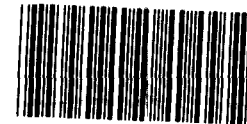


March 1992

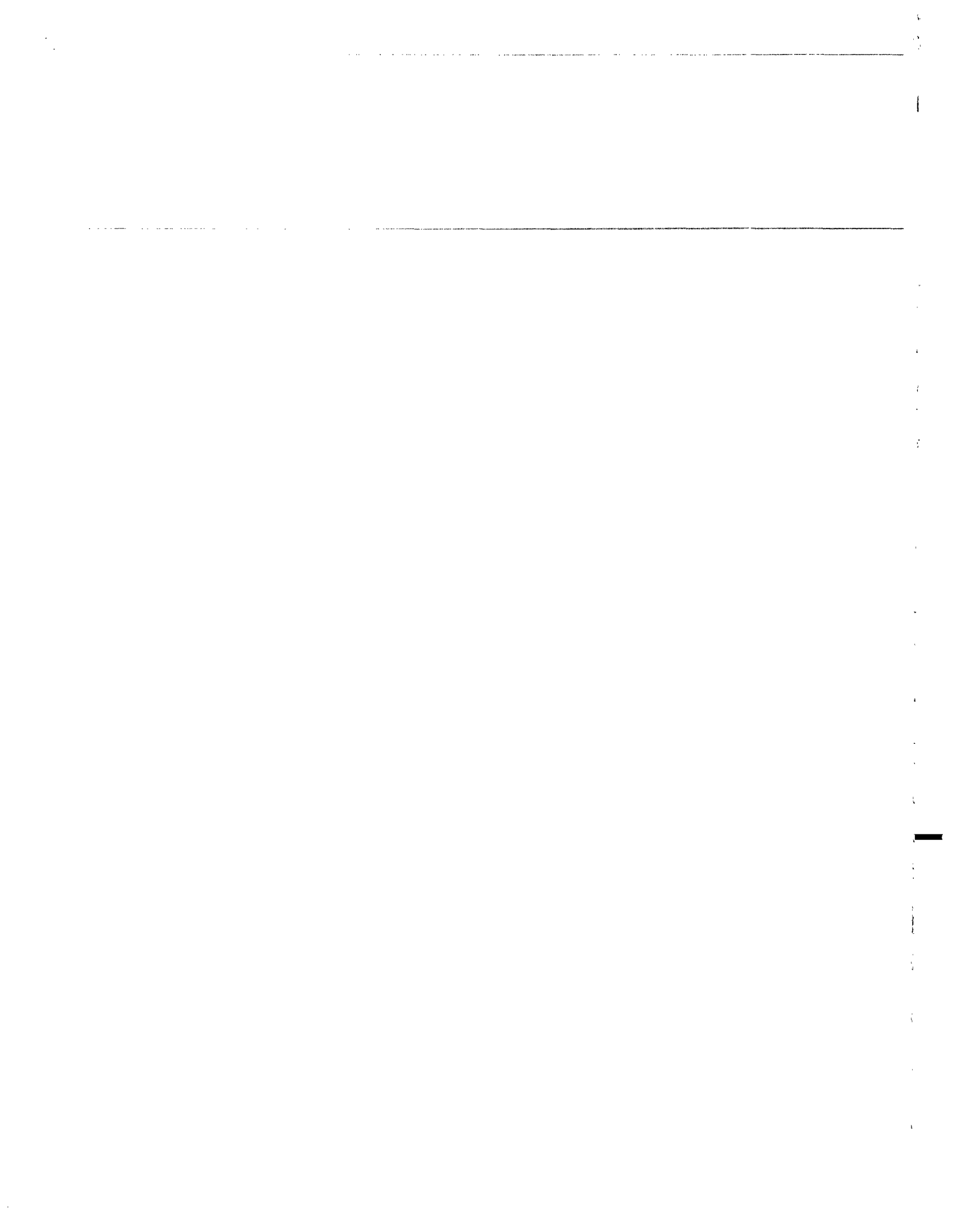
NUCLEAR HEALTH AND SAFETY

Increased Rating Results in Award Fee to Rocky Flats Contractor



146369





Resources, Community, and
Economic Development Division

B-234139

March 24, 1992

The Honorable Timothy E. Wirth
United States Senate

The Honorable David E. Skaggs
House of Representatives

On January 22, 1992, you requested that we examine the award fee determination process at the Department of Energy's (DOE) Rocky Flats Plant in Colorado. As you know, in 1989 we reported on award fees—fees earned by contractors on the basis of their performance—provided to the operating contractor at Rocky Flats.¹ Among other things, we found that the award fees given to the contractor did not adequately reflect environmental, safety, and health (ES&H) problems at the plant. We recommended that DOE restructure its award fee process to reduce the level of discretion exercised in making the final award fee decisions. Since that report was issued, DOE has taken actions to improve its award fee process.

As agreed with your offices, this report focuses on the award fee given to EG&G—the current contractor operating Rocky Flats—for its performance at the plant from April through June 1991.² Specifically, we examined (1) how the final award fee decision was developed, (2) the justification provided to support the final award fee, and (3) the extent to which ES&H performance is reflected in the decision.

Results in Brief

The rating given to EG&G for the April through June 1991 period increased significantly during the fee determination process. Initially, the Rocky Flats Award Fee Board assessed EG&G's performance against established evaluation criteria and recommended a score of 76, or "satisfactory," for the 3-month period.³ This rating would have provided no award fee to the contractor. However, during the field and headquarters management review process, this score was raised 10 points to an 86, or "good," which provided a final award fee of \$1,733,300.

¹Nuclear Health and Safety: DOE's Award Fees at Rocky Flats Do Not Adequately Reflect ES&H Problems (GAO/RCED-90-47, Oct. 23, 1989).

²The Rocky Flats contract changed to a 6-month assessment period following this award fee period.

³The Board, composed of DOE officials, performs a detailed assessment of the contractor's performance and recommends a rating to DOE management.

