DOE/IG-0506

INSPECTION REPORT

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF INSPECTIONS

INSPECTION OF SELECTED ASPECTS OF THE OFFICE OF RIVER PROTECTION PERFORMANCE-BASED INCENTIVE PROGRAM

JUNE 2001

U.S. DEPARTMENT OF ENERGY
Washington, DC 20585

June 14, 2001

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman /s/
Inspector General

SUBJECT: INFORMATION: Report on "Inspection of Selected Aspects of the Office of River Protection Performance-Based Incentive Program"

BACKGROUND

The Office of River Protection (ORP), which reports to the Office of Environmental Management, is responsible for remediation of the radioactive waste stored in tanks at the Hanford Site in the State of Washington. For Fiscal Year (FY) 2000, ORP established 26 performance-based contract incentives (PBCIs) that provided its management and operating contractor the opportunity to earn incentive fees totaling about $19.4 million. Department guidance states that it is through the use of performance-based contracting concepts that improved contractor performance and greater accountability will be realized, as well as more efficient deployment of contract management and oversight resources.

The purpose of this inspection was to determine if the FY 2000 PBCIs established by ORP effectively implemented the Department of Energy's contract reform goals of incentivizing enhanced contractor performance and assuring greater accountability.

RESULTS OF INSPECTION

We concluded, based on our review of 23 of 26 PBCIs established by ORP for FY 2000, that actions are required by ORP officials to improve the administration and effectiveness of their PBCI program. Specifically:

- PBCIs awarded by ORP did not always challenge the contractor to achieve higher levels of performance and did not always focus on high priority tasks, and

- internal control weaknesses adversely impacted the ability of ORP management officials to effectively administer their PBCI program. These weaknesses included a lack of formal quality acceptance criteria for use by ORP officials to determine whether contractor work products qualified the contractor for associated incentive fees, as well as a lack of required justifications for establishing certain incentive fees.

MANAGEMENT REACTION

Management generally concurred with our recommendations and stated that it will take several actions to implement them. By May 31, 2001, ORP was to have reassigned a member of the ORP contracting staff half-time to have single point accountability of PBCI process management to ensure that new incentives or changes to current incentives have followed required internal review and documentation processes, and that full validation and compliance with acceptance criteria is documented prior to all PBCI incentive payments. ORP stated that by June 30, 2001, it will consolidate current local fee development and administration policy and procedures into one cohesive policy and procedure requirements document. Also, by July 31, 2001, and annually thereafter, ORP will perform a Self-Assessment Review of FY 2001 through FY 2006 incentives to ensure that all incentive documents are in place, each incentive has a quality criterion for acceptance commensurate with the characteristics of the incentive, and that payment for performance is fully validated and documented in the file. We view these as positive steps that, if fully executed, will address the issues raised in our report.

This report concerning the ORP is the latest in a series of Office of Inspector General reviews of the implementation of contractor performance incentive programs at various Department facilities. Although we have found some variations in the nature of the problems identified at the sites included in our reviews, a pattern is emerging which suggests that new and better programmatic safeguards and operating processes, as well as more intensive management involvement, are needed if the Department's efforts to incentivize contractor performance are to be successful.

Attachment

cc: Deputy Secretary
Under Secretary
Assistant Secretary for Environmental Management
Director, Office of Procurement and Assistance Management
Manager, Office of River Protection

INSPECTION OF SELECTED ASPECTS OF THE OFFICE OF RIVER PROTECTION PERFORMANCE-BASED INCENTIVE PROGRAM

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Overview

INTRODUCTION AND OBJECTIVE

In February 1994, the Contract Reform Team established by the Secretary of Energy to review the Department of Energy's (DOE) contracting practices recommended that the Department move away from traditional approaches of contracting for services and the management and operation of its facilities and adopt approaches that rely upon performance-based contracting principles. Fundamental components of the new approach included more definitive statements of work, specific performance objectives and measures, and linkage to appropriate performance incentives. Performance fees were introduced to link performance to financial reward instead of using cost-plus fixed fees that simply compensated work effort. Department guidance states that it is through the use of performance-based contracting concepts that improved contractor performance and greater accountability will be realized, as well as more efficient deployment of contract management and oversight resources.

