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# **BALANCED SCORECARD**

## ***PERFORMANCE MEASUREMENT AND PERFORMANCE MANAGEMENT PROGRAM***

**FOR**

**FEDERAL PROCUREMENT  
AND  
MAJOR SITE AND FACILITY  
MANAGEMENT CONTRACTOR  
PURCHASING SYSTEMS**

## **PREFACE**

Over the past decade, the Department of Energy (DOE) has reengineered its programs for oversight of Federal and contractor procurement/purchasing systems, replacing Headquarters-based, process-oriented review programs with ones which rely on local assessment of performance against Departmental expectations. Through the use of an assessment approach that focuses on the accomplishment of results designed to achieve strategic goals, DOE and its contractor community have fundamentally redesigned performance assessment.

From the very beginning of the transition from the traditional purchasing system reviews to the redesigned Federal and contractor system assessment approaches that replaced them, it was understood that further refinement and continuous improvement would occur. Consistent with that long-term strategy, and building on the originally redesigned Federal and contractor purchasing assessments, the Department's business system assessment models evolved to bring them more formally into line with the Balanced Scorecard (BSC) approach to performance measurement and management, which is currently in use by many "world class" private corporations.

The following describes the Department's "corporate" business systems assessment program, implementation procedures, evaluation standards, and reporting process as it applies to procurement systems. This document establishes the Departmental conceptual framework for performance management for both Federal and contractor purchasing systems assessments, as well as consistent techniques useful in performing the contract administration and contractor oversight functions. In accordance with these policies and expectations, each Federal and contractor procurement or purchasing component shall develop a tailored balanced "Scorecard" specific to their individual tactical contribution to Departmental strategic objectives and goals.

The core performance measurement approach, strategic objectives, core measures, and national targets outlined in the model program are areas in which the Department intends to achieve consistency and uniformity, to the greatest extent practicable.

Finally, while the program is intended to be a results oriented, systems focused, organization accomplished assessment, the Department of Energy Acquisition Regulation (DEAR) still requires compliance with specific laws, regulations, and contract terms and conditions. Review of compliance procedures is considered an important part of the assessment process as described in the reporting procedures covered in Parts 6, 7, and 8 of this document.

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## *Acronyms*

<b>BSC</b>	Balanced Scorecard
<b>CAPS</b>	Center for Advanced Purchasing Studies
<b>CO</b>	Contracting Officer
<b>CPSR</b>	Contractor Purchasing System Review
<b>DEAR</b>	Department of Energy Acquisition Regulation
<b>FASA</b>	Federal Acquisition Streamlining Act
<b>FAR</b>	Federal Acquisition Regulation
<b>FPDS-NG</b>	Federal Procurement Data System– Next Generation
<b>GAO</b>	General Accounting Office
<b>GPRA</b>	Government Performance and Results Act
<b>HCA</b>	Head of the Contracting Activity
<b>M&amp;O</b>	Management and Operating
<b>OFPP</b>	Office of Federal Procurement Policy
<b>OMB</b>	Office of Management and Budget
<b>NPR</b>	National Partnership for Reinventing Government (previously known as the National Performance Review)

## PART 1

### Background

*This part provides a brief discussion of the transition from process-oriented to results-oriented business assessment programs, and of the Department's goals for assessing business functions.*

#### **1. Business Systems Performance and Oversight**

The DOE and its contractors continue to be faced with real and dramatic challenges to improve business systems performance. Federal agencies have been called on to look at commercial models for common-sense business solutions and business systems that work better and cost less. Both Federal and contractor organizations are experiencing quantum increases in the levels of customer expectations for quality, timeliness, and service -- all at a lower cost. Both Federal and contractor organizations are facing continuing budget and resource restrictions, which require fundamentally rethinking approaches to business systems and business relationships.

In 1995, the DOE eliminated the "Federal norm" as the standard against which it evaluates contractor purchasing systems, replacing it with the standards of "best-in-class" purchasing organizations, be they public or private. At the same time, the Department reengineered its programs for oversight of Federal and contractor purchasing systems, replacing Headquarters-based, process-oriented review programs with ones that rely on local assessment of performance against Departmental expectations.

#### **2. Mission, Vision, and Strategy**

These are the statements of an organization's highest level purpose, desired end-state, and methodology for achieving that end-state for its business systems. All objectives and measures should support these statements.

**MISSION:** To provide business services to support accomplishment of the Department's programmatic goals and objectives.

**VISION:** To deliver on a timely basis the best value product or service to our customers while maintaining the public's trust and fulfilling public policy objectives.

**STRATEGY:** To develop and maintain an organizational culture, management systems, and line processes in the acquisition system that ensure a focus on results, while emphasizing integrity, fairness, competition, openness, and efficiency.

### **3. Business Systems Management Goals**

The Department seeks to:

- Translate its vision into clear, measurable outcomes that define successes that will be recognized and shared throughout the Department and with its contractors;
- Continue to shift from prescriptive, audit-and compliance-based oversight to an ongoing, forward-looking strategic partnership involving Headquarters, the field, and contractors;
- Provide a tool whereby the overall efficiency, and effectiveness of business systems can be assessed, managed and improved;
- Include measures of quality, cost, speed, customer service, and employee alignment, motivation, and skills to provide an in-depth, predictive performance management system; and
- Continue to replace current business systems assessment models with an improved and more consistent approach to performance measurement and management.

## PART 2

### **Business Systems Assessment Program**

*This part describes the objectives, concept and scope of the business systems assessment program. It also addresses the roles and responsibilities of key participants in the program.*

#### **1. Program Objectives**

The objectives of the DOE Federal and contractor business systems assessment programs are to ensure that business systems adhere to the Department's mission, vision and strategy statements; follow recognized "Best Business Management" practices; and comply with applicable statutes, regulations, and contract terms and conditions.

#### **2. Program Concept and Scope**

This program requires periodic evaluations of business systems and processes by each intra-organizational component responsible for those systems and processes. This evolutionary approach looks beyond compliance and evaluates performance and operational effectiveness. The program is intended to be an adaptable, reliable tool, which moves from transactional to results-orientation, drives continuous improvement, and which provides for more cost effective oversight.

The assessment program is characterized by the following key features:

- It determines the degree of customer satisfaction with performance;
- It employs measures and trends to determine cost and efficiency of business systems and processes;
- It assesses the organization's strategic information and skills in order to ensure that they are aligned to support critical business systems and processes; and
- It ensures compliance with applicable laws, regulations, and contract terms and conditions.

This assessment program is consistent with and supports DOE's core values and critical success factor strategies as listed in the Department's Strategic Plan, in the following areas:

- *Customer Orientation.* This approach measures how business decisions and actions are responsive to the customer's needs.
- *Teamwork.* The planning and oversight elements of this program encourage teamwork, particularly integrating and coordinating the roles and responsibilities of DOE HQ,



Cognizant DOE Offices, and contractors, as appropriate. As part of the team, DOE HQ, Field Offices, and contractors should share pertinent information, as appropriate, regarding field and contractor performance. Cognizant DOE Offices, both in HQ and in the field, should consider all available data in communicating the Department's expectations in assessing performance against such expectations.

- *Best Business Management Practices.* Successful business management practices improve processes and customer satisfaction, and reduce defects and rework.

Although the DOE “corporate” Federal and contractor business systems assessment program encompasses the business functional areas of procurement, personal property, and contractor human resources, this document will address the program as it relates to Federal procurement and contractor purchasing. Personal property and contractor human resources will be addressed elsewhere.

### **3. Roles and Responsibilities**

#### **A. Cognizant DOE Office**

The Cognizant DOE Office is that entity, either at HQ or in the Field that has the responsibility for performing oversight of the Department’s business systems.