The justification for the increase was based on some accomplishments that were inconsistent with the Award Fee Board's findings. For example, the final determination cited an improved safety culture at the plant, an area in which the Board found that the contractor had not been sufficiently effective. Moreover, the justification did not address the 29 significant deficiencies raised by the Board. According to DOE's evaluation plan, a "good" rating, by definition, means that no significant deficiencies exist.

DOE now requires that at least 51 percent of the award fee be associated with ES&H performance. In the Award Fee Board's assessment, ES&H activities were weighted to account for 57 percent of EG&G's overall score of "satisfactory." However, the information provided to support the final rating of "good" does not indicate how ES&H performance was weighted in the final determination.

Background

DOE's Rocky Flats Plant is located on a 6,550-acre site about 16 miles from Denver, Colorado. The plant's primary mission has been to produce plutonium components for nuclear weapons. These operations are inherently dangerous because they involve the handling and disposal of radioactive, hazardous, and toxic materials. Because of the dangers, adhering to ES&H requirements is an important priority in operating the plant. The plant is currently managed and operated by EG&G under a contract with DOE. EG&G took over the plant's operations on January 1, 1990, from the Rockwell International Corporation. DOE's Rocky Flats Office is responsible for oversight of EG&G's operations at the plant.

From January 1990 through March 1991, EG&G's contract to operate Rocky Flats provided for DOE to reimburse EG&G for the costs of managing and operating the plant plus a fixed fee. Since April 1991, EG&G has had a cost-plus-award-fee contract. Under this contract, EG&G is reimbursed for allowable costs and may earn a fixed amount (called the basic fee). In addition, EG&G can earn an award amount (called the award fee) on the basis of its performance in various performance areas such as environmental protection and the management of ES&H issues. DOE evaluates EG&G's performance to determine the amount of fee to be received over the rating period. The first fee determination assessment for EG&G was conducted for the April through June 1991 time period.

In October 1989, we reported on the award fees provided to Rockwell for operating the Rocky Flats Plant during fiscal years 1986 through 1988.