The Office of Inspector General (OIG) and the General Accounting Office (GAO) have issued reports that have raised concerns about the manner in which the Department's contract reform efforts have been implemented at various DOE sites. The OIG reports identified examples of performance-based incentive fees that were paid for work not completed; that did not motivate the contractor to achieve higher levels of performance; and that paid for work that had been completed prior to formal establishment and approval of the incentive fee. A listing of GAO and OIG reports concerning the Department's contract reform activities is at Appendix B.

One Department site where performance-based contracting concepts have been implemented is the Hanford Site in the State of Washington. Responsibility for remediating the radioactive waste stored in tanks at the Hanford Site was transferred from the Richland Operations Office (Richland) to the Office of River Protection (ORP), which reports to the DOE Office of Environmental Management. For Fiscal Year (FY) 2000, ORP established 26 performance-based contract incentives (PBCIs) that provided its management and operating (M&O) contractor the opportunity to earn incentive fees totaling about $19.4 million.

The purpose of this inspection was to determine if the FY 2000 PBCIs established by ORP effectively implemented the Department's contract reform goals of incentivizing enhanced contractor performance and assuring greater accountability.

OBSERVATIONS AND CONCLUSIONS

We concluded, based on our review of 23 of 26 PBCIs established by ORP for FY 2000, that actions are required by ORP officials to improve the administration and effectiveness of their PBCI program. We found that PBCIs awarded by ORP did not always challenge the contractor to achieve higher levels of performance and did not always focus on high priority tasks. We also found internal control weaknesses that adversely impacted the ability of ORP management officials to effectively administer their PBCI program. Specifically, we identified PBCIs that did not specify formal quality acceptance criteria to be used by the Department as a basis for determining whether the work product submitted by the contractor qualified the contractor for the incentive fees. We also identified PBCI basis documents that did not contain the required information that would provide a rationale for establishing the incentive fee for the PBCI.

This inspection will assist the Department in meeting the requirements of the Government Performance and Results Act by documenting methods to improve the efficiency of federally funded programs.

BACKGROUND

Responding to direction by Congress in the National Defense Authorization Act for FY 1999, the Department established ORP for the purpose of managing the retrieval, treatment and disposal of Hanford Site tank waste. Sixty percent by volume of the nation's high-level radioactive waste is stored in aging, deteriorating tanks at the Hanford site. If not cleaned-up, this waste is potentially a threat to the Columbia River, as well as the Pacific Northwest. The current baseline cost of cleaning up the 177 underground storage tanks at the Hanford Site is estimated to be $54 billion. The baseline cost includes completing immobilization of the waste by 2028 and closing the tank farms by 2032.

Following Department guidance, ORP established a performance-based, cost plus incentive fee contract with its M&O contractor, CH2M HILL Hanford Group, Inc (CHG). At the start of FY 2000, ORP officials estimated the cost of M&O contractor services to be $318 million, with $19.4 million[1] available for performance-based incentive fees. At that time, CHG could earn the $19.4 million for completing 26 different projects within specified timeframes and costs.

[1] Included in the $318 million total cost.

In FY 1999, the DOE Office of Procurement and Assistance Management provided a waiver to Richland, which allowed Richland officials to establish PBCIs without obtaining approval of Department headquarters procurement officials. The waiver was granted because of the adequacy of Richland's performance-based incentive guidelines, which were jointly developed by Richland and Department headquarters procurement officials. The waiver, as well as the Richland PBCI guidelines entitled "PERFORMANCE-BASED CONTRACT INCENTIVES," RLP 540.1A, dated March 27, 1998, also apply to ORP, which assumed Richland's responsibilities for the Hanford Site tank waste remediation project. Accordingly, ORP officials were not required to submit their FY 2000 PBCIs to Department headquarters procurement officials for review and approval.

INCENTIVES DID NOT ALWAYS FOLLOW ESTABLISHED GUIDELINES

We found that PBCIs awarded by ORP did not always challenge the contractor to achieve higher levels of performance and did not always focus on high priority tasks.

A desired outcome for performance incentives is to encourage the contractor to work more effectively and efficiently. In June 1998, the Department's Office of Procurement and Assistance Management issued a "Performance-Based Contracting Guide," which states that incentives should be used to, among other things, motivate a contractor to obtain better performance. Richland guidelines require each incentive fee amount to reflect "the significance of the work, level of difficulty in accomplishing the work, and risk to the contractor." An objective of ORP's "Performance Fee Strategy" is to challenge the contractor by raising the bar for performance. Additionally, Richland guidelines specify that incentives should focus on high priority items.

