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OFFICE OF THE SENIOR PROCUREMENT EXECUTIVE

COST PLUS AWARD FEE CONTRACTING

GUIDE



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1.0 SELECTION OF COST REIMBURSEMENT CONTRACT TYPES

1.1 Cost-Reimbursement Contract Types Summary

Selecting the proper cost-reimbursement contract type requires the exercise of sound judgment. The objective is to negotiate a contract type that fairly allocates performance risk between the contractor and the Government and incentivizes the contractor to perform effectively, efficiently, and economically. FAR 16.104 lists factors to consider when selecting the proper contract type.

In cost-reimbursement type contracts, the contractor is only required to make its "best effort" to complete the work. Once contract funds run out, the contractor is not obligated to continue performance under this contract or otherwise incur costs in excess of the amount then allotted by the Government to the contract. As in all contract types, contractors are reimbursed allowable, allocable and reasonable costs, they must have an accounting system that can accurately track and segregate costs by contract.

1.1.1 Cost Contracts

A cost contract is a cost-reimbursement contract in which the contractor receives no fee. Generally, cost contracts are used for research and development work particularly with non-profits and educational institutions, or other non-profit organizations. They provide little incentive to the institution or contractor to control costs.

1.1.2 Cost Sharing Contracts

A cost-sharing contract is a cost-reimbursement contract in which the contractor receives no fee and is reimbursed only for an agreed-upon portion of its allowable costs. Cost-sharing contracts can be used for basic and applied research efforts performed by non-profit and educational institutions as well as for-profit contractors.

1.1.3 Cost-Plus-Fixed-Fee Contracts

A cost-plus-fixed-fee (CPFF) contract is a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. The fixed fee does not vary with actual cost, but may be adjusted as a result of changes in the work to be performed under the contract. This contract type permits contracting for efforts that might otherwise present too great a risk to contractors, but it provides the contractor only a minimum incentive to control costs. The contract is for the performance of research or preliminary exploration or study, and the level of effort required is unknown; or the contract is for development and test, and using a cost-plus-incentive-fee contract is not practical. A cost-plus-fixed-fee contract may take one of two basic forms: (1) completion or (2) term.

- (1) **Completion.** The completion form describes the scope of work by stating a definite goal or target and specifying an end product. This form of contract normally requires the contractor to complete and deliver the specified end product (e.g., a final report of research accomplishing the goal or target) within the estimated cost, if possible, as a condition for payment of the entire fixed fee. However, in the event the work cannot be completed within the estimated cost, the Government may require more effort without increase in fee, provided the Government increases the estimated cost.

- (2) **Term.** The term form describes the scope of work in general terms and obligates the contractor to devote a specified level of effort for a stated time period. Under this form, if the performance is considered satisfactory by the Government, the fixed fee is payable at the expiration of the agreed-upon period, upon contractor statement that the level of effort specified in the contract has been expended in performing the contract work. Renewal for further periods of performance is a new acquisition that involves new cost and fee arrangements.

Because of the differences in obligation assumed by the contractor, the completion form is preferred over the term form whenever the work, or specific milestones for the work, can be defined well enough to permit development of estimates within which the contractor can be expected to complete the work. The term form shall not be used unless the contractor is obligated by the contract to provide a specific level of effort within a definite time period.

1.1.4 Cost-Plus-Award-Fee Contracts

A cost-plus-award-fee (CPAF) contract is a cost-reimbursement contract that provides for a fee consisting of (a) a base amount (which may be zero) fixed at inception of the contract and (b) an award amount, based upon a judgmental evaluation by the Government, sufficient to provide motivation for excellence in contract performance. CPAF contracts are covered in [Subpart 16.4](#), Incentive Contracts. See [16.401\(e\)](#) for a more complete description and discussion of the application of these contracts. CPAF contracts offer significant evaluation flexibility in two ways: the flexibility to evaluate on a subjective basis, taking into consideration both contractor performance levels and the conditions under which such levels were achieved; and the flexibility to adjust evaluation plans quickly to reflect changes in Government management emphasis or concern.

1.1.5 Cost-Plus-Incentive-Fee Contracts

A cost-plus-incentive-fee contract (CPIF) is a cost-reimbursement contract that 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. Cost-plus-incentive-fee contracts are covered in [Subpart 16.4](#), Incentive Contracts. See [16.405-1](#) for a more complete description and discussion of application of these contracts. See [16.301-3](#) for limitations.

1.2 Selecting and Applying CPAF Contracts

A CPAF contract is appropriate to use when key elements of performance cannot be objectively measured. In this situation, most elements of contractor performance can only be evaluated using subjective criteria. The extent to which performance against the criteria merits an award fee amount is determined using judgment. CPAF contracts should not be used to avoid the effort of establishing objective targets for CPIF or fixed-price incentive (FPI) contracts.

If, after examining all types of contracts (not just those discussed above--see FAR Part 16), it appears that the CPAF type contract is the most appropriate for a particular procurement, there are certain interrelated factors that still must be considered by the contracting officer before making a decision: the dollar value; complexity and criticality of the procurement; the availability of Government resources to monitor and evaluate performance; and the benefits expected to result from such Government oversight.

Since award-fee contracts require additional administrative effort, they should only be used when the contract values, performance period, and expected results warrant that additional management effort. See *Section 1.3 Risk and Cost Benefit Analysis* for a detailed discussion of administrative costs.

Evaluation of performance under a CPAF contract requires much greater effort than in either CPIF or CPFF. Careful selection of the most appropriate contract type and careful tailoring should prevent a situation in which the award fee administrative burden is out of proportion to the improvements expected in the quality of the contractor's performance and in overall project management.

Award-fee contracts are not appropriate for repetitive buys of hardware. In those cases, major configuration changes are minimal and the manufacturing process (and hence costs) are reasonably well understood. Therefore, CPIF, FPI or firm-fixed-price (FFP) contracts should be used instead. The type of contract selected will depend on the circumstances of each individual procurement. Those procurements where there is less production experience may use CPIF or FPI, and those where there is a reasonable amount of experience, FFP.

CPAF contracts have been widely used for the procurement of non-routine services where it is difficult to precisely define what is required and what constitutes good effort. A simple example is a contract for basic research where it is extremely difficult to describe exactly what constitutes successful research in purely objective terms. Responsiveness to changing customer requirements, programming needs, and state-of-the-art, for example, can be difficult to quantify. A CPAF contract would allow the Government to subjectively evaluate elements of basic research quality during contract performance. It also allows for gradations of scoring that would be impossible in a purely objective approach. CPAF contracts can also be used with other more complex and sophisticated services.

CPAF contracts can also be used to procure design, development and initial fabrication of state-of-the-art hardware, software, or experimental radar. Where technical challenges are difficult to predict, the award fee process allows the Government to assess contractors' efforts in light of those technical problems and appropriately recognize their accomplishments (or lack thereof). Also, the areas of importance may fluctuate in unpredictable ways over the course of the contract and the CPAF evaluation process accommodates this.

1.3 Risk and Cost Benefit Analysis

Before selecting an award-fee contract, the contracting officer shall perform a risk and cost-benefit analysis of the expected benefits versus the added administrative costs. The value added to the program by using an award-fee type contract must be greater than the costs to administer it.

Administrative cost is calculated using the grade levels and hours required to monitor, evaluate, brief and implement the award-fee process. Major cost drivers are the number of award-fee evaluation periods (generally two per year), performance monitors, and Performance Evaluation Board (PEB) members.

For example, assume a six-month evaluation period, five performance monitors who spend an average of three hours per week on their monitoring duties, six PEB members who meet twice for three hours during the period and spend one additional hour briefing the Fee Determining Official (FDO), a recorder who spends an average of eight hours per week on award fee duties, and a contracting officer who spends 5 hours per period. The administrative cost for one evaluation period, assuming a fully burdened labor hour rate of \$100, would be as follows:

5 monitors x 3 hrs x 26 wks x \$100	=	\$39,000
6 PEB members x 7 hrs x \$100	=	\$ 4,200
1 Recorder x 8 hrs x 26 wks x \$100	=	\$20,800
1 CO x 5 hrs x \$100	=	\$ 500
Government Administrative Cost		\$64,500

This is a conservative estimate and does not represent all associated administrative costs that may arise (e.g., the FDO's time). The \$64,500 must then be multiplied by the number of evaluation periods to calculate the total administrative cost for the award fee contract.

To complete the cost benefit analysis, the contracting officer compares the quantitative administrative burden to the often intangible benefits the Government receives through the award fee arrangement. The benefits might be measured in dollars saved by tighter cost control or enhanced technical capability.

Improved award fee contracting procedures alone will not improve the effectiveness of DOT's CPAF contracts. The entire acquisition process plays a role in the success of these procedures. Assessing and addressing risk, program planning, thorough requirements definition, expanded use of performance based contracts, and selection of proper contract type, coupled with effective contract and program management, are essential to the success of DOT's programs.

2.0 ELEMENTS OF THE AWARD FEE CONTRACT

While combinations with other contract types are possible, most award-fee contracts are of the cost-plus-award-fee (CPAF) type. A fixed-price-award-fee (FPAF) contract type is available, but used less frequently.

2.1 CPAF Structure

CPAF contracts include an estimated cost; an award fee (and possibly a base fee); a performance incentive, when appropriate; and a fee payment plan.

2.2 Estimated Cost

Estimated cost is the total cost amount specified in the contract. One of the major reasons for using CPAF contracts is that both Government and contractor personnel recognize that technical uncertainties exist which make it difficult to accurately predict at the outset the actual costs that will be incurred by the contractor in performing under the contract.

2.3 Award Fee, Base Fee and Maximum Fee

Under a CPAF contract, an available award-fee pool is negotiated and included in the contract. However, the actual award fee earned by the contractor is determined by the Government's assessment of the contractor's performance. Criteria for contract performance are included in the contract, and the contractor is then judged on how well it performs in relation to those criteria. While the contractor can comment on the Government's evaluation, it cannot dispute the score and the resulting fee. The contractor can earn any amount of award fee, from all of the award fee pool to none of it. A contractor will not be paid any award fee or base fee for less than satisfactory overall performance.

The amount of award fee and any base fee available to be earned under a CPAF contract is established at the time of contract award. The sum of the award fee amount and base fee, if any, should reflect the character and difficulty of the contract effort. When evaluated in light of the profit analysis factors in FAR 15.404-4(d), this sum should be sufficient to compensate the contractor for outstanding performance. While fees should not be excessive for the effort contracted for, they must be large enough to adequately motivate contractor performance.

Base fee is a fixed amount that the contractor earns for satisfactory contract performance (see Section 3.64: *Grading and Scoring Contractor Performance*). A base fee is not included in service contracts where each periodic award fee evaluation is independent of other evaluation periods. The use of base fee is available, but strongly discouraged, in contracts where all evaluations are interim until the last evaluation, such as for study, design, or hardware. These contracts may include a base fee in an amount not to exceed three percent of estimated contract cost, if base fee is absolutely necessary.

3.0 ORGANIZATION AND ADMINISTRATION

3.1 General Guidelines

As is true with many aspects of award-fee contracting, the most effective organizational and administrative approach will differ with each particular situation. The overall objective in all cases is an equitable and timely approach that does not create or impose an unreasonable administrative burden given the value and complexity of the specific contract effort. The following are some basic guidelines concerning the organization and administration of award fee contracts:

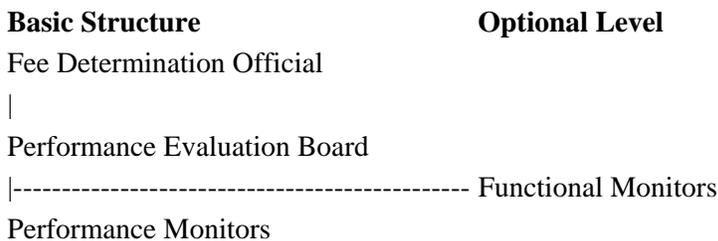
- a. Avoid creating too many organizational layers. Excessive layers contribute to unnecessary paperwork, delays in turnaround time, and inordinate staffing demands.
- b. At the same time, the assessments of front-line contracting officers and project managers should be reviewed by higher level management officials who are not involved in the daily interface with the contractor and have a broader perspective. For example, a concern noted by a first-line evaluator might be the result of agency management influences and decisions to which the contractor responded to the detriment of certain other aspects of its contract performance. Only higher level management officials may be aware of this and are in a position to evaluate this response, and its effect upon contract performance in terms of agency-wide or installation-wide priorities and operational requirements. Evaluations must, however, remain based on contractually required performance and not influenced by extra-contractual considerations.

- c. Tailor performance evaluation plans to the specific situation, but do not reinvent the wheel. The tailored, case-by-case application of successfully used procedures and practices generally works best.
- d. Finally, remember that the objective is to evaluate performance, not micromanage it. The Government tells the contractor what results are expected and are important. It then evaluates and rewards the contractor as appropriate for achieving the desired results. Communication with contractor personnel about performance should not lead to Government direction of efforts in a manner that compromises the contractor's responsibility or ability to manage under the contract.

3.2 Organizational Levels and Functions

3.2.1 Basic Structure

No single organizational approach is best for all situations. However, the following basic, three-level organizational structure is generally employed. This structure and associated responsibilities can and should be modified as necessary to meet the requirements of individual programs or projects. The most effective and efficient organizational approach will always be the one with the minimum number of personnel and layers of personnel needed to accomplish the job.



3.2.2 Fee Determination Official

The Fee Determination official (FDO) is organizationally senior to the Performance Evaluation Board (PEB) membership and either is the head of the contracting activity or has been designated FDO by the head of the contracting activity. The FDO should be identified in the evaluation plan by position title only, not name when the plan is included in the contract. This clearly establishes the level of the award fee determinations, while eliminating the need to modify the contract in the event there is a change in the incumbent FDO. The responsibilities of the FDO include:

- a. Establishing the PEB;
- b. Considering the PEB Report (PEBR) for each evaluation period and discussing it with the PEB Chair and, if appropriate, with others such as the contractor;
- c. In the case of service contracts, determining the amount of award fee earned and payable for each evaluation period. In the case of other contracts such as for study, design, or hardware, where all evaluation ratings are interim except the last one (see *Section 3.63: Interim and Final Evaluations*), determining the amount of interim fee to be paid for each evaluation period. The FDO must ensure that the amount and percentage of award fee earned accurately reflects the contractor's performance. Any variances between the PEB recommendation and FDO determination must be justified and documented in the official contract file;

- d. Issuing and signing the award-fee determination report or letter for the evaluation period, specifying the amount of award fee determined and the basis for that determination; and
- e. Approving the award-fee evaluation plan and any changes required during performance, unless such responsibilities are delegated to the PEB.