The Cognizant DOE Office concurs with and validates assessment processes, reviews problem analyses, and must be knowledgeable about the approach and timing of improvement action planning. The outcome of assessments shall be used to determine whether additional “for cause” reviews should be conducted. “For cause” reviews of business system operations may be required as a result of the identification of significant areas for improvement or trends which indicate the potential for improvement and require DOE follow-up to protect the Government's interest. They may also arise from implementation of new requirements on the contractor or new contractor systems which require validation.

#### **B. Head of the Contracting Activity**

The Head of the Contracting Activity (HCA) may have both operational and oversight responsibility for DOE business systems. The HCA has operational responsibilities for business systems such as the Federal procurement systems, as well as other Federal business systems. The HCA may also have oversight responsibilities for the Department’s major site and facility management contractors’ business activities.

HCAs may consider use of, or tailor, this program to meet system oversight requirements for other contractors where DOE is the Cognizant Federal Agency and the Operations/Field Office is the Cognizant DOE Office for system oversight purposes. The Cognizant DOE Office will ensure that the following requirements are met, when applicable:

- 1). The contractor shall maintain a written description of its business systems which must

- be accepted by the Contracting Officer (CO);
- 2). Substantive changes to a contractor's business systems must be accepted in writing; and
  - 3). Periodic self-assessments are performed by the contractor, in accordance with the terms and conditions of the contract and the BSC assessment methodology.

HCA's are responsible for the approval, conditional approval, or disapproval of contractors' business systems and for furnishing a copy of system determinations to DOE HQ. HCA's are also responsible for ensuring that Federal contracting activities are complying with applicable acquisition and financial assistance regulations. Part 6 describes the inclusion of compliance reviews as part of the BSC assessment process.

### **C. Cognizant Contracting Officers**

The Cognizant Contracting Officer, for each major site and facility management contractor under his/her cognizance, shall:

- Review balanced scorecard development and implementation and ensure conformance with the program.
- Evaluate and validate the contractor's assessment methodology, and monitor the contractor's assessment activities.
- Serve as a peer review participant during assessments and/or as part of verification and validation of process and results.
- Ensure that appropriate steps are planned and carried out to achieve the scorecard's intended objectives, including ensuring that any additional objectives and measures identified by the contractor are consistent with the Department's objectives and do not serve to sub-optimize the balance of the scorecard.
- Collect and analyze, as appropriate, contractor assessment results, and advise the HCA and/or the Procurement Executive of any performance issues or compliance deficiencies, as appropriate.
- Work with the contractor to determine any appropriate actions needed to: 1) identify and address management initiatives by DOE or the contractor needed to assist achievement of strategic objectives/targets; 2) identify and implement additional or revised objectives and initiatives; and 3) identify benchmarking and process improvement opportunities to facilitate leveraging knowledge across the DOE complex.

#### **D. Contractor**

Each applicable contractor is responsible for establishing and maintaining business systems and processes which meet Departmental requirements. Contractors are also responsible for conducting credible, documented assessments of the business processes, to include problem analyses and improvement planning to ensure compliance with applicable laws, regulations, and terms and conditions of the contract. Compliance should focus on objectively measurable criteria and allow for meaningful trend and rate of change analyses. If requested by the contractor, outside entities may aid in administering the contractor's assessment program.

#### **E. Director, Office of Procurement and Assistance Management (The Procurement Executive)**

When requested by the HCA, the Procurement Executive will provide consultation, training, or facilitator services to Cognizant DOE Offices or contractors based on availability of resources, including facilitation of benchmarking and process improvement based on BSC results.

DOE Operations/Field Office performance will be evaluated as part of the Federal Balanced Scorecard Performance Management Program. Under that program, DOE Operations/Field Offices will perform assessments of the Federal procurement systems as well as manage contractor oversight.

Cognizant DOE Office implementation of the contractor BSC program will be evaluated as part of the Federal BSC assessment program administered by DOE HQ.

## PART 3

# Performance Management Strategy

*This part sets forth the definitional baselines for performance measurement and performance management, provides a discussion of the characteristics and types of measures, and discusses Departmental and local targets for performance.*

### **1. What is Performance Management?**

There are a wide range of definitions for performance objective, performance goal, performance measure, performance measurement, and performance management. To frame the dialog and to move forward with a common baseline, certain key concepts need to be clearly defined and understood, such as:

- **Performance objective.** This is a critical success factor in achieving the organization's mission, vision, and strategy, which if not achieved would likely result in a significant decrease in customer satisfaction, system performance, employee satisfaction or retention, or effective financial management.
- **Performance target or goal.** A target level of activity expressed as a tangible measure, against which actual achievement can be compared.
- **Performance measure.** A quantitative or qualitative characterization of performance.
- **Performance measurement.** A process of assessing progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services (outputs), the quality of those outputs (how well they are delivered to clients and the extent to which clients are satisfied) and outcomes (the results of a program activity compared to its intended purpose), and the effectiveness of government operations in terms of their specific contributions to program objectives.
- **Performance management.** The use of performance measurement information to effect positive change in organizational culture, systems and processes, by helping to set agreed-upon performance goals, allocating and prioritizing resources, informing managers to either confirm or change current policy or program directions to meet those goals, and sharing results of performance in pursuing those goals.
- **Output measure.** A calculation or recording of activity or effort that can be expressed in a quantitative or qualitative manner.
- **Outcome measure.** An assessment of the results of a program compared to its intended purpose.

## **2. Performance Measures**

Each performance objective should be supported by at least one measure that will indicate an organization's performance against that objective. Measures should be precisely defined, including the population to be measured, the method of measurement, the data source, and the time period for the measurement. Measures should be written as mathematical formulae, wherever possible.

### **A. Characteristics of Measures**

Ideally, measures should possess the following characteristics:

- **Objective** - not judgment calls.
- **Controllable** - the results are substantially in the hands of the organization with the effects of potential outside influences minimized.
- **Simple** - easily understood and measuring only one thing.
- **Timely** - frequently available indicators of recent or current performance.
- **Accurate** - reliable, precise, sensitive indicators of results.
- **Graded** - trackable data available before system failure-not binary yes/no measures.
- **Cost-effective** - providing data worth the cost of gathering it.
- **Useful** - providing data necessary for the organization to manage the business.
- **Motivating** - achieving the targets should drive good business decisions-not over expenditure, over compliance, or other sub-optimization.

### **B. Types of Measures**

Types of measures normally include the following:

- *Core Measures.* These are measures the Department expects all elements to employ where applicable. The formulae and methods for core measures shall be maintained as standard as is practicable from site to site.
- *Optional Measures.* These are measures suggested, but not required, by the Department, and may be useful indicators for assessing progress towards the predetermined core objective.
- *Local Measures.* These are measures, which have site or contractor specificity, that each

site may identify and include as part of their BSC.

- *Outcome and In-Process Measures.* Core, optional, and local measures may be outcome or in-process measures. All are indicators of performance (mission success in business systems). Outcome measures may be found in the Customer, Financial or Internal Business Process Perspectives. Outcomes are products delivered to customers. Outcome measures establish the current performance of a system.

In-process measures will drive future performance, and are no less important than outcome measures. However, success is only desirable in these metrics, to the extent that it leads to success in outcome measures. Success in these measures alone will not satisfy customers. Poor performance in these measures may be addressed in time to prevent negative impact on process outcomes and customer satisfaction. In short, in-process measures are management tools to drive and sustain performance.

### **C. Departmental Expectations/National Targets**

The Department has established Departmental expectations (desirable scores) for its core measures. These expectations or targets correlate to performance levels demonstrated by successful organizations. All sites shall strive to meet or exceed these expectations/targets. It is recognized that local situations are impacted by organizational alignment, structure, vision, strategic objectives, and current conditions.