We identified two PBCIs awarded by ORP, however, which did not appear to meet the intent of these guidelines. One of the PBCIs, which had incentives fees totaling over $2.5 million, provided a fee to the M&O contractor for starting work on specific project tasks <u>after</u> the scheduled start date established by the project's multi-year work plan (work plan). The other PBCI provided an incentive fee for completion of a project that was not a high priority, since completion of the project was not actually required for several years.

Incentives For Work Initiated Behind Schedule

ORP established Performance Incentive 3.1.1. "Interim Tank Stabilization," on November 16, 1999. This performance incentive provided a total "standard"[2] incentive fee of $1,000,000 to the M&O contractor to initiate pumping and to reduce the volume of liquid in seven waste storage tanks. A revision to the PBCI on July 19, 2000, added about $8,000 to the standard incentive fee. That revision also deleted one of the seven tanks (Tank U-103) from the PBCI.[3] Part of the fee was to be paid when the contractor started pumping liquid from the tanks. Specifically, to earn about $258,000 of the standard incentive fee, the M&O contractor was to begin pumping liquid from three specified waste tanks by March 31, 2000. To earn approximately $387,000 more, the M&O contractor was to begin pumping liquid from the three remaining tanks by August 10, 2000. The incentive was revised on August 8, 2000, to allow the contractor until August 15, 2000, to initiate pumping on one of these tanks (Tank SX-105). To earn the remainder of the standard incentive fee, the contractor was to reduce the volume of liquid to 38 percent of the initial total volume by August 30, 2000. However, pursuant to the August 8, 2000, revision, the contractor was given until September 15, 2000, to make this volume reduction.

A comparison of the dates in the PBCI with the dates in the work plan for initiating pumping activities for the tanks disclosed that most of the start dates in the PBCI were after the start dates established by the work plan. A comparison illustrating this issue is provided in TABLE 1.

[2] Standard fee is provided for work that is contained in the current FY baseline. If the contractor simply makes no change in the way work is done then standard fee is the earning target. Stretch fee could be earned for a productivity increase. Modest improvement was targeted to earn 33 percent of the stretch fee, while major improvement could earn 100 percent of the fee.

[3] We were told by an ORP engineer, who was associated with the administration of this incentive, that Tank U-103 was deleted because the pumping initiative for the tank had begun prior to the finalization of the PBCI.

TABLE 1: WORK PLAN DATES VS. INCENTIVE DATES

Tank	Work Plan Date	Incentive Fee Date	Schedule Variance
U-102	1/3/00	3/31/00	3 months
U-105	11/15/99	3/31/00	4.5 months
U-109	4/1/00	3/31/00	0 months
A-101	5/13/00	8/10/00	3 months
SX-105	6/27/00	8/15/00	1.5 months
AX-101	8/10/00	8/10/00	0 months

According to an ORP official, the PBCI had been established because these tanks are subject to the Tri-Party Agreement (Agreement) signed by DOE, the U.S. Environmental Protection Agency, and the State of Washington. He said that the performance incentive was intended to accelerate the removal of liquid from these tanks to meet the requirements of the Agreement.

We discussed this finding with ORP officials on March 14, 2001. In written comments dated March 23, 2001, and May 11, 2001, ORP officials stated that they were aware that some of the PBCI completion dates were later than the baseline completion dates. They said that this situation arose when initiation dates for a group of tanks were kept in blocks similar to the Agreement milestones to simplify the PBCI and allow for potential efficiencies driven by other incentive requirements. They said the contractor completed several of the pumping initiatives ahead of the PBCI dates and ahead of the original baseline dates.

Although we agree that meeting the dates established by the Agreement is important, we do not believe that providing incentives that reward the contractor for completing work after the dates established by the work plan motivates the contractor to achieve higher levels of performance. Our view that the PBCI did not challenge the contractor to work more effectively and efficiently was supported by the comments of ORP officials that the contractor had actually initiated pumping of several of the tanks ahead of the original baseline dates, as well as the revisions that were made to the PBCI to add additional funds and extend the performance period.