Although significant ES&H problems at the plant were identified in this time period, Rockwell received approximately \$26.8 million in award fees over these 3 years. We pointed out that the award fee process did not adequately reflect ES&H problems and that more specific criteria and procedures were needed to reduce the level of discretion exercised in making the final fee decision. Since our report's issuance, DOE has taken actions to address these concerns. Among other things, DOE now requires that at least 51 percent of the award fee be associated with ES&H performance. In addition, DOE headquarters' concurrence in award fee decisions is required to reduce the amount of discretion involved in the final decisions.

Rating Raised to Provide Award Fee

During the award fee process, EG&G's recommended rating, for the period April through June 1991, was raised significantly. The initial detailed assessment by DOE's Award Fee Board found EG&G's overall performance to be at a satisfactory level and recommended no award fee. However, during the management review process, the performance rating was raised substantially, resulting in an award fee of slightly more than \$1.7 million.⁴

The process for determining the performance rating and amount of fees earned begins with the establishment of a performance evaluation plan prior to the rating period. The plan lays out the process and lists performance areas against which the contractor will be evaluated. The areas are weighted to reflect their importance in assessing overall performance. At the end of the rating period, an Award Fee Board consisting of senior DOE Rocky Flats officials and one representative of DOE's Office of Defense Programs meets and evaluates EG&G's performance against established criteria. The Award Fee Board prepares a report that rates the contractor's performance in each weighted performance area to arrive at an overall recommended rating and fee amount.

The actual fee earned is tied directly to a performance rating scale. The contractor retains the entire basic fee as long as its performance is "satisfactory," or above a score of 75. As the performance rating rises, the contractor earns increasing amounts of award fees. For the April through June 1991 time period, the Award Fee Board rated EG&G in 10 performance areas with an overall score of 76, or "satisfactory." This would have allowed full retention of the basic fee but would not have allowed any

⁴This award fee is in addition to a \$2,889,000 basic fee that the contractor received for operating the plant over the 3-month period.

additional award fee money. However, the Board does not make the final decision on the performance rating and amount of fee earned.

The final performance rating and fee decision are made by the DOE Rocky Flats Office manager, who serves as the Fee Determination Official (FDO). The FDO considers the Board's report and the contractor's self-assessment as well as using personal knowledge and any other factors he deems appropriate in determining the final rating and fee amount. The FDO must also gain the concurrence of DOE's Defense Programs office at headquarters before the decision is finalized. For the April to June 1991 rating period, the FDO decided to give EG&G a substantially higher rating of "good," or 86. This rating provided EG&G \$1,733,300, in addition to the basic fee for the 3-month period. DOE's Defense Programs office at headquarters concurred with this higher rating.

Final Award Fee Justification Differs From Board's Findings

In justifying the increase in the award fee, the FDO cited various accomplishments to support his conclusions. These accomplishments, in some instances, conflicted with the specific findings of the Award Fee Board. Moreover, the justification did not address the numerous significant deficiencies raised by the Board.

The FDO, in justifying the increased award, cited six specific accomplishments in addition to his overall observations on EG&G's performance. This justification included nonnuclear production achievements, an improved public perception, and various program improvement initiatives. (See app. I.) Some of the accomplishments cited, however, were not consistent with the findings of the Award Fee Board. For example, the FDO stated that EG&G's efforts to create a safety culture were evident and would contribute to DOE's efforts to resume operations at the plant. The Award Fee Board, on the other hand, stated that EG&G had not been sufficiently effective in its efforts to include and facilitate a culture for ES&H awareness. Additionally, the FDO cited that EG&G management had a positive attitude and a willingness to work extra. However, the Award Fee Board found that EG&G management took limited initiative to discover problems and did not take corrective actions unless directed by DOE.

In addition to these inconsistencies, the FDO's justification did not address the numerous significant deficiencies cited by the Board. In total, the

Award Fee Board cited 29 significant deficiencies.⁵ These deficiencies included inadequate tracking of management issues, confusion over responsibilities for the Safe Drinking Water Act, failure to comply with environmental regulations, and many instances of recurrent problems that were not fixed correctly the first time. According to the rating plan, a "good" rating, by definition, means that no significant deficiencies exist.