### **D. Local Targets**

Each site may establish short-term local targets for core, optional and local measures. While these should provide aggressive “stretch” performance targets, they should be realistic. There is little benefit in creating unrealistic or unattainable targets for “optics.” It is expected that when targets are set below Departmental expectations, they will be set to stimulate substantial progress toward those expectations and will rise over time. Similarly, where organizations have already exceeded Departmental expectations, targets in excess of National averages may be maintained as part of continuous improvement.

It is understood that performance should not be driven beyond what is necessary to be supportive of the organizational mission, taking into consideration funding and resource realities (e.g., though it is always desirable to drive cost-effectiveness, it is recognized there is a point in performance or cycle time beyond which improvement does no service to the customer and could drive unnecessary costs.) Local targets may therefore not rise perpetually. When acceptable levels are achieved, these should be maintained and other performance areas emphasized whose improvement have greater strategic importance.

## **PART 4**

# **The Balanced Scorecard Performance Measurement and Management System**

*In this part, the framework of the Balanced Scorecard performance measurement and management system is discussed, including a description of the four perspectives of the assessment methodology.*

### **1. The Balanced Scorecard Approach**

The BSC is a performance measurement and performance management system developed by Robert Kaplan and David Norton (see “The Balanced Scorecard--Measures That Drive Performance,” Harvard Business Review, Jan-Feb 1992; and “The Balanced Scorecard-Translating Strategy into Action,” Harvard Business School Press, 1996) and has been adopted by a wide range of leading edge organizations, both public and private.

The BSC is a conceptual framework for translating an organization’s vision into a set of performance indicators distributed among four perspectives: Financial, Customer, Internal Business Processes, and Learning and Growth. Indicators are maintained to measure an organization's progress toward achieving its vision; other indicators are maintained to measure the long term drivers of success. Through the BSC, an organization monitors both its current performance (finances, customer satisfaction, and business process results) and its efforts to improve processes, motivate and educate employees, and enhance information systems--its ability to learn and improve.

### **2. The Four Perspectives of the Balanced Scorecard**

#### **A. Financial**

In government, and with DOE’s major site and facility management contractors, the “financial” perspective differs from that of the traditional private sector. Private sector financial objectives generally represent clear long-range targets for profit-seeking organizations, operating in a purely commercial environment. Financial considerations for public organizations, to include the DOE’s major contractors, have an enabling or a constraining role, but will rarely be the primary objective for business systems. Success for such organizations should be measured by how effectively and efficiently these organizations meet the needs of their constituencies. In government, and for DOE’s contractors, this perspective captures cost efficiency, delivering maximum value to the customer for each dollar spent.

## B. Customer

This perspective captures the ability of the organization to provide quality goods and services, effective delivery, and overall customer satisfaction. For purposes of this model, both the recipient of goods and services (the internal customer) and the sponsor/overseer (DOE) are regarded as customers of the business processes. In a governmental model, or for DOE contractors, the principal driver of performance is different than in the strictly commercial environment; namely, customers and stakeholders take preeminence over financial results. Recognizing that budgets are limiting factors, public organizations and DOE contractors have a greater stewardship responsibility and focus than do private sector entities.

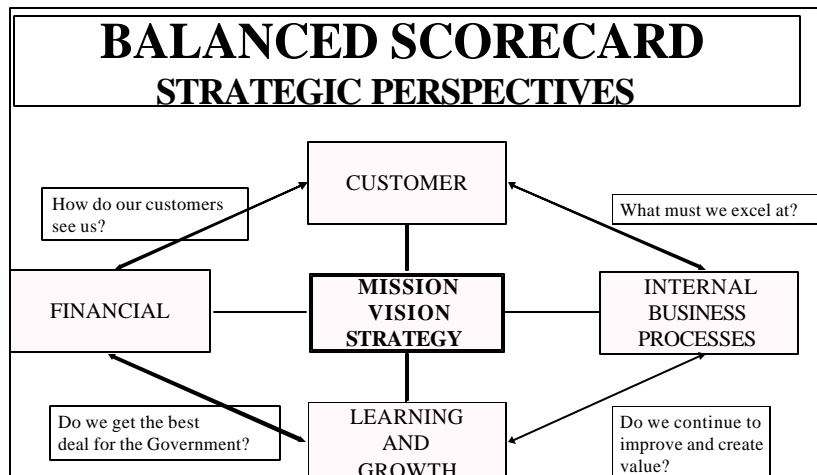
## C. Internal Business Processes

This perspective provides data regarding the internal business results against measures that lead to financial success and satisfied customers. To meet the organizational objectives and customers' expectations, organizations must identify the key business processes at which they must excel. Key processes are monitored to ensure that outcomes are satisfactory. Internal business processes are the mechanisms through which performance expectations are achieved.

## D. Learning and Growth

This perspective captures the ability of employees, information systems, and organizational alignment to manage the business and adapt to change. Processes will only succeed if adequately skilled and motivated employees, supplied with accurate and timely information, are driving them. This perspective takes on increased importance in organizations, like DOE and its contractors, that are undergoing radical change. In order to meet changing requirements and customer expectations, employees may be asked to take on dramatically new responsibilities, and may require skills, capabilities, technologies, and organizational designs that were not available before.

The following figure visually depicts the global BSC framework.





## PART 5

# Selection of Performance Objectives and Measures

*This Part summarizes the process used to establish the core measures and how they will be used, and provides samples of organizational-specific measures for acquisition.*

### **1. Establishing Measures for an Acquisition System**

The term “core objectives and measures” as used throughout this document refers to the common set of objectives and related measures used in order to determine progress towards pre-determined strategic states, and to facilitate benchmarking within the acquisition arena. Individual organizations, both Federal and non-federal, may add additional objectives and measures as necessary to implement organization-specific strategic and tactical planning goals.

The guiding principles of the FAR are:

“1.102 Statement of guiding principles for the Federal Acquisition System.

(a) The vision for the Federal Acquisition System is to deliver on a timely basis the best value product or service to the customer, while maintaining the public’s trust and fulfilling public policy objectives. Participants in the acquisition process should work together as a team and should be empowered to make decisions within their area of responsibility.

(b) The Federal Acquisition System will--

(1) Satisfy the customer in terms of cost, quality, and timeliness of the delivered product or service by, for example—

(I) Maximizing the use of commercial products and services;

(ii) Using contractors who have a track record of successful past performance or who demonstrate a current superior ability to perform; and

(iii) Promoting competition;

(2) Minimize administrative operating costs;

(3) Conduct business with integrity, fairness, and openness; and

(4) Fulfill public policy objectives.

### **Federal Procurement Systems :**

For Federal systems, the Federal Acquisition Regulation (FAR) provides a standard to focus on, with each perspective of the BSC requiring separately identified goals and measures that would help us see how well we are progressing toward each goal.

The core measures contained in the Federal BSC are designed to determine if we are performing our basic functions well and whether or not we are accomplishing the guiding principles of the FAR. Although the BSC assessment model has not been created for the sole purpose of relative comparison among the participating organizations, we believe that the measures do provide an adequate basis for comparing how well each organization’s acquisition system is functioning.