Incentive Fee For Work Not Required Before 2007

ORP established Performance Incentive 3.2.1. "W-314 'A' Complex," on November 16, 1999. This performance incentive, in part, provides a "standard" incentive fee of $187,500 to the M&O contractor for completing the backfill of piping for Line 635 by September 30, 2000, which was the date established by the work plan. An additional (stretch) incentive fee of $250,000 was available to the contractor if the same pipeline was back-filled earlier, by July 18, 2000. If the contractor met the "stretch" incentive fee requirement, the pipeline would be back-filled about two and one half months earlier than the work plan completion date, and the contractor would receive a total fee of $437,500.[4]

According to an ORP official, when this PBCI was established in November 1999, the first planned use of the pipeline was in the year 2007. However, he could not explain why it was important to provide a performance incentive to accelerate completion of the pipeline so many years before it will be needed.

We were unable to determine the rationale for the incentive fee amount from reviewing the basis document for the PBCI. The section on the PBCI basis document that should contain the rationale for the incentive fee amount was not completed. However, an ORP official who was familiar with the rationale for the PBCI told us that the task was incentivized to encourage the contractor to more efficiently utilize its resources, without specific regard to whether completion of the task at that time was necessary to the project's critical path.

The Richland guidelines state that PBCIs should focus on high priority items, and incentive amounts should reflect the significance of the tasks. While it is possible that completing the pipeline in FY 2000 might have been an efficient use of the contractor's resources, we found no convincing evidence that completing the backfill of the pipeline was a high priority task. Based upon information from ORP officials regarding the planned use of the pipeline, providing the contractor an opportunity to earn an incentive fee for early completion of the backfill of the pipeline does not appear consistent with Richland guidelines for PBCIs.

INTERNAL CONTROL WEAKNESSES IDENTIFIED IN INCENTIVE PROGRAM

We also found internal control weaknesses that adversely impacted ORP management's ability to effectively administer their PBCI program. Specifically, we identified PBCIs that did not specify the formal quality acceptance criteria to be used by the Department as a basis for determining whether the work product

[4] The contractor did not meet the stretch incentive to back-fill the pipeline by July 18, 2000. The contractor did meet the standard incentive by back-filling the pipeline by September 30, 2000.

submitted by the contractor qualified the contractor for the incentive fees. In addition, as illustrated in the discussion of the pipeline above, we identified PBCI basis documents that did not contain the required information that would provide a rationale for establishing the incentive fees for the PBCIs.

Some Work Subject To Incentive Fees Lacked Quality Acceptance Criteria

We identified six PBCIs awarded by ORP that required the M&O contractor to only submit a plan or report on environmental remediation or tank closure activities to qualify for an incentive fee. However, these PBCIs, which contained incentive fees totaling about $1,555,000, did not establish formal criteria to be used by the Department to determine whether the quality of the submitted plan or report was acceptable. These six PBCIs are listed at Appendix C.

Richland guidance requires the performance criteria for each candidate PBCI to include "the specific expectations and criteria to be used in order to determine successful completion of the incentive work." In the absence of criteria that the Department could use as a basis to accept or reject the written products submitted by the M&O contractor on the basis of quality, the contractor is presumably eligible to receive a fee by simply submitting the plan or report by the date specified, as long as the report meets the general criteria for content required by the PBCI.

We discussed this finding with ORP officials on March 14, 2001. In a written response dated March 23, 2001, ORP officials stated that one of the six PBCIs, Performance Incentive 1.1.2, had been cancelled in September 2000. We were subsequently advised by an ORP official that one of the reasons for the cancellation was that the incentive lacked acceptance criteria.

Also, in written comments dated March 23, 2001, and May 11, 2001, ORP officials stated that the write-ups for each of the remaining five PBCIs did include a description of the quality of the product. One example they cited was Incentive 4.3.2S, "SST Waste Retrieval of Tank C-104," which tasked the M&O contractor to produce a series of reports on how best to start retrieving waste from the tank. According to ORP officials, Section 4 of the PBCI included specific criteria to be included in the required project plan such as ". . . will describe planning for activities required to support the retrieval of Tank 241-C-104 including detailed logic diagrams, similar to Level 1 logics prepared for the remainder of the Phase I Minimum Order Quantity feed tanks."

