GUIDANCE FOR AWARD FEE CONTRACTING

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AWARD FEE CONTRACTS

A. INTRODUCTION

An award fee contract provides an additional profit or fee amount that may be awarded, in whole or in part, based upon periodic evaluations of ongoing contractor performance. An award fee arrangement does not include predetermined targets and automatic profit or fee adjustment formulas; instead, the award fee determination is a judgmental one, made unilaterally by the Government and, not, subject to conventional Disputes clause procedures.

The award fee contract provides not only profit or fee motivation, but also the motivation resulting from periodic evaluations by one's professional peers. In addition, it offers evaluation flexibility, in two forms:

(i) the flexibility to evaluate on a judgmental basis, taking into consideration both contractor performance levels and the conditions under which such levels were achieved; and

(ii) the flexibility to adjust evaluation plans quickly to reflect changes in Government management emphasis or concern.

This combination of contractor motivation and evaluation flexibility can prove advantageous in the situation making necessary use of a cost reimbursement type contract. It also can encourage more effective communications between the parties and foster a kind of management discipline (on the part of both Government and contractor) that is often difficult to sustain in other than an award fee environment. For this reason, many believe the award fee approach is as much a management tool as an incentive contract type.

In both selecting and implementing the award fee approach, consideration must be given to certain interrelated factors such as the size, complexity, and relative priority of the procurement, the availability of Government resources to monitor and evaluate performance, and the benefits anticipated. In this regard, just as we would not expect all managers to manage alike, so we would not expect all award fee contracts to be structured and administered in the same way. Evaluation plans and organizational structures should be tailored to meet the management needs of the particular situation. In most cases, this kind of careful tailoring can prevent the situation in which the award fee administrative burden is out of proportion to the improvements expected in the quality of the contractor's performance, and in overall project management.

B. STRUCTURE

While combinations with other contract types are possible (see paragraph B.6 below), most award fee contracts are of the cost-plus-award-fee (CPAF) type. CPAF contracts include an estimated cost, base fee, an award fee, a maximum fee (the sum of the base and award fee amounts), and a fee payment plan. The contract also include a provision specifying that award fee determinations will be made unilaterally by the designated Fee Determination Official, in accordance with an approved evaluation plan, and that such determinations will not be subject to appeal under the Disputes clause of the contract.

The performance evaluation plan normally is not included in the contract, thus preserving the Government's right to alter the plan unilaterally to reflect any changes occurring in management emphasis or concern. if the plan is included in the contract, then a provision should be inserted specifying that the Government retains the unilateral right to amend the plan on a prospective basis. In either case, the contractor must be informed of any changes, and should be given a copy of the current plan in advance of the evaluation period or periods to which it applies.

1. Developing the Evaluation Plan - In developing a performance evaluation plan, keep in mind that the plan should:

Motivate the contractor to make the best possible use of company resources to improve performance.

Provide for an equitable and timely evaluation process.

Communicate evaluation plans and procedures, and anticipate the establishment of effective, two-way communications between the contractor and those Government personnel responsible for evaluating performance and making award fee determinations.

Anticipate an evaluation of both performance levels and conditions.

Assure an administrative effort commensurate with the particular situation.

Charter an effective organizational structure to administer the award fee provisions.

Be kept as simple as feasible, for the simpler the plan, the more effective it is likely to be. In short, the objective should be a workable plan with a high probability of successful implementation.

Depending upon the mission or agency involved, the evaluation plan may be identified by titles such as Award Fee Determination Plan (AFDP), Performance Evaluation Plan (PEP) Award Fee Plan (AFP), or Award Fee Evaluation Plan (AFEP). Whatever the title, however, the plan generally includes certain principal features.

Introduction
The organizational structure for award fee administration.
Evaluation requirements. The method for determining award fee
The method for implementing any changes in plan coverage.

Exhibit A at the conclusion of this guide is a sample format incorporating these features, and may prove useful for checklist purposes in the development of actual evaluation plans.

Its inclusion in this paper is for illustrative purposes only, and does not imply any endorsement or advocacy for its use. Keep in mind that each evaluation plan must be tailored to the particular situation.

2. Fees - CPAF contracting assumes an ability to evaluate performance and determine, on a judgmental basis, whether and to what extent such performance merits an award fee amount over and above the base fee established. Inherent in this assumption is the level of performance in mind. Base fees generally are factors covered by FAR 16.4, but in an amount commensurate with that (in certain cases, this amount may be zero). The award fee potential should then be of sufficient size to reward the contractor through all levels of performance in excess of minimum acceptance.

The sum of the base fee and award fee object should reflect the character and difficulty of the contract effort. When evaluated in light of the profit analyst is factors in FAR, this sum should be sufficient to compensate the contractor for outstanding performance. Award fee adjustments represent increases from base fee and, depending upon actual performance as evaluated in accordance with the pertinent evaluation plan, the contractor may earn all, part or none of the amount available. If award fee concepts are successful in motivating the contractor toward the achievement of excellent or outstanding performance, then the expected result is a total fee amount greater than the fixed fee that might have been established, assuming use of a CPFF contract.