3.2.3 Performance Evaluation Board

The purpose of the PEB is to evaluate the contractor's overall performance for the award-fee evaluation period which leads to a recommended award fee amount to the FDO and recommend changes, if any, to the FDO. Among its other duties, the PEB has overall responsibility for the development of the performance evaluation plan. It is important to establish the PEB in sufficient time so it can develop (or ensure development of) and distribute an approved plan *before* the start of the first evaluation period. Other PEB responsibilities include:

- a. Conducting ongoing evaluations of contractor performance based upon Performance Monitor Reports and such additional performance information as may be obtained from the contractor and other sources. It is important that the PEB evaluate a contractor's performance according to the standards and criteria stated in the performance evaluation plan;
- b. Submitting a PEB Report (PEBR) to the FDO covering the Board's findings and recommendations for each evaluation period; and
- c. Recommending appropriate changes in the performance evaluation plan to reflect program evolution for approval by the FDO, if that individual chooses to review such changes.

The PEB is established by the FDO. However, in the case of larger, higher priority procurements, the head of the contracting activity may assume this responsibility. (In certain instances, the head of the contracting activity and the FDO may be the same individual). The PEB brings a broader management perspective to the evaluation process than exists at the monitor level and its members accordingly should be at a relatively high management level. The qualifications of PEB members will vary depending upon the nature, dollar value, and complexity of the procurement. However, those individuals with overall primary responsibility for the technical and contracting aspects of contract performance should be included. PEB members should be familiar with the type of work to be evaluated and be able to devote enough time to their assignment to perform thorough and prompt reviews.

Some activities have established a permanent PEB, generally consisting of three members. This permanent PEB is augmented on each award fee contract by two or more ad hoc members with backgrounds or responsibilities particularly suited for evaluating the type of work involved. The objective is to ensure that the PEB performs consistently from one contract to another and always has available those skills necessary to make fair judgments.

The official responsible for appointing PEB members should designate one as the Chair. The functions of a PEB Chair include:

- a. Calling PEB meetings, controlling attendance, and chairing the meetings;
- b. Recommending the appointment of nonvoting members to assist the PEB in performing its functions; e.g., a recording secretary;
- c. Appointing monitors for the contract effort and assuring they are provided appropriate instructions and guidance;

- d. Requesting and obtaining performance information from other units or personnel involved in observing contractor performance, as appropriate;
- e. Calling on personnel from various organizational units to consult, as needed, with the PEB;
- f. Assuming responsibility for the actual preparation and approval of the PEBR and other documentation such as PEB meeting minutes; and
- g. Ensuring the timeliness of award fee evaluations.

3.2.4 Performance Monitors

Performance Monitors provide the continuous evaluation of the contractor's performance in specific assigned areas of responsibility. This often daily oversight is the foundation of the award-fee evaluation process. Performance monitors are specialists intimately familiar with their assigned areas of cognizance; their monitor duties generally are in addition to, or an extension of, their regular responsibilities. In performing their duties, monitors should maintain ongoing communication with their contractor counterparts; conduct assessments in an open, objective and cooperative spirit; and emphasize negative performance as readily as positive performance. Monitors are designated by the PEB Chair and are responsible for:

- a. Monitoring (not directing), evaluating and assessing contractor performance in their assigned areas. This activity is conducted according to contract requirements and the award fee plan so that evaluations are fair and accurate;
- b. Periodically preparing a Performance Monitor Report (PMR) for the PEB and, if necessary, providing verbal presentations as well; and
- c. Recommending any needed changes in the performance evaluation plan for consideration by the PEB and the FDO.

The following questions should be considered by performance monitors in preparing their PMRs. These questions can prove helpful in assuring that the evaluation data are complete and pertinent and accurately assess how well the contractor performed in the monitors' respective assigned areas during the period.

- What (in the monitor's area) was the contractor supposed to do during the period? What was actually accomplished?
- How critical are the efforts accomplished, or not accomplished, by the contractor?
- What was the impact of any efforts completed early or late? How critical was the time frame involved?
- How well did the contractor perform the tasks that were accomplished?
- What are the major strengths and weaknesses (in sufficient detail to discuss with the contractor)?
- Were any Government-directed changes made or did any obstacles arise which impacted performance? What corrective actions were implemented? How effective were they?
- Has the contractor efficiently and effectively used available resources (e.g., personnel and facilities) to improve its performance (including cost control)?

- Has the contractor's performance been clearly assessed in regard to all tasks and specific objectives?
- On level-of-effort contracts, what has the contractor accomplished for the dollars spent? (Accomplishments should be rewarded, not spending dollars.)

3.2.5 Functional Monitors

In certain high dollar value, complex efforts, Functional Monitors (FM), sometimes referred to as Performance Evaluation Coordinators or Contract Technical (or Business) Managers, provide centralized direction to the various performance monitors and consolidate the findings of the performance monitors for review at the next highest evaluation level. The FM level should be used only when a very large number of performance monitors are involved in the evaluation process. Each FM (appointed by the PEB Chair, with appropriate notification to the contractor) is responsible for one of the broad functional areas to be evaluated, such as technical or project management. FMs duties include:

- a. Furnishing instructions to performance monitors in their assigned areas;
- b. Ensuring that the contractor is promptly notified whenever a problem is identified requiring immediate contractor attention (However, FMs should refrain from giving technical direction unless they are designated contracting officer's technical representatives (COTRs) and their contracts contain a technical direction clause.); and
- c. Coordinating, consolidating, and analyzing data submitted by their performance monitors and preparing a concisely written Functional Monitor Report (FMR) for presentation to the next highest evaluation level for each evaluation period.

3.2.6 Training

Training of all personnel involved in the award-fee process is essential for successful monitoring and evaluation of contractor performance and should assist them in performing their respective duties. Training should cover such things as the award fee plan, roles and responsibilities, documentation requirements, and evaluation techniques. Training should address:

- a. What is being evaluated?
- b. How will information be gathered; what techniques will be used? (e.g., inspection, sampling of work, observation, review of reports or correspondence, or customer surveys)
- c. When or how often will information be obtained? (e.g., daily, weekly or monthly)
- d. How will performance monitors secure information from functional specialists to cover areas in which the monitors may not be personally involved?
- e. Evaluation scoring processes and the need for consistency between scoring and evaluation summaries.

3.3 Steps in the Evaluation Process

Assuming the basic three-level organizational structure described in *Section 3.2: Organizational Levels and Functions*, the sequence of events leading to an award-fee determination is as follows:

1. A certain number of days before the period starts (specified in the performance evaluation plan), the contractor is provided with any changes to the performance evaluation plan. In addition, the PEB may determine that it wants to highlight to the contractor a performance area that it should pay particular emphasis to during the period. For instance, an area of performance during the period may be of particular risk to the program. The PEB may want to focus the contractor's attention on this area of risk by highlighting it.
2. During the course of the evaluation period, performance monitors track contractor performance. Interim (mid-term) evaluations are encouraged to identify strengths and weaknesses in the contractor's performance during the period being evaluated. Interim evaluations are documented in narrative or briefing format and should involve the FDO.
3. At the end of the period, the performance monitors assess the contractor's performance and report to the PEB.
4. The PEB considers the performance monitors' reports and any other pertinent information, including information provided by the contractor during the evaluation period, and prepares a report for the FDO with findings and recommendations.
5. The contractor is provided an opportunity to comment on its performance during the evaluation period (see Contractor Input) using one, or a combination of one or more, of the following methods:
 - The contractor may provide a written or oral self-assessment of its performance to the PEB to be considered by it in preparing its findings and recommendations.
 - The contractor is provided a copy of the draft findings and recommendations and may be afforded an opportunity to identify factual errors. Any errors identified by the contractor should be addressed by the PEB in its final report. The draft recommendation is not a subject for negotiation; the PEB should not engage in discussions with the contractor.
 - The contractor is provided a copy of the final PEB Report at the same time as the PEB submits it to the FDO. Contractor comments are submitted to the FDO for consideration.
6. The FDO may meet with the PEB to discuss the PEB's report. Any such meeting should not be allowed to devolve into a negotiation. The FDO then makes a final determination in writing as to the amount of fee to be paid. The FDO provides the determination to the contracting officer and a copy to the contractor. The FDO's rating must be provided to the contractor as quickly as possible, but no later than 45 calendar days after the end of the period being evaluated. Payment to the contractor shall also be made as quickly as possible, but no later than 60 days after the end of the period. The FDO and PEB should always provide a debriefing to the contractor after the rating has been issued.

3.4 Performance Evaluation Plan

Just as we would not expect all managers to manage alike, so we would not expect all award-fee contracts to be structured and administered in the same way. The performance evaluation plan (PEP) does, however, always include certain principal features:

- a. Evaluation requirements;
- b. The method for determining award fee;

- c. The method for implementing any changes in plan coverage; and
- d. The organizational structure for award-fee administration.

Appendix A of this guide provides a sample format incorporating these features and may prove useful for checklist purposes in the development of actual evaluation plans. Remember that each evaluation plan must be tailored to the particular situation. In developing a performance evaluation plan, keep in mind that the plan should:

- a. Provide for evaluations of contractor performance levels, taking into consideration contributing circumstances and contractor resourcefulness;
- b. Focus the contractor on areas of greatest importance in order to motivate it to make the best possible use of company resources to improve performance;
- c. Clearly communicate evaluation procedures and provide for effective, two-way communication between the contractor and the Government personnel responsible for evaluating performance and making award fee determinations;
- d. Provide for an equitable and timely evaluation process (see Steps in the Evaluation Process);
- e. Establish an effective organizational structure, commensurate with the complexity and dollar value of the particular procurement, to administer the award fee provisions; and
- f. Be kept as simple as feasible; the simpler the plan, the more effective it is likely to be. The objective should be a workable plan with a high probability of successful implementation. The performance evaluation plan is usually not included in the contract, thus preserving the Government's right to alter the plan unilaterally to reflect any changes occurring in management emphasis or concern. If it is included in the contract, language must be included which allows the Government to change the plan unilaterally. The contractor must be informed of any changes and be given a copy of the current plan in advance of the evaluation period or periods to which it applies. The fact that the plan can be unilaterally changed does not give the Government the right to unilaterally change other award fee provisions or other terms of the contract, absent contract language allowing it to do so.

3.5 Performance Evaluation Factors

It is neither necessary nor desirable to include all functions required by the statement of work as part of the performance evaluation plan. However, those functions selected should be balanced so that contractors, when making trade-offs between evaluation factors, assign the proper importance to all of the critical functions identified. For example, the plan should emphasize technical performance and cost considerations, because an evaluation plan limited to technical performance might result in increased costs out of proportion to any benefits gained (see *Section 3.67: Scoring of Cost Control*).

Furthermore, spreading the potential award fee over a large number of performance evaluation factors dilutes emphasis. Instead, broad performance factors should be selected, such as technical, project management and cost control, supplemented by a limited number of subfactors 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 award fee evaluations.

Some basic areas of performance need to be evaluated and rewarded on every contract. Other areas are critical only in some instances. For example, all incentive-type contracts, including award fee, are

required to contain a cost incentive or constraint (see FAR 16.402). Therefore, cost control will always be included as an evaluation factor, if there isn't a separate cost incentive in the contract. In general, controlling the cost of the hardware or service being provided, its quality (technical merit, design innovation, reliability, etc.), and its timely delivery will always be important-- although their relative importance and the measure of what constitutes good performance may vary by procurement. The relative importance of the factors and the method of evaluating contractors should be tailored to fit the needs of each procurement. For example, providing an item on time is generally critical to the contract. However, earlier delivery might also be of benefit to the Government and therefore worth incentivizing. The earlier a weather radar can be launched to provide warning of severe weather, the better. On the other hand, early deliveries might be of no benefit, or even cost the Government money and might result in increased costs to the Government for storage.

The evaluation factors used in award fee contracting should not be standardized. Rigid standardization tends to generate evaluation plans that are either too broad or include factors inapplicable to a given function. In either case, evaluators are likely to experience difficulties in providing meaningful comments and ratings. It is preferable to tailor performance evaluation plans and factors to fit the circumstances of each individual procurement. As contract work progresses from one evaluation period into the next, the relative importance of specific performance factors may change. However, the award fee approach permits unilateral modification of the detailed evaluation plan to reflect these changes in Government management emphasis.

Depending upon the procurement situation, performance evaluation factors may include outcomes, outputs, inputs or a combination of both. An outcome factor is an assessment of the results of an activity compared to its intended purpose. Outcome-based factors are the least administratively burdensome type of performance evaluation factor, and should provide the best indicator of overall success. Outcome-based factors should therefore be the first type of evaluation factor considered for use, and are often ideal for non-routine efforts.

An output factor is the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner. Output factors may be more desirable for routine efforts, but are administratively more burdensome than outcome factors due to the tabulation, calculation, or recording requirements. When output factors are used, care should be taken to ensure that there is a logical connection between the reported measures and the program's mission, goals, and objectives.

Input factors refer to intermediate processes, procedures, actions or techniques that are key elements influencing successful contract performance. These may include testing and other engineering processes and techniques, quality assurance and maintenance procedures, subcontracting plans, purchasing department management, and inventory, work assignment and budgetary controls.

While it is sometimes valuable to consider input and output factors when evaluating contractor performance, it is preferable to use outcome factors when feasible since they are better indicators of success relative to the desired result. For example, in the case of service contracts where performance is demonstrated and measurable in each evaluation period, input factors may be of value in building a historical database, but may be of little or no value in the evaluation process. Accomplishments, such as achieving small and small disadvantaged subcontracting goals, are what is important, as opposed to efforts expended. In other contracts, however, where the quality of performance cannot be determined with certainty until the end of the contract, input factors can be useful indicators of how well the contractor is achieving its ultimate performance objective. However, a heavy emphasis on input factors, while meant to provide positive motivation to the contractor in certain areas of performance, may in some cases cause the contractor to divert its attention and focus from the overall output or outcome desired. Input factors are not always true indicators of the contractor's ultimate performance and so should be relied on with caution.