In discussions with the ORP official responsible for managing this incentive, the official acknowledged that this incentive had no acceptance criteria to ensure that the products were of a quality acceptable to the Department before the contractor could receive the incentive fee. He said that the Department was obligated to pay the incentive fee upon the contractor delivering reports and executing a Notice of Completion document. He also acknowledged that there had been some past quality problems with the logic of certain of the contractor's reports, which required the contractor to make significant revisions before the reports were acceptable.

In our view, the "criteria" cited by ORP officials for each of the five PBCIs as descriptive of the quality of the plans/reports more accurately described the required content of the products. The "criteria" did not describe the basis to be used by the Department for determining whether the contents of the plans/reports were of acceptable quality.

We also discussed the lack of quality acceptance criteria with the ORP official responsible for managing the ORP PBCI Program at the time. He acknowledged at the time that improvements could be made to the PBCIs process, such as developing quality criteria to be used for accepting reports provided by the contractor.

In his May 11, 2001, comments to a draft of our report, the ORP Manager acknowledged that " . . . arguably some of the acceptance criteria did not fully describe the necessary quality of the output product." He stated that such criteria would receive greater emphasis in future PBCI development to ensure value received by ORP for PBCI payments.

Required Information Not Included On PBCI Basis Documents

We found that the PBCI basis documents for 14 of the 23 PBCIs that we reviewed did not contain the required information that would provide the rationale for establishing the particular incentive fee. The incentive fees associated with these PBCIs totaled almost $10 million. ORP officials told us that early in the FY 2000 PBCI fee development process, senior ORP officials directed lower-level managers to complete a PBCI basis form for each candidate incentive. The completed form could then be used to determine which tasks to incentivize, as well as the proper incentive amount.

Requirements for the minimum content for the PBCI basis document are established by Richland guidance, as well as by "ORP DESK PROCEDURE - #3," which mirrors the minimum content requirements in the Richland guidance. The PBCI basis document consists of six sections. According to the guidance, entries were required in the first five sections of the document as a basis for establishing the PBCI.

Our review of the 14 PBCI basis documents disclosed that six of the 14 documents only had required entries in two of the five sections of the document. Specifically, there were no entries in Sections 3, 4, and 5 of the documents. The remaining eight documents had entries in three or more of the sections, but none of the 14 documents contained all the required entries. Details concerning the missing entries on each of the 14 PBCIs are at Appendix D.

We discussed the lack of required information in the PBCI basis documents with the ORP official responsible for managing the ORP PBCI Program at the time. He said that, in his opinion, the omission of such information was an oversight. He said that the forms are well designed, the incentive fee justification is "excellent information," and the forms should have been filled out.

In the absence of information required by the PBCI basis documents, ORP management officials were not knowledgeable about specific aspects of certain PBCIs, such as the rationale for the amount of the incentive fee. For example, the ORP performance incentive fee allocation target set the minimum fee as "$250,000 and the Fee is less than or equal to 25% of the BCWS [budgeted cost of work scheduled]." Section 4 of the PBCI basis document requires a description of the rationale for the available incentive fee amount, including a comparison of available incentive fees relative to the corresponding BCWS. If the ratio of incentive fee to the BCWS is greater than 25 percent, a justification is required.

We identified four PBCIs with incentive fees totaling $3.5 million that had a ratio greater than 25 percent. However, Section 4 of the PBCI basis documents for three of the four had no entries, while information in Section 4 of the basis document for the remaining PBCI was not complete. In discussions with ORP management officials, they acknowledged that they had not known that the fee allocation target of 25 percent had been exceeded for the four PBCIs.

RECOMMENDATIONS

In view of the above, we recommend that the Manager, Office of River Protection:

1. Ensure that, consistent with DOE Contract Reform Team recommendations, future performance-based contract incentives fees are offered to the contractor only for performance of work that enhances critical path site remediation efforts or that motivates the contractor to achieve higher levels of performance.

2. Ensure that future performance-based contract incentives contain a quality assurance standard for acceptance of work products such as plans or reports prior to implementing the incentives.

3. Ensure that forms documenting the basis for future performance-based contract incentives contain all information required by internal ORP guidelines prior to the incentives being approved by ORP officials.

