-fee contracts are appropriate when predetermined, formula-type incentives are not appropriate. Keep in mind that any reasonable assessment of effectiveness when using award-fee incentives requires a judgmental evaluation process that addresses both performance levels and the conditions under which those levels were achieved. The major advantage of the use of award fee from other types of incentives is the Government gives the contractor a detailed evaluation of performance, pointing out deficiencies and weaknesses. Unfortunately, this advantage is often overshadowed due to the substantial costs incurred through the continual evaluations and processing of award fee decisions. From the contractors' point of view, the award fee is typically advantageous in that it usually yields higher fees than other incentives.

Chapter 2 - Performance Evaluation Criteria for Incentive Contracts

The best practice is to tailor performance evaluation plans or Performance Evaluation Management Plans (PEMP) and criteria to fit the goals and objectives of the statement of work, the contractor's internal systems, and the business arrangements within the contract. Since the Government may well have different desired outcomes for individual phases of a contract or project, evaluation criteria may change among the performance periods. The PEMP for the current evaluation period shall include only the criteria that apply to the current evaluation period. Note that the contract permits the CO to make unilateral modifications of the detailed evaluation plan, if the modifications are made in a specified amount of time in advance of the related evaluation period.

It is neither necessary nor desirable to include all processes or functions required by the statement of work as part of the performance evaluation plan (PEMP). The best practice is to focus on desired outcomes that are critical to the mission of the Department, the program, and/or the site. The performance evaluation criteria selected must be balanced so that contractors, when making trade-offs among evaluation criteria, assign the proper importance to each of the critical functions identified and keep the Department's desired outcomes in mind at all times. For example, the PEMP emphasizing technical performance must also address cost considerations, because an evaluation plan limited to technical performance might result in increased costs out of proportion to any benefits gained. To achieve the appropriate balance the criteria must be usually limited to a significant few to focus the contractor's attention in the areas we want to emphasize performance.

Furthermore, spreading the potential fee over a large number of areas in the contract's scope of work or performance evaluation criteria dilutes the impact on each area and individual criterion and can actually reduce the ability of the contractor to achieve world-class results. When using incentives, the effort of tracking a multitude of metrics simply distracts management from focusing on the "big picture" end goals.
Predetermined, formula-type incentive fee evaluation criteria should be as specific and focused as possible. Award fee evaluation criteria must often be broad criteria in areas such as technical, project management and cost control, supplemented by a limited number of sub-criteria describing significant evaluation elements over which the contractor has effective management control. Prior experience can be helpful in identifying those key problem or improvement areas that should be subject to fee evaluations.

Basic areas of performance should be evaluated, but not every area evaluated results in earning a fee. However, some areas of performance need to be evaluated on every incentive-type contract, and have a fee associated with that area. Other areas are critical only in certain contracts. For example, all incentive-type contracts (including contracts with award fee only, contracts with only predetermined formula-type incentives, or contracts with both types of incentives) are required to contain a cost incentive or constraint (see FAR 16.402). Therefore, cost control will always be included as an evaluation criterion, if there isn't a separate cost incentive in the contract. In general, cost, schedule (on time delivery), and performance (technical merit, design innovation, reliability, etc.), will always be important-- although their relative importance and the criteria for determining what constitutes good performance may vary by procurement.

The relative importance of the criteria and the parts of the contract's statement of work to which they apply should be tailored to fit the needs of the procurement. For example, providing a cleaned up area or building, or a system design on time is generally critical to the contract. However, in some instances earlier delivery will also be of benefit to the Government and therefore worth incentivizing if it would reduce costs or allow effort to be redirected to other critical segments of the project without increasing the overall cost. The earlier a site area can be cleaned up, the earlier the Department can begin work on the rest of its cleanup needs. In other instances, early deliveries might be of no benefit, or even cost the Government money. For instance, early delivery of furniture may require the Department to pay storage costs if the facility the furniture is supposed to be used in is still being renovated. In that case, a later "just in time" delivery would result in a lower overall cost to the Government.

2.1 Predetermined, Formula-Type Incentive Criteria

Predetermined formula-type incentive criteria are objective, the least administratively burdensome type of performance evaluation criteria, and, should, provide the best indicator of overall success. Predetermined Formula-type oriented criteria should therefore be the first type of criteria considered for use, and are often ideal for non- routine efforts. Criteria may also include sub-criteria used to evaluate performance.

Types of Criteria for predetermined formula-type incentives:

Range Specific: (e.g., *Target* = 600 barrels of waste; *exceeds Target* = 675 barrels of waste; & *significantly exceeds Target*/excellent= 725 barrels of waste).

Range Specific: (e.g., *below baseline, /unsatisfactory* = 500-599 barrels of waste moved (deduction of Fee); *Target/satisfactory* = 600-674 barrels of waste moved (Target Fee); *exceeds baseline/very good* = 675-724 barrels of waste moved (Target + Fee); *significantly exceeds baseline*/excellent= >725 barrels of waste moved (Target + Fee).

Point Specific: (e.g., *below baseline, unsatisfactory* = 601 milli-roentgen equivalent man (rem) (mrem) of exposure; *baseline* = 600 mrem of exposure; & *exceeds baseline* = 599 mrem of exposure).

2.2 Award-Fee Criteria

Award fee criteria differ from other types of criteria because they are subjective and/or judgmental. The amount of the award fee available to be earned is fixed at inception of the contract and the award fee criteria must be structured to provide the contractor the proper motivation for excellence in such areas as quality, timeliness, technical ingenuity, and cost-effective management. To be realistic, any standard to measure performance when using award-fee incentives should reflect the nature and difficulty of the work involved (FAR 16.401).

2.3 Structure of Fee Evaluation Criteria

The amount of fee the contractor may earn must be commensurate with the contractor's performance measured against contract requirements and acquisition objectives in accordance with the criteria stated in the fee plan. The areas of evaluation are cost, schedule and technical performance. Several sub- areas should be added to each area to identify in more detail specific criteria that the contractor must meet in order to achieve desired outcomes. Weights assigned to areas and sub-areas should reflect the importance/criticality for the successful program execution, delivery of a product or service.

a. Cost: Each acquisition must be analyzed to ensure that evaluation of cost receives the appropriate attention in determining the amount of available fee. The contractor's ability to control, adjust and accurately project contract costs (estimated contract costs, not budget or operating plan costs) is of key importance. How much weight (emphasis) is to be put on this area will depend on the type of acquisition. A contract awarded for research and development of a product will have less emphasis on cost than a contract for the manufacture and/or delivery of a product or a contract that is for services. Some criteria to consider may be:

    - Control of indirect and overtime costs
    - Control of direct labor costs
    - Economies in use of personnel, energy, materials, computer resources, facilities, etc.
    - Cost reductions through use of cost savings programs, cost avoidance programs, alternate designs and process methods, etc.
    - "Make versus buy" program decisions
    - Reduced purchasing costs through increased use of competition, material inspection, etc.

b. Schedule: Weights assigned to this area should reflect the importance of this area. Sub-areas should be established with criteria focused on getting the contractor to meet or exceed minimum delivery requirements. This can be defined in terms of early delivery, attaining or exceeding milestones, or meeting rapid-response or urgent requirements. Sometimes schedule risks may be very high since the customer requirements may not remain firm and the impact of changes cannot be predicted with reasonable accuracy. As an example pre- production schedule objectives and risks would differ significantly from production schedule objectives and risks. The pre-production challenges usually are unknowns in technology and instability in requirements and funding – placing more risk on the contractor. On the other hand, manufacturing unknowns that drive a production schedule such as supply of materials/parts and labor represents a greater risk to the customer. Some criteria to consider may be:

- Assignment and utilization of personnel
- Recognition of critical problem areas
- Cooperation and effective working relationships with other contractors and Government personnel to ensure integrated operation efficiency
- Support to interface activities
- Technology utilization
- Effective use of resources
- Planning, organizing and managing all program elements
- Management actions to achieve and sustain a high level of productivity
- Response to emergencies and other unexpected situations
- Compliance with contract provisions
- Effectiveness of property and material control
- Occupational safety and security
- Subcontracting; Subcontract direction and coordination
- Purchase order and subcontractor administration.
- Timely and accurate financial management reporting.

c. <u>Technical performance (Quality of Work):</u> Evaluation criteria should be tied to technical requirements documents, risk reduction plans, applicable test plans and procedures, milestones for completion of reports, testing, product delivery, or other completion of events or deliverables set forth in the contract. Weights assigned should reflect the importance/criticality for successful program execution, design or delivery of a product or the successful performance of a service to ensure that the contractor's performance is measured against mission outcomes and basic requirements of the contract. In order to achieve this, sub- areas should be established to measure different aspects of performance, i.e., program execution, organizational and program management, risk management, logistic support, strategic planning, quality of work/services, etc. Criteria to evaluate these sub-areas should be structured in such a way to evaluate how well the contractor identifies/addresses/mitigates problems and program risks. Some areas to consider may be:

- Design of test models and prototypes
- Conception/execution of manufacturing processes, test plans and techniques
- Effectiveness of proposed hardware changes
- Quality control, e.g., appearance, thoroughness and accuracy, inspections, customer surveys
- Meeting technical requirements for design, performance and processing, e.g., weight control, maintainability, reliability, design reviews, test procedures, equipment, or performance

- Processing documentation timely and efficient preparation, implementation and closeout
- Facilities/GFE/GFM/GFP, operation and maintenance of assigned facilities and Government Furnished Equipment, Material, and/or Property
- Anticipating and resolving problems
- Recovery from delays, reaction time and appropriateness of response to changes
- Providing a safe work environment; timely reporting of mishaps
- Conducting annual inspections of all facilities
- Maintaining accident/incident files
- Management information systems ensures accurate, relevant and timely information
- Efficient and effective processing of requisitions, with emphasis on priority requisitions

For a sample of DOE criteria, please see Attachment 2.

2.4 Mandatory Elements

The contract and the PEMP must give the Government the right to take back any fee paid that was based on erroneous information from the contractor's business systems in accordance with DOE Acquisition Letter AL-2014-02 (issued October 29, 2013).

Fee is earned only when it is based on accurate data provided by the contractor. As such, any fee based on inaccurate data that would otherwise been earned shall be returned to the Department of Energy (DOE) upon notification by the Contracting Officer. Therefore, all payments of fee is provisional or conditional. Among other things, fee must be based on the contractor submitting accurate data through or from its business systems-including, but not limited to: (1) Earned Value Management System, (2) Purchasing System, (3) Property System, and (4) Accounting System.

Consequently, if DOE has paid a contractor a *fee*, whether it was termed provisional or "earned" when it was paid, and either the contractor or DOE subsequently discovers the fee was not earned, the contractor shall return the unearned fee, to DOE.

It is mandatory that all PEMPs include elements that measure whether the contractor has met the overall cost, schedule, and technical performance requirements of the contract. The PEMP's architecture must ensure the planning and controlling of authorized work to achieve cost, schedule, and technical performance objectives is accomplished. Therefore, the PEMP must include elements that monitor contractor performance to meet or exceed performance schedule goals, attain or exceed performance and schedule goals, attain effective cost control, and maintain business systems (refer to Acquisition Letter AL-2013-11 Revised 05/02/2013).

2.4.1 Mandatory Cost PEMP Element:

All costs incurred during the performance evaluation period shall not exceed the contract total estimated cost excluding any cost overrun. The Government shall measure contractor cost performance against the total estimated contract cost of the contract, minus any cost overrun and against the Contract Budget Base. The Government shall not measure contractor performance against a total estimated cost that includes cost overrun or measure performance against an over target baseline (see Acquisition Guide Chapter 43.3 for information on over target baselines).

The Government must not provide fee for contractors based on Cost Performance Indices (CPI) without ensuring that the underlying data in the EVMS system is accurate. The EVMS must be certified by DOE (recertified as required). CPI is an indicator of project performance, not necessarily of contract performance.

Cost must be a stand-alone element.

2.4.2 Mandatory Schedule PEMP Element:

The Government shall measure contractor schedule performance against the (Performance Based) Statements of Work activities and significant activities in the Project Schedule, which represents an integrated network of tasks, subtasks, activities, and milestones with sufficient logic and durations to perform the SOW. The schedule must be consistent with the evaluation period covered and not outside the evaluation period.

The Government must not provide fee for contractors based on Schedule Performance Indices (SPI) without ensuring that the underlying data in the EVMS system is accurate. The EVMS must be certified by DOE (recertified as required). SPI is an indicator of project performance, not necessarily of contract performance.

Schedule must be a stand-alone element.

EVMS and Award Fee Contracts. EVMS award fee criteria should be carefully selected to properly motivate the contractor's management and performance during the award fee period. Qualitative criteria are generally recommended, but clear distinctions should be established between the performance levels to guide the PMO when evaluating performance. The PMO should establish the criteria to motivate and encourage improved management processes during the period, keeping in mind that recognizing improvements in integrated program management result in more long lasting improvement in cost and schedule performance. If such qualitative criteria are difficult to support during the evaluation process, the PMO should consider using subjective criteria for EVMS performance results.