Maximum fee is the sum of base fee, award fee, and any other incentive fee payable under the contract. It is subject to FAR administrative limitations of not more than 15% of estimated contract costs (exclusive of fee) in the case of CPAF contracts for experimental, developmental or research work; and 10% of such estimated costs in the case of all other CPAF contracts.

Base fee normally are made on a monthly basis as part of the cost voucher process, in a manner similar to the payment of fixed fees under CPFF contracts. Award fee earned is paid on a periodic basis consistent with the evaluation cycle. The award fee earned should be paid promptly after the award decision has been made for each evaluation period, and care should be taken to assure that a sufficient portion of the award fee potential has been set aside in advance of the time when needed for payment.

There may be situations where a CPAF contract involves a lengthy performance period, with a significant portion of the total award fee potential reserved for evaluation periods or milestones occurring relatively late in that performance period. Under these conditions, consideration may be given to the establishment of a billing/provisional fee higher than base fee but lower than the amount available for maximum fee. Where an approach of this type is adopted, the contract should provide that payment will be made on the basis of a lesser fee rate (not below base fee) whenever there is any indication that the provisional rate will not be achieved. The contracting officer must be alert to any such indication and, on an annual or more frequent basis if required, should review the status of these provisional payments and make any necessary adjustments.

3. Performance Areas and Evaluation Factors - Fragmentation of the award fee potential over a large number of performance areas and factors dilutes emphasis. Instead, broad performance areas should be selected, such as technical and business management, supplemented by a limited number of subfactors describing significant evaluation elements over which the contractor has effective management control. Project history and past performance can be helpful in identifying those key problem or improvement areas that should be subject to award fee evaluations. As contract work progresses from one phase or evaluation period into the next, the specific performance elements or factors of greatest significance to the Government may change. However, the award fee approach permits unilateral modification of the detailed evaluation plan to reflect these changes in Government management emphasis.

There is no requirement to standardize the evaluation factors used in award fee contracting. Uniform application of the same or similar factors to dissimilar functions can decrease motivational impact while at the same time increasing Government administrative effort. Rigid standardization tends to generate evaluation formats that are either too broad or include factors irrelevant to a given function. In either case, evaluators are likely to experience difficulties in providing meaningful comments and ratings. With few exceptions, it is preferable to tailor performance evaluation plans and factors to fit the circumstances of the particular situation, and to revise them if and as those circumstances change.

It is neither necessary nor desirable to include all functions required by the statement of work as part of the performance evaluation plan. Those functions selected should be balanced so that performance in one evaluation area cannot be traded off to the detriment of minimum acceptable or better performance in another area. In particular, the plan should encompass both technical performance, business management and cost considerations, because an evaluation plan limited to technical performance may increase costs out of proportion to any benefits gained.

Depending upon the procurement situation, nonperformance-based contracting evaluation factors may include outputs, inputs or a combination of both. Output factors relate to the end results of contract performance, such as the quality of the end items delivered or services rendered, the actual time of their delivery or completion, and the actual costs incurred. Their use has obvious advantages, but there are potential disadvantages as well. In certain situations, end results of this type may not be discernible until it is too late for an award fee evaluation process to have any appreciable effect on the direction in which these results are heading. Also, given the uncertainties that made it necessary to use a cost reimbursement type contract, an evaluation limited to output factors may not provide a true or complete picture of actual accomplishments. To illustrate, the incurring cost under or over the budget may reflect less on the contractor's cost control accomplishments than on the uncertainties existing at the time the contract cost estimate was negotiated.

For these reasons, input factors often are used instead of or as a supplement to the use of output factors. Input factors relate to those intermediate processes, procedures, actions or techniques that experience and analysis indicate will be key elements influencing successful contract performance. These may include, but certainly are not limited to, areas as diverse as testing and other engineering processes and techniques; quality assurance and maintenance procedures; purchasing department management; and inventory, work assignment and budgetary controls. The important point is not whether factors relate to outputs or inputs, but whether those selected permit a timely and equitable evaluation of the total impact of contractor performance using as few a number of parameters as possible.

For Performance-based services (PWS) contracting the effort must be described in terms of objective, and measurable performance standards (outputs). These standards should include such elements as "what, when, where, how many, and how well" the work is to be performed. A Quality Assurance Plan (QAP), which directly corresponds to performance standards and measures contractor performance, is needed to determine if contractor services meet contract PWS requirements. Using the Quality Assurance method assigns the contractor full responsibility for quality performance. The Agency or CO shall develop formal, measurable performance standards and surveillance plans to facilitate the assessment of contractor performance and the use of performance incentives and deduction schedules. (See OFPP, Policy Letter 91-2)

Once evaluation factors are selected, a plan is developed for measuring contractor performance and assessing the amount of award fee earned. Quantitative performance measurement standards can assist in this evaluation process, and their use is encouraged whenever feasible and realistic. However, the use of quantitative standards in the award fee environment should not be confused with the use of predetermined targets and fee adjustment formulas under a CPIF or FPI type contract. Selection of an award fee contract is predicated upon the need for flexibility in evaluating contractor performance, and any comparison of contractor performance against quantitative standards in the award fee environment will need to be tempered by a qualitative evaluation of existing circumstances. For example, quantitative output statistics under a contract for support services may be highly misleading unless considered in light of the work loads and priorities existing during the evaluation period in question.