The FDO did not question the validity of the Award Fee Board's report and findings. He characterized the inconsistencies between the Board's rating and his final determination as a difference in expectations. He told us that the Award Fee Board, in measuring EG&G's performance against the standards laid out in the performance evaluation plan, did not give appropriate consideration to the progress made in meeting these new standards.⁶ Furthermore, he said that he did not expect EG&G or any other contractor to meet these standards at this time because of the legacy of problems at Rocky Flats that EG&G was brought in to fix in 1990.

In its concurrence with the higher rating, DOE's Defense Programs officials fully supported the FDO's award fee score and rating. In their view, EG&G made tremendous strides toward improving safety to the workers and environment. DOE's Office of Environmental Restoration and Waste Management also supported the higher rating. Officials from DOE's Office of Environment, Safety, and Health, however, did not support the higher award fee. In a letter to DOE's Defense Programs office, they stated that the FDO's justification did not support the higher award fee. They were specifically concerned about raising the award fee in light of the marginal and satisfactory ratings in all the performance areas. In this regard, they cited additional examples such as very little progress made by EG&G in developing a program to ensure quality.⁷

Relationship of Fee to ES&H Performance Not Clear

In order to stress ES&H performance in the award fee process, DOE now requires that at least 51 percent of the award fee be associated with ES&H performance. In the Award Fee Board's assessment, ES&H activities were weighted to account for 57 percent of EG&G's performance score. It is

⁵In addition, the Board found 70 notable deficiencies, including incomplete emergency response plans, an inadequate safety evaluation report, and a large number of grievances filed by the union at the plant.

⁶The performance evaluation plan is required by the contract.

⁷In the award fee process for Rocky Flats, DOE's Defense Programs office must concur in the final award fee determination. Other DOE offices have only an advisory role.

unclear, however, how ES&H activities were weighted in the final determination by the FDO.

In making its determination, the Award Fee Board scored and weighted EG&G performance in 10 performance areas such as environmental protection and administrative support. In total, ES&H matters accounted for five performance areas and were weighted to account for a total of 57 percent in the scoring. As a result, the Board's assessment clearly shows how EG&G's performance in individual performance areas was considered. For example, in the safety, health, and quality assurance area, the Board scored EG&G's performance a 75, or "marginal." This score was weighted by 22 percent in calculating a final score. Each performance area was scored and weighted by the Board.

In making a final determination, the FDO raised the overall score by 10 points. However, scores in the individual performance areas were not changed. As a result, we cannot determine the final rating in each of the various performance areas. Furthermore, because the scores in the performance areas were not changed, it is not possible to determine the extent to which ES&H performance was considered in the final determination. The FDO told us that he did not change the scores in individual performance areas because, in his view, all the activities conducted at the plant by EG&G related directly or indirectly to ES&H performance. Consequently, he believes that over 50 percent of the final award fee was based on ES&H performance.

Conclusion

In 1989 we pointed out problems in DOE's award fee process and recommended that DOE restructure the process to reduce the level of discretion exercised in making a final determination. Although DOE has sought to improve its award fee determination process, the final outcome of the first award fee determination for EG&G indicates that some of the same problems we identified still exist. In this regard, despite findings of significant deficiencies and marginal ES&H performance, the contractor's overall performance was considered "good" and slightly more than \$1.7 million was awarded. This increase was possible through discretion exercised by the FDO with the concurrence of DOE's Defense Programs office, thus indicating that the process is still subjective. Furthermore, the fee was awarded without clearly showing or documenting that at least 51 percent of the fee was based on ES&H performance—a DOE requirement.

Although our examination raises questions about DOE's award fee process at Rocky Flats, it was limited to the award fee given for only a single 3-month period. Because of the limited scope of our effort, we are not making any additional recommendations. However, we plan to examine this issue in more detail in future work.