Avoidance of EVMS Quantitative Metrics. While it seems obvious that earned value metrics, such as variances or indices, seem tailor made to provide incentives to the contractor in an award fee environment, experience shows otherwise. Using metrics such as cost or schedule variances, cost or schedule performance indices or VACs to measure performance for award fee purposes should be avoided. Use of such metrics may result in overstating of performance or other improper actions that could undermine the EVMS. Metrics may lead to frequent baseline changes for short term profit gain and generally have not resulted in better cost control. Cost performance may be more directly incentivized through the use of a CPIF contract rather than an award fee contract.

Avoidance of Contract Management Milestones (such as IBR) as Criteria. The IBR or other management, technical or program milestones should not be used as a basis for award fee. Establishing award fee metrics based on hard dates for either the IBR or other management milestones may force the conduct of these reviews, even though the contractor is not ready for the review. The technical completion of work to established baseline evaluation criteria is one way of objectively evaluating and rewarding the contractor based on success to a baseline plan.

Establishing Qualitative Criteria. The goal should be to motivate effective performance management with EVMS. Award fee criteria should be based on the degree of effective management with EVMS and can be a mix of qualitative and subjective measures. The PMO should aim for 75% of the criteria to focus on effective management with EVM and a 25% focus on discipline/consistency. The goal should be to reward proactive and innovative performance management. This breakout can be seen in the following suggested categories:

Management

- EVM is effectively integrated and used for program management
- Prime contractor's management of major subcontractors
- Realistic and current budgets, expenditures, and schedule forecasts
- Adequacy of cost proposals submitted during award fee period
- Cost control
- Meaningful variance analysis
- Timely incorporation of changes to the PMB

Discipline

- Accuracy, timeliness, and consistency of billings and cumulative performance data and integration of subcontractor data

- Baseline discipline and system compliance

Sample criteria and varying levels of performance are shown in Appendix (atch). These criteria should be selected and tailored as appropriate to the nature of the contract.

Integrated Program Management Report (IPMR). Alternatively, or in conjunction with the aforementioned qualitative criteria, award fee can be tied to the IPMR which contains data for measuring cost and schedule performance on Department of Energy (DOE) acquisition contracts. It is structured around seven formats that contain the content and relationships required for the electronic submissions. The IPMR's primary value to the Government is its utility in reflecting current contract status and projecting future contract performance. It will be used by the DOE component staff, including program managers, engineers, cost estimators, and financial management personnel, as a basis for communicating performance status with the contractor. Format submissions will be assessed for compliance with IPMR requirements. Standards for award fee withhold should be established (e.g., f any report submission is rejected in two successive reporting periods). For additional details, see the IPMR on the DOE website.

APPENDIX

SAMPLE AWARD FEE CRITERIA

MANAGEMENT #1	EVM is effectively integrated and used for program management.
UNSATISFACTORY -	Contractor fails to meet criteria for satisfactory performance.
SATISFACTORY	Contractor team uses earned value performance data to make program decisions as appropriate.
GOOD	**Meets all the SATISFACTORY requirements plus:** Earned value performance is effectively integrated into program management reviews and is a primary tool for program control and decision-making.
VERY GOOD	**Meets all of the GOOD requirements plus:** Contractor team develops and sustains effective communication of performance status on a continual basis with the Government.
EXCELLENT	**Meets all the VERY GOOD requirements plus:** Proactive, innovative use of EVM by entire contractor team. Plans and implements continual process improvement in using EVM.

MANAGEMENT #2	Management of major subcontractors.
UNSATISFACTORY -	Contractor fails to meet criteria for satisfactory performance.
SATISFACTORY	Contractor routinely reviews the subcontractor's performance measurement and baseline.
GOOD	**Meets all the SATISFACTORY requirements plus:** Contractor's management system is structured for oversight of subcontractor performance.
VERY GOOD	**Meets all of the GOOD requirements plus:** Contractor actively reviews and manages subcontractor progress. Clear and accurate status reporting to the Government.
EXCELLENT	**Meets all the VERY GOOD requirements plus:** Effective, timely communication of subcontractor cost and schedule status to the Government. Issues are proactively managed.

MANAGEMENT #3	Realistic and current cost, expenditure, and schedule forecasts.
UNSATISFACTORY -	Contractor fails to meet criteria for satisfactory performance.
SATISFACTORY	Provides procedures for delivering realistic and up-to-date cost, and schedule forecasts as presented in Contract Performance Report, formal estimate at completion, Contract Funds Status Report, Integrated Master Schedule, etc. The forecasts are complete and consistent with program requirements and are reasonably documented.
GOOD	**Meets all of the SATISFACTORY requirements plus:** All requirements for additional funding and schedule changes are thoroughly documented and justified. Expenditure forecasts are consistent and logical and based on program requirements. Contractor acknowledges cost growth (if any) in the current reporting period and provides well documented forecasts.
VERY GOOD	**Meets all of the GOOD requirements plus:** Expenditure forecasts reflect constant scrutiny to ensure accuracy and currency. Contractor prepares and develops program cost and schedule data that provides clear Government visibility into current and forecast program costs and schedule. Schedule milestone tracking and projections are very accurate and reflect true program status. Keeps close and timely communications with the Government.
EXCELLENT	**Meets all of the VERY GOOD requirements plus:** Contractor consistently submits a high quality estimate at completion that is current and realistic. Reported expenditure profiles are accurate. Develops comprehensive, clear schedule data that provides excellent correlation with technical performance measures and cost performance reports and permits early identification of problem areas. Schedule milestone tracking and projections are accurate and recognize potential program impact.

MANAGEMENT #4	Adequacy of cost proposals submitted during award fee period.
UNSATISFACTORY -	Contractor fails to meet criteria for satisfactory performance.
SATISFACTORY	Proposal data, including subcontractor data, is logically organized and provides adequate visibility to the Government to support technical review and cost analysis. A basis of estimate is documented for each element. When insufficient detail is provided, the contractor provides it to the Government on request. Proposal is submitted by mutually agreed to due date.
GOOD	**Meets all of the SATISFACTORY requirements plus:** Detailed analysis is provided for subcontractor and material costs.
VERY GOOD	**Meets all of the GOOD requirements plus:** Proposal data is traceable and provides visibility to the Government to support a detailed technical review and thorough cost analysis. Only minor clarification is required. Potential cost savings are considered and reported in the proposal.
EXCELLENT	**Meets all of the VERY GOOD requirements plus:** Change proposals are stand-alone and require no iteration for Government understanding. Contractor communicates during the proposal preparation phase and effectively resolves issues before submission.