#### **970.4402 Contractor purchasing system**

*The following shall apply to the purchasing systems of management and operating contractors:*

...(d) Contractor purchasing systems shall identify and apply the best in commercial purchasing practices and procedures (although nothing precludes the adoption of Federal procurement practices and procedures) to achieve system objectives. Where specific requirements do not otherwise apply, the contractor purchasing system shall provide for appropriate measures to ensure the:

- (1) Acquisition of quality products and services at fair and reasonable prices;**
- (2) Use of capable and reliable subcontractors who either (i) Have track records of successful past performance, or (ii) Can demonstrate a current superior ability to perform;**
- (3) Minimization of acquisition lead-time and administrative costs of purchasing;**
- (4) Use of effective competitive techniques;**
- (5) Reduction of performance risks associated with subcontractors, and facilitation of quality relationships which can include techniques such as partnering agreements, ombudsmen, and alternative disputes procedures;**
- (6) Use of self-assessment and benchmarking techniques to support continuous improvement in purchasing;**
- (7) Maintenance of the highest professional and ethical standards; and**
- (8) Maintenance of file documentation appropriate to the value of the purchase and which is adequate to establish the propriety of the transaction and the price paid.**
- (9) Maximization of opportunities for small business, HUBZone small business, small disadvantaged business, and woman-owned small business concerns to participate in contract performance**

#### **Contractor Purchasing Systems:**

For contractor purchasing systems, DEAR 970 identifies the objective of a management and operating contractor's purchasing system; i.e., to deliver to its customers on a timely basis those best value products and services necessary to accomplish the purposes of the Government's contract. To achieve this objective, contractors are expected to use their experience, expertise and initiative consistent with this subpart. The purchasing systems and methods used by management and operating contractors shall be well-defined, consistently applied, and shall follow purchasing practices appropriate for the requirement and dollar value of the purchase. It is anticipated that purchasing practices and procedures will vary among contractors and according to the type and kinds of purchases to be made.

It must be kept in mind that contractor purchases are not Federal

procurements, and are not directly subject to the Federal Acquisition Regulation in 48 CFR. Nonetheless, certain Federal laws, Executive Orders, and regulations may affect contractor purchasing, as required by statute, regulation, or contract terms and conditions.

In addition, DEAR 970.0370 requires that contractors develop and maintain management and quality control systems that discourage waste, abuse, and fraud. These systems must also ensure that the products and services provided to DOE meet required specifications. Contractors must maintain management control systems which:

- Are documented and satisfactory to DOE.
- Ensure that all levels of management are accountable for effective management systems and internal controls within their areas of assigned responsibility.
- Cover both programmatic and administrative functions.

- Provide reasonable assurance that government resources are safeguarded against theft, fraud, waste, and unauthorized use.
- Promote efficient and effective operations.
- Ensure that all obligations and costs incurred are in compliance with the contract's terms and conditions and intended purposes.
- Properly record, manage, and report all revenues, expenditures, transactions and assets.
- Maintain financial, statistical and other reports necessary to maintain accurate, reliable, and timely accountability and management controls.
- Are periodically reviewed to ensure they are adequate to provide reasonable assurance that the objectives of the system are being accomplished and that these controls are working effectively.
- Are in accordance with the Comptroller General's standards for internal controls, as set forth in the General Accounting Office Policy and Procedures.

## **2. The DOE Balanced Scorecard Program**

The DOE balanced scorecard (BSC) is a functional component of the Departmental business systems performance measurement and management program. Federal and contractor systems are expected to achieve the most effective combination of performance results in accordance with Departmental expectations, customer requirements, laws, regulations, good business management practices, contractor management objectives, and the terms and conditions of their contracts, as appropriate.

The core objectives and performance measures established under this program for the Federal and contractor organizations are applicable to all activities. Under the BSC program, performance objectives and measures are established, targets are assigned and measurements taken. Formal documented self-assessments are the principal data generating or gathering source. Measurements are formulated to report status of performance to management and the customer and the feedback cycle drives improvement actions as appropriate.

The core objectives and measures contained in the Federal and contractor BSCs are to be used by participating activities to monitor their business processes. The initial step in each area will be to establish a baseline against which future performance will be compared. The objective should be to measure trends in continuous improvement affecting the organization's performance. To ensure this data is trendable and reliable, the method used to establish the baseline should also be applied in subsequent assessments. It is recognized that the results may not be directly comparable from one purchasing management activity to another.

**Note: Because core measures and associated targets change on a periodic basis, the current core measures and targets for the DOE Federal and contractor BSC programs are not included here, but are available on the Internet at “<http://professionals.pr.doe.gov>”. As objectives and/or measures and targets are modified or updated, they will be issued independent of this Guide by the Procurement Executive and made available at the above web site. However, below we have illustrated examples of the types of measures that are important to procurement organizations.**

## **A. CUSTOMER PERSPECTIVE**

For this perspective, “customer” means the government end-user of the contract. This includes direct internal customers and, for multi-organization acquisitions, direct or external customers.

- ***% of customers satisfied with timeliness.*** This is the customer’s degree of satisfaction with the timeliness of the delivery of products or services and other factors affecting the acquisition schedule. The timeliness category may include an assessment of the following:
  - Are products and services delivered when needed?
  - Are milestones consistently met?
  - Is planning performed early in the acquisition process?
  - Is communication consistent and effective?
  - Does the acquisition office do a good job in preventing problems which may lead to delays?

***% of customers satisfied with quality.*** This is the customer’s satisfaction with the quality of goods and services delivered. “Quality” also includes an assessment of whether or not contractors selected for awards offer the best combination of quality and price.

- ***% of customers satisfied with the responsiveness, cooperation, and communication skills of the acquisition office (i.e., the “professionalism” of procurement staff).*** The perceptions, choices, and behavior of all participants in the acquisition process affect the outcome of any acquisition. This element is based upon the degree of responsiveness of the acquisition team, the success of mechanisms which support teaming, and the degree of satisfaction with communications and problem solving.

## **B. FINANCE PERSPECTIVE**

- ***Cost to spend ratio.*** This element represents the cost for each office to spend one dollar of their customer’s funds. This figure is calculated by dividing the operating cost of each office by the total obligations of that office. The amount for total obligations is taken from the FPDS-NG. The cost of operating each office includes: salaries, training, and contractor support. (It is recognized that these elements of cost

may not capture the entire cost of the acquisition system, but the decision was made not to attempt to quantify indirect costs).

In addition, due to the variation in acquisition system organizational structures across the Federal agencies, the result of this cost to spend measure may not be directly comparable, one organization to another. Cost to spend measurements should be looked at as only one of the indicators of the current status of the acquisition systems' efficiency. The most important focus should be on improvements themselves. Benchmarking across, and outside of, Federal agencies can provide avenues of inquiry for identifying best practices for possible adoption, and should also be one of the techniques used to facilitate performance improvement.

### C. INTERNAL BUSINESS PROCESSES PERSPECTIVE

- ***% of actions using Electronic Commerce.*** This element represents the total number of acquisition actions processed through the use of electronic commerce.
- ***% of actions competed.*** This element assumes that cost savings, greater quality, and/or better sourcing are generally achieved through the use of competition versus non-competition. This element tracks the organization's percentage of competitive procurements and percent of dollars obligated as a percentage of total procurements.
- ***% of service contracts issued as performance-based.*** This element measures the percent of service contracts issued as performance-based, and the percent of service contract dollars obligated as performance-based.

### D. LEARNING AND GROWTH PERSPECTIVE

- ***Extent of reliable management information.*** This measure captures the extent to which the managers of the procuring activities believe they have timely, accurate, and complete information to make management decisions.
- ***% of employees meeting mandatory qualification standards.*** This measure identifies the percentage of acquisition employees (GS-1102 only) that meet the mandatory education, training and experience requirements as identified in the OPM Contract Specialist Qualification Standards. It will be calculated by dividing the number of acquisition employees that meet the education, training, and experience requirements by the total number of acquisition employees in the organization.
- ***% of employees satisfied with the work environment.*** In order to retain high quality acquisition professionals, and enhance worker performance, the work environment must be pleasant and include the necessary resources for accomplishment of work. This measure represents the employees' degree of satisfaction with items such as tools provided (e.g., information technology, reference material, etc.) working conditions, and reward mechanisms.

- ***% of employees satisfied with the professionalism, culture, values and empowerment.*** Management plays a vital role in the operation of each acquisition team by directing, motivating, and leading their personnel. Acquisition leadership should foster a professional environment that promotes the efficient and effective acquisition of goods and services from responsible contractors. This measure includes an assessment of the employee perception of organizational professionalism, culture, values and empowerment.