Quantitative measurements do not substitute for good business judgment, but the greater the ability to identify and quantify the facts considered in arriving at the judgmental assessment required, the more credible that assessment is likely to be (and the easier it will be to prepare the supporting documentation required). In this regard, sufficient information or experience must be available to permit the identification of standards against which quantitative measurements may be compared. In other words, a quantitative measurement is meaningful for award fee evaluation purposes only if it can be equated to a given performance level through the use of the realistic standards. To be realistic, any standard (or range of acceptable performance levels) should reflect the nature and difficulty of the work involved.

Where quantitative measurement is inappropriate or impractical, a "quality review" approach might be considered. This approach may involve development of a questionnaire requiring "yes" or "no" answers, with a high proportion of "yes" answers indicative of high quality performance. In this regard, whether a quantitative or qualitative measurement approach is appropriate (or, perhaps, a combination of the two), the purpose of the award fee evaluation process remains the same: to assess the contractor's effectiveness in making the best possible use of company resources to improve performance. Keep in mind that any reasonable assessment of effectiveness requires an evaluation process encompassing both performance levels and the conditions under which those levels were achieved.

In addition to identifying how performance will be evaluated and measured, the detailed evaluation plan should indicate the relative priorities assigned to the various performance areas and evaluation factors. This may be accomplished through the use of narrative phrases such as "more important," "important," and "less important." It also may be accomplished through the use of percentage weightings, but here the evaluation plan should clarify that these percentages are for the sole purpose of communicating relative priorities to all concerned, and in no way impute an arithmetic precision to the judgmental determinations of overall performance quality and the amount of award fee earned. Should the Government's relative priorities change as work progresses from one phase into the next, or as unexpected problems or developments occur, the evaluation plan may be revised without difficulty, on a unilaterally basis, to communicate such changes to all interested parties.

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

(i) Technical Achievement - Accomplishment achieved in the areas of:

Design: Approach in design concepts, analysis, detailed execution, and low cost design and manufacturing. Design of test specimens, models, and prototypes.

Development: Conception and execution of manufacturing process, test plans, and techniques.

Technical: Ability to meet technical requirements for design, performance and processing, e.g., weight control, quality assurance, maintainability, reliability design reviews, test procedures, equipment, performance, etc.

Schedule: Ability to meet program key milestones, contractual delivery dates, and ability to anticipate and resolve problems.

(ii) Business Management - Program Planning and Organization and Management:

Assignment and utilization of human resources, recognition of critical problem areas; cooperation and effective working relationships with other contractors and Government personnel to assure integrated operation efficiency; support to interface activities; technology utilization; use of resources; labor relations; planning, organizing, and managing all program elements; formulations of business and technical decisions; management actions to achieve and sustain a high level of productivity.

Compliance with contract provisions: Effectiveness of property and material control, Small Business Subcontracting Program, Equal Employment Opportunity Program, Minority Business Enterprise Program, system and occupational safety, security.

Subcontracting: Subcontract direction and coordination, purchase order and subcontractor administration.

Schedule: Promptness of delivery, reaction time and appropriateness of response to changes, recovery from delays, response to emergencies and other unexpected situations.

(iii) Cost Control - The contractor's skill and ability to control, adjust, and project the cost aspects of the contract.

Budgeting, accuracy of funding projections, and control of cost.

Economies in use of Manpower, energy,, materials, computer utilization, facility utilization, etc.

Cost reduction through-study and use of alternate arrangements, motivation programs, cost savings programs, cost avoidance programs, designs, process, methods, etc.

"Make versus buy" program.

Purchasing effectiveness through competition, material inspection, etc.

Control of overhead and overtime.

Final allowable cost.

One approach to the weighting of evaluation factors to signify Government emphasis is illustrated below. The approach involves the following steps:

a. The primary evaluation factors (performance areas) are listed in descending order of importance, with the least important factor arbitrarily assigned 10 points.

b. The next most important factor is then assigned a weighting reflecting how much more important it is than the least important factor. For example, if the next most important factor is considered three times as important as the least important factor, it would be assigned 30 points. Working from the bottom up, this process is continued until each f actor has been matched against the least important factor and assigned points reflecting its relative importance. During this analysis, it may be necessary to go back and adjust assigned points to assure a clear expression of each factor's importance. There is no limitation on the total number of points assigned, so adjustments of this type can be made easily.

Primary Performance Areas

Factor	Assigned Weight
Technical	50
Business Mgmt.	30
Cost Control	10
Total	90

c. Next, the point scores assigned are "normalized" to total 100%. This is done by dividing the points assigned each factor by the sum of all points assigned, and multiplying by 100.