MANAGEMENT #5	Cost control.
UNSATISFACTORY -	Contractor fails to meet criteria for satisfactory performance.
SATISFACTORY	Controls self and subcontractor cost performance to meet program objectives.
GOOD	**Meets all of the SATISFACTORY requirements plus:** Establishes means to stay within target cost. Provides good control of all costs during contract performance.
VERY GOOD	**Meets all of the GOOD requirements plus:** Provides measures for controlling contract cost at or slightly below target cost. Provides suggestions to the program office and implements them when appropriate. Implements some ideas for cost reduction.
EXCELLENT	**Meets all of the VERY GOOD requirements plus:** Provides suggestions and when appropriate, proposals to the program office for initiatives that can reduce future costs. Implements cost reduction ideas across the program and at the subcontract level. Identifies (and when appropriate implements) new technologies, commercial components, and manufacturing processes that can reduce costs.

MANAGEMENT #6	Variance analysis in performance reports.
UNSATISFACTORY -	Contractor fails to meet criteria for satisfactory performance.
SATISFACTORY	Variance analysis is sufficient. Contractor usually keeps the Government informed of problem areas, the causes, and corrective action. When insufficient detail exists, the contractor provides it to the Government promptly upon request.
GOOD	**Meets all of the SATISFACTORY requirements plus:** Contractor routinely keeps the Government informed of problem areas, the causes, and corrective action. Explanations are updated on a monthly basis. Action taken to analyze potential risks for cost and schedule impacts.
VERY GOOD	**Meets all of the GOOD requirements plus:** Contractor always keeps the Government informed of problem areas, the causes, and corrective action. Variance analysis is thorough and is used for internal management to control cost and schedule. Detailed explanations and insight are provided for schedule slips or technical performance that could result in cost growth. The Government rarely requires further clarification of the analysis.
EXCELLENT	**Meets all of the VERY GOOD requirements plus:** Variance analysis is extremely thorough. Contractor proactively keeps the Government informed of all problem areas, the causes, emerging variances, impacts, and corrective action. Contractor keeps the Government informed on progress made in implementing the corrective action plans. Analysis is fully integrated with risk management plans and processes.

DISCIPLINE #1	Accuracy, timeliness, and consistency of billing and cumulative performance data; and integration of subcontractor data.
SATISFACTORY	Billings to the Government may have slight delays and/or minor errors. CPR, CFSR, and IMS reports are complete and consistent with only minor errors. Data can be traced to the WBS with minimum effort. Subcontractor cost and schedule data are integrated into the appropriate reports with some clarification required. Reports are occasionally submitted late. Electronic data is submitted correctly per the ANSI X12 format.
GOOD	**Meets all of the SATISFACTORY requirements plus:** Billings to the Government are accurate though there are slight delays. Data is complete, accurate, consistent, and shows traceability to the WBS, with some clarification required. Subcontractor performance data is fully integrated into the appropriate reports with no clarification required and reports are submitted on time.
VERY GOOD	**Meets all of the GOOD requirements plus:** Data is complete, accurate, and consistent, with little or no clarification required.
EXCELLENT	**Meets all of VERY GOOD requirements plus:** Billings are submitted to the Government on time. Data is complete, accurate, and consistent, with clear traceability to the WBS. Data elements are fully reconcilable between the CPR and the CFSR. Subcontractor schedule performance is vertically and horizontally integrated with the contractor schedule.

DISCIPLINE #2	Baseline discipline and system compliance.
SATISFACTORY	The contractor develops a reliable performance measurement baseline that includes work scope, schedule, and cost. The contractor or Government may discover system deficiencies or baseline planning errors through either routine surveillance or data inaccuracies in the CPRs. Contract changes and UB are normally incorporated into the baseline in a timely manner. MR is tracked and used in proper manner. Elimination of performance variances is limited to correction of errors.
GOOD	**Meets all of the SATISFACTORY requirements plus:** Requirements are addressed up front to minimize changes and future cost and schedule growth. Contract changes and UB are always incorporated into the baseline in a timely manner. System deficiencies or baseline planning errors are quickly assessed and corrected, resulting in minor impact to data accuracy. Provides for the continuous review of the baseline to assure that it is current and accurate thereby maintaining its usefulness to management. Cost and schedule baselines are fully integrated.
VERY GOOD	**Meets all of the GOOD requirements plus:** Builds proper baseline in a timely manner. Provides realistic performance baseline. Ensures work packages are detailed and consistent with scope of contract and planned consistent with schedule. Contractor conducts routine surveillance that reveals minor system deficiencies or minor baseline planning errors, which are quickly assessed and corrected, resulting in little or no impact to data accuracy. Contractor EVMS is effectively integrated with other management processes.
EXCELLENT	**Meets all of the VERY GOOD requirements plus:** Proactively manages baseline. Maintains timely detail planning as far in advance as practical and implements proper baseline controls. Controls and minimizes changes to the baseline particularly in the near term. System deficiencies or planning errors are few and infrequent. Contractor takes initiative to streamline internal processes and maintains high level of EVMS competency and training across organization.

Chapter 3 - Qualitative Standards for Award Fee

Qualitative or subjective evaluation criteria need qualitative or subjective performance standards and rely on evaluator's opinions and impressions of performance quality and the conditions under which it was achieved. Qualitative assessments must be as informed as possible and not rely on personal bias or a purely intuitive (gut) feeling.
There should be a cause and effect relationship among the criterion and its standards, the evaluator's observations, and a distinct reduction or improvement in quality. Some examples are:

> Staffing: Optimal allocation of resources; adequacy of staffing; qualified and trained personnel; identification and effective handling of employee morale problems, etc.
>
> Planning: Adequate, quality, innovative, self-initiated and timely planning of activities; effective utilization of personnel; quality of responses, etc.

Another example of a qualitative standard is a quality review, such as a questionnaire requiring "yes" or "no" answers, with a high proportion of "yes" answers indicative of high quality performance. Note that narrative support for questionnaire answers is required.

When using award-fee incentives, COs must use the adjectival ratings, associated descriptions, and award-fee earned percentages prescribed in Table 16.1 in FAR 16.401 (see Attachment 3). Once evaluation criteria are developed, standards are developed within each evaluation criterion for measuring contractor performance.

Chapter 4 - Weighting of Evaluation Criteria

In addition to identifying how performance will be evaluated, the PEMP will indicate the relative priorities assigned to the various performance areas through its allocation of fee to the areas and its evaluation criteria and sub-criteria. The Fee Determining Official (FDO) is responsible for developing the appropriate criteria for the contract. Only the criteria that apply to a specific period should be included. In an incentive contract using predetermined, formula-type incentives, weighting is generally done by the dollars assigned to each criterion. In an incentive contract using award fee, weighting is generally done by percentages. The following is an example of weighting criteria in an award fee contract *(example is notional):*

Each contract will have specific performance expectations that fall under one of the three performance criteria listed in the paragraph below. Each performance criteria will be assigned a weight to communicate its level of importance. The total weight of the combined criteria must equal 100%.