Some examples of performance evaluation factors, subfactors, and criteria are shown below. They do not cover all possibilities, but illustrate some of the key performance areas that can be selected as evaluation factors.

3.5.1 Technical Performance

Technical Performance - Accomplishment achieved in the areas of:

- **Design**: Approach in design concepts, analysis, detailed execution and low cost design and manufacturing. Design of test specimens, models and prototypes.
- **Development**: Conception/execution of manufacturing processes, test plans and techniques. Effectiveness of proposed hardware changes.
- **Quality**: Quality assurance, e.g., appearance, thoroughness and accuracy, inspections, customer surveys.
- **Technical**: Meeting technical requirements for design, performance and processing, e.g., weight control, maintainability, reliability, design reviews, test procedures, equipment, performance.
- **Processing Documentation**: Timely and efficient preparation, implementation and closeout.
- **Facilities/GFE**: Operation and maintenance of assigned facilities and Government Furnished Equipment.
- **Schedule**: Meeting key program milestones and contractual delivery dates; anticipating and resolving problems; recovery from delays; reaction time and appropriateness of response to changes.
- **Safety**: Providing a safe work environment; conducting annual inspections of all facilities; maintaining accident/incident files; timely reporting of mishaps; providing safety training for all personnel.
- **Information Management**: Ability of computer system to provide adequate, timely and cost effective support; meets security requirements; management information systems ensures accurate, relevant and timely information.
- **Material Management**: Efficient and effective processing of requisitions, with emphasis on priority requisitions; responsiveness to changes in usage rates.

3.5.2 Project Management

Project Management - Accomplishment achieved in the areas of:

- **Program Planning/Organization/Management**: 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; labor relations; 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, Equal Employment Opportunity Program, Minority Business Enterprise Program, system and occupational safety and security.

- Effectiveness in meeting or exceeding small business and small disadvantaged business subcontracting goals.
- Subcontracting: Subcontract direction and coordination. Purchase order and subcontractor administration.
- Timely and accurate financial management reporting.

3.5.3 Cost Control

Cost Control - The contractor's ability to control, adjust and accurately project contract costs (estimated contract costs, not budget or operating plan costs) through:

- 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.

The predominant consideration when evaluating cost control should be an objective measurement of the contractor's performance against the estimated cost of the contract, including the cost of undefinitized contract actions when appropriate. The estimated cost baseline should be adjusted to reflect cost increases or decreases associated with changes in Government requirements or funding schedules which are outside the contractor's control. In rare circumstances, contract costs might increase for reasons outside the contractor's control and for which the contractor is not entitled to an equitable adjustment, such as weather-related delays or changes made which fall below contract change thresholds. Such situations should be taken into consideration when evaluating contractor cost control. In the case of contracts for services where contractor performance is consistent and complete within each evaluation period and does not carry over into succeeding periods, negotiated estimated cost can generally be apportioned among the evaluation periods. Cost control for each evaluation period can then be measured against that period's share of the estimated costs. However, where contractor performance cannot be ascertained until the end of the contract (such as contracts for R&D and hardware) and cost expenditures can vary significantly from one evaluation period to the next, it makes more sense to evaluate interim contractor cost control against a cumulative expenditure profile that reflects the estimated cost.

3.5.4 Weighting of Evaluation Factors

In addition to identifying how performance will be evaluated and measured, the detailed performance evaluation plan should indicate the relative priorities assigned to the various performance areas and evaluation factors and subfactors. This may be accomplished through the use of narrative phrases such as "more important," "important," and "less important" or through the use of percentage weights. When percentages are used, the plan should state that they are for the sole purpose of communicating relative priorities, and in no way imply an arithmetical precision to the judgmental determinations of overall performance quality and the amount of award fee earned.

Cost control should always be a substantial factor. When percentage weights are used, cost control will be at least 25 percent of the total award fee. When adjectives or narratives are used in lieu of

explicit weights, cost control will be a substantial factor. No other factor will be less than 10 percent. This ensures that the factors are balanced and, when making trade-offs, the contractor assigns the proper importance to all factors.

The methodology used to establish percentage weights is described and illustrated in the following example:

Example:

First, list the primary evaluation factors in descending order of importance and assign a percentage weight to each factor starting with the least important. Assign the least important factor no less than 10 percent (unless the least important factor is cost control, which must be assigned a minimum of 25 percent). All assigned weightings for primary evaluation factors must total 100 percent. Round all numbers off to the nearest whole number to avoid giving the impression (through the use of decimal places) that the procedure is a precise one. Next, assign percentage weights to the subfactors supporting each of the primary evaluation factors such that the total of the subfactor weights for each performance factor totals the assigned weight for that factor as shown in the example below. The actual factors and subfactors used as well as the weights assigned in any given contract may be different from those shown in the example. For instance, indirect cost control, subcontract costs, other direct costs, etc. should be evaluated when they are significant elements of cost.

Factors/Subfactors	Assigned Weight
Technical	42%
Design	24%
Quality	12%
Schedule	6%
Project Mgmt.	32%
Planning	26%
Subcontracts	6%
Cost Control	26%
Labor Cost Control	15%
Overhead Cost Control	11%
Total	100%

3.6 Evaluation Periods and Award Fee Allocation

3.6.1 Evaluation Period Length

Award fee evaluation periods should be at least six months in length. If appropriate to particular circumstances, a shorter evaluation period may be authorized by the Contracting Officer. However, too short an evaluation period can prove administratively burdensome and lead to hasty evaluations or late evaluations which result in late fee determinations. On the other hand, one of the benefits of using award fee contracts is improved communications between Government and contractor personnel. This benefit may be jeopardized if evaluation periods are too lengthy.

Evaluations may be tied to the accomplishment of milestones, but care must be taken to ensure that the evaluations do not occur at infrequent intervals or are subject to lengthy slippage.

3.6.2 Allocation of Award Fee

After the amount of the award fee pool is established, deduct the base fee (if any) and allocate the remainder of the pool over the award fee evaluation periods. For service contracts where each evaluation is final, the allocation of award fee determines its distribution for final payment purposes. For other contracts, where all evaluations (and payments) are interim except the final evaluation, award fee is allocated among the evaluation periods solely for the purpose of making interim payments against the final evaluation. That final evaluation will determine the amount of total award fee actually earned by the contractor and will supersede any interim evaluations and payments made. The distribution of the award fee pool depends in large part on the acquisition strategy, and individual circumstances of each procurement. Contractor expenditure profiles should also be considered. The total may be allocated equally among the evaluation periods if the risks and type of work are similar throughout the various evaluation periods. Otherwise, if there is a greater risk or critical milestones occur during specific evaluation periods, a larger portion of the pool may be distributed to those periods. This permits the Government to place greater emphasis on those evaluation periods. For example, if a contract has a short initial evaluation period for the contractor to become familiar with the work (e.g., computer services), the initial period of performance may have a smaller allocation while the remaining pool is divided equally among the remaining evaluation periods. If the schedule for a significant event changes, any potential award fee amount associated with that event must be reallocated accordingly for interim payment purposes.

The following example illustrates an unequal allocation of award fee among the four performance periods, reflecting different degrees of emphasis.

Estimated Cost	\$5,000,000
Award Fee (10%)	\$ 500,000
<u>Base Fee (0%)</u>	<u>\$ 0</u>
Total	\$5,500,000

EVALUATION PERIODS

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

3.6.3 Interim and Final Evaluations

In service contracts the contract deliverable is the performance of a service and contractor performance is measurable at each evaluation period. Performance is not cumulative and its quality cannot be improved or reduced by future performance. For that reason, in service contracts, all evaluations are final and unearned award fee is not "rolled over" into subsequent evaluation periods or retroactively "taken back." On other contracts such as study, design or hardware, where the true quality of contractor performance cannot be measured until the end of the contract, the contract deliverable is an end item. Contractor performance leading up to delivery of the end item is an indication of whether and how well it will produce the end item, but it is not the end item itself. Since the actual quality of the end item cannot be determined until the end of the contract when it is delivered, only the last evaluation is final. All of the preceding evaluations and ratings are interim.

At the end of the contract, the contractor's total performance is evaluated against the performance evaluation plan to determine total earned award fee. That final rating supersedes all interim ratings. It is not the average of the interim ratings. Instead, it reflects the contractor's position at the end of the contract rather than its interim progress toward that position. For example, how well a contractor has controlled costs can only be determined at the end of the contract when the contractor is evaluated against its final cost position. Whether the contractor was overrunning or underrunning the contract estimated cost at various points in time is irrelevant. The contractor's success is measured against the end result. Likewise, the contractor's ability to meet the contract schedule can only be determined when the hardware is delivered and accepted by the Government. Whether the contractor was behind or ahead of schedule during the course of the contract is not relevant in the final evaluation. The same thing is true of the other evaluation factors and subfactors.

Any significant events that contributed over the course of the contract to the contractor's position (such as launch delays or delays in receipt of Government furnished equipment), must be considered in the final award fee determination. Those events should be examined as they relate to the final contract outcome and not to the individual evaluation periods in which they occurred.

3.6.4 Grading and Scoring Contractor Performance

Grading and scoring methods are used to translate evaluation findings into recommended award fee amounts or ranges. Their purpose is to help the Fee Determination Official (FDO) decide the amount of award fee earned in final evaluations or the amount of interim award fee to be paid for interim evaluation periods. These methods are evaluation tools and are not a substitute for exercising judgment in the award fee determination process. The decision process cannot be reduced to a mathematical formula or methodology. Either a weighted or nonweighted process can be used to evaluate performance.

One method is for evaluators to start from the satisfactory performance level and adjust the scores upwards or downwards, depending on the contractor's performance for the period, using the rating table in section 3.6.1, Award Fee Rating Table. Another method is for evaluators to use "blind" evaluation sheets where they are asked to rate different criteria using numbers based on the adjectival ratings. The weights that will eventually be applied to their ratings do not appear on the sheets. This approach relieves to some extent the pressure placed on the evaluators by contractor employees.

As a general guideline, a contractor which satisfactorily meets its contractual commitment will fall into the "good" (71-80) range. To earn an "excellent" score (91-100), a contractor must provide exceptional performance--a combination of excellent cost, schedule and technical management.

Some general considerations in the development of a grading and scoring methodology are as follows:

- a. When Government actions impact contractor performance either positively or negatively, e.g., changes in funding allocation or increased emphasis on certain technical requirements which require the contractor to make unexpected and extensive tradeoffs with other technical requirements, those actions should be considered in the scoring and grading process.
- b. The methodology should be kept as clear and simple as possible. In particular, the situation where specially tailored evaluation factors are force-fit to a "standard" grading table or scoring formula should be avoided.
- c. The maximum fee should be attainable by the contractor. To be a credible and effective motivator, an award fee contract should provide the contractor with a reasonable opportunity to earn the maximum award fee available. Although a reasonable opportunity generally does not mean absolute perfection in all possible performance areas, the contractor's performance should be outstanding in virtually all areas. On the other hand, guaranteeing a contractor the

maximum fee on every contract, regardless of the difficulty or complexity, does not adequately address the issues of risk and effort.

- d. Documentation of assigned performance values is required in support of award fee recommendations and computations such as those in Calculating Earned Fee - Example. (See Documentation.)

3.6.5 Award Fee Rating Table

The following rating table is to be used for all award fee contracts. It includes adjectival ratings as well as a numerical scoring system of 0-100. Earned award fee (or interim award fee amounts in the case of interim evaluations) is calculated by applying the total numerical score to the award fee pool. For example, a numerical score of 85 yields an award fee of 85 percent of the award fee pool for that evaluation period. For exceptions see Zero Score for Poor Performance. The table below lists the award fee evaluation adjectival ratings with their corresponding score ranges. In addition, a narrative description is also provided to assist the PEB in applying the ratings. Criteria for evaluation factors and subfactors should reflect the table.

Adjective Rating	Range of Perf Points	Description
Excellent	(100-91)	Of exceptional merit; exemplary performance in a timely, efficient and economical manner; very minor (if any) deficiencies with no adverse effect on overall performance.
Very Good	(90-81)	Very effective performance, fully responsive to contract requirements; contract requirements accomplished in a timely, efficient and economical manner for the most part; only minor deficiencies.
Good	(80-71)	Effective performance; fully responsive to contract requirements; reportable deficiencies, but with little identifiable effect on overall performance.
Satisfactory	(70-61)	Meets or slightly exceeds minimum acceptable standards; adequate results; reportable deficiencies with identifiable, but not substantial, effects on overall performance.
Poor/ Unsatisfactory	(less than 61)	Does not meet minimum acceptable standards than in one or more areas; remedial action required in one or more areas; deficiencies in one or more areas which adversely affect overall performance.

3.6.6 Zero Score for Poor Performance

No fee will be paid when the total evaluation score is less than 61. In addition, any factor that receives a score of less than 61 for "poor/unsatisfactory" performance will not be rewarded and shall be converted to a factor score of zero. Such zeroing-out should not be done at the subfactor level. See *Section 3.7.5: Payment*, for a discussion of no payment for "poor/unsatisfactory" performance.

3.6.7 Scoring of Cost Control

Cost control will be a substantial factor in any award fee performance evaluation plan. The contractor's success in controlling costs must be measured against contract estimated costs, and not against budgetary or operating plan costs. The following scoring guidelines will help ensure that cost control receives the proper emphasis:

- a. Whenever there is a significant cost overrun that was within its control, a contractor should be given a score of zero. If the overrun is insignificant, a higher score may be given. The reasons for the overrun and the contractor's efforts to control or mitigate the overrun should be considered in the evaluation.
- b. Cost underruns within the contractor's control should normally be rewarded. However, the extent to which an underrun is rewarded will depend on the size of the underrun and the contractor's level of performance in the other award fee evaluation factors. Contractors should not be rewarded for excelling in cost control to the detriment of other important performance factors. For that reason, whether a cost underrun is rewarded in the evaluation process and, if so, the degree to which it is rewarded depends, not only on the size of the underrun, but also on how well the contractor is performing overall in the other evaluation areas. The following rules apply:
 - If the contractor's average score for all other evaluation factors is 81 or greater (very good or excellent) and it achieves a cost underrun, the contractor can receive up to the maximum score for cost control, depending on the size of the underrun.
 - If the average numerical score for all other factors is 80 or less but at least 61 (good or satisfactory) and an underrun is achieved, a contractor will only be rewarded for the cost underrun as if the contractor had met the estimated contract costs.
 - If the average score for the non-cost factors is less than 61, the contractor will receive a score of zero for cost control.
- c. When the contractor achieves the negotiated estimated cost of the contract, it should not receive the maximum score for cost control. The maximum score for cost control should only be awarded for achieving an underrun. Some lesser score will be assigned, reflecting the degree to which the contractor has prudently managed costs while meeting contract requirements.