For example, if the sum of all points assigned is 90, then the percentage weighting of an individual factor assigned 50 points would be 55.5%. This 55.5% normally is rounded to the nearest whole number to avoid giving the impression (through the use of decimal places) that the procedure is a precise one when, in fact, it results from a judgmental evaluation of relative priorities.

Factor	Assigned Weight	Normalized to 100%
Technical	50	50 - 90 x 100 + 56 (55.5)
Business Mgmt.	30	30 - 90 x 100 + 33 (33.3)
Cost Control	10	10 - 90 x 100 = 11 (11.1)
Total	90	100

d. The same procedure is then followed to assign percentage weightings to the subfactors supporting each of the primary evaluation factors.

Factor	Subfactor	Assigned Weight	Normalized to 100%
Technical			
	Design	40	40 / 70 x 100 = 57 (57.1)
	Quality	20	20 / 70 x 100 = 29 (28.6)
	Schedule	10	10 / 70 x 100 = 14 (14.3)
	Total	70	100
Business Mgmt.			
	Planning	40	40 / 50 x 100 = 80
	Subcontracts	10	10 / 50 x 100 = 20
	Total	50	100
Cost Control			
	Budgeting	30	30 / 40 x 100 = 75
	Overhead	10	10 / 40 x 100 = 25
	Total	40	100

Primary evaluation factor and subfactor final weights are summarized below

Factors/Subfactor	Assigned Weight	
Technical		56
Design	57	
Quality	29	
Schedule	14	

Business Mgmt.		33
Planning	80	
Subcontracts	20	
Cost Control		11
Budgeting	75	
Overhead	25	

4. Evaluation Periods and Award Fee Allocations. The length of formal evaluation periods is determined on a case by case basis, but normally is not less than three nor more than six months. Too short an evaluation period can prove administratively burdensome, and lead to hasty or incomplete evaluations. on the other hand, one of the benefits experienced in the use of award fee contracts is an improvement in communications between and among Government and contractor personnel, and this benefit may be jeopardized if evaluation periods are too-lengthy, or if they are tied to the accomplishment of milestones occurring at infrequent intervals or subject to possible slippage. While contract work may vary over time in the intensity or importance of the effort required, it generally is preferable to evaluate on the basis of regularly occurring periods, and to recognize any significant variations in work intensity or importance when allocating the total award fee potential among these evaluation periods.

As with the length of evaluation periods, the distribution of the total award fee potential depends in large part upon the circumstances of each case. The total may be allocated equally among the evaluation periods, or larger portions may be distributed to certain periods as appropriate. In short, the award fee approach permits the Government to place maximum award fee emphasis on those evaluation periods in which the performance factors of greatest significance will be most susceptible to meaningful evaluation. Note that these periods may or may not correlate with the periods of greatest cost incurrence.

Tests, demonstrations, and other milestones or events are subject to possible slippage. To eliminate the need for a reallocation of award fee potential, it may be a good idea to allocate any portion of the award fee earmarked for such milestones or events to whatever evaluation periods the milestones or events ultimately occur, rather than allocating to a specific period. To illustrate, a total award fee potential of $5,000,000 might be allocated among six calendar evaluation periods as follows: $500,000 to each period, an additional $400,000 to whatever period Test A occurs, an additional $600,000 to whatever period Demonstration B takes place, and an additional $1,000,000 to whatever period (presumably the last) final acceptance testing occurs. Assuming Test A actually takes place during the second period, Demonstration B during the fifth, and final acceptance testing during the sixth, then the final distribution of the award fee potential would look like this:

Evaluation Period	Available Award Fee
1	$ 500,000
2	900,000
3	500,000
4	500,000
5	1,100,000
6	1,500,000
Total	$5,000,000

"Rollover" or "rollforward" are terms describing the practice of using all or part of unearned award fees to motivate a actor in subsequent evaluation periods. Table 1 is a simple illustration of how motivational impact ran be affected as the award fee contract progresses from one evaluation period to the next. The Table is not intended as a blanket endorsement of "rollover" techniques, but as a demonstration of how, at any point in performance, we can put ourselves in the contractor's place and assess the award fee potential remaining vis-a-vis the performance levels attained and those still desired.

TABLE 1

ALLOCATION OF AWARD FEE AND EVALUATION PERIODS

0	4	8	12	16	MONTHS
24%	18%	18%	40%	100%	AWARD FEE ALLOCATION
360K	270K	270K	600K	$1.5M	AWARD FEE ALLOCATION($)
1	2	3	4		EVALUATION PERIODS

CONTRACT PRICE $10M M = MILLION
AWARD FEE $1.5M (15%) K = THOUSAND

IF CONTRACTOR EARNED (lst Period): 60% OF $360K = $216K
(2nd Period): 70% OF $270K = 189K
$ 405K

100% OF REMAINING = 870K
$1275K (12.75%)

$ 405K
70% OF REMAINING = 609K
$1014K (10.14%)

IF NO ROLLOVER IS PERMITTED, POSSIBLE FEE DROPS FROM 15% TO:

12.75% IF CONTRACTOR OPERATES AT 100%
10.14% IF PERFORMANCE LEVELS OUT AT 70%

$ 1,500,000
- 1,014,000
$ 486,000 (LOSS OF NEARLY 1/2 MILLION DOLLARS IN POTENTIAL FEE)

The determination whether to permit a rollover of unearned award fee should be based upon an analysis of the work effort, the planned allocation of the award fee potential, and the likely effect on contractor motivation. Generally speaking, an automatic rollover of unearned award fee from one evaluation period to the next should be avoided, because it tends to reduce the effectiveness of the incentive in the current period. Instead, where rollover authority is desired, consideration should be given to providing in the evaluation plan for the exercise of that authority at the discretion of the designated Fee Determination Official.