Criteria		Weight
Technical		55%
Quality of Work Products	40%	
Quality of Work Process	15%	
Schedule		20%
Cost Control		25%
TOTAL		100%

Chapter 5 - Evaluation Periods

Evaluation periods for award fee contracts should be structured to balance the contractors' ability to have enough performance time yet allow the Government to have adequate time to provide timely feedback, yet not be administratively burdensome.
Generally this period is no longer than one year, but should rarely be less than six months. Too short of an evaluation period can prove administratively burdensome and lead to hasty evaluations. Too long of an evaluation period can jeopardize valuable feedback to the contractor regarding their performance. There should always be a continuous on-going two-way conversation with the Contractor about its performance no matter what the length of the evaluation period.

Evaluation periods for contracts with predetermined, formula-type incentives should be structured to balance the timeframe, the targets and fee pool to provide the Contractor with the appropriate focus. A one-year period is appropriate for many incentives, especially when using near-term incentives in combination with contract length or completion incentives.

Chapter 6 - Fee Allocation

Most often, the available award fee is allocated equally over the evaluation periods if the risks and types of work are similar throughout the various evaluation periods. Fee allocations may be tied to accomplishment of milestones. Available predetermined, formula-type incentive fee can also be allocated equally over the evaluation periods, however additional consideration will be required as to whether the targets are equally important in each evaluation period.

6.1 Unequal Allocation of Fee

If appropriate to the contract, the acquisition team may establish key performance events (events on the critical path), and fee amounts should be allocated based upon the criticality of the events. The preferred approach is to give greater weight to performance events that occur toward the end of an evaluation period. If the contract has a short initial evaluation period so the contractor can become familiar with the work, the initial evaluation period may have a smaller allocation while the remaining available fee is divided equally among the remaining evaluation periods. Conversely, if the contract effort requires the contractor to become familiar with the work quickly, the initial evaluation period may have a larger allocation.

EVALUATION PERIODS	1	2	3	4	Total
Allocation (%)	10%	26%	40%	24%	100%
Allocation ($)	$50,000	$130,000	$200,000	$120,000	$500,000

6.2 Reallocation for Incentive Contracts

Reallocation is the process by which the Government moves a portion of the available fee from one evaluation period to another due to such things as Government-caused delays, special emphasis areas, changes to the Performance Work Statement (PWS) or Statement of Objectives (SOO), etc. Reallocation is not normally associated with the contractor's performance. Reallocation may be done unilaterally if projected before the start of the affected fee evaluation period. Under award-fee contracts, unearned fee may not be rolled over to any subsequent evaluation period.

Chapter 7 - Roles and Responsibilities for Incentive Contracts

It is especially important that all personnel involved in contract administration and oversight understand the process for developing the PEMP as it will affect contractor's performance and evaluation of that performance. For the award-fee incentives, fee evaluation team includes the performance monitors as well as the FDO and other award fee board members. The FDO makes the final determination regarding amount of fee earned during the evaluation period and ensures the performance evaluation fee process integrity is maintained. The Award-Fee Board provides an objective, impartial view of the contractor's performance to the overall process.

Early involvement in the development of the PEMP by the Field Assistance and Oversight Division (MA-621) is highly recommended. Any plans selected for review by MA-621 will be submitted for review 2 months (60 days) prior to commencement of the review period.

A sample PEMP is included as Attachment 4.

ATTACHMENT 1: ACRONYMS AND DEFINITIONS

Award-Fee Board (AFB) - Means the team of individuals identified in the award-fee plan who have been designated to assist the Fee-Determining Official in making award- fee determinations. (FAR 16.001)

Award-fee amount - The amount of award fee earned shall be commensurate with the contractor's overall cost, schedule, and technical performance as measured against contract requirements in accordance with the criteria stated in the award-fee plan. (FAR 16.401(e)(2)

Award-Fee Plan - All contracts providing for award fees shall be supported by an award-fee plan that establishes the procedures for evaluating award fee which identifies the evaluation criteria and how they are linked to acquisition objectives which shall be defined in terms of contract cost, schedule, and technical performance. The plan also describes how the contractor's performance will be measured against the award-fee evaluation criteria using the adjectival rating and associated description as well as the award-fee pool earned percentages shown in Table 16-1 (FAR 16.401(e)(3))

Award-fee pool amount – For the contract, the amount of available award fee that can be allocated across all of the contract’s evaluation periods; for an evaluation period, the amount of the contract’s available award fee that is allocated to the period.

Cost-reimbursement of contracts - Provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer. (FAR 16.301-1)

Cost-Plus-Incentive-Fee contract (CPIF) – Provides for an initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs (does not apply to Cost-Plus-Award-Fee contracts). (FAR 16.304)

Cost-Plus-Award-Fee contract (CPAF) - A cost-plus-award-fee contract is a cost-reimbursement contract that provides for a fee consisting of a base amount (which may be zero) fixed at inception of the contract and an award amount, based upon a judgmental evaluation by the Government, sufficient to provide motivation for excellence in contract performance. (FAR 16.305)

Delivery incentives - Should be considered when improvement from a required delivery schedule is a significant Government objective. It is important to determine the Government’s primary objectives in a given contract (*e.g.*, earliest possible delivery or earliest quantity production). Incentive arrangements on delivery should specify the application of the reward-penalty structure in the event of Government-caused delays or other delays beyond the control, and without the fault or negligence, of the contractor or subcontractor. (FAR 16.402-3(a))

Earned value management system (EVMS) – A project management tool that effectively integrates the project scope of work with cost, schedule and performance elements for optimum project planning and control. (FAR 2.101(b)(2))

Evaluation period(s) - Stated intervals during the contract period of performance so that the contractor will periodically be informed of the quality of its performance and the areas in which improvement is expected (e.g. six months, nine months, twelve months, or at specific milestones).