3.6.8 Calculating Earned Fee - Example

The following example illustrates how evaluation scores for weighted factors and subfactors are calculated to arrive at a total award fee recommendation. Again, keep in mind that the use of weighted factors to calculate an award fee amount is an evaluation aid; the result does not represent a required award fee amount. The appropriate award fee amount can be determined only within the context of the specific procurement situation (see Weighting of Evaluation Factors).

- a. **Background:** This CPAF contract covers design and verification testing of an improved radar. The contractor is also required to deliver eight production radars. The total estimated cost and award fee is \$300,000,000. The available award fee for the current interim evaluation period (#7) is \$2,600,000.

Evaluation factors and assigned weights for the current evaluation period are taken from the example in section 3.4.3, Weighting of Evaluation Factors. They are restated here. Actual factors and their weights in any given contract may be different from those shown in this example.

Factors/Subfactors	Assigned Weight
Technical	42%
Design	24%
Quality	12%
Schedule	6%
Project Mgmt.	32%
Planning	26%
Subcontracts	6%
Cost Control	26%
Labor Cost Control	15%
Overhead Cost Control	11%
Total	100%

- b. **PEB Findings:** The findings of the PEB for the most recent evaluation period are summarized below:
- Contractor performance was rated very strong overall in the technical area. Accomplishments included successful design and installation of in-flight radar monitors, and successful test of a redesigned radar screens. Some weaknesses were identified, the most serious of which was an incompatibility between two components which was not resolved during the period, resulting in a slight schedule slip.
 - In the area of project management, strengths were identified, including communication of program activities to the proper management levels, on-schedule delivery of critical subcontracted hardware, and exceeding subcontracting goals. Weaknesses included ineffective checks and balances for processing hardware and insufficient management involvement at vendor sites which has jeopardized hardware integrity.
 - In the cost control area, the cost overrun increased by 14% in this period due in large part to labor costs. Projected overhead increases were also reported; however, the contractor has identified and will implement cost reduction measures which are expected to ameliorate the problem. (Note - promises of future actions are not normally considered in the current period evaluation, but in this case the overhead increase is also only a projection.)

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- c. **Calculating Weighted Performance Points:** As a result of the evaluation, the following performance points were assigned and weighted for the subfactors:

Subfactor	Performance Points	Assigned Weights	Weighted Perf. Points*
Design	95 (Excellent)	.24	54
Quality	90 (Very Good)	.12	26
Schedule	80 (Good)	.06	11
		Total for Technical	91
Planning	70 (Sat.)	.26	57
Subcontracts	86 (Very Good)	.06	16
		Total for Proj. Mgmt	73
Labor Cost Control	50 (Poor/Unsat.)	.15	29
OH Cost Control	70 (Sat.)	.11	30
		Total for Cost Control	59 = 0**

*Weighted Performance Points are calculated as follows: [Performance Points x Assigned Subfactor Weight]/Assigned Factor Weight = Weighted Performance Points. For example, for Design: [95 x .24]/.42 = 54

** Note that an unsatisfactory rating for a factor results in a **zero** score for that factor. Therefore, the Cost Control factor received a zero score for receiving a rating of less than 61 percent. Significant cost overrun within the contractor's control should result in a score of zero for cost control.

Next, total weighted performance points were calculated for the primary evaluation factors as follows:

Weighted Factor	Performance Points	x	Assigned Weight	=	Total Weighted Performance Points
Technical	91	x	.42	=	38
Proj. Mgmt.	73	x	.32	=	23
Cost Control	0	x	.26	=	0
					61 (Sat.)
					Total for All Factors

- d. **Converting Performance Points to Award Fee Score:** The award fee percentage is the same number as the total weighted performance points. In this example, 61 weighted performance points equals 61% of available award fee. Award fee recommendation: \$1,586,000 (61% of \$2,600,000).

3.6.9 Changes in Emphasis - Example

If the Government's relative priorities change as work progresses from one phase into the next or as unexpected problems or developments occur such as schedule slippages, the evaluation plan may be revised on a unilateral basis, to communicate such changes to all parties. The following example illustrates how the Government can adjust evaluation weights to redirect contractor emphasis to areas needing improvement and the effect of that readjustment on earned award fee.

Estimated Cost	\$5,000,000
Award Fee (10%)	\$ 500,000
Total	\$5,500,000

	EVALUATION PERIODS				
	1	2	3	4	Total
ALLOCATION(%)	24%	18%	18%	40%	100%
ALLOCATION(\$)	\$120K	\$90K	\$90K	\$200K	\$500K

EVALUATION PERIOD 1:

Factor	Weight	x	Performance Points	=	Weighted Perf. Points
TECHNICAL	.42	x	91 (Excellent)	=	38
PROJECT MGMT	.32	x	73 (Good)	=	23
COST CONTROL	.26	x	0 (Poor/Unsat.)	=	0
			Total		61

The contractor earns \$73,200, 61% of \$120,000.

EVALUATION PERIOD 2:

If factor weights were adjusted to increase the emphasis on cost control and its performance, and thus its performance points, remained basically the same, this would be the result:

Factor	Weight	x	Performance Points	=	Weighted Perf. Points
TECHNICAL	.40	x	91	=	36
PROJECT MGMT	.32	x	73	=	23
COST CONTROL	.28	x	0	=	0
			59	=	0

The contractor would receive an award fee score of 2 percentage points less in the second period than it would have if the factor weights had not changed. As a result, the contractor would receive an overall score of Poor/Unsatisfactory and no award fee for the second period.

Now, assume that the contractor responds to the shift in emphasis by improving its performance in cost control from Poor/ Unsatisfactory to minimally satisfactory, without reducing its score in any other area, as follows:

Factor	Weight	x	Performance Points	=	Weighted Perf. Points
TECHNICAL	.40	x	91	=	36
PROJECT MGMT	.32	x	73	=	23
COST CONTROL	.28	x	61	=	17
					76 (Good)

By increasing its performance in cost control by 31 points (from 30 to 61)--and as a result, its total score by 17 percent to Good--the contractor is now entitled to receive an award fee payment.

If the cost control weight had not been increased in the second period, the contractor would have continued to be paid fee (61 percent of \$90,000 or \$54,900) for unsatisfactory cost control performance. By changing the factor weights to put more emphasis on cost control, the contractor is either rewarded for improved cost control with more fee than it would have received had the weights had not been changed (76% of \$90,000 or \$68,400) or penalized for not showing improvement in that area (59 percent = no award fee payment for the period).

3.7 Administrative Matters

3.7.1 Communication

A major benefit of a properly structured and administered award fee contract is that it provides for more effective communications among Government and contractor personnel, at management levels where decisions can be made and results achieved. One way to ensure that communication channels are established early and that all key Government and contractor personnel understand their responsibilities under the contract is to hold a post-award conference soon after contract award. Attendees should review and discuss the performance evaluation plan as well as contract requirements.

Frequent and honest communication is essential, both between the Government and contractor and within their respective organizational frameworks. To illustrate, it may be just as important for the FDO to communicate the rationale for the award fee determination to all those who participated in the Government evaluation process as it is for him to communicate that rationale to the contractor. Both Government and contractor personnel should be encouraged through the award fee process to identify potential problems as promptly as possible (as opposed to withholding such "bad news" for fear it might result in unfavorable criticism).

3.7.2 Contractor Input

The contractor should be provided an opportunity to furnish a self-assessment of its performance. Once the PEB report is prepared, the Board may allow the contractor to comment on the draft report. Contractor participation at this point ensures that all pertinent data was considered and no errors of fact were used as a basis for decisions. Such communications, however, must not result in negotiation of award fee ratings. The ratings should be fair and reasonable, but are ultimately a unilateral Government determination.

Throughout the period of performance, the contractor should be encouraged to submit suggestions for improving or changing the evaluation process. In addition to the various formal communications channels just discussed, both parties should recognize that frequent, less formal discussions are valuable in ensuring ultimate program success. Both the Government and the contractor should work to eliminate any unnecessary contractual, organizational or conceptual barriers that constrain information sharing and other communications needed for successful joint problem solving.

3.7.3 Timeliness

The timeliness of award fee evaluations is critical. Long delays will minimize any benefits accruing from periodic evaluations and reports. Unless evaluation results are transmitted to the contractor in a timely manner, and any award fee payments promptly made, these results and payments may not have the desired influence upon the contractor's performance during the follow-on evaluation period. For that reason, all final and interim award fee ratings will be provided to the contractor within 45 calendar days after the end of the period being evaluated. Any fee payments due the contractor will be paid no later than 60 calendar days after the end of the evaluation period to which they apply.

The timeliness of changes in the evaluation plan is also important. Proposed changes should be processed expeditiously and the contractor notified in advance of the evaluation period to which they apply.

3.7.4 Documentation

The reporting formats used by monitors should be structured to ensure clarity and conciseness. Where possible, several evaluation parameters may be consolidated in a single format. Consistency can be achieved by using the same general format for all closely related work at a given activity. However, caution is required here. Carefully tailored evaluation plans can be compromised by inflexible and ill-conceived rating formats. Any format adopted should provide a place for the monitors to make narrative comments. These narrative comments provide detailed, pertinent information not addressed in the completed format. For example, they cover the circumstances under which reported performance levels were achieved, especially if these circumstances were abnormal in any way. These comments also discuss the contractor's efficiency in managing assigned personnel and other resources. Enough detail should be included in reports to the PEB to ensure that their findings and recommendations are accurate and fair and can be supported to the FDO.

Appropriate documentation is vital to support the recommendations of PEB's, particularly where these recommendations differ from the conclusions reported by cognizant monitors. Minutes of meetings or other documentation should summarize the information reviewed, including any additional or explanatory information provided by the contractor and the consideration given to all such information. Since the evaluation is a judgment based upon all pertinent information, that information needs to be identified, discussed and substantiated in the documentation. The FDO will want to review the documentation to satisfy any concerns regarding contractor performance before deciding whether to accept the recommended award fee or some higher or lower amount. Examples of concerns that a FDO might have are:

- a. The facts that led to the assignment of a poor/unsatisfactory rating (55 performance points) in the subfactor entitled "Budgeting" (or any subfactor);
- b. The rationale for a poor/unsatisfactory rating of 55 points as opposed to a satisfactory rating of 61; and
- c. The circumstances under which this poor/unsatisfactory level was achieved and the relationships, if any, between it and the excellent performance levels reported for the technical subfactors of "Design" and "Quality."

Sufficient documentation should be provided to the FDO on which to base a decision and to explain that decision to the contractor. Similarly, the FDO must document the basis for the determination, especially in situations involving a contractor rebuttal of PEB findings and conclusions or an award fee determination different from that recommended by the PEB. Documentation of interim ratings should be less detailed since they will be superseded by the final rating at the end of the contract.

3.7.5 Payment

Final award fee payments and interim payments against interim evaluations shall be made within 60 days after the end of the evaluation period for which payment is being made.

When the total rating for an evaluation period is "poor/unsatisfactory" (below 61), no award fee is paid for that period. For example, a total award fee rating of 57 would yield an award fee of zero, not 57 percent. For contracts such as hardware, design or study, no award fee will be paid for a final evaluation rating of "poor/unsatisfactory." In these cases, any provisional award fee payments made as a result of "satisfactory" or better ratings (61 and above) on interim evaluations will be repaid by the contractor. The installation financial management office shall be promptly notified of any amounts due to be repaid so that a bill may be sent to the contractor.

The amount of interim award fee paid each period will not exceed the interim evaluation score (applied as a percentage) or 80 percent of the award fee allocated to the period, whichever is less. No further award fee payments will be made when the contracting officer determines that the total amount of interim payments made to date will substantially exceed the amount which would be paid based upon the anticipated final evaluation score. The PEB should be notified of such a determination. The contracting officer's determination should be based on a comparison of award fee amounts paid to actual evaluation scores to date, projected future scores based on a combination of past performance trends and any known data which might have an influence on future performance, and any other pertinent data. Stopping award fee payment serves two purposes: It ensures that contractors will not receive award fee which they have not earned and to which they will ultimately not be entitled, and it minimizes the award fee that will be owed the Government by the contractor at the end of the contract.

Provisional Payments - Circumstances such as very long evaluation periods may make it necessary to make award fee payments more frequently than at the end of each evaluation period. These provisional payments, representing a percentage of the award fee amount allocated to each evaluation period, are made at regular intervals during each period. They are superseded at the end of each period by the interim or final award fee determination amount. The percentage of allocated award fee to be paid provisionally will be stipulated in the contract and may not exceed 80 percent of available award fee in any period.

Provisional payments are discontinued during any period in which the Government determines that the total provisional payments made during that period will substantially exceed the amount which would be paid based upon the anticipated evaluation score for the period. In the event the amount of provisional payments made exceeds the amount of the award fee determination for that period, the contractor will either credit the next payment voucher for the amount of the overpayment or refund the difference.

APPENDIX A: PERFORMANCE EVALUATION PLAN - EXAMPLE

Contract No. _____ With _____

Contents

Part _____ Page _____

I. Introduction

II. Organizational Structure for Award Fee Administration

III. Evaluation Requirements

IV. Method for Determining Award Fee

V. Changes in Plan Coverage

Attachment

III-A Evaluation Periods and Maximum Available Award Fee for Each Period

III-B Performance Areas and Evaluation Criteria

III-B.1 Evaluation Criteria for Performance Area No.