### **3. Initial Selection, Addition, and Deletion of Performance Measures**

Many reasons exist for selecting a particular performance measure. In most instances, however, the reason for selecting a measure should fall within one or more of the following:

#### **A. Customer-focused**

In most organizations, customer perception of product/service cost, quality, timeliness, and service-provider responsiveness plays a significant role in organizational success. As a result, performance measures should be created that monitor product/service cost, quality, “speed” and service.

#### **B. Strategic Considerations**

Senior management is responsible for guiding organizational performance in a direction that will ensure accomplishment of strategic goals. Once strategic goals are defined, performance measures can be developed that will help stimulate performance towards achievement of pre-determined objectives and in the desired strategic direction.

#### **C. Critical Few**

Performance measures should constitute those which are determined critical to achieving customer satisfaction and service, as well as organizational, informational, workforce, and business process improvements, and other strategic objectives. Too many measures will diffuse the focus of the organization and the measurement process.

The core measures used in the Federal procurement and contractor purchasing models were established by cooperation between DOE Headquarters and DOE field elements (for the federal program) and DOE Headquarters, DOE field elements, and contractor purchasing organizations (for the contractor purchasing program). Cooperation between participating parties is expected to continue in the creation and deletion of core performance measures. All Federal offices and participating contractor purchasing organizations are required to include all core measures in their assessment programs, unless a particular core measure is not applicable. Any other instance of non-inclusion must be discussed with the DOE Headquarters Office of Contract Management (ME-62) prior to finalization of the organization’s annual assessment plan.

Although many factors exist that can influence any decision to add or delete a measure, the following criteria will be followed to the extent possible:

- *Each measure will be retained for multiple years, usually not less than three years.* Assessment of performance under the BSC methodology is dependent upon trend data established over time. A one-time-only assessment will provide a “snapshot” of current performance, but it does not provide a reliable assessment of where the organization is going. As a result, it does not make much sense to create a performance measure that will be utilized for one assessment period only. Therefore, in general, each core measure developed will be used for several years before any decision to delete is made.
- *In general, measures will be maintained for strategic purposes.* The BSC is a strategic tool whose objectives and measures are focused on strategic change. Therefore, when performance has reached stable levels of excellence, objectives and measures may be adjusted to focus on new directions and areas needing attention. However, because of the importance of excellent performance in certain areas (e.g. customer satisfaction, statutory and regulatory compliance), even when organizations achieve a high level of consistent performance, organizations still need to keep focused on these performance areas, and have an assessment system that provides the organization with immediate notification if performance begins to slip.
- *DOE Headquarters (Federal program) or DOE Headquarters or field element (contractor program) may mandate the inclusion of a performance measure.* In certain circumstances, DOE may require the inclusion of a measure without the participation or agreement of affected parties. These circumstances will be limited to instances where specific measurement is directed by law or regulation, or is deemed critical to guide organizational performance in a direction necessary to accomplish strategic goals.

## PART 6

### **Compliance, Operational Awareness, and Reasonable Assurance**

*In this part, a discussion is provided of the importance of ensuring that procurement and purchasing organizations conform with appropriate laws, regulations, contract terms and conditions, etc. In other words, besides focusing on results, an acceptable performance assessment methodology in a government organizational environment must also consider organizational compliance issues.*

#### **1. General**

The DOE Procurement Executive and contracting activities are responsible for ensuring conformance with laws, regulations, terms and conditions of contracts, and performance sufficient to meet Departmental expectations, including routine compliance activities, business systems surveillance, and validation and verification of measurement techniques and data. Together, these administrative activities can be described as operational awareness. More specifically, operational awareness is the continuous attention to those activities which enable an organization to determine how well it is meeting predetermined performance objectives.

#### **2. Quality Assurance**

Consistent with the need for control systems which prevent or detect unauthorized or undesirable activities, procurement organizations must have a quality assurance program which provides adequate supervision and sufficient independent checks and balances to provide reasonable assurance that the expectations set, and the objectives established, for the procurement system are achieved. Quality assurance is also important in achieving and maintaining a high level of credibility.

The policies, plans, and procedures designed and implemented by management should be sufficient to reasonably ensure prevention and/or detection of noncompliance with applicable laws, regulations, terms and conditions of contracts, and good business management practices.

An integral part of a satisfactory procurement system is a management control process that includes periodic reviews performed by qualified persons who are independent of the organization and who do not have any real or apparent conflict of interest. These assessments must ensure that the system and associated processes are adequate to provide reasonable assurance that the objectives of the system are being accomplished and that these controls are working effectively. “Qualified individuals” are persons with the technical proficiency and educational background appropriate for the procurement activities under review. “Independent of the organization” means the individual is not a part of, or under the control of, the area being assessed. (See, also, the related discussion in Section 5, Peer Review, of this Part.)



Management is responsible for initiating such corrective actions as are necessary to achieve compliance and to achieve predetermined objectives.

### **3. Risk Assessment**

All organizations encounter risk. There is no practical way to reduce risk to zero. Accordingly, management must continually make judgments as to the level of risk it is willing to accept. (For the purpose of this guidance, risk is the probability that an event or action may adversely affect the organization.)

Risk assessment is the systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. The risk assessment process can provide a means of organizing and integrating professional judgments in developing the review work schedule. In designing an assessment program, managers should perform a risk assessment and assign those areas constituting the greatest risk to the earliest and most frequent evaluation, monitoring and testing.

### **4. Compliance Activities**

Procurement systems must be evaluated periodically to assess basic compliance with system requirements, including laws, regulations, terms and conditions of contracts, ethical standards, and good business management practices, as appropriate. This periodic assessment of compliance activities is required by the regulations and is, accordingly, an important part of the Balanced Scorecard Program. A core performance measure related to compliance is included in the slate of core measures for Federal offices (Acquisition Excellence), and for contractor organizations (Effective Internal Controls). The results of the periodic compliance reviews represent a key source of information for organizations assessing performance under these core performance measures. In the case of contractor purchasing organizations, the results of these reviews also serve as input to the CO on purchasing system acceptability.

A compliance review of each Federal and contractor procurement office is to be conducted at least once every three years. This formal review of compliance activities is needed to assist Federal and contractor site procurement management in justifying the assessment rating of compliance under the BSC program as mentioned above. It is also needed to assist Federal offices in their contract administration responsibilities in conjunction with their major site contractors, and is needed for HQ assurance of satisfactory compliance by Federal field procurement offices and contractor purchasing systems as part of the HQ oversight responsibility.

In the conduct of these compliance reviews, Federal procurement and contractor purchasing organizations are to abide by the following requirements:

- Federal Offices: Federal offices are to use the *Acquisition and Financial Assistance Self-*

*Assessment Checklist*. It contains a detailed checklist of compliance standards and review questions that Federal offices are to use when conducting the compliance portion of the self-assessment. The process and the timing by which Federal procurement directors structure their assessment activities may vary, so long as the cumulative results of compliance evaluations are sufficient to provide accurate, comprehensive, and timely information. Flexibility is permitted in the timing of the review (i.e. either a total review once every three years, a partial review each of the three years, etc.) as long as all appropriate review criteria are covered at least once every three years. The *Acquisition and Financial Assistance Self-Assessment Checklist* document is available on the internet at the DOE Procurement Homepage (<http://professionals.pr.doe.gov>).

- **Contractors:** The contractors are to follow the requirements of the *Contractor Peer Review Program*. This program was established by the Procurement Evaluation and Reengineering Team (PERT). The program represents a partnering of Federal and contractor personnel in evaluating the efficiency and effectiveness of contractor purchasing systems as defined in the prime contract and in applicable statutes and regulations, and as implemented by the contractor's policies and procedures. The program provides for the establishment of a peer review team that will conduct the compliance review of the contractor's purchasing system, and will also validate Balanced Scorecard assessment results. The program provides for standardized review criteria that will be used in the compliance review. As needed, both the contractor and the CO will participate in modifying the standardized criteria to fit specific requirements, and in developing additional criteria needed to fit local purchasing practices.