Some award fee practitioners believe there may be situations in which single evaluation periods do not provide a broad enough base for evaluating the effects of a gradual change in performance quality, or of a particular action or omission. They also cite other situations in which a fully retroactive evaluation would permit a more equitable balancing of high and low activity periods. In such circumstances, these practitioners believe it may be necessary to consider some form of after-the-fact adjustment of award fees earlier won or lost.

One variant of the after-the-fact adjustment approach involves upward only adjustments, and has been used in the past by certain activities in the procurement of newly developed items. In adopting this variant, care must be taken to assure that the contractor is not motivated to recoup previously unearned award fees through an improvement in technical performance disproportionate to any additional time expended or costs incurred. Another variant of the after-the-fact approach is to provide for either. an upward or downward adjustment of award fee based upon a retroactive evaluation of overall performance.

Before relying upon any variation of the retroactive adjustment approach, remember that one of the objectives of award fee contracting is to provide the Government with a means for evaluating and influencing the quality of ongoing performance. By definition, an after-the-fact adjustment approach tends to shift at least some incentive focus away from the periodic process to the "final" adjustment decision. For this reason, first consideration normally should be given to the possibility of resolving a potential problem through the award fee allocation process. As previously discussed, the total award fee potential may be allocated among periods to best reflect when important performance factors will be most susceptible to meaningful evaluation, with a significant portion of that potential earmarked for major performance events and made available for award in whatever evaluation period, including the last, such events may occur.

5. Grading and Scoring Methods - The purpose of any grading or scoring method is to translate evaluation findings into recommended award fee amounts or ranges. While these methods provide a basis for the development of award fee recommendations, they do not substitute for judgment in the award fee determination process - a process that cannot be reduced to any mathematical formula or quantifying device. Grading and scoring methods are intended only to help the Fee Determination Official in deciding the magnitude of award fee earned; they are evaluation aids, not ends in themselves.

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

a. Keep it as clear and simple as possible. In particular, avoid the kind of unnecessary complexity that can result from a force fitting of specially tailored evaluation factors to a "standard" grading table or scoring formula.

b. Maximum fee should be attainable by the contractor. To be a credible and effective motivator, an award fee contract should provide the contractor with a reasonable opportunity to earn the maximum award fee available, and a reasonable opportunity generally does not mean absolute perfection in all possible performance areas.

c. At the same time, performance normally should not be rewarded if judged at or below the level anticipated in the establishment of the base fee amount.

A grading table is a quantifying device for assigning numerical grades to various levels of performance. An award fee conversion chart also is a quantifying device, designed to convert numerical grades to percentages of available award fee. Table 2 is an example of a grading table" and Table 3 of a related award fee conversion chart. Table 4 demonstrates how these quantifying devices can be used in developing an award fee recommendation. The weighting factors used in Table 4 are those computed on pages 9 and 10 of this guide.

TABLE 2

GRADING TABLE

Adjective Grade	Description	Range of Performance Points
Superior	Superlative level of performance; achievement of distinguished results and effectiveness. No deficiencies.	96-100
Excellent	Of exceptional merit; exemplary performance in a timely, efficient, and economical manner-very minor deficiencies-no effect on overall performance.	86-95
Good	Very effective performance; fully responsive to contract require-ments; more than adequate results; reportable deficiencies, but with little identifiable effect on overall performance.	76-85
Fair	Effective performance; responsive to contract requirements; adequate results. Reportable deficiencies with identifiable, but not substantial, effects on overall performance.	66-75
Poor	Meets or slightly exceeds minimum acceptable standards; useful levels of performance, but suggest remedial action. Reportable deficiencies which adversely affect overall performance.	57-65
Unsatis-factory*	Below minimum acceptable standards; poor performance; inadequate re-sults; requires prompt remedial action. Significant deficiencies.	56 and below

Any factor/subfactor receiving a grade of unsatisfactory will be assigned zero performance points for purposes of calculating the award fee amount.