III-C Grading Table

IV-A Actions and Schedules for Award Fee Determinations

IV-B General Instructions for Performance Monitors

APPROVED BY:

(Signature) (Date) (Typed Name) (Title)

APPENDIX A: PERFORMANCE EVALUATION PLAN – EXAMPLE (Continued)

I. Introduction

1. This plan covers the administration of the award fee provisions of Contract No. _____, dated _____, with _____. The contract was awarded after completion of negotiations in accordance with the provisions of RFP No. .
2. The following matters, among others, are covered in the contract: a. The contractor is required to (very brief statement identifying scope of contract) . b. The term of the contract is from _____ through _____. c. The estimated cost of performing the contract is \$ _____. d. The award fee, excluding base fee, is \$ _____. e. The base fee is \$ _____. f. This contract contains positive and negative performance incentives. The maximum positive performance incentive amount is \$ _____. The maximum negative performance incentive amount is [\$ _____ or 100% of earned fee]. g. The estimated cost and award fee, including any base fee, are subject to equitable adjustments arising from changes or other contract modifications. h. The award fee payable will be determined periodically by the Fee Determination Official in accordance with this plan. i. Award fee determinations are not subject to the Disputes clause of the contract. j. The FDO may unilaterally change the matters in this plan, as covered in Part V and not otherwise requiring mutual agreement under the contract, provided the contractor receives notice of the changes at least _____ work days PRIOR TO the beginning of the evaluation period to which the changes apply.

(Note: The statements at 2.a through 2.f. can be altered as necessary to address any option(s). Omit subparagraph 2.f and renumber subsequent subparagraphs if the contract does not include performance incentives.)

II. Organizational Structure for Award Fee Administration

The following organizational structure is established for administering the award fee provisions of the contract.

1. Fee Determination Official (FDO) a. The FDO is [insert title or management responsibility, not name]. b. Primary FDO responsibilities are: (1) Determining the award fee earned and payable for each evaluation period as addressed in Part IV. (2) Changing the matters covered in this plan as addressed in Part V as appropriate.
2. Performance Evaluation Board (PEB) a. The Chair of the PEB is [insert title]. The following are voting members: [insert titles]. b. The Chair may recommend the appointment of non-voting Members to assist the Board in performing its functions. c. Primary responsibilities of the Board are: (1) Conducting periodic evaluations of contractor performance and the submission of a Performance Evaluation Report (PEBR) to the FDO covering the Board's findings and recommendations for each evaluation period, as addressed in Part IV. (2) Considering changes in this plan and recommending those it determines appropriate for adoption by the FDO, as addressed in Part V.
3. Performance Monitors a. One or more monitors will be assigned to each performance area to be evaluated. The assignment will be made by the PEB Chair as addressed in Part IV. b. Each monitor will be responsible for complying with the General Instructions for

Performance Monitors, Attachment IV-B, and any specific instructions of the PEB Chair as addressed in Part IV. Primary monitor responsibilities are: (1) Monitoring, evaluating and assessing contractor performance in assigned areas. (2) Periodically preparing a Performance Monitor Report for the PEB, or others as appropriate. (3) Recommending appropriate changes in this plan for consideration, as addressed in Part V.

III. Evaluation Requirements

The applicable evaluation requirements are attached as indicated below.

Requirement	Attachment
Evaluation Periods and Maximum Available Award Fee for Each Period	III-A
Performance Evaluation Factors and Evaluation Criteria	III-B
Evaluation Criteria for Performance Evaluation Factor No.	III-B.1
Grading Table	III-C

The percentage weights indicated in Attachment III-B and the Attachment III-C grading table are quantifying devices. Their sole purpose is to provide guidance in arriving at a general assessment of the amount of interim or final award fee earned. In no way do they imply an arithmetical precision to any judgmental determination of the contractor's overall performance and amount of interim or final award fee earned.

IV. Method For Determining Award Fee

A determination of the award fee earned for each evaluation period will be made by the FDO within 45 days after the end of the period. The method to be followed in monitoring, evaluating and assessing contractor performance during the period, as well as for determining the award fee earned or paid, is described below. Attachment IV-A summarizes the principal activities and schedules involved.

1. The PEB Chair will ensure a monitor is assigned for each performance evaluation factor or subfactor to be evaluated under the contract. Monitors will be selected on the basis of their expertise relative to prescribed performance area emphasis. Normally, monitor duties will be in addition to, or an extension of, regular responsibilities. The PEB Chair may change monitor assignments at any time without advance notice to the contractor. The PEB Chair will notify the contractor promptly of all monitor assignments and changes.
2. The PEB Chair will ensure that each monitor receives the following:
 - a. A copy of this plan along with any changes made in accordance with Part V.
 - b. Appropriate orientation and guidance.
 - c. Specific instructions applicable to the monitors' assigned performance areas.
3. Monitors will evaluate and assess contractor performance and discuss the results with contractor personnel as appropriate, in accordance with the General Instructions for Performance Monitors, Attachment IV-B, and the specific instructions and guidance furnished by the PEB Chair.
4. Monitors will submit _____ [insert monthly, quarterly, etc.] Performance Monitor Reports and, if required, make verbal presentations to the PEB.
5. The PEB Chair will request and obtain performance information from other units or personnel normally involved in observing contractor performance, as appropriate.
6. _____ [Insert monthly, quarterly, etc.] the PEB will consider Performance Monitor Reports and other performance information it obtains and discuss the reports and information with monitors or other personnel, as appropriate.

7. The PEB will meet _____ [insert monthly, quarterly, etc.] with the contractor and discuss overall performance during the period. As requested by the PEB Chair, monitors and other personnel involved in performance evaluations will attend the meeting and participate in discussions.
8. Promptly after the end of each evaluation period, the PEB will meet to consider all the performance information it has obtained. At the meeting, the PEB will summarize its preliminary findings and recommendations for coverage in the Performance Evaluation Board Report (PEBR).
9. Then the PEB may meet with the contractor to discuss the board's preliminary findings and recommendations. As requested by the PEB Chair, monitors and other personnel involved in performance evaluation will attend the meeting and participate in discussions. At this meeting, the contractor is given an opportunity to submit information on its behalf, including an assessment of its performance during the evaluation period. After meeting with the contractor, the PEB will consider matters presented by the contractor and finalize its findings and recommendations for the PEBR.
10. The PEB Chair will prepare the PEBR for the period and submit it to the FDO for use in determining the award fee earned. The report will include an adjectival rating and a recommended performance score with supporting documentation. The contractor may be notified of the PEB evaluation and recommended rating and score. The contractor may provide additional information for consideration by the FDO. When submitting the report, the Chair will inform the FDO whether the contractor desires to present any matters to the FDO before the award fee determination is made.
11. The FDO will consider the PEBR and discuss it with the PEB Chair and other personnel, as appropriate.
12. The FDO will consider the recommendations of the PEB, information provided by the contractor, if any, and any other pertinent information in determining the amount of award fee [insert "earned", or "to be paid" if interim evaluations apply] for the period. The FDO's determination of the amount of award fee [insert "earned" or "to be paid"] and the basis for this determination will be stated in the Award Fee Determination Report (AFDR).
13. The contractor will be notified by the contracting officer of the FDO's determination. The contractor will be provided with a debriefing by the FDO and PEB.
14. Performance Incentives. After delivery of the hardware unit(s), hardware performance will be measured and its success, or failure, determined by the contracting officer based on the units of measurement and associated dollar amounts which appear in contract clause H- . Either positive or negative performance incentives will apply depending on whether the hardware unit's performance exceeds or falls short of the standard performance level.

V. Changes in Plan Coverage

1. Right to Make Unilateral Changes

Any matters covered in this plan not otherwise requiring mutual agreement under the contract, may be changed unilaterally by the FDO prior to the beginning of an evaluation period by timely notice to the contractor in writing. The changes will be made without formal modification of the contract if the plan is not incorporated into the contract.

2. Steps to Change Plan Coverage

The following is a summary of the principal actions involved in changing plan coverage [actions may be modified to reflect different approval/notification levels].

Action:

- PEB drafts proposed changes
- PEB submits recommended changes to FDO for approval ___days prior to end of each period.
- Through CO, FDO notifies contractor as to whether or not there are changes ___days before start each applicable period. rt of the applicable period.

The PEB will establish lists of subsidiary actions and schedules as necessary to meet the above schedules.

3. Method for Changing Plan Coverage

The method to be followed for changing the plan coverage is described below: a. Personnel involved in the administration of the award fee provisions of the contract are encouraged to recommend plan changes with a view toward changing management emphasis, motivating higher performance levels or improving the award fee determination process. Recommended changes should be sent to the PEB for consideration and drafting

b. Prior to the end of each evaluation period, the PEB will submit its recommended changes, if any, applicable to the next evaluation period for approval by the FDO with appropriate comments and justification.

c. _____ work days before the beginning of each evaluation period, the contracting officer will notify the contractor in writing of any changes to be applied during the next period. If the contractor is not provided with this notification, or if the notification is not provided within the agreed-to number of work days before the beginning of the next period, then the existing plan will continue in effect for the next evaluation period.

APPENDIX A: PERFORMANCE EVALUATION PLAN – EXAMPLE (Continued)

ATTACHMENT III-A TO PEP FOR

Contract No. _____ With _____

EVALUATION PERIODS AND MAXIMUM AVAILABLE AWARD FEE FOR EACH PERIOD

Period Number	Start Date	End Date	Max. Avail. Award Fee
-----	-----	-----	-----

APPENDIX A: PERFORMANCE EVALUATION PLAN – EXAMPLE (Continued)

ATTACHMENT III-B TO PEP FOR

Contract No. _____ With _____

PERFORMANCE EVALUATION FACTORS AND EVALUATION CRITERIA

The performance factors to be evaluated are identified below. The evaluation criteria for each factor are attached, as indicated.

Area

No.	Brief Factor Identification	Factor Weight	See Attachment
1	I		II-B.1*
2			
3			

* A separate attachment must be prepared for each factor.

APPENDIX A: PERFORMANCE EVALUATION PLAN – EXAMPLE (Continued)

ATTACHMENT III-B.1 TO PEP FOR

Contract No. _____ With _____

EVALUATION CRITERIA FOR PERFORMANCE EVALUATION FACTOR NO. 1

[Factor Identification Per Attachment III-B]

Factor Weight _____

Description of Factor:

Subfactors to Consider:

Evaluation Criteria: Criteria Weights:

Basis or Standard for Measuring Performance:

APPENDIX A: PERFORMANCE EVALUATION PLAN – EXAMPLE (Continued)

ATTACHMENT III-C TO PEP FOR

Contract No. _____ With _____

GRADING TABLE

Adjectival Rating	Range of Perf. Points	Description
Excellent	(100-91)	Of exceptional merit; exemplary performance in a timely, efficient and economical manner; very minor (if any) deficiencies with no adverse effect on overall performance.
Very Good	(90-81)	Very effective performance, fully responsive to contract requirements; contract requirements accomplished in a timely, efficient and economical manner for the most part; only minor deficiencies.
Good	(80-71)	Effective performance; fully responsive to contract requirements; reportable deficiencies, but with little identifiable effect on overall performance.
Satisfactory	(70-61)	Meets or slightly exceeds minimum acceptable standards; adequate results; reportable deficiencies with identifiable, but not substantial, effects on overall performance.
Poor/ Unsatisfactory	(less than 61)	Does not meet minimum acceptable standards in one or more areas; remedial action required in one or more areas; deficiencies in one or more areas which adversely affect overall performance.

Any factor receiving a grade of “poor/unsatisfactory” (less than 61) will be assigned zero performance points for purposes of calculating the award fee amount. The contractor will not be paid any award fee when the total award fee score is "Poor/Unsatisfactory" (less than 61).

APPENDIX A: PERFORMANCE EVALUATION PLAN – EXAMPLE (Continued)

ATTACHMENT IV-A TO PEP FOR
Contract No. _____ With _____

ACTIONS AND SCHEDULES FOR AWARD FEE DETERMINATIONS

The following is a summary of the principal actions involved in determining the award fee for the evaluation periods.

Action	(Workdays)
1. PEB Chair and members appointed.	_____ days prior to first period
2. PEB Chair appoints performance monitors and informs contractor.	_____ days prior to first period
3. Monitors receive orientation and guidance.	_____ days prior to first period
4. Monitors assess performance and discuss results with contractor.	Ongoing after start of period
5. Monitors submit Performance Monitor Reports to PEB.	Last day of each _____ [insert month, quarter, etc.]
6. PEB considers Performance Monitor Reports and other requested performance information.	Ongoing
7. PEB discusses overall performance with contractor during period.	_____ days after end of period of each _____ [insert month, quarter, etc.]
8. PEB meets and summarizes preliminary findings and position of PEBR.	_____ days after end of period
9. PEB may meet with contractor to discuss preliminary findings and position.	_____ days after end of period
10. PEB establishes findings and recommendations for PEBR.	_____ days after end of period
11. PEB Chair submits PEBR to FDO.	_____ days after end of period
12. FDO considers PEBR and discusses with PEB, as appropriate.	_____ days after end of period
13. FDO sends PEBR to contractor.	NLT 45 days after end of period
14. Payment made to contractor based on contract modification.	NLT 60 days after end of period

The PEB will establish lists of subsidiary actions and schedules as necessary to meet the above schedules.

APPENDIX A: PERFORMANCE EVALUATION PLAN – EXAMPLE (Continued)

ATTACHMENT IV-B TO PEP FOR

Contract No. _____ With _____

GENERAL INSTRUCTIONS FOR PERFORMANCE MONITORS

1. Monitoring and Assessing Performance

- a. Monitors will prepare outlines of their assessment plans, discuss them with appropriate contractor personnel to assure complete understanding of the evaluation and assessment process.
- b. Monitors will plan and carry out on-site assessment visits, as necessary.
- c. Monitors will conduct all assessments in an open, objective and cooperative spirit so that a fair and accurate evaluation is obtained. This will ensure that the contractor receives accurate and complete information from which to plan improvements in performance. Positive performance accomplishments should be emphasized just as readily as negative ones.
- d. The monitor will discuss the assessment with contractor personnel as appropriate, noting any observed accomplishments and/or deficiencies. This affords the contractor an opportunity to clarify possible misunderstandings regarding areas of poor performance and to correct or resolve deficiencies.
- e. Monitors must remember that contacts and visits with contractor personnel are to be accomplished within the context of official contractual relationships. Monitors will avoid any activity or association which might cause, or give the appearance of, a conflict of interest.
- f. Monitor discussions with contractor personnel are not to be used as an attempt to instruct, to direct, to supervise or to control these personnel in the performance of the contract. The role of the monitor is to monitor, assess and evaluate not to manage the contractor's effort.