Fee-Determining Official (FDO) - The designated Agency official(s) who reviews the recommendations of the Award-Fee Board in determining the amount of award fee to be earned by the contractor for each evaluation period. (FAR 16.001)

Performance Evaluation and Management Plan (PEMP) - Department of Energy's Performance Evaluation Plan. (See Performance Evaluation Plan)

ATTACHMENT 2: DOE SAMPLE CRITERIA

No.	Contract Requirement	Milestone	Completion Criteria	Due Date	Milestone Point Value	Dollar Amount Available
1	Government Furnished Services and Infrastructure, EM.PO.01.03.06 Contract Due Date: *[insert date]*	*Complete the 20XX Biennial Emergency Management Exercise. [Ref: specification section, PWS section, etc.]*	The contractor shall successfully complete the 20XX Biennial Emergency Management Exercise including successful demonstration of requirements of DOE Order 151.1C, Comprehensive Emergency Management System. *Verification of completion shall be accomplished by DOE through the review of contractor submitted documentation verifying that all identified exercise objectives had been successfully completed. This includes resolution of comments and completion of all corrective actions associated with Nuclear Regulatory Commission (NRC) Emergency Management Requirements. In addition, the COR shall submit documentation stating that all work is acceptable to the Contracting Officer.* *In addition, the COR(s) shall submit documentation to the Contracting Officer stating that all the requirements have been fulfilled.* *The Contracting Officer shall submit a letter*	15 Aug 12	15-21	$75,827.00
2	Manage Protective Force scheduling for base mission support in accordance with DOE and NNSA directives Contract Due Date: *[Insert date]*	*Maximize efficiency and cost savings. [Ref. specification section, PWS section, etc.]*	Metric will be averaged per work week, via the Security Policy Officer for base mission utilizing available officers. *Reviews include, but are not limited to violations, contractor response time(s), work hours, etc. Several CORs will submit documentation directly to the Contracting Officer in regards to contractor response, etc.*	28 Aug 12	3-5	$23,000.00
3	Project Management EM.PO.01.03.10 Contract Due Date: *[insert date]*	*Submit FY-XX AWP (Annual Work Plan). [Ref. specification section, PWS*	The contractor shall submit a FY-XX AWP. *Verification of completion shall be accomplished by an internal review by DOE personnel. Acceptance of the plan shall be made by the Contracting Officer.*	12 Jun 12	5% - 9%	$12,000.00

	Quality and Effectiveness Contract Due Date: *[insert date]*	Quality Control. *[Ref. specification, PWS section, etc.]*	*Contractor shall be evaluated on their ability to perform the DOE D&D mission with little or no Government intervention and maximum effective communication with DOE and interested parties.*	*[Insert last day of evaluation period]*	100% (as broken out below)	$38,000.00
		Operate in a manner conducive to excellence and quality	Delivery of services across the DOE Site: Coordinating and integrating resources, activities, and interfaces; maintaining relationship with DOE, customers, and Stakeholders based on effective communication. *Internal DOE Questionnaires will be forwarded to the respective customers and stakeholders for input in the contractor's services. The Lead DOE COR shall review all questionnaires along with submitting their evaluation to the Contracting Officer.*	*[Insert last day of evaluation period]*	40%-50%	
		Demonstrate operational excellence in business and financial management.	Perform obligations in a fiscally responsible manner to include, but not limited to; the use of a certified Earned Value Management System (EVMS), and an approved accounting system. *The designated DOE personnel shall provide input in regards to the contractor's EVMS status and approval of the accounting system with their cognizant COR(s). The Lead COR obtains all of the evaluations and combines them into one overall evaluation. All evaluations and all of the acquired evaluations shall be submitted directly to the Contracting Officer.*	*[Insert last day of evaluation period]*	35%-50%	

ATTACHMENT 3: AWARD-FEE ADJECTIVAL RATINGS POOL AVAILABLE DESCRIPTIONS

Award-Fee may be earned in accordance with the following guidance (see FAR 16.401). When using award-fee incentives, COs must use the adjectival ratings, associated descriptions, and award-fee earned percentages prescribed in Table 16.1.

Award-Fee Adjectival	Award-Fee Pool Available to be Earned	Description
Excellent	91% – 100%	Contractor has exceeded almost all of the significant award fee criteria and has met overall cost, schedule, and technical performance requirements of the contract in the aggregate as defined and measured against the criteria in the award-fee plan for the award-fee evaluation period
Very Good	76% – 90%	Contractor has exceeded many of the significant award fee criteria and has met overall cost, schedule, and technical performance requirements of the contract in the aggregate as defined and measured against the criteria in the award-fee plan for the award-fee evaluation period
Good	51% – 75%	Contractor has exceeded some of the significant award fee criteria and has met overall cost, schedule, and technical performance requirements of the contract in the aggregate as defined and measured against the criteria in the award-fee plan for the award-fee evaluation period
Satisfactory	No Greater Than 50%	Contractor has met overall cost, schedule, and technical performance requirements of the contract in the aggregate as defined and measured against the criteria in the award-fee plan for the award-fee evaluation period
Unsatisfactory	0%	Contractor has failed to meet overall cost, schedule, and technical performance requirements of the contract as defined and measured against the criteria in the award- fee plan for the award-fee evaluation period

NOTE: Ratings need to be identified in the fee plan. These mandatory regulatory definitions are to be used in establishing evaluation criteria. The description of what constitutes each level of performance with each award-fee adjectival rating must be included in the award-fee plan. <u>In addition, the contractor is prohibited from earning any award fee when the contractor's overall cost, schedule, and technical performance fails to</u>

meet contract requirements.

ATTACHMENT 4: PEMP TEMPLATE
(Fill-in information shown in bold italics.)

PERFORMANCE EVALUATION MEASUREMENT PLAN

for

(TITLE OF CONTRACT)
(CONTRACT NUMBER)

(DATE OF APPROVAL)
(Contractor's Name)

APPROVED:

____
Fee Determining Official
(Title)

(Remember, this plan should be tailored to your particular acquisition.

This template only provides an outline of what must be contained within an award-fee plan.)

Table of Contents

1.0 INTRODUCTION

This *(state type of fee(s))* plan *is* the basis for the *(title of the contract)* evaluation of the contractor's performance and for presenting an assessment of that performance to the Fee Determining Official (FDO). It describes specific criteria and procedures used to assess the contractor's performance and to determine the amount of fee earned. Actual award fee determinations and the methodology for determining fee are unilateral decisions made solely at the discretion of the Government.

The fee will be provided to the contractor through contract modifications and is in addition to the *(type contract)* provisions of the contract. The fee earned and payable will be determined by the FDO based upon review of the contractor's performance against the criteria set forth in this plan. The FDO may unilaterally change this plan prior to the beginning of an evaluation period. The contractor will be notified of changes to the plan by the Contracting Officer, in writing, before the start of the affected evaluation period. Changes to this plan that are applicable to a current evaluation period will be incorporated by mutual consent of both parties.

2.0 ORGANIZATION

The award fee organization consists of: the Fee Determining Official (FDO); a Fee Review Board (FRB) which consists of a chairperson, the contracting officer, a recorder, other functional area participants, and advisor members; and the COR. The FDO, FRB members, and COR are listed in Annex 1.