MANAGEMENT COMMENTS

The ORP Manager generally concurred with our recommendations. In comments dated May 11, 2001, to a draft of our report, he described the following actions to be taken by ORP to implement our three recommendations:

- By May 31, 2001, reassign a member of the ORP contracting staff half-time to have single point accountability of PBCI process management to ensure that new incentives or changes to current incentives have followed required internal review and documentation processes, and that full validation and compliance with acceptance criteria is documented prior to all PBCI incentive payments.

- By June 30, 2001, consolidate current local fee development and administration policy and procedures (e.g., ORP Desk Procedure No. 3, RLP 540.1A, Performance-Based Contract Incentives, and Appendix C, Tank Farm Contract Management Plan) into one cohesive policy and procedure requirements document.

- By July 31, 2001, and annually thereafter, perform a Self-Assessment Review of FY 2001 through FY 2006 incentives to ensure that all incentive documents are in place, each incentive has a quality criterion for acceptance commensurate with the characteristics of the incentive, and that payment for performance is fully validated and documented in the file.

The ORP Manager said that since the completion of our fieldwork, ORP has implemented positive management changes that have provided increased discipline and improved internal control processes in the development and administration of PBCIs. According to the ORP Manager, the process for FY 2001 PBCIs was substantially improved. He said, for example, that a total of 16 new multi-year PBCIs covering FY 2001 through FY 2006 are now in place under the new M&O contract option. Also, he said that the performance-based incentives and other contract terms and conditions under this option exercise were developed to drive requirements-based contractor performance under a system of sound rigor and discipline. He said that the FY 2001 through FY 2006 PBCIs reflect full compliance with Federal Acquisition Regulations and DOE Acquisition Regulation requirements, best practices, principles of Contract Reform, and local policies and procedures. He described staffing and organizational changes made by ORP and said that the Headquarters Office of Management and Administration had provided on-site training in the development of PBCIs.

INSPECTOR COMMENTS

We believe the corrective actions described by the ORP Manager, when fully implemented, will be responsive to our recommendations.

Appendix A

SCOPE AND METHODOLOGY

Our review was conducted during the period June 2000 to March 2001. As part of our review, we interviewed officials in the Department of Energy (DOE) Office of River Protection (ORP) and the DOE Richland Operations Office (Richland) in Richland, Washington, and officials in the DOE Headquarters Office of Procurement and Assistance Management. We also interviewed ORP management and operating contractor officials, as well as officials with the State of Washington, Office of Ecology.

We collected, reviewed, and analyzed extensive documentation on the ORP performance-based contract incentive (PBCI) program. These documents included mission and strategic plans, PBCI basis documents, Richland and ORP guidance, and documents related to the implementation of ORP PBCIs.

The inspection was conducted in accordance with the "Quality Standards for Inspections" issued by the President's Council on Integrity and Efficiency.

Appendix B

<u>RELATED OFFICE OF INSPECTOR GENERAL AND GENERAL ACCOUNTING OFFICE REVIEWS</u>

Our review concerned contract reform by the Department of Energy in the area of performance incentives. Prior Office of Inspector General and General Accounting Office reviews related to this area include those listed below:

- *Incentive Fees for Bechtel Jacobs Company LLC*, (DOE/IG-0503, May 2001). The Oak Ridge Operations Office had not established all of the contractor performance objectives prior to the start of the performance period nor had it required the contractor to meet all the performance objectives that had been established.

- *Performance Incentives at the Idaho National Engineering and Environmental Laboratory*, (WR-B-00-05, April 2000). Performance incentives at the Laboratory had not been fully successful in improving performance and reducing costs and these problems resulted in the auditors questioning about $11.3 million in incentive fees paid to Lockheed Martin Idaho Technologies Company.

- *National Laboratories: DOE Needs to Assess the Impact of Using Performance-Based Contracts*, (GAO/RCED-99-141, May 1999). The Department had not evaluated the impact of performance-based contracting on its laboratory contractors and, as a result, did not know if this new form of contracting was achieving the intended objectives of reducing costs and improving performance.

- *The Fiscal Year 1996 Performance Based Incentive Program at the Savannah River Operations Office*, (INS-O-98-03, May 1998). The Savannah River Operations Office had certain incentive fee payments that appeared questionable.