TABLE 3 - AWARD FEE CONVERSION CHART

The following quantifying device is for use in converting weighted performance points into percentages of available award fee:

Weighted Performance Points	% of Available Award Fee	Weighted Performance Points	% of Available Award Fee
100	100.0%	77	52.5
99	100.0	76	50.0
98	100.0	75	47.5
97	100.0	74	45.0
96	100.0	73	42.5
95	97.5	72	40.0
94	95.0	71	37.5
93	92.5	70	35.0
92	90.0	69	32.5
91	87.5	68	30.0
90	85.0	67	27.5
89	82.5	66	25.0
88	80.0	65	22.5
87	77.5	64	20.0
86	75.0	63	17.5
85	72.5	62	15.0
84	70.0	61	12.5
83	67.5	60	10.0
82	65.0	59	7.5
81	62.5	58	5.0
80	60.0	57	2.5
79	57.5	56	0.0
78	55.0		

TABLE 4 - FORMULA APPLICATION SAMPLE

I. Assumptions

A. Award fee available for the evaluation period is $360,000.

B. Evaluation factors and assigned weights are as follows:

Evaluation Factor/Subfactor	Assigned Weights	
Technical		56
Design	57	
Quality	29	
Schedule	14	
Business Management		33
Planning	80	
Subcontracts	20	
Cost Control		11
Budgeting	75	
Overhead Control	25	

II. Calculations

A. As a result of evaluation, the following performance points are assigned and factored by the assigned weights:

Subfactor	Performance Points x	Assigned Weights	=	Weighted Performance Points
Design	95 (Excellent)	.57		54
Quality	88 (Excellent)	.29		26
Schedule	85 (Good)	.14		12
	Total for Technical			92(Excellent)
Planning	70 (Fair)	.80		56
Subcontracts	86 (Excellent)	.20		17
	Total for Business Mgmt.			73 (Fair)
Budgeting	70 (Fair)	.75		53
Overhead Control	55 (Unsat.)	.25		O*
	Total for Cost Control			53 (Unsatisfactory)

* Note that 25 percent times an unsatisfactory (55 point) performance provides a zero outcome for this subfactor.

B. Computation for total weighted performance points for all evaluation factors:

Performance Factor	Assigned Points x	Total Weight	Weighted Performance Points
Technical	92	.56	52
Bus. Mgmt.	73	.33	24
Cost Control	53(unsat.)	.116*	
	Total for All Factors		82(Good)

C. Percentage of award fee earned:

82 weighted performance points converts to 65% of available award fee (See Table 3).

D. Award fee recommendation:

$234,000 (65% of $360,000)

* Applying the principle that unsatisfactory times anything is zero would drastically change this outcome; e.g., cost control would be zero. Total scare would be 76. Seventy-six weighted performance points converts to 50 percent of available award fee, resulting in an award fee of $180,000 (50 percent of $360,000) compared to $234,000.

Again, keep in mind that the sample result computed in Table 4 is an evaluation aid; it does not represent a required award fee amount. To emphasize this point, the following comments and observations concerning Tables 2, 3, and 4 are intended to demonstrate the importance of judgment in the award fee process, and how a single best or right answer can be determined only within the context of the specific procurement situation.

a. In developing an award fee conversion chart, many activities typically assign fractional amounts of fee in constant ratios to given numbers of evaluation points. This results in a simple linear scheme as in Table 3, where each performance point between 57 and 96 is worth 2 1/2% of the available award fee. There is nothing wrong with such an approach; however, the results should be compatible with procurement objectives. To illustrate using Table 3, the same additional award fee amount is provided for an increase from 70 performance points (fair) to 80 points (good), as from 86 points (excellent) to 96 points (superior). Also, performance at the poor level described in Table 2 could be assigned up to 22.5% of available award fee. In analyzing such results, the question is not whether they are right or wrong, but whether they are, in fact, responsive to what the Government believes are the management needs and priorities of the particular situation.

b. Documentation of assigned performance points obviously would be required in support of the computations in Table 4, and such documentation must be fully considered by the Fee Determination official in his review of the recommended award fee amount. For example, what facts led to the assignment of an unsatisfactory grade (55 performance points) to the subfactor entitled "Overhead Control"?. Why an unsatisfactory grade at 55 points and not a poor grade at 57? Under what circumstances was this unsatisfactory level achieved, and was there any relationship between it and the excellent performance levels reported for the technical subfactors of "Design" and "Quality"? The Fee Determination Official would no doubt wish to review the answers to these and similar questions regarding the contractor's performance before deciding whether to accept the recommended award fee or some higher or lower amount, such as the amount that would result from the assignment of zero performance points to "Cost Control" when computing total weighted performance points for all evaluation factors (see footnote at the end of Table 4).

The following example demonstrates why zero performance points normally are assigned to unsatisfactory grades; i.e., those reflecting less than minimum acceptable performance (identified as "submarginal" by certain activities).

Evaluation Factor/Subfactor	Assigned Weights	x	Performance Points	=	Weighted Points
Technical	56				
Design	57	x	90	=	51
Quality	29	x	77	=	22
Schedule	14	x	40	=	6
Total (w/o Schedule points)					79 x .56 = 44
Total (w/o Schedule points)			-		6
					73 x .56 = 41
					3

If the award fee allocation was $360,000 and each performance point was 2.5% of the award fee allocated (2.5% of $360,000 = $9,000), then each performance points to the total

Schedule contributed 3 performance points to the total

3 x $9,000 = $27,000

Contractor earned $27,000 in award fee for unsatisfactory schedule performance.