3.1 RESPONSIBILITIES

a. Fee Determining Official. The FDO approves the award fee plan and any significant changes. The FDO reviews the recommendation(s) of the FRB, considers all pertinent data, and determines the earned award fee amount for each evaluation period.

b. Fee Review Board. FRB members review COR(s) evaluation(s) of the contractor's performance, consider all information from pertinent sources, prepare interim performance reports, and arrive at an earned fee recommendation to be presented to the FDO. The FRB may also recommend changes to this plan.

c. FRB Recorder. The FRB recorder is responsible for coordinating the administrative actions required by the COR, the FRB and the FDO, including:

1. receipt, processing and distribution of evaluation reports from all required sources;

2. scheduling and assisting with internal evaluation milestones, such as briefings; and
3. accomplishing other actions required to ensure the smooth operation of the award fee.

d. CO. The CO is the liaison between contractor and Government personnel and shall ensure the incentive process is properly administered in accordance with agency regulations. The CO shall also modify the contract in regards to any contractual issues that may arise during the term of the contract.

e. COR. COR maintain written records of the contractor's performance in their assigned evaluation area(s) so that a fair and accurate evaluation is obtained. Prepare interim and end-of-period evaluation reports as directed by the FRB.

4.1 FEE PROCESSES

(Detail the process used for your acquisition; e.g., interim evaluation periods may or may not be in your acquisition; you have some flexibility in establishing the timetable for certain events; contractor's self-assessments may or may not be used, etc. When using award-fee incentives, COs must use the adjectival ratings, associated descriptions, and award-fee earned percentages prescribed in Table 16.1 in FAR 16.401.)

a. Available Fee Amount. The available fee for each evaluation period is shown in *(insert location)*. The fee earned will be paid based on the contractor's performance during each evaluation period.

b. Evaluation Criteria. If the CO does not give specific notice in writing to the contractor of any change to the evaluation criteria prior to the start of a new evaluation period, then the same criteria listed for the preceding period will be used in the subsequent award fee evaluation period. Any changes to evaluation criteria will be made by revising *Annex 3* and notifying the contractor.

c. Interim Evaluation Process. The FRB Recorder notifies each FRB member and Performance Monitor *(insert number of days)* calendar days before the midpoint of the evaluation period. COR submit their evaluation reports to the FRB *(insert number of days)* calendar days after this notification. The FRB determines the interim evaluation results and notifies the contractor of the strength and weaknesses for the current evaluation period. The CO may also issue letters at any other time when it is deemed necessary to highlight areas of Government concern.

d. End-of-Period Evaluations. The FRB Recorder notifies each FRB member and performance monitor *(insert number of days)* calendar days before the end of the evaluation period. COR submit their evaluation reports to the FRB *(insert* *number of days)* calendar days after the end of the evaluation period. The FRB prepares its evaluation report and recommendation of earned fee. The FRB briefs the evaluation report and recommendation to the FDO. At this time, the FRB may also recommend any significant changes to the fee plan for FDO approval. The FDO determines the overall grade and earned fee amount for the evaluation period within *(insert number of days)* calendar days after each evaluation period. The FDO letter informs the contractor of the earned fee amount. The CO issues a contract modification within *(insert number of days)* calendar days after the FDO's decision is made authorizing payment of the earned- award fee amount.

e. Contractor's Self-Assessment. When the contractor chooses to submit a self- evaluation, it must be submitted to the CO within five working days prior to the ending of the current evaluation period being reviewed. This written assessment of the contractor's performance throughout the evaluation period may also contain any information that may be reasonably expected to assist the FRB in evaluating the contractor's performance. The contractor's self-assessment may not exceed *(insert number of pages)* pages.

5.0 FEE PLAN CHANGE PROCEDURE

All significant changes are approved by the FDO; the FRB Chairperson approves other changes. Examples of significant changes include changing evaluation criteria, adjusting weights to redirect contractor's emphasis to areas needing improvement, and revising the distribution of the fee dollars. The contractor may recommend changes to the CO no later than *(insert number of days)* days prior to the beginning of the new evaluation period. After approval, the CO shall notify the contractor in writing of any change(s). Unilateral changes may be made to the fee plan if the contractor is provided written notification by the CO before the start of the upcoming evaluation period.

Changes effecting the current evaluation period must be by mutual agreement of both parties.

6.0 CONTRACT TERMINATION

If the contract is terminated for the convenience of the Government after the start of a fee evaluation period, the fee deemed earned for that period shall be determined by the FDO using the normal fee evaluation process. After termination for convenience, the remaining fee amounts allocated to all subsequent fee evaluation periods cannot be earned by the contractor and, therefore, shall not be paid.

Appendices (3):

Appendix 1: PEMP Organization

Appendix 2: Fee Allocation by Evaluation Periods
Appendix 3: Fee Evaluation

APPENDIX 1: PEMP ORGANIZATION

PEMP ORGANIZATION

Members

Fee Determining Official: *(Position Title)*	(Name)
Award Fee Review Board Chairperson: *(Position Title)*	(Name)
Award Fee Review Board Members:	
	(Name)
Deputy Program Director	(Name)
Program Manager	(Name)
Contracting Officer	(Name)
Recorder	(Name)
Contracting Staff Member	(Name)
Attorney Staff Member	(Name)
Financial Management Staff Member	(Name)
Director of Engineering	(Name)
Director of Contracting	(Name)

Performance Monitors
(Select your monitors based on the needs of your acquisition)

Area of Evaluation	Performance Monitor(s)
Contracting Officer Representative	(Name)
Subcontract Management	(Name)
Quality Assurance*	(Name)

APPENDIX 2: FEE ALLOCATION

FEE ALLOCATION BY EVALUATION PERIODS

The fee earned by the contractor will be determined at the completion of evaluation periods shown below. The percentage and dollars shown corresponding to each period is the maximum available fee amount that can be earned during that particular period.

Evaluation Period *	From	To	Available Fee**
		Total	100%

(If you use milestones, include expected milestone completion dates. Use a table similar to the one below.)

Evaluation Period *	Milestone	To	Available Fee**
First			
through			
Last period			
		Total	100%

* The Government may unilaterally revise the distribution of the remaining fee dollars among subsequent periods. The contractor will be notified of such changes, if any, in writing by the CO before the relevant period is started and the fee plan will be modified accordingly. Subsequent to the commencement of a period, changes may only be made by mutual agreement of the parties.

** Will be computed in and expressed in dollars at conclusion of negotiations (for sole source) or in proposal and Final Price Revision (for competition) using percentage shown.

APPENDIX 3: SAMPLE FEE EVALUATION

FEE EVALUATION

STRUCTURE OF FEE EVALUATION CRITERIA: The plan must describe how the contractor's performance will be measured against the acquisition objectives which must be defined in terms of contract cost, schedule and performance. The plan must define each level of performance (e.g., unsatisfactory, satisfactory, good, very good and excellent) and include a prohibition on earning any fee if the contactor's overall performance is unsatisfactory. When using award-fee incentives, COs must use the adjectival ratings, associated descriptions, and award-fee earned percentages prescribed in Table 16.1 in FAR 16.401.