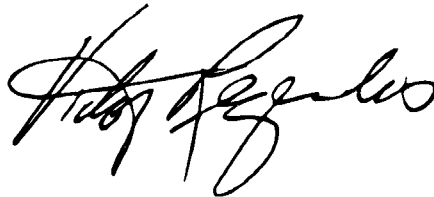
Views of Agency Officials

We discussed the information in this report with DOE Rocky Flats and Defense Programs officials, who generally agreed with the facts presented. In their comments, DOE officials stressed that EG&G has made considerable progress in addressing the many problems at the plant and that they believe the final award determination was appropriate. As agreed with your office, we did not obtain official agency comments on a draft of this report.

Our work was performed in January and February 1992 in accordance with generally accepted government auditing standards. Appendix II provides a discussion of our objectives, scope, and methodology.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days from the date of this letter. At that time, we will send copies to the appropriate congressional committees; the Secretary of Energy; and the Director, Office of Management and Budget. We will also make copies available to others upon request.

If you have any questions about this report, please contact me at (202) 275-1441. Major contributors to this report are listed in appendix III.



Victor S. Rezendes
Director, Energy Issues

Contents

Letter	1
Appendix I Final Award Fee Determination for EG&G, April-June 1991	10
Appendix II Objectives, Scope, and Methodology	12
Appendix III Major Contributors to This Report	13

Abbreviations

CCCP	Configuration Change Control Program
DOE	Department of Energy
ES&H	environmental, safety, and health
FDO	Fee Determination Official
GAO	General Accounting Office
IWCP	Integrated Work Control Program
M&O	management and operating
RFP	Rocky Flats Plant

Final Award Fee Determination for EG&G, April-June 1991

DETERMINATION COMMENTS
BY THE FEE DETERMINATION OFFICIAL

REGARDING THE PERFORMANCE OF
EG&G ROCKY FLATS, INC.
CONTRACT NO. DE-AC04-90DP62349

FOR THE PERIOD APRIL 1 - JUNE 30, 1991

It is recognized that EG&G Rocky Flats, Inc., (EG&G) was confronted with a variety of significant problems when it first entered into a contract with the Department of Energy (DOE) in October, 1989. Since October, 1989 EG&G has made very good progress in addressing those problems. The period April 1 through June 30, 1991 represents the first evaluation period where EG&G's performance determines the amount of fee earned.

For the period April 1 through June 30, 1991, I have determined that EG&G earned an overall rating of "Good" and a numerical score of 86. For the most part, the Performance Evaluation Plan for this period established absolute goals for EG&G and the Award Fee Board rated EG&G's performance against those standards. I believe that this rating provides sufficient credit for the significant progress EG&G has made in addressing the goals which were within their control. In addition, EG&G efforts to create a safety culture are evident and will contribute to DOE's efforts to resume operations at Rocky Flats. EG&G, from the top management down, has maintained a very positive attitude toward correcting all problems at Rocky Flats and have repeatedly demonstrated the willingness to work whatever extra hours or effort that is required to produce an acceptable product. EG&G's success is also reflected in the improved public perception of Rocky Flats that is evident in the recent comments by public officials and the press.

I have given consideration to both the progress and determination that EG&G demonstrated during this evaluation period. The condition of the site systems and infrastructure were in deplorable condition or non-existent when assumed by EG&G. During this evaluation period, EG&G has shown significant progress in developing and implementing the necessary systems and infrastructure to successfully manage the site.

The activities described below are also supportive of my conclusion.

Implementation of Conduct of Operations

EG&G has made noteworthy progress in implementing enhanced Conduct of Operations in Building 559 although significant additional work remains to be done in this area. EG&G management, with support from the Rocky Flats Office, has taken the lead in implementing an effective Conduct of Operations Program in the lead resumption buildings at the Rocky Flats Plant (RFP) to meet the intent of DOE Order 5480.19. A detailed Conduct of Operations Manual specific to RFP has been developed and issued. Also a comprehensive training program for all operations personnel is now in place and resumption related training is on-going. This program has been a significant factor in implementing the new operating/safety culture at RFP. RFP is currently the leader within the weapons complex for implementing an effective Conduct of Operations Program and EG&G has helped other sites begin implementation of similar programs.