2. Documenting Evaluation/Assessment

Evaluations and assessments conducted and discussions with contractor personnel will be documented as follows:

3. Evaluation/Assessment Reports

Monitors will prepare a formal Performance Monitor Report in accordance with the following instructions and submit it to the PEB. (Specify format, frequency of submission and minimum information requirements)

4. Verbal Reports: Monitors will be prepared to make verbal reports of their evaluations and assessments as required by the PEB Chair.

APPENDIX B: AWARD-FEE PLAN TEMPLATE

(Fill-in information is shown in bold Italics.)
(Text shown in Italics provides additional guidance/information)
Award-Fee Plan

For

(Title Of Program)

(Date Of Approval)

(Contractor's Name)

(Remember, this plan should be tailored to your particular acquisition.
This template only provides an outline of what should be contained
in an award-fee plan.)

Approved:

Fee Determining Official
(Title)

Table of Contents

<u>Section</u>	<u>Title</u>	<u>Page</u>
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2.0	Organization	XX
3.0	Responsibilities	XX
4.0	Award-Fee Processes	XX
5.0	Award-Fee Plan Change Procedure	XX
6.0	Contract Termination	XX

Annexes

<u>Annex</u>	<u>Title</u>	<u>Page</u>
1	Award-fee Organization	XX
2	Award-Fee Allocation by Evaluation Periods	XX
3	Evaluation Criteria	XX

Award-Fee Plan

1.0 -- Introduction

This award-fee plan is the basis for the (title of the program) 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 award fee earned. Actual award-fee determinations and the methodology for determining award fee are unilateral decisions made solely at the discretion of the Government, although the determination is subject to the Disputes clause.

The award fee will be provided to the contractor through contract modifications and is in addition to the (type contract) provisions of the contract. The award 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); an Award Fee Review Board (AFRB) which consists of a chairperson, the contracting officer, a recorder, other functional area participants, and advisor members; and the Performance Monitors. (Remember, performance monitors are prohibited from being AFRB members.) The FDO, AFRB members, and performance monitors are listed in Annex 1. (If you prefer, you can insert the lists here rather than using an annex).

3.0 -- Responsibilities

- a. Fee Determining Official. The FDO approves the award-fee plan and any significant changes. The FDO reviews the recommendation(s) of the AFRB, considers all pertinent data, and determines the earned award-fee amount for each evaluation period.
- b. Award Fee Review Board. AFRB members review Performance Monitors' evaluation of the contractor's performance, consider all information from pertinent sources, prepare interim performance reports, and arrive at an earned award-fee recommendation to be presented to the FDO. The AFRB may also recommend changes to this plan.
- c. Chairman Award Fee Review Board. Chairman AFRB is responsible for the overall functioning of the AFRB in the performance of its members.
 - (1) schedule all meetings of the AFRB and notifying its members of the meetings;
 - (2) conducting the briefing of the FDO with regard to the recommendations of the AFRB.
- d. AFRB Recorder. The AFRB recorder is responsible for coordinating the administrative actions required by the Performance Monitors, the AFRB and the FDO, including:
 - (1) maintaining records of all meetings in developing the award fee plan including documenting all meetings and reasoning for developing the plan as established (a copy of which will be provided to the CO for retention in the contract file);
 - (2) receipt, processing and distribution of evaluation reports from all required sources;
 - (3) scheduling and assisting with internal evaluation milestones, such as briefings; and

(4) accomplishing other actions required to ensure the smooth operation of the award fee.

e. Contracting Officer (CO). The CO is the liaison between contractor and Government personnel on all issues, forwarding FDO decision with regard to the Award Fee Determination and maintaining the contract file.

f. Performance Monitors. Performance Monitors 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 AFRB.

4.0 -- Award-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.)

a. Available. Award-Fee Amount. The available award fee for each evaluation period is shown in Annex 2. The award fee earned will be paid based on the contractor's performance during each evaluation period. (If you don't want to use an annex, insert table/graph/etc. for guidance in determining the relationship between evaluation points and various grades here.)

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 AFRB Recorder notifies each AFRB member and Performance Monitor (insert number of days) calendar days before the midpoint of the evaluation period. Performance Monitors submit their evaluation reports to the AFRB (insert number of days) calendar days after this notification. The AFRB 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 AFRB Recorder notifies each AFRB member and performance monitor (insert number of days) calendar days before the end of the evaluation period. Performance monitors submit their evaluation reports to the AFRB (insert number of days) calendar days after the end of the evaluation period. The AFRB prepares its evaluation report and recommendation of earned award fee. The AFRB briefs the evaluation report and recommendation to the FDO. At this time, the AFRB may also recommend any significant changes to the award-fee plan for FDO approval. The FDO determines the overall grade and earned award-fee amount for the evaluation period within (insert number of days, but no more than 45) calendar days after each evaluation period. The FDO letter informs the contractor of the earned award-fee amount, which will be forwarded to the contractor under a CO cover letter. The CO issues a contract modification within (insert number of days, but no more than 15) 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 of the closure of the evaluation period. 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 AFRB in evaluating the contractor's performance. The contractor's self-assessment may not exceed (insert number of pages, make sure it matches the number in the contract clause) pages.

5.0 -- Award-Fee Plan Change Procedure

All significant changes are approved by the FDO; the AFRB 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 award-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 award-fee plan if the contractor is provided written notification by the contracting officer (insert number of days) 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 an award-fee evaluation period, the award fee deemed earned for that period shall be determined by the FDO using the normal award-fee evaluation process. After termination for convenience, the remaining award-fee amounts allocated to all subsequent award-fee evaluation periods cannot be earned by the contractor and, therefore, shall not be paid.

3 Annexes

1. Award-fee Organization by position
2. Award-Fee Allocation by Evaluation Periods
3. Evaluation Criteria

Annex 1
Award-Fee Organization

Members

Fee Determining Official: *(Position Title)* *(Office Code)*
Award Fee Review Board Chairperson: *(Position Title)* *(Office Code)*
Award Fee Review Board Members:
 Deputy Program Director *(Office Code)*
 Program Manager *(Office Code)*
 Contracting Officer* *(Office Code)*
 Recorder* *(Office Code)*

(Following are other possible members:)

 Contracting Staff Member *(Office Code)*
 Judge Advocate Staff Member *(Office Code)*
 Financial Management Staff Member *(Office Code)*
 Plans Staff Member *(Office Code)*
Representative for Logistics *(Office Code)*
Representative for Engineering *(Office Code)*
Senior Contracting Official *(Office Code)*
Representative for Configuration and Data *(Office Code)*
Representative for Program Control or Oversight *(Office Code)*
 DCMA or Administration representative *(Office Code)*

* These are mandatory members.

Performance Monitors

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

<u>Area of Evaluation</u>	<u>Performance Monitor(s)</u>
Program Management	<i>(Office Code)</i>
Subcontract Management	<i>(Office Code)</i>
Manufacturing Management	<i>(Office Code)</i>
Quality Assurance	<i>(Office Code)</i>
Configuration Management	<i>(Office Code)</i>
Engineering and Test Management	<i>(Office Code)</i>
Cost and Schedule Management	<i>(Office Code)</i>
Logistics	<i>(Office Code)</i>
Technical Orders	<i>(Office Code)</i>

Annex 2

Award-Fee Allocation by Evaluation Periods

The award 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-award-fee amount that can be earned during that particular period. (Fill in table specific to your acquisition).

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

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

Evaluation Period *	Milestone	Expected Completion Date	Available Award Fee **
First			
through			
Last period			
			100%

* The Government may unilaterally revise the distribution of the remaining award-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 award-fee plan will be modified accordingly. Subsequent to the commencement of a period, changes to that period 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.

Annex 3

Evaluation Criteria

(List the evaluation criteria for each category of performance by grade. In other words, tell what constitutes Excellent versus Satisfactory versus Unsatisfactory performance for Program Management, Cost Control, etc.)

Cost Management

Unsatisfactory -- Contractor fails to meet criteria for Satisfactory performance.			
Satisfactory	Good	Very Good	Excellent
<p>Cost Control -- Provides measures for controlling costs. Controls subcontractor cost performance to meet program objectives. Funds and resources are sometimes used inefficiently in pursuing program goals. Occasional minor resource management problems.</p>	<p>Cost Control – Provides a measure for controlling all costs at or slightly below contract-estimated costs. Provides good cost control of all costs during contract performance. Funds and resources are generally used in a cost-effective manner. No major resource management problems apparent.</p>	<p>Cost Control -- Provides measures for controlling all costs below contract-estimated costs. Considers logistic and long-term costs in recommendations to the Program Office. Funds and resources are always used in a cost-effective manner. No resource management problems.</p>	<p>Cost Control -- Reductions in direct costs to the Government below contract estimated costs are noteworthy. Provides detailed cost analysis in recommendations to Program Office for resolution to problems identified. Funds and resources are optimally used to provide the maximum benefit for the funds and resources available. Documented savings are apparent.</p>
<p>Responsiveness -- Financial reporting is accurate. Provides adequate visibility into cost performance to Program Office. Problems and/or trends are usually addressed. When provided, analyses of problems and trends are adequate.</p>	<p>Responsiveness – Financial reporting is clear and adequate. Takes the initiative to reduce costs, where feasible. Provides adequate visibility into cost performance to Program Office. Problems and/or trends are always addressed and analyses are also submitted. The analyses provide good insight to the Government.</p>	<p>Responsiveness -- Financial reporting is clear and adequate. Provides very good day-to-day visibility into cost performance to Program Office. Problems and/or trends are addressed thoroughly and analyses provide recommendations for solutions and/or corrective action plans.</p>	<p>Responsiveness -- Financial reporting is clear, accurate, and proactive. Responsive to cost-control measures implemented by the Program Office. Problems and/or trends are not only addressed thoroughly, but the contractor's recommendations and/or corrective action plans are implemented and are effective.</p>

APPENDIX C: SAMPLE GRADE DEFINITIONS

Note: Grades need to be identified in the Award-Fee Plan. These definitions are provided to assist you in establishing evaluation criteria. The description of what constitutes each level of performance within each performance category must be included in an annex.

For Five Grades

Unsatisfactory Performance: Contractor's performance of most contract tasks is inadequate and inconsistent. Quality, responsiveness, and timeliness in many areas require attention and action. Corrective actions have not been taken or are ineffective. ***Overall unsatisfactory performance shall not earn an award fee.***

Satisfactory Performance: Contractor's performance of most contract tasks is adequate with few tangible benefits to the Government due to contractor's effort or initiative. Although there are areas of good or better performance, these are more or less offset by lower-rated performance in other areas.

Good Performance: Contractor's performance of most contract tasks is better than adequate and provides some tangible benefits to the Government in several significant areas. While the remainder of the contractor's effort generally meets the contract requirements, areas requiring improvement are more than offset by better performance in other areas.

Very Good Performance: Contractor's performance of most contract tasks is consistently above standard and provides numerous significant tangible and intangible benefits to the Government (e.g., improved quality, responsiveness, increased timeliness, or generally enhanced effectiveness of operations). Although some areas may require improvement; these areas are minor and are more than offset by better performance in other areas. Few, if any, recurring problems have been noted, and contractor takes satisfactory corrective action.

Excellent Performance: Contractor's performance of virtually all contract tasks is consistently noteworthy and provides numerous significant, tangible or intangible, benefits to the Government. The few areas for improvement are all minor. There are no recurring problems. Contractor's management initiates effective corrective action whenever needed.

For Four Grades

Unsatisfactory Performance: Contractor's performance of most contract tasks is inadequate and inconsistent. Quality, responsiveness, and timeliness in many areas require attention and action. Corrective actions have not been taken or are ineffective. ***Overall unsatisfactory performance shall not earn an award fee.***

Satisfactory Performance: Contractor's performance of most contract tasks is adequate with some tangible benefits to the Government due to contractor's effort or initiative. Although there are areas of good or better performance, these are more or less offset by lower-rated performance in other areas.

Very Good Performance: Contractor's performance of most contract tasks is consistently above standard and provides significant tangible and intangible benefits to the Government (e.g., improved quality, responsiveness, increased timeliness, or generally enhanced effectiveness of operations). Although some areas may require improvement; these areas are minor and are more than offset by better performance in other areas. Few, if any, recurring problems have been noted, and contractor takes satisfactory corrective action.

Excellent Performance: Contractor's performance of virtually all contract tasks is consistently noteworthy and provides numerous significant, tangible or intangible, benefits to the Government. The few areas for improvement are all minor. There are no recurring problems. Contractor's management initiates effective corrective action whenever needed.

For Three Grades

Unsatisfactory Performance: Contractor's performance of most contract tasks is inadequate and inconsistent. Quality, responsiveness, and timeliness in many areas require attention and action. Corrective actions have not been taken or are ineffective. ***Overall unsatisfactory performance shall not earn an award fee.***

Satisfactory Performance: Contractor's performance of most contract tasks is adequate with some tangible and intangible benefits to the Government due to contractor's effort or initiative. Although there are areas of better performance, these are more or less offset by lower-rated performance in other areas.

Excellent Performance: Contractor's performance of virtually all contract tasks is consistently noteworthy and provides numerous significant, tangible or intangible, benefits to the Government (e.g., improved quality, responsiveness, increased timeliness, or generally enhanced effectiveness of operations). The few areas for improvement are all minor. There are no recurring problems. Contractor's management initiates effective corrective action whenever needed.

APPENDIX D: SAMPLE EVALUATION CRITERIA

This appendix contains 12 samples of evaluation criteria for various categories of performance. There are four samples for the basic performance category of cost to show the variety of criteria that can be used. Tailor the criteria for each performance category based on your acquisition. The 12 performance categories, with number of grades in parentheses, are listed below.