Areas of evaluation are: Cost, Schedule, and Technical Performance. Several sub-areas should be added to each area to identify in more detail specific criteria that the contractor must meet in order to achieve desired outcomes. Weights assigned to areas and sub- areas should reflect the importance/criticality for the successful program execution, delivery of a product or service.

a. Cost: When determining the amount of fee to be paid a contractor, some questions you may consider:

- How well did the contractor control, meet or exceed established cost goals?
- What caused the over/under-run (is it solely contractor caused or did the Government contribute to the situation)?
- How well does the contractor address cost control by timely development of baseline, undistributed management reserve?
- What is the contractor's performance in using cost control systems to effectively monitor and report cost status in a timely fashion?
- Are variances clearly explained in accordance with contractual reporting requirements?

b. Schedule: When determining the amount of fee to be paid a contractor, some of the questions you may consider:

- Was there a Government-caused delivery slip moving work originally scheduled for this fee period to another period, resulting in a cost under-run?
- How well does the contractor project, report, and mitigate schedule impacts?
- Was there a delay in delivery of a government furnished item that caused the delay and forced overtime to meet the schedule resulting in a cost overrun?

c. <u>Technical performance (Quality of Work):</u> When determining the amount of fee to be paid a contractor, some questions you may consider:

- Were the design concepts and analysis, detailed execution and low cost design?
- Was the quality control plan adhered to?
- Did the contractor exceed the technical requirements for design, performance, test procedures, etc.?
- Was re-work required? If so, was it accomplished timely and in accordance with the contract specifications?

ATTACHMENT 5: Examples

Examples of PEMP Element that are not focused on mission critical accomplishments:

The following are examples of award fee incentives or practices that must not be included in award fee plans. The examples are not focused on mission critical accomplishments or don't reflect proper alignment of contractor and Government risk:

1. Example 1: The contractor is overrunning schedule and cost under a capital asset construction project, and a local community organization votes the contractor "Best Contractor of the Year." The PEMP allocates fee for achievement of a target cost, construction completion, and safety. Question: is it appropriate to take the local community organization "Best Contractor of the Year" designation into account in the contractor performance evaluation.

Answer: No. DOE policy is that the Government shall not structure a PEMP element that would allow for subjective input from a non-federal source on a matter that is not critical for mission completion.

2. Example 2: The contractor is overrunning schedule and cost under a capital asset construction project and DOE is considering re-negotiating the schedule incentives in the contract to re-allocate fee from construction completion to contractor submission of a CD3 documentation package. Question: is this an appropriate alignment of risk between DOE and the contractor?

Answer: No. This is an example of a PEMP element that allows the contractor to earn fee for soft accomplishments instead of accomplishment of the critical mission, that is in this case completion of construction.

ATTACHMENT 5: Examples (cont.)

SAMPLE AWARD FEE CRITERIA

MANAGEMENT #1	EVM is effectively integrated and used for program management.
UNSATISFACTORY -	Contractor fails to meet criteria for satisfactory performance.
SATISFACTORY	Contractor team uses earned value performance data to make program decisions as appropriate.
GOOD	**Meets all the SATISFACTORY requirements plus:** Earned value performance is effectively integrated into program management reviews and is a primary tool for program control and decision-making.
VERY GOOD	**Meets all of the GOOD requirements plus:** Contractor team develops and sustains effective communication of performance status on a continual basis with the Government.
EXCELLENT	**Meets all the VERY GOOD requirements plus:** Proactive, innovative use of EVM by entire contractor team. Plans and implements continual process improvement in using EVM.

MANAGEMENT #2	Management of major subcontractors.
UNSATISFACTORY -	Contractor fails to meet criteria for satisfactory performance.
SATISFACTORY	Contractor routinely reviews the subcontractor's performance measurement and baseline.
GOOD	**Meets all the SATISFACTORY requirements plus:** Contractor's management system is structured for oversight of subcontractor performance.
VERY GOOD	**Meets all of the GOOD requirements plus:** Contractor actively reviews and manages subcontractor progress. Clear and accurate status reporting to the Government.
EXCELLENT	**Meets all the VERY GOOD requirements plus:** Effective, timely communication of subcontractor cost and schedule status to the Government. Issues are proactively managed.

MANAGEMENT #3	Realistic and current cost, expenditure, and schedule forecasts.
UNSATISFACTORY -	Contractor fails to meet criteria for satisfactory performance.

SATISFACTORY	Provides procedures for delivering realistic and up-to-date cost, and schedule forecasts as presented in Contract Performance Report, formal estimate at completion, Contract Funds Status Report, Integrated Master Schedule, etc. The forecasts are complete and consistent with program requirements and are reasonably documented.
GOOD	**Meets all of the SATISFACTORY requirements plus:** All requirements for additional funding and schedule changes are thoroughly documented and justified. Expenditure forecasts are consistent and logical and based on program requirements. Contractor acknowledges cost growth (if any) in the current reporting period and provides well documented forecasts.
VERY GOOD	**Meets all of the GOOD requirements plus:** Expenditure forecasts reflect constant scrutiny to ensure accuracy and currency. Contractor prepares and develops program cost and schedule data that provides clear Government visibility into current and forecast program costs and schedule. Schedule milestone tracking and projections are very accurate and reflect true program status. Keeps close and timely communications with the Government.
EXCELLENT	**Meets all of the VERY GOOD requirements plus:** Contractor consistently submits a high quality estimate at completion that is current and realistic. Reported expenditure profiles are accurate. Develops comprehensive, clear schedule data that provides excellent correlation with technical performance measures and cost performance reports and permits early identification of problem areas. Schedule milestone tracking and projections are accurate and recognize potential program impact.

MANAGEMENT #4	Adequacy of cost proposals submitted during award fee period.
UNSATISFACTORY -	Contractor fails to meet criteria for satisfactory performance.
SATISFACTORY	Proposal data, including subcontractor data, is logically organized and provides adequate visibility to the Government to support technical review and cost analysis. A basis of estimate is documented for each element. When insufficient detail is provided, the contractor provides it to the Government on request. Proposal is submitted by mutually agreed to due date.
GOOD	**Meets all of the SATISFACTORY requirements plus:** Detailed analysis is provided for subcontractor and material costs.
VERY GOOD	**Meets all of the GOOD requirements plus:**

	Proposal data is traceable and provides visibility to the Government to support a detailed technical review and thorough cost analysis. Only minor clarification is required. Potential cost savings are considered and reported in the proposal.
EXCELLENT	**Meets all of the VERY GOOD requirements plus:** Change proposals are stand-alone and require no iteration for Government understanding. Contractor communicates during the proposal preparation phase and effectively resolves issues before submission.