Table 5 shows how the Government may adjust evaluation wieghtings to redirect contractor emphasis to areas needing improvement. Rollover considerations also are portrayed. Finally, Table 6 illustrates approach to the type of grading table earlier covered in Table 2.

TABLE 5 - EVALUATION WEIGHTING ADJUSTMENT

CONTRACT PRICE $10M ALLOCATION
AWARD FEE $1.5M (15%)

	1	2	3	4	
	24%	18%	18%	40%	100%
	$360K	$270K	$270K	$600K	$1.5m

EVALUATION PERIOD 1

FACTOR	WT	X	PERFORMANCE POINTS	= WEIGHTED PERF. POINTS
TECHNICAL	56		92 (EXCELLENT)	52
BUSINESS MGMT	33		85 (HIGH GOOD)	28
COST CONTROL	11		57 (VERY LOW POOR)	6
				86*

*86 = 75% OF $360,000 = $270,000

IF WEIGHTS ADJUSTED TO EMPHASIZE COST CONTROL AND SCORES REMAIN BASICALLY THE SAME 2ND PERIOD

TECHNICAL	.46 X 90 =	41
BUSINESS MGMT	.24 X 85 =	20
COST CONTROL	.30 X 57 =	17
		78 = 55%

(If performance remains basically the same, contractor gets 20 percentage points less of available award fee.)

IN ORDER TO MAINTAIN AWARD FEE % OF 1ST PERIOD CONTRACTOR MUST IMPROVE PERFORMANCE IN COST CONTROL WITHOUT REDUCING ANY OTHER AREA.

TECHNICAL	.46 X 90 =	41
BUSINESS MGMT	.24 X 85 =	20
COST CONTROL	.30 X 82 =	25
		86 = 75%

(Contractor must improve cost control from a very low poor to a mid-good.)

EARNED	1ST PERIOD:	$270,000 (75% OF $360,000)
	2ND PERIOD:	202,000 (75% OF $270,000)
		$472,000

AFTER 2ND PERIOD TOTAL AWARD FEE DROPS FROM 15% TO A RANGE OF 13.4% TO 11.5% (13.4% IF EARNS 100% OF REMAINDER, 11.25% IF EARNS 75% OF REMAINDER.)

100% OF AVAILABLE:	$ 870,000
	$1,342,000 (13.4%)
	$ 472,000
75% OF AVAILABLE:	652,000
	$1,125,000* (11.25%)

* If no provision for rollover and contractor's performance stays at the same level or improves.

TABLE 6

A SIMPLIFIED FIVE POINT - THREE LEVEL AWARD FEE SCORING STRUCTURE

AREA	CATEGORIES	SUBMARGINAL	(0-20) MARGINAL	(21-55) GOOD	(56-85) VERY GOOD	(86-100) EXCELLENT
A. Technical Performance	A-1 Thoroughness	Contract surveillance required to complete tasks Assigns low priority to problem solution.	Require occasional prodding to complete tasks. Needs government resolution of most problems.	Normal interest and desire to complete tasks with average assistance and direction.	Complete tasks free of incompatibilities with little or no direction.	Develops complete and accurate plans. Seeks out problem areas and resolve with associated action ahead of schedule.
	A-2 Perceptiveness	Never plans ahead. Requires consistent prodding from the government; Always puts low priority on problems.	Does not usually initiate corrective action unless prodded by the government	Occasionally needs prodding to resolve problems.	Needs very little direction, usually foresees and solves potential problems.	Always plans ahead out problems before they become problems.
	A-3 Accuracy	Brief on task, tending to leave questionable situations for the government to resolve.	Has followed government guidance on tasks.	Has followed guidance questioning and resolving doubtful areas.	Work complete with notes and explanations for all anticipated questionable areas.	Work on higher caliber incorporating all pertinent data required.
B. Management & Cost Control	B-1 Efficiency	Cost/hours overrun the budgets by more than 5% of more than 15% of tasks.	Costs overrun budgets by 14-15% of tasks.	1 hour cost overruns are seldom a problem.	No cost/hour overruns.	No overruns. Some tasks are underrun, thus providing dollars for additional tasks.
	B-2 Responsiveness	Indifferent to direction. Ignores comments of COTR or CO.	Sluggish in responding to direction with minimum positive action.	Mostly responds to direction with positive action within a reasonable period of time.	Almost always responds to direction immediately taking positive steps to implement ASAP.	Always immediately responds to direction with extraordinary, quick, decisive, positive action.
	B-3 Ingenuity	Lacking good solutions in many areas. Excessive number of changes with serious cost or schedule impact.	Barely adequate, some difficulty in using solutions; many changes required.	Adequate solutions, uses some proven concepts with tolerance impact in cost or schedule.	Very good solution including much consideration for proven concepts. Few changes required.	Excellent solutions, highly operable, easily accomodates all respective features.