The *Contractor Peer Review Program* is mandatory for all contractors participating in the Balanced Scorecard program. However, since the CO is ultimately responsible for contractor purchasing system review and approval, the CO may determine that a particular peer review needs to be supplemented in some fashion, or replaced by another approach (e.g., a formal CPSR done in accordance with FAR 44.3, etc.). In this event, it will be necessary to get the concurrence of the Procurement Executive prior to conduct of the compliance review. The *Contractor Peer Review Program* document is available on the internet at the DOE Procurement Homepage (<http://professionals.pr.doe.gov>).

## **5. Peer Review**

One of the critical elements of a credible DOE procurement performance measurement and performance management system is the level of competency, independence, and objectivity of those assessing the operation of the systems, both Federal and contractor. To facilitate such credibility, an integral part of all procurement systems assessments will involve some level of independent peer review.

This review approach shall consist of involvement by knowledgeable contracting professionals and personnel from related disciplines that are from outside the organization being reviewed. These personnel are to be involved in the design and conduct of the review, in the verification

and validation of review policies, procedures, practices, and in the resolution of review findings. Those from outside the organization can include staff from other sites, federal/contractor counterparts, internal auditors, other organizational performance evaluation staff, independent commercial sources, or Headquarters personnel. As far as the compliance component of the BSC self-assessment process is concerned, contractor participation in the required Contractor Peer Review Program described earlier in this Part will satisfy peer review requirements. However, there shall be involvement by the Cognizant Contracting Officer, or designee, in the BSC design, planning, conduct and evaluation of results by the contractors of their purchasing systems and activities, including participation in the planning, execution, and resolution of internal compliance activities to ensure that the resulting information is used for continuous improvement.

The overall point of the peer review requirement is to ensure that independence and objectivity are maintained and that there is no financial, organizational, or personal relationship that will prevent the peer reviewer/evaluator from rendering impartial and unbiased judgment and opinions when performing this assignment.

## **6. Operational Awareness**

Factors influencing the level of operational awareness include: the nature of the work, the type of organization, and past performance. Accordingly, oversight organizations should maintain a relationship with the overseen organization and its management staff that affords on-going awareness of that organization's strengths and weaknesses, if any. This monitoring or surveillance is a fundamental part of operational awareness.

### **A. Surveillance**

1). Surveillance includes both formal and informal activities. Formal surveillance activities, based on specific criteria, are typically established in writing and provided to the organization. Surveillance, general in nature and usually conducted and reported orally, is an effective approach when circumstances require flexibility to accommodate changing emphasis, shifting priorities, or establishing rapport. There should be scheduled activities that provide for sufficient levels of operational awareness, a sampling of which follows:

- Hold periodic meetings between management staff with agenda items designed to fully communicate subjects such as current initiatives, status of problem areas and actions taken to date, scheduled and planned training, policy and procedure revision status of organizational or contract change implementation, as appropriate.
- Review status reports and trend analyses of performance measures, perform limited on-site review (if applicable) of selected areas of significant risk as appropriate, and

- Maintain awareness and involvement at a level such that a “for cause” issue is not a surprise.
- 2). When a “for cause” condition exists, certain surveillance activities may be assigned to other disciplines or functional areas. In these instances, supporting documentation resulting from the findings should be provided to the organization. Reports generated as a result of internal audits performed by independent auditors in special areas, and reviews conducted by other Federal personnel, such as the GAO and the Inspector General, are considered valuable diagnostic tools for the Cognizant DOE Office.
  - 3). Selected significant risk areas, as mentioned above, typically refer to those actions or activities that require compliance with laws, regulations and contract terms and conditions. Oversight of organizational self-assessments in these compliance areas is significant and accordingly, should be closely coordinated with that organization. There should be various control systems employed as necessary to ensure compliance and to test the currency and adequacy of the business system.
  - 4). The degree of monitoring and the formality of the Cognizant DOE Office’s/HQ’s oversight approach must be value-added, understood by both parties and commensurate with the business system status and consistent with the reasonable assurance that the system is meeting expectations.

## **B. Validation**

Validation is the process of determining the degree of accuracy and completeness of the measurement techniques and the resulting data. The DOE HQ Office of Contract Management, ME-62, will validate assessment practices and results for Federal offices. The Cognizant Contracting Officer will validate assessment practices and results for contractor purchasing systems (the Contractor Peer Review Program will assist in validating contractor results). More specifically, the cognizant oversight office will review and concur with the organization’s proposed assessment plan, which includes the processes, approaches, and data systems to be used. In particular, the cognizant oversight office must be able to determine the validity of the organization’s assessment techniques for measuring performance outcomes. The success of the assessment will depend largely on the mutually-agreed and understood performance objectives, measures, and expectations; the scope, depth, and effectiveness of the self-assessment; and, the integrity of the self-assessment.

## **C. Verification**

Verification is the process of substantiating a set of data results by such means as checking stated facts, citations, measurements or attendant circumstances. Procurement Directors are responsible for ensuring the verification of data results for the Federal offices. Contractor Purchasing Directors are responsible for verification of data results for their purchasing systems.

Verification of data resulting, for example, from the assessment and other operational awareness activities will, in part, formulate the basis of the approval of the business system. The data should be analyzed to determine its accuracy and that comparisons or benchmarks are valid.

Verification of narrative or statistical data should be tailored by data type. Interviews with selected internal and external customers and the organization's employees may also verify reported survey results. Trend analysis of the assessment results should reflect the factual information provided by the interviews with staff.

#### **D. Validation and Verification Suggestions**

The following suggestions can assist in the validation and verification of the assessment process and results:

- Mutually understand what and how the organization will measure performance;
- Be familiar with the data sources and methods that will be used in the calculations;
- Confirm that the collection methodology is accurate, complete, and timely;
- Confirm that the data is properly controlled; and
- Become familiar with the trend analysis techniques to be used and gain assurances that the organization's personnel are qualified in this area.

### **7. Reasonable Assurance**

When properly carried out, operational awareness activities should provide reasonable assurance that the business systems are operating in the best interests of the Government. Reasonable assurance is based on the collection and analysis of limited but critical data, from which inferences can be made and conclusions reached regarding the acceptability of the organization's management of the particular function. Sources for the data may include:

- On-going operational awareness activities,
- "For cause" reviews,
- Other reviews (e.g., Internal Audit, Inspector General, Defense Contract Audit Agency, and Contracting Officer appraisals), and
- Organizational self-assessments.

## PART 7

### Balanced Scorecard Assessment Plan

*This part provides a discussion of the BSC Assessment Plan that will be developed by each assessed organization prior to the beginning of the assessment period.*

#### **1. General**

Each organization under assessment will prepare an annual Balanced Scorecard Assessment Plan addressing the four perspectives of the BSC. The Plan shall address the following areas as a minimum:

- **Background Information.** This section identifies the DOE organization or contractor, Field Office or contract number, point of contact and telephone number, and if appropriate, the name of the Cognizant DOE Office, and CO name and telephone number. The date of the last system assessment (if applicable), scheduled date of the next assessment, status of the business system, and the current review thresholds shall also be listed in this section.
- **Identification of Assessment Review Personnel.** The specific names, titles, and corporate affiliation of individuals who are participating in the assessment shall be identified. It is essential that the assessments be conducted by technically qualified and results-oriented professionals.
- **Current Assessment (if applicable).** Describe improvement actions which have not been fully implemented from the most recent assessment; proposed improvements; and target completion dates. Significant areas shall be discussed in greater detail.
- **Assessment Activities** - The organization's assessment program (including review processes utilized) shall be described. A description of the specific review activities to be performed and sampling methodology used in conducting the assessment must be included in this section. Be sure to include a separate discussion of compliance activities as described in Item 4 of this part entitled "Administrative Issues Specific to Compliance."