- *Audit of the Contractor Incentive Program at the Nevada Operations Office*, (DOE/IG-0412, October 1997). The Nevada Operations Office performance incentives were vague, could not be objectively validated, and were implemented after the performance period had been completed.

- *Audit of the Contractor Incentive Programs at the Rocky Flats Environmental Technology Site*, (DOE/IG-0411, August 1997). The Department's performance incentives at the Rocky Flats Environmental Technology Site did not always include clearly defined criteria, were not structured to encourage and reward superior performance, and were often process-oriented rather than results-oriented.

- *Inspection of the Performance Based Incentive Program at the Richland Operations Office,* (DOE/IG-0401, March 1997). The Richland Operations Office paid excessive incentive fees; paid fees for work that was accomplished prior to the establishment of the incentive program; paid fees for work that was not completed; paid fees for work that was easily achieved by the contractor; and paid fees in an instance where quality and safety were compromised by the contractor in order to achieve an incentive fee.

In addition to the above reports, at the time of our inspection the OIG had ongoing audits dealing with similar issues. The audit of "*Use of Performance-Based Incentives at Selected Departmental Sites*" addressed whether the Department's use of performance-based contracts has resulted in improved contractor performance. The audit of "*Available Fees for the Department's Management and Integrating Contractors*" addressed whether management and integrating contractor's fees were commensurate with their risks and responsibilities.

Appendix C

PERFORMANCE-BASED CONTRACT INCENTIVES LACKING QUALITY ACCEPTANCE REQUIREMENTS

Performance Incentive	Title	Incentive Amount
1.1.2	Reduce Laboratory Turn-Around Time	$100,000
2.1.1	Authorization Basis Mgmt. Process	$500,000
3.3.1	Vault Stabilization	$250,000
3.5.1	Integrated Construction Project/ Operations Plan	$300,000
4.3.2S	SST Waste Retrieval from Tank C-104	$335,000
4.3.3S	Tank C-106 Operational Closure Status	$ 70,000

Appendix D

REQUIRED INFORMATION NOT ENTERED ON PERFORMANCE-BASED CONTRACT INCENTIVE BASIS FORMS

Fourteen performance-based contract incentive (PBCI) basis documents did not have required data entries in one or more of the following sections:

- **Section 3** - *Describe the potential impacts to other incentivized or non-incentivized operations.*

- **Section 4** - *Describe the rationale for the available incentive fee amount.*

  - **Subsection 4.a.** - *Compare available incentive fee, relative to corresponding budgeted cost of work scheduled (BCWS) for PA scope.*

  - **Subsection 4.b.** - *Increased Performance Level.*

  - **Subsection 4.c.** - *Negative Incentive.*

- **Section 5** - *Compare incentive dates to baseline dates.*

The following eight PBCI basis documents totaling over $6 million in incentive fees did not have required data entered in some sections.

Incentive	Incentive Title	Potential Fee	Blank Section(s)*
1.1.1	Sampling Tanks	$1,500,000	4 & 5
1.1.2	Reduce Lab Turnaround Time	$ 100,000	4 & 5
2.1.1	Authorization Basis Mgmt. Process Imp.	$ 500,000^	3, 4 & 5
3.2.1	314 “A” Complex	$1,250,000	3 & 4
3.2.3	Implementation of Field Optimizations	$ 400,000	4
3.5.1	Integrated Construction Project/ Operations Plan	$ 300,000	4
4.2.1	AZ-101 Process Test	$ 750,000	4
4.5.1	Phase 1B-2 RTP	$1,250,000	3 & 5

* Not all subsections of Section 4 were completed.
^ Fee was greater than 25 percent of BCWS.

The following six PBCI basis documents totaling $3.9 million in incentive fees did not have required data entered in Sections 3, 4, & 5.

Incentive	**Incentive Title**	**Potential Fee**
2.1.2	SY-101 Safety Mitigation	$2,500,000^
3.3.1	Vault Stabilization	$ 250,000^
3.3.4	Drawing and Labeling	$ 250,000^
3.4.1	ENRAF Installations	$ 150,000
3.8.1	Waste Volume Management	$ 250,000
4.1.1	Vadose Zone	$ 500,000

^ Fee was greater than 25 percent of BCWS.

IG Report No. DOE/IG-0506

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