<u>Performance Category</u>	<u>Grades</u>	<u>On Page</u>
COST AND SCHEDULE MANAGEMENT	5	XX
COST CONTROL	5	XX
COST CONTROL/REPORTING (In table format)	3	XX
COST PERFORMANCE (In table format)	4	XX
ORGANIZATION AND MANAGEMENT (In table format)	3	XX
PROGRAM MANAGEMENT	5	XX
QUALITY ASSURANCE	5	XX
QUALITY OF WORK	5	XX
PRODUCT QUALITY	3	XX
TECHNICAL PERFORMANCE	3	XX
TIME OF DELIVERY	5	XX
SCHEDULE	3	XX
PERFORMANCE ASSESSMENT MATRIX TEMPLATE	5	XX

Cost and Schedule Management

Unsatisfactory

1. Cost and schedule reports are unclear and not easily reconcilable to a common database.
2. Funds requirements data are not received timely.
3. Cost and schedule variances (including subcontractor) are not identified early.
4. Contractor does not ensure all proposal data, including subcontractor data, is adequate for technical review and cost analysis.
5. Contractor does not meet schedule identified in the contract.

Satisfactory

1. All cost and schedule reports are clear and reconcile to a common database.
2. Funds requirements data are projected accurately and clearly and are received timely.
3. Cost and schedule variances (including subcontractor) are identified early and plans for recovery revised, reported, and implemented.
4. Contractor ensures all proposal data, including subcontractor data, is adequate for technical review and cost analysis.
5. Changes are suggested timely to achieve maximum cost savings when implemented.
6. Schedule milestone tracking and projections are accurate with only minor impacts occurring.
7. Contractor meets schedule identified in the contract.

Good

1. Cost reports are submitted with full traceability within and between reports. Adjustments are fully and clearly explained.
2. All requirements for additional funding are thoroughly documented and justified.
3. Contractor takes measures to avoid cost growth. Corrective actions are briefed to the Government and are generally accepted without changes.
4. Cost data is consistent and logical and based on program requirements. Contractor recognizes where cost growth may be occurring and provides timely and well-documented justification of actual problems that would require application of additional resources.
5. Cost proposals are well organized and provide visibility to the Government.
6. Risk analyses of all proposed or required schedule changes, including the impact on all levels of the program, performed accurately and timely. Contractor employs early corrective action and planning to preclude potential delays in the schedule. Contractor communicates schedule risk areas and proposed action to the Government well in advance of required action.
7. Contractor plans, develops and executes procedures that meet the existing timetable.

Very Good

1. Funds requirements reflect constant scrutiny to ensure accuracy.
2. Cost savings are considered and reported in change proposals.
3. Contractor prepares and develops graphic program cost and schedule data that provides clear Government visibility into current and forecast program costs and schedules. Variances recovered without serious impact to technical or schedule goals when recovery plans are implemented. Schedule variances are well explained and recovered with minor impact to overall program goals.
4. Contractor performs necessary contingency planning and keeps close and timely communication with the Government on cost and schedule issues.
5. Baseline integrity is consistently maintained, and all changes are fully documented. Narratives explaining data variances (cost/schedule at completion) are current, explicit, and relevant to the variances observed. They are fully accurate and a consistent indication of the program development. Narratives address anticipated future program impacts and fully describe both current and future programmatic and cost impacts of the current cost/schedule performance.
6. Schedule milestone tracking and projections are very accurate and reflect true program status.
7. Plans, develops and executes viable procedures that incorporate the flexibility necessary to be responsive to changing priorities and schedules without adversely effecting overall system cost and completion schedule. Contractor executes innovative resource management and planning to minimize the adverse impact on the program of any scheduled slip.
8. Contractor is ahead of schedule with no adverse effect on cost or performance.

Excellent

1. Contractor consistently submits high quality cost and schedule forecasts. Contractor prepares and develops comprehensive, clear schedule data that provides excellent correlation with cost performance reports and permits early identification of problem areas.
2. Funds requirements data and projections reported are extremely accurate and received ahead of schedule.
3. Change proposals stand-alone and require no iteration for Government understanding.
4. Cost variances are fully explained and recovered without impact to overall program goals.
5. Contractor consistently anticipates possible sources of cost growth and seeks ways to avoid potential cost problems. Contractor proposes innovative and thoroughly cost-effective approaches to problems with which the Government agrees.
6. Cost management system automatically identifies problem areas and implements solutions to maintain cost and staff growth levels below the negotiated levels. No support or redirection required by the Government to control cost growth.
7. Contractor plans, develops and executes procedures that allow completion of major milestones ahead of schedule with no adverse impact on coordination, performance or cost and which cause the accrual of benefits to the program.
8. Schedule milestone tracking and projections are extremely accurate and prevent program impact.

Cost Control

Unsatisfactory

1. Contractor's planning for staff utilization goals left up to designers on drafting board.
2. Contractor does not control expenditures for direct charges (i.e., services).
3. Contractor does not meet cost estimate for original work or changes 30% of the time.

Satisfactory

1. Contractor's management sets and reviews staff utilization goals.
2. Contractor's management occasionally reviews expenditures for control direct charges (i.e., services).
3. Contractor does not meet cost estimate for original work or changes 20% of the time.

Good

1. Contractor's management sets staff utilization goals by system planning that are reviewed by engineering.
2. Contractor sets direct charges (i.e., services) and accounts for them on each work package.
3. Contractor exceeds original estimate on change orders 10% of the time and meets original design costs.

Very Good

1. Contractor's system engineers establish design parameters that are held in design plans.
2. Contractor provides services as part of normal design function without extra charges.
3. Contractor exceeds original estimate on change orders 5% of the time and meets original design costs.

Excellent

1. Contractor limits modifications to the design plan to less than 5% that result from lack of engineering system correlation.
2. No cost overruns on original estimates.
3. Contractor never exceeds original estimate on original design package or change orders.

Cost Control and Reporting

Unsatisfactory	Satisfactory	Excellent
<p>The contractor does not have an adequate cost control program in place and is unable to reduce cost impact resulting from schedule delays. Additionally, the contractor fails to identify problem areas.</p>	<p>A cost control program is in place that provides a mechanism to reduce the overall cost of the program.</p>	<p>The contractor has clear understanding of the need to maintain cost control and actively pursues cost containment and reduction through innovative approaches and superior management of resources.</p>
<p>When problems are discovered, the contractor often fails to take actions to minimize cost/schedule impacts or to notify the Government of the situations. As a result of the contractor's inaction, the program experiences cost/schedule impacts.</p>	<p>The contractor recognizes and timely advises of problem areas and assists in implementing corrective action to reduce cost. Resources are utilized to ensure that contract performance results in completion with minimal schedule disruption and impact to overall program cost.</p>	<p>The contractor is proactive in assisting with problem identification. Potential problems are identified, and corrective action is implemented to minimize cost/schedule impacts. The Government is notified immediately of significant problems and the contractor interacts with the Government to develop viable resolutions and overcome delays without additional cost.</p>
<p>Cost proposals are not traceable, and the proposals typically do not contain sufficient detail to support a thorough cost analysis. Basis of estimates for cost elements and detailed analyses for subcontractor costs are sometimes missing. The contractor is uncooperative regarding Government requests for missing information.</p>	<p>Cost proposals are traceable and the proposals customarily contain sufficient detail to support a thorough cost analysis. Bases of estimates are provided for cost elements and detailed analyses are regularly provided for subcontractor costs. When insufficient detail exists, the contractor readily provides it to the Government upon request.</p>	<p>Cost proposals are timely, well constructed, and contain sufficient detail to support an in-depth cost analysis. The bases of estimates are provided for all cost elements and detailed analyses are provided for subcontractor costs.</p>
<p>Cost data reports are continually late, frequently incomplete, or incorrect and do not provide an accurate overview of overall contract cost. Contract administration and oversight reflect significant deficiencies and noncompliance with FAR. Lack of corrective actions to resolve outstanding noncompliance issues causes additional cost to the Government.</p>	<p>Cost data reports are accurate, complete, and current, and timely submitted. The data submitted provides information relative to overall contract cost. The contractor demonstrates sensitivity to compliance with FAR by timely responding to contract administration and audit inquiries and provides resources to resolve issues raised by Government personnel.</p>	<p>Cost data reports are always complete, accurate, and understandable. The reports are consistently submitted on or ahead of scheduled due dates and provide reliable detail as to specific elements of program costs. The contractor takes initiative to provide all useful and necessary data to the Government in a comprehensive manner. Contract administration, estimating system surveillance, and oversight monitoring result in no deficiencies or audit problems in maintaining compliance with FAR.</p>

Cost Performance

Unsatisfactory	Satisfactory	Very Good	Excellent
<p>Contractor provides some measures for controlling staff costs and controls some subcontracting cost performance to meet program objectives.</p>	<p>Contractor provides measures for controlling all costs at estimated costs. Provide cost control of all travel, material and staff costs during the performance of the contract. Funds and resources are generally used in a cost-effective manner. No major resource management problems are apparent.</p>	<p>Contractor provides measures for controlling all costs below estimated costs. Contractor considers logistic and long-term costs in recommendations provided to the Government. Funds and resources are used in a cost-effective manner. There are no resource management problems.</p>	<p>Reductions in direct costs to the Government below contract estimated costs are noteworthy. Contractor provides detailed cost analysis in recommendations to Government for resolution to problems identified. Funds and resources are optimally used to provide the maximum benefit for the funds and resources available. Documented savings are apparent.</p>
<p>Funds and resources are used inefficiently in pursuing program goals and result in resource management problems. Problems and/or trends may be addressed. When provided, analyses of problems or trends are usually accurate.</p>	<p>Contractor takes the initiative to reduce costs, including travel, where feasible. Financial reporting is clear and accurate. Problems and/or trends are addressed, and an analysis is also submitted.</p>	<p>Contractor provides day-to-day visibility into cost performance. Financial reporting is clear and accurate. Problems and/or trends are addressed thoroughly, and the analyses include recommendations for solutions and/or corrective plans.</p>	<p>Contractor is responsive to cost control measures implemented by the Government. Financial reporting is clear, accurate, and pro-active. Problems and/or trends are addressed thoroughly, and the contractor's recommendations and/or corrective plans are implemented and effective.</p>

Organization and Management

Unsatisfactory	Satisfactory	Excellent
<p>Contractor fails to identify problems timely. Solutions, when and if implemented, have a negative impact on cost and schedule.</p>	<p>Problems are identified by the contractor timely. Contractor provides sufficient information on alternate solutions. Solutions are implemented with limited adverse impact to estimated cost and schedule.</p>	<p>Contractor practices proactive management to identify and anticipate problems prior to adverse impact. Contractor provides organized and detailed alternatives including risk assessments, trade off analysis between cost, schedule and performance, plan of action and implementation schedule. Solutions are implemented with no impact to estimated cost and schedule.</p>
<p>Organizational structure fails to assign qualified personnel with duties, responsibilities and authority necessary to achieve project goals. Lines of communication fail to facilitate timely exchange of information, both technical and contractual in order to meet project goals.</p>	<p>Organizational structure provides for qualified personnel assigned with duties, responsibilities, and authority necessary to achieve project goals. Lines of communication facilitate timely exchange of information, both technical and contractual in order to meet project goals.</p>	<p>Organizational structure provides for highly qualified personnel assigned with duties, responsibilities, and authority necessary to achieve project goals ahead of schedule and within estimated cost. Lines of communication are well defined, clearly understood, and always facilitate rapid exchanges of information, both technical and contractual, in order to meet project goals.</p>
<p>The contractor fails to meet percentage of total actual subcontracting dollars established herein at 20% for small business and, at 5% for small disadvantaged business.</p>	<p>The contractor meets the percentage of total actual subcontracting dollars established herein at or above 20% for small business and, at or above 5% for small disadvantaged business.</p>	<p>The contractor exceeds the percentage of total actual subcontracting dollars established herein at 40% for small business and at 15% for small disadvantaged business.</p>

Program Management

Unsatisfactory

1. Program planning does not contain a logical flow of activities. No program status and visibility into near term actions provided.
2. No clear lines of authority or effective communication with Government, other agencies, and associate contractors.
3. Contractor defines problems without factual supporting information and rationale.

Satisfactory

1. Program planning is comprehensive and contains a logical flow of activities. Program status and visibility into near term actions are provided through schedules and status of contract tasks.
2. Contractor establishes clear lines of authority and provides effective communication with Government, other agencies, and associate contractors. Minimal programmatic or technical impacts experienced because of communication problems.
3. Contractor implements management control systems that provide for identification of problems to the appropriate management level. Contractor clearly defines problems with factual supporting information and rationale.
4. Responsive to Government in supporting programmatic and technical issues. Contractor responds to Government direction in compliance with industry standards and modes of operation. Contractor provides timely, logical response to Government concerns.

Good

1. Contractor plays a key role in identifying issues and recommendations for program improvements.
2. Contractor makes decisions and recommendations that demonstrate sensitivity to the cost-effectiveness and efficiency of the program.
3. Contractor anticipates, assesses, and makes only necessary changes to program milestones.
4. Contractor provides pertinent planning data to Government management.
5. Contractor provides efficient management and control over program resources.
6. Management initiates and promotes strong two-way communication with Government counterparts and associate contractors. Contractor seeks continual interaction with Government representatives on contract status, goals, and objectives. Contractor coordinates with the Government to ensure contractor interpretation of contract tasking is correct. Takes the initiative to see that all relevant personnel are kept informed.
7. Management identifies problems, causes and solutions that have a potential for impact on program cost, schedule or performance. Solutions minimize impacts and life cycle costs. Contractor implements an effective program to identify and resolve internal problems that adversely affects contractor's performance in meeting Government needs. Contractor takes corrective action to minimize impacts.

8. Contractor provides adequate staffing levels and selection of personnel for program to proceed smoothly. Contractor re-evaluates staffing and resources to re-forecast requirements to meet long range contract re-planning with minimum inefficiency due to reallocated resources. Contractor constantly evaluates staff needs to support meetings and takes action to ensure appropriate attendance.
9. Responsive to Government technical and business management requests, such as Requests for Proposals, cost/schedule reporting, and forecast information. Contractor responds effectively to directed program changes accomplishing procurement actions on a timely basis within the constraints of the contractor's system and in a cost effective manner. Responses to special studies authorizations are submitted timely, within budget, fulfilling the specific requirements of the special study task. Contractor makes maximum use of informal reporting to provide timely data.
10. Contractor identifies open items and risk resolution alternatives and defines preferred solutions. Contractor provides comprehensive status of open items and risk items at management level and provides results to the Government. Takes the initiative in coordinating scheduled meetings and reviews and responds quickly to action items and questions.