#### **2. Planning for and Conducting an Assessment**

The assessment may be divided into phases. Within each phase, various activities should be accomplished to properly plan, coordinate, conduct, gather data, analyze results, and close-out the assessment activity for any particular review period.

The Plan will describe the depth and scope of the assessments. The depth and scope will be tailored to fit the breadth of the organization's activities. Organizations who have had significant areas for improvement identified from previous assessments of their system may merit additional attention in areas of weakness or of special interest or importance. To determine the extent of the assessment, the organization (contractor or Cognizant DOE Office, as appropriate) will review previous assessment reports (if applicable) and such other pertinent information as may be available within DOE. This may include surveillance reports, internal DOE reviews, Inspector General reports, GAO audits, other internal assessment reviews, system procedures, transactional reviews, and business management reviews.

### **3. Problem Analysis and Business System Improvement Action Planning**

Improvement action planning shall be based on the results of problem analyses, as applicable, for any less than satisfactory area of organizational performance. An effective problem analysis will identify the most basic reason for a problem, inadequate performance, or obstacle to improvement.

Once an assessment has been conducted, the organization shall brief the HCA, or DOE HQ as appropriate, describing any improvements to be undertaken to correct less than satisfactory areas identified in the assessment report. Agreement shall be reached on plans for performance enhancement activities. All such enhancement actions shall be completed within 12 months.

### **4. Submission of Assessment Plan to HQ**

Annual assessment plans for Federal and contractor purchasing offices are to be submitted to DOE HQ by October 15 of each year (unless date changed by memo from DOE HQ), prior to the beginning of the fiscal year being assessed. Contractor plans are to be submitted to the Cognizant DOE Office for review. The Cognizant DOE Office will provide the contractor with written comments on the sufficiency of the plan, and forward their comments and a copy of the contractor plan to DOE HQ.

### **5. Administrative Issues Specific to Compliance**

Both Federal and contractor purchasing organizations are expected to follow the plan guidelines listed above for structuring their BSC assessment plan. And as mentioned previously, a review of compliance activities is a key part of the BSC assessment process. However, due to the importance of compliance issues, Federal procurement and contractor purchasing organizations shall provide a *separate and distinct* discussion of compliance evaluation activities planned for the fiscal year as discussed in Section 4, Compliance Activities, of PART 6. For the Federal offices, this separate discussion shall cover the same information requested above for the BSC assessment plan. For the contractors (who are required to abide by the requirements of the Contractor Peer Review Program sponsored by the PERT) a discussion of the timing of any peer review for the upcoming year would be sufficient since team participants and other pertinent information would be controlled by the review team. For both Federal offices and contractor

organizations, if no formal compliance review is planned (e.g. because it was completed last year), then provide a discussion of the current status of corrective action implementation resulting from the most recent compliance review. Also, provide a discussion of the day-to-day review activities that focus on compliance. For example, what process(es) is/are in place to ensure that contracts are awarded in accordance with rules and regulations? Attachment of any current local policies and procedures relative to review of actions for compliance issues would be appropriate. As discussed in Part 6 of this Guide, when conducting compliance reviews, Federal offices are to use the *Acquisition and Financial Assistance Self-Assessment Checklist* as a starting point, modifying the criteria to suit local needs, or to up-date as needed. Major site and facility management contractors are to abide by the requirements of the *Contractor Peer Review Program*.



## PART 8

# Balanced Scorecard Assessment Report

*At the end of each assessment period, each organization must prepare a report of the assessment results which will be reviewed by the Cognizant DOE Office. This part describes the contents of the report.*

### **1. General**

The organization shall conduct the assessment in accordance with the previously prepared BSC Assessment Plan. After conduct of the assessment, the organization shall prepare a BSC Assessment Report which will be submitted to the Cognizant DOE Contracting Officer (for contractors) or DOE HQ Procurement & Assistance Management, Office of Contract Management, ME-62 (for Federal offices). This Report shall contain, at a minimum, the following information:

- **Introduction/Background.** This section identifies the contractor or DOE organization, contract number or field office, point of contact and telephone number, and if appropriate, the name of the Cognizant DOE Office. List the date of the most recent purchasing system approval (for contractors) and current review thresholds (if applicable).
- **Identification of Assessment Review Personnel.** The names, titles, and organizational/corporate affiliation of all individuals (including peer personnel) who participated in the assessment review shall be listed here.
- **Scope of Review Activities.** The assessment review activities that were completed are listed in this section. This summary shall be presented in sufficient detail to allow any reader to understand the significance of the information contained in the report. The status of open items from the prior assessment shall be discussed (if applicable). Problem analyses and improvement action planning shall be discussed for assessments of greater significance. Be sure to include a separate discussion of compliance activities as described in Item 3 of this part entitled “Administrative Issues Specific to Compliance.”
- **Trend Analysis.** Include analysis of trends as to how the performance over time indicates continuous improvement or opportunities for management attention.
- **Assessment of Perspective Trade-offs.** Include analysis of whether performance is “out of balance,” and what is being done to bring it back into balance.
- **Identification of Management Initiatives.** Include any process reengineering/redesign, training, or benchmarking opportunities for leveraging across

the DOE complex.

- **Root Cause Analysis.** Root cause analysis refers to the process of identifying the causal factors for an event or circumstance which, if corrected or eliminated, will prevent its reoccurrence. It is expected that managers will determine the real causes for occurrences, violations, problems, failures to achieve agreed to objectives or target levels of performance, less than satisfactory performance, etc.
- **Corrective Action Plans.** Improvement action planning should be based on the results of root cause/problem analyses, as applicable, for any less than satisfactory area of organizational performance. An effective problem analysis will identify the most basic reason for a problem, inadequate performance, or obstacle to improvement.

Once an assessment has been conducted, the organization shall brief the HCA, CO or DOE HQ, as appropriate, describing any improvements to be undertaken to correct less than satisfactory areas identified in the assessment report. Agreement shall be reached on plans for performance enhancement activities. All such enhancement actions shall be completed within 12 months if possible.

## **2. Data Reporting To DOE Headquarters**

Annual reports are required from both Federal and contractor entities. Federal office reports will be submitted directly to DOE HQ Office of Procurement & Assistance Management, Office of Contract Management, ME-62. Reports from contractors must be submitted to the Cognizant Contracting Officer who will analyze the results, and communicate results of the analysis to the contractor. The Cognizant Contracting Officer will then provide a copy of the contractor BSC report results to DOE HQ, along with a copy of the results of their analysis of the contractor submission. Submission of Federal reports, including copies of contractor reports, are to be submitted to DOE HQ by December 15 for the fiscal year just ending. Any change to this date will be made by memo from DOE HQ. The data submitted to DOE HQ will be used to generate Departmental expectations/targets for the performance measures for both the Federal and contractor BSC programs. DOE HQ will also develop Department-wide average scores for each of the BSC performance measures in the Federal and contractor BSC programs. In addition, DOE HQ will identify the names of those organizations who represent the top percentile for each measure. The intent here is to stimulate benchmarking among the Department's field offices and contractors. DOE HQ does not intend to release, outside of DOE, any other names or individual organizational data submitted. However, voluntary sharing of this information among field offices and contractors is encouraged.

### **3. Administrative Issues Specific to Compliance**

As with the discussion of the BSC Plan development, Federal procurement and contractor purchasing offices are requested to provide to DOE HQ, or the Cognizant Contracting Officer, a *separate and distinct* discussion of any compliance reviews conducted during the past fiscal year. Please include a complete discussion following the guidelines discussed in Section 1, General, above. Provide a general discussion of the review results, significant findings, etc. Also discuss corrective action needed, current status of these correction activities, etc.