EG&G:90DP62349
DAFE (DC) 91-1

Non-Nuclear Production Achievements

Product delivery for calendar year 1991 has been exceptional in that all interproject schedules have been met. In addition, considerable success has been attained toward the manufacturing schedule goal of completing product one month prior to ship date. The confidence in RFP's ability in special orders fell to a historical low in the summer of 1990 due in the inability of the Plant to deliver product on any predictable basis. Since then, schedules have been met and costs have fallen to such an extent that the quality and diversity of orders currently being received has increased to a level typical in 1988-1989.

Improved Public Perception

The press and public are beginning to recognize and appreciate the more positive and open lines of communication at the RFP. There is more and more recognition of the fact that DOE and EG&G are here to serve the public interest and that future production at the Plant will be done in a safe and environmentally sound manner. Several public officials are now on record as supporting the resumption of operations and press reports have become objective. There is no longer an assured negative headline and story each time Rocky Flats is covered by the press. EG&G deserves much of the credit for the improved public perception of the Plant.

Acceptance and Implementation of the Accountability Rule

Effective April 1, 1991, EG&G agreed to implement the new M&O avoidable cost rules even though the existing EG&G contract did not require such an action. EG&G, on their own initiative, aggressively implemented a Company-wide program by assigning a full time program manager and developing a management plan. A procedure for identifying, evaluating and tracking avoidable cost incidents and a video designed to inform all employees of their responsibilities under the new rules were developed. EG&G continues to be a leader in effectively implementing the new rules.

Integrated Work Control Program (IWCP) Implementation

A site-wide IWCP which establishes a standard process for identifying and controlling all corrective maintenance and modifications to Plant facilities and systems was implemented. A new IWCP Manual which controls the process has been issued. In addition, data input into this system is available on-line in all operations areas. This program greatly improves the rigor, control and visibility of maintenance activities at Rocky Flats.

Configuration Change Control Program (CCCP) Implementation

The implementation of CCCP resulted in the delay of several key resumption projects which required significant management attention to resolve. Additional program execution improvements are necessary and will be facilitated with additional training and procedural refinements. These initial steps in gaining configuration control at Rocky Flats were difficult and disruptive but nonetheless represent significant improvements in themselves and set the stage for additional improvement.