Very Good

1. Contractor plays a key role in identifying issues and recommendations for program improvements. Contractor anticipates new requirements and incorporates them well before critical need dates, thereby avoiding unnecessary work. Contractor accommodates changing schedules, program activities, and associate contractors with minimal impact to the overall program. Contractor makes decisions and recommendations that demonstrate a high level of sensitivity to identifying cost-avoidance opportunities that could reduce overall program costs. Contractor demonstrates positive management control over program resources; minimizes conflicts with allocation of corporate resources to other programs. Design, development, and production activities provide for increased performance, reliability, maintainability, and supportability without additional cost or risk.
2. Contractor demonstrates strong leadership through effective internal communications. Inter-organization coordination and planning are exploited to the maximum. Contractor ensures the Government is informed of all upcoming decisions that will potentially impact schedule, technical performance, and/or cost. Early coordination with Government management to keep the Government informed of problem developments, schedule changes, and required decision points.
3. Contractor demonstrates initiative and foresight in planning for potential problems, analyzing program impact, resolving program problems and instituting prompt corrective actions. Contractor's positive management control over problem areas results in early problem resolution and minimal program impacts. Proposed solutions require little revision or Government intervention and consider life cycle costs. Contractor anticipates most associate contractor's potential problem areas and provides alternative resolutions that clearly consider and identify impact to schedule and cost to all parties.
4. Contractor continuously reviews labor resource allocations in order to minimize labor usage, while maintaining adequate staffing levels to maintain schedule, an acceptable quality of work, and maximum productivity. Contractor provides visibility to Government of resource concerns and solutions.

5. Contractor maintains a complete and comprehensive discrepancy tracking system and provides easy access to the Government. Contractor maintains vigorous, formal control over tests, discrepancies, reporting, technical evaluation, and closure disposition.

Excellent

1. Management demonstrates the highest degree of foresight into program planning, depth of analysis, accomplishment of tasks, advance identification of problems and problem resolution, integrating total program concept and a comprehensive management approach. Critical milestones are planned as early as possible to provide for maximum program contingency time. Many milestones are met early, to the benefit of the program, with no adverse effect on performance, schedule, cost, or risk. Contractor demonstrates a concern for the correct understanding of contract tasking and cost growth avoidance, and is responsive to the changing nature and levels of work.
2. Contractor develops an effective, efficient contractor team that reflects strong, open lines of communication. Improvements to the planned program result from high quality communication with Government and other external focal points with no program impacts attributed to poor communication. Contractor maintains complete and effective coordination and liaison with Government counterparts and other contractors. Contractor independently supports program activities in a consistent and cooperative mode.
3. Contractor demonstrates initiative in planning, analyzing, and assessing the total impact of potential problems. Contractor identifies high-risk/problem areas early, plans alternative/parallel courses of action, and keeps the Government well informed of developments. Life cycle costs are minimized by problem solutions.
4. Contractor demonstrates to the Government how net reduction in labor loading and overtime will be effected and how these reductions will produce cost and schedule savings to the program without degrading performance. Contractor's team consists of highly qualified and motivated personnel, with an emphasis on productivity. Contractor minimizes changes of key individuals.
5. Contractor demonstrates initiative in support of the Government by taking a leadership role in identifying issues and providing significant, timely recommendations and actions for program improvements.

Quality Assurance

Unsatisfactory

1. Responsibilities for ensuring quality in design not described in written procedures.
2. Planning to implement quality in design is incomplete. Environmental, contamination, corrosion, and other special controls are not identified.
3. Producibility, inspectability and testability are not evaluated prior to design release.
4. Contractor does not ensure that appropriate suppliers evaluate producibility, inspectability and testability prior to design release.

Satisfactory

1. Responsibilities for ensuring quality in design are assigned, described in written procedures and implemented.
2. Planning to implement quality in design is complete and includes provisions for employing appropriate fixtures, tooling, and skills. Environmental, contamination, corrosion, and other special controls are identified.
3. Producibility, inspectability and testability are evaluated prior to design release and result in no major related impact to contract requirements.
4. Handling, packaging, packing and transporting of materials and products are considered during the design resulting in no major related impacts on the contract performance.
5. Contractor ensures that appropriate suppliers evaluate producibility, inspectability and testability prior to design release.
6. Contractor strives to increase quality management effectiveness by promoting continuous process improvement.
7. Contractor promotes an attitude of continuous process improvement to subcontractors.

Good

1. The results and influence of functional participant (i.e., manufacturing, reliability, testing and quality) from design development through production are formally documented.
2. Planning is based on the results of research from past experiences of similar product lines and incorporates preventive measures to avoid recurrence of previous problems.
3. Quality in design is considered throughout life cycle; any changes to facilitate producibility, inspectability and testability after designs are released for manufacturing are incorporated immediately.
4. Handling, packaging, packing, storing and transporting of materials and product result in no damage or delays attributable to a design deficiency or omission.
5. Contractor participates with appropriate suppliers to ensure quality in design is emphasized and affected.

6. Contractor strives to increase process quality by the use of many of the following tools: statistical process control (SPC), training, continuous process improvement and defect reduction programs, subcontract process improvement teams, and other self-initiated enhancement techniques.
7. Departures from standard procedures rarely impact contract performance, cost or critical product assurance milestones.
8. Contractor establishes effective techniques to shift focus of quality assurance from defect detection and reduction to defect prevention. Contractor further increases quality improvement by establishing an affirmative program for defect prevention through quality in design, producibility, and manufacturing process controls. Contractor increases product quality and production efficiency by developing methodologies designed to reduce product variability and the production of defective material.
9. Contractor realizes cost savings from reductions in the cost of quality; number of part or material rejects; line rework; and scrap, rework, and repair dispositions.
10. Contractor emphasizes continuous quality improvement through quality in design, producibility, manufacturing process controls, reduced product variability, and defect prevention in subcontractor/vendor competition.

Very Good

1. The design review process is structured to include independent reviewers of the design for evaluating quality in design features, which include producibility, testability and inspectability. The results are fully integrated with appropriate closure of all concerns.
2. An active lessons-learned approach to design and manufacturing is documented, maintained and used to avoid problems.
3. Producibility, inspectability and testability considerations are included in the released design. All major and critical characteristics are producible, measurable and verifiable as released in the design.
4. Facilities are designed to minimize the adverse effects of handling, packaging, packing, storing and transportation to adversely affect the hardware. There is no damage related to design.
5. Appropriate suppliers demonstrate performance in producibility, inspectability and testability resulting in no significant supplier-related problems. Contractor is actively involved in preventing related problems at supplier facilities.
6. Contractor regularly demonstrates that product assurance disciplines and process improvement tools have been utilized to their fullest during the design of each part of the system.
7. Contractor establishes an aggressive vendor defect prevention program.
8. Contractor realizes cost savings from a reduction of manufacturing wrap rates due to lower overhead allocations required for scrap, rework or repair dispositions.
9. Contractor's subcontractor/vendor competition process provides for the optimum cost, schedule, and technical performance through implementation of quality initiatives, including an SPC variability reduction program, at subcontractor facilities. Contractor includes quality initiatives in their subcontractor/vendor rating program.

Excellent

1. Strong corporate involvement in, and support of, the quality in design effort is demonstrated by the establishment of quality in design measurement methods, evaluation of performance, and effect improvement.
2. Design quality problems are anticipated and acted upon to eliminate any impact. No significant changes requiring adverse impacts to the cost, schedule, or performance planning are needed to meet or exceed contract requirements.
3. Incorporation of producibility, inspectability, and testability efforts result in reduced manufacturing or inspection costs and improves on contract schedule requirements. No deviations or waivers requested for associated contractor omissions or errors.
4. Supplier management efforts result in performance where designs did not require any change after delivery, relating to producibility, inspectability and testability.
5. The contractor exhibits a thorough and successful integration of quality concepts throughout other functional disciplines such as design, safety, manufacturing, configuration management, quality assurance, and purchasing.
6. Exhibits a complete understanding of a variability reduction program, especially at the subcontractor/vendor facilities, resulting in total process control, reduced cost of quality, and lower overhead allocations.
7. Contractor realizes savings to total program cost through the optimum application of subcontractor/vendor competition management to include increases in technical performance as measured through increased responsiveness by the subcontractor to total system requirements in support of mission success.

Quality of Work

Unsatisfactory

1. Contractor leaves questionable situations for Government to resolve.
2. Contractor tends to follow past practices with no variation to meet requirements of the current contract.
3. Contractor maintains indifferent liaison with subcontractor, vendors, and Government.
4. Constant surveillance required to keep job from slipping.

Satisfactory

1. Contractor follows guidance, type, and standard drawings.
2. Contractor adapts existing designs to suit job on hand for routine work.
3. Contractor maintains satisfactory liaison, but dependent on Government to force resolution of problems without constructive recommendations to subcontractors or vendors.
4. Occasional surveillance required to stay on schedule and expects Government resolution of most problems.

Good

1. Contractor follows guidance, type, and standard drawings questioning and resolving doubtful areas.
2. Contractor engineered existing designs to satisfy specs, guidance plans, and material provided.
3. Contractor maintains effective contact with subcontractors and vendors, depends on Government for problems requiring military resolution.
4. Normal interest and desire to provide workable plans with average assistance and direction by Government.

Very Good

1. Contractor provides work complete with notes and thorough explanations for anticipated questionable areas.
2. Contractor displays knowledge of contract requirements that consider systems aspect, cost, shop capabilities, and procurement problems.
3. Contractor maintains independent contact with subcontractors and vendors, keeping them informed to produce compatible design with little Government assistance.
4. Complete and accurate job. Free of incompatibilities with little or no Government direction.

Excellent

1. Contractor's work of highest caliber incorporating all pertinent data required including related activities.
2. Contractor displays exceptional knowledge of contract requirements and adaptability to work process incorporating knowledge of future planning in design.

3. Contractor maintains expert contact with subcontractors and vendors, obtains information from subcontractors and vendors without Government assistance.
4. Contractor develops complete and accurate plans, seeks out problem areas and resolves them to remain ahead of schedule.

Product Quality

Product Quality (PQ) Compliance with applicable standards while minimizing material/workmanship defects.

Unsatisfactory: PQ program is not compliant with applicable standards and initial quality of products fails to meet baseline standards

Satisfactory: PQ program is compliant with applicable standards and initial quality of products meets baseline standards

Excellent: PQ program significantly exceeds applicable standards reducing material/workmanship defects; implements some process improvements

Technical Performance

Unsatisfactory

1. Site-specific Quality Program Plans (QPPs) are incomplete, contain inaccuracies and/or fail to comply with the contract level QPP. Deficiencies adversely impact on the contractor's ability to complete tasks resulting in project delays and increased costs to the Government.
2. Technical/periodic reports and other deliverable data are not submitted in accordance with the Contract Data Requirements and are in formats not easily understood. Discrepancies are major and require extensive time and effort to correct.
3. Shop submittals and drawings do not meet specifications. Deficiencies impact schedule and cost.
4. Proposals are submitted late, are sometimes unacceptable and the change process does not proceed without adverse impacts to estimated cost and schedule.

Satisfactory

1. Site specific QPPs are complete, accurate and comply with the contract level approved QPP. Deficiencies are minor with limited adverse impact to construction schedule and estimated cost.
2. Meets all project major milestones as established in the Critical Path Method (CPM) schedule subject to those actions considered to be within the control of the contractor. Schedule updates are coordinated with all participants. CPM schedule is submitted on time. Critical tasks are easily identified.
3. All technical/periodic reports and other deliverable data are submitted in accordance with the Contract Data Requirements and are in a format that is easily understood. Discrepancies are minor and easily corrected.
4. Shop submittals and drawings are accurate, complete and meet QPP requirements and specifications. Deficiencies are minor with minimal impact to schedule and estimated cost. Corrections are made as required.
5. Acceptable proposals are submitted timely, and the change process proceeds with no adverse impacts to estimated cost and schedule.

Excellent

1. Site specific QPPs are complete, accurate and exceed compliance requirements of the contract-level-approved QPP. Site-specific QPP is approved when initially submitted.
2. Contractor exceeds all projects major and minor milestones as established in the CPM schedule subject to those actions considered to be within the control of the contractor. Schedule updates are coordinated with all participants. CPM schedule is submitted on time and no deficiencies noted. Critical tasks are easily identified.
3. All technical reports and other deliverable data are submitted well ahead of schedule. They far exceed the Contract Data Requirements and are submitted in a format that is complete, clear, concise, technically accurate and easily understood.
4. All shop submittals and drawings are accurate, complete and exceed specifications. No deficiencies are evidenced that impact schedule or estimated cost. Any corrections are very minor in nature and are expeditiously corrected.
5. High quality proposals are submitted timely, and the change process proceeds with no adverse impacts to estimated cost and schedule. No deficiencies, for completeness and accuracy, are noted in contractor proposal submittals.

Time of Delivery

Unsatisfactory

1. Contractor does not expose changes or resolve them as soon as they are recognized.
2. Contractor does not complete interrelated system studies concurrently.

Satisfactory

1. Contractor exposes changes but is slow in planning resolution.
2. Contractor completes system studies but not concurrently.

Good

1. Contractor anticipates changes and resolves them as soon as they are recognized.
2. Major work plans coordinated in time to meet production schedules.

Very Good

1. Contractor keeps Government informed of delays, but resolves them independently as soon as they are recognized.
2. Design changes from studies and interrelated plans issued in time to meet production schedule.

Excellent

1. Contractor keeps Government informed of delays, resolves them independently, and meets production schedule.
2. Design changes, studies resolved, and test data issued ahead of production requirements.

Schedule

Schedule (Specific area of interest: Contractor meets flow time requirements)

Unsatisfactory: Fails to meet “satisfactory” standard for contractually required flow times. Fails to meet customer expectations for satisfying demands

Satisfactory: For 95% of the end items, meets contractually required flow times for 95% of requisitions. For 100% of the end items, meets contractually required flow times for 67% of requisitions. Meets customer expectations for satisfying demands

Excellent: Substantially reduces contractually required flow times, consistent with customer priority requisitions. Exceed customer expectations for satisfying demands.