## PART 9

# Using Performance Measurement Results to Effect Change

*This part provides a discussion of the importance of using performance assessment results in an appropriate fashion - one that helps ensure organizational success.*

Obviously, making constructive use of assessment results is critical if the organization is to improve, and perhaps, to survive. There are certain significant aspects of using the results of performance measurement that should be kept in mind when deploying a performance management system. They are as follows:

### **1. Performance Measurement Systems Must Provide Intelligence for Decisionmakers, Not Just Compile Data**

Performance measures should be limited to those that relate to strategic organizational goals and objectives, and that provide timely, relevant, and concise information for use by decisionmakers—at all levels—to assess progress toward achieving predetermined goals.

Although each organization is unique in how performance results can best benefit the organization, several concepts appear to apply across the board. They include the following:

#### **A. Assessment Results Must Provide Meaningful Information**

Management needs intelligent information for decision making. If properly constructed, the performance measures selected will result in data that is meaningful to decision makers in terms of improving organizational performance. The data generated should be timely, relevant, and concise. Assessment results should provide information on the efficiency of the production of goods and services, on how well current performance compares to intended programmatic purposes, and on the effectiveness of organizational activities and operations in terms of their specific contribution to program objectives. Numerous factors need to be considered when determining the effectiveness of assessment results. They include the following:

- Does the data indicate any performance trends over time and over projects/functional areas?
- Can the data be used to improve performance in areas other than the one(s) assessed?
- Have the correct performance measures been selected for assessing desired performance?
- Do the measures reflect priorities?
- Do the results reflect an understandable causal relationship between performance effort

and performance result?

- If performance targets are not met, what inhibited successful performance?
- If performance targets are significantly exceeded, are there additional benefits to the organization that can be gained in terms of reducing operating costs or improving performance?

### **B. Employing Supplemental Information Sources.**

An organization can leverage the BSC's power by supplementing BSC results with data from other sources that provide information on the "health" and direction of the organization. Such information provides a more detailed picture of an organization's external environment and internal capabilities. It can also identify issues or problems not otherwise reflected in BSC results. This in turn helps the organization to interpret BSC results with a fuller understanding and make appropriate adjustments to its strategies. Useful sources for the acquisition function include:

- Agency protest statistics/ombudsman activities
- Workforce training and education data
- Performance-based service contract reports
- Debarment and suspension statistics
- Inspector General reviews
- General Accounting Office reviews
- Internal Audit reports

### **C. Assessment results must be properly analyzed**

Understanding what a particular result really means is important in determining whether or not it is useful to the organization. Data by itself is not useful information, but it can be when viewed from the context of organizational objectives, environmental conditions, and other factors. Proper analysis is imperative in determining whether or not performance indicators are effective, and results are contributing to organizational objectives.

## **2. Results Must Be Used or No One Will Take Them Seriously**

This seems so obvious that it should not need to be stated. Nevertheless, assessments are often followed with little effective analysis of results, or honest attempts at improved performance. The following represent some of the ways that leading organizations, both public and private, use performance information to improve performance, manage risk, and support decision-making:

### **A. Gap Management**

Performance results can be used to determine gaps between specific strategic objectives and/or annual goals and actual achievement. The root causes of these gaps are analyzed, and countermeasures developed and implemented. Whenever there is a gap between current results and an organization's objectives, it is an opportunity for process improvement. Reengineering and redesign are a frequent response to the identification of gaps between objectives and achievement, and are usually very effective, particularly when they include "process flow analysis" which requires a detailed examination of the existing process(s) and allows for exploration of alternate procedures within a process. Process flow analysis is especially useful when BSC results indicate performance gaps in the areas of timeliness, purchasing costs or efficiency. Understanding which key processes need the most attention, and then aggressively addressing the differences between current performance and the desired end state is a hallmark of successful organizations.

### **B. Self-diagnosis**

A contracting or purchasing activity can use the information for "self-diagnosis." BSC data together with other reports and statistics can help the activity anticipate and resolve issues before they become problems, or at least minimize the effect of problems by early action. Information from other reports and statistics may also indicate the need to adjust BSC strategies and measures.

### **C. Enhancing Strategic Feedback and Learning**

Kaplan and Norton recommend that, in addition to tracking progress on past results, managers can use the BSC to learn about the future. Managers should discuss not only how they achieved past results, but also whether their expectations for the future remain on track. Changes in the environment (e.g., new technology, legislative initiatives, etc.) may create new opportunities or threats not anticipated when the managers developed their initial strategies. If an organization followed established strategies, but did not achieve target results, managers should examine internal capabilities and assess whether the underlying strategies remain valid. Based on such analyses, managers may adjust or redirect their strategies or identify new strategies. This focus serves as a foundation for effective process improvement and risk management. It also completes a feedback loop that supports decision-making at all levels of the organization.

## **D. Benchmarking**

An organization can use the BSC to benchmark its performance against other organizations. Benchmarking helps to get a picture of how the organization's procurement function performs compared to others. It also serves as one input for developing target goals. However, the strength of benchmarking is not in identifying best performance, but in learning best practices. That is, the organization should identify, study, analyze, and adapt the "best practices" that led to the "best performance." Understanding the best practices helps managers to make better-informed decisions about where and how to change their organization.

To make valid comparisons, the organization should consider how the other organization is both similar and different. Common factors to consider, whether selecting another agency or an industry for benchmarking, include:

- Is the total size and budget similar?
- Is the amount spent on acquisition comparable?
- Is the percent of total budget spent on acquisition similar?
- Does the other organization have a similar mission or perform work of comparable complexity?
- Are the products and services acquired similar?

Several sources have information available for benchmark comparisons:

- An organization can compare its performance on the core measures identified in this BSC to other Federal agencies that use the same measures.
- Other agencies may also have similar supplemental organization-specific measures.
- The Center for Advanced Purchasing Studies (CAPS) reports on numerous industries plus municipal governments and state/county governments on many standard benchmarks.
- The FPDS contains information useful for comparing several financial and internal business process measures (e.g., percent of acquisition dollars awarded competitively, percent of acquisition dollars spent on commercial items, etc.).

## **E. Oversight and Compliance**

The Procurement Executive can use the BSC and supplemental data to support oversight and compliance activities. Results of BSC measures and other reports and statistics help highlight areas of concern. If BSC measures are properly aligned with significant objectives, then review efforts should be focused where they will have the most benefit. Reviews should analyze the

cause of concern and identify appropriate remedies (e.g., recommending changes in operational practices, clarifying existing or developing new policies, eliminating or revising policies that create problems, eliminating non value-added activities, etc.). The BSC also provides a framework for reporting to the agency head, chief executive officer, laboratory director, Congress, and OMB.

#### **F. The Business Case**

In addition to strategic feedback and learning, managers can also use the BSC to build a strong, sound business case to support proposals for changes or requests for resources. The BSC illuminates links between strategies, measures, and expected outcomes at different levels in the organization, and across different operational components. This provides a framework for explaining how and why a proposed change will benefit the organization and the expected effect on linked components. For example, a contracting activity could use the BSC to demonstrate how a proposed change to processing requisitions would improve its efficiency and also benefit program mission accomplishment.

The BSC also provides the framework for justifying requests for resources. For example, in presenting the annual budget request, a manager can use the BSC to demonstrate the expected results from a given level of funding. Similarly, the manager could use the BSC to defend requests for increases in resources, by showing how additional resources would improve results for one or more measures.

#### **G. Cross-functional Problem Solving**

By illuminating the links between strategies, measures, and expected outcomes at different levels in the organization, and across different operational components, the BSC also encourages cross-functional problem-solving. For example, the procurement office may identify a Department-level or corporate policy that impedes its ability to accomplish a certain objective. The Office could raise the issue, using the BSC to demonstrate the cause-and-effect relationship, and work together with the appropriate management toward a solution. Or a procurement office may work with finance to establish an electronic system for receiving and processing invoices that benefits the performance of both organizations.