Objectives, Scope, and Methodology

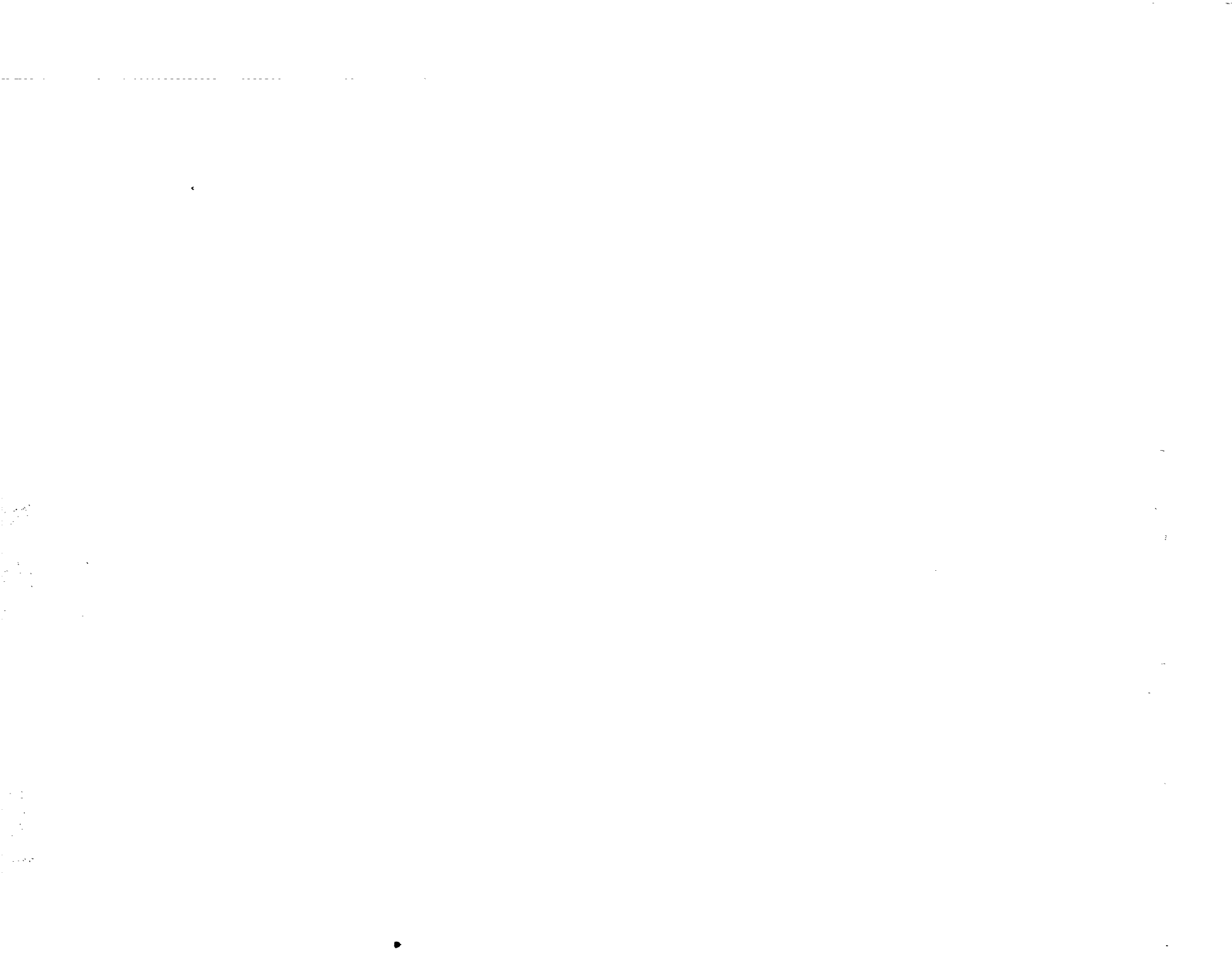
On January 22, 1992, Senator Timothy E. Wirth and Representative David E. Skaggs requested that we examine the award fee determination process at the Department of Energy's (DOE) Rocky Flats Plant in Colorado. As agreed with their offices, our review focused on the \$1,733,300 award fee given to EG&G—the current contractor operating Rocky Flats—for its performance in operating the plant from April through June 1991. Specifically, we were asked to examine (1) how the final award fee decision was developed; (2) the justification provided to support the final award fee; and (3) the extent to which environmental, safety, and health (ES&H) performance is reflected in the decision.

To achieve these objectives, we had discussions with and obtained data on the final fee determination from DOE officials in the Offices of Defense Programs and Environment, Safety, and Health at DOE headquarters and the Rocky Flats Plant in Colorado. We obtained from these officials the plan established for rating EG&G's performance during the April through June 1991 period, the Rocky Flats Award Fee Board's assessment of the contractor's performance, and the Fee Determination Official's justification for increasing the award fee. We also obtained internal DOE correspondence associated with the headquarters award fee approval process. Furthermore, we discussed with these DOE officials their perspectives on the process used to determine the award fee for the specified performance period, the appropriateness of the justification for increasing the award fee from the levels recommended by the Rocky Flats Award Fee Board, and the compliance of the award fee decision with DOE requirements for basing award fees on ES&H performance. This work was performed during January and February 1992 in accordance with generally accepted government auditing standards.

Major Contributors to This Report

**Resources,
Community, and
Economic
Development Division,
Washington, D.C.**

**James E. Wells, Jr., Associate Director
William F. Fenzel, Assistant Director
John R. Schulze, Assignment Manager
Mark E. Gaffigan, Evaluator-in-Charge**



Ordering Information

The first copy of each GAO report is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877

Orders may also be placed by calling (202) 275-6241.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use \$300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100