6. Combinations - An award fee approach may be used in combination with contract types other than CPAF. The most common examples are CPIF/AF and FPI/AF combinations. These are used in situations where cost estimating reliability is judged sufficient to support use of a CPIF or FPI formula incentive on cost, but where the Government also wishes to incentivize certain aspects of quality, technical, or schedule performance that do not lend themselves to equitable evaluation on the basis of predetermined targets and automatic fee adjustment formulas. Given the interrelationship between contract costs and the other performance elements involved, care needs to be exercised to assure that these combinations of calculable cost incentive and judgmental award fee determinations do not result in contractor trade-off decisions inconsistent with Government objectives and performance priorities. The award fee guidance included elsewhere in this paper generally applies to the award fee features of these combinations.

In recent years, there have been instances in which a firm fixed price (FFP) arrangement has been combined with award fee provisions to form a FFP/AF combination. This approach may be useful in certain situations where the firm fixed price has been based upon delivery of a minimum acceptable product or service. The Government, although wishing to incentivize the contractor to deliver at an excellent or outstanding level, is unable to define those levels in the quantitative terms required for application of any formula-type incentive approach. For example, the contract may call for a study and delivery of periodic and final reports whose quality is not susceptible to any quantitative measurement technique. Here, an award fee approach based upon judgmental determinations could prove helpful.

C. ORGANIZATION AND ADMINISTRATION

As is true with many aspects of award fee contracting, the single most effective organizational and administrative approach can be determined only within the context of the particular situation. The overall objective in all cases is the adoption of a fair, equitable and timely approach that does not create or impose an administrative burden out of proportion to the benefits anticipated, or to the value and complexity of the specific contract effort.

1. General Considerations - The following are some basic truisms concerning the organization and administration of award fee contracts:

a. Avoid excessive organizational strata. Excessive strata can be self-defeating to the extent they contribute to unnecessary paperwork, delays in turnaround time, and inordinate manpower demands.

b.   At the same time, take care to implement a system providing reasonable checks and balances. The initial assessments of front-line contract and project managers should be subject to an evaluation and determination by higher level management officials who are not involved in the daily interface with the contractor. The objective is a review conducted from a broader perspective, and the result may be a judgment, with respect to the quality of contractor performance, that differs from that exercised by first-line or intermediate evaluators. For example, a shortcoming identified by a first-line evaluator may have resulted from agency management influences and decisions to which the contractor responded at the expense of certain aspects of his contract work. Only higher level management officials are in a position to evaluate this response, and its effect upon contract performance, in terms of agency or installation-wide priorities and operational requirements.

c.   Tailor plans to the specific situation, but do not assume this implies a requirement to reinvent the wheel each and every time, or to ignore favorable past experiences. The tailored, case-by-case application of experienced procedures and practices generally is the most sensible approach.

d.   Finally, remember that the objective is to evaluate performance, not direct it. Communication with contractor personnel about performance is of considerable importance in the award fee environment, but should not lead to the direction of efforts in a manner that compromises the contractor's responsibilities under the contract. Appraisal, assessment and measurement connote evaluation, not direction.

2.   Basic Organizational Levels and Functions - No single organizational approach will suffice for all situations. However, the following is the basic, three-level organizational structure generally employed. This structure can and should be modified as necessary to meet the requirements of individual programs or projects. Such modification may provide for the inclusion of one or two additional levels if justified by the dollar value and complexity of the contract effort. These additional levels are covered later in this section.

a.   Performance Monitors - Monitors generally are designated by the Chairman of the Performance Evaluation Board and are responsible for:

- Monitoring, evaluating and assessing contractor performance in their assigned areas.

- Periodically preparing a Contractor Performance Monitor Report (CPMR) for the Performance Evaluation Board (or others as appropriate) and, when and if required, providing verbal presentations as well.

- Recommending any needed changes in the award fee evaluation plan for consideration by the Performance Evaluation Board and the Fee Determination Official.

- Monitors are specialists intimately familiar with their assigned areas of cognizance, and their monitor duties generally are. in addition to, or an extension of, their regular responsibilities. In exercising their duties, monitors should make every effort to (i) maintain ongoing communications with their contractor counterparts, (ii) conduct assessments in an open, objective and cooperative spirit, and (iii) emphasize positive performance accomplishments as readily as negative ones. Table 7 is an example of a checklist developed for use by monitors in preparing Performance Monitor Reports. When tailored to the particular situation, checklists such as this can prove helpful in assuring the development of complete and pertinent evaluation data.

TABLE 7

PERFORMANCE EVALUATION REPORT CHECKLIST

1. Did the contractor perform this task with an unusual degree of competence?

2. Were the tasks or specific objectives clearly defined in declarative and unambiguous terms (i.e., reasonably certain and determinable)?

3. What was the impact of the early or late completion of this effort?

4. Did the contractor make unusual effort to utilize manpower available?

5. What was the current work load in relation to the contractor's performance of this particular event?

6. Was the contractor resourceful in attempts to complete the task through in-house capabilities?

7. Did factors beyond the contractor's control hinder or limit performance?

8. What significant relationship exists between this effort and others?

9. Has the performance monitor included adequate descriptions of the facilities involved and their relationships to the event?

10. How important was the time frame involved?

11. Did the contractor perform the effort on its own initiative or as a result of a specific technical direction?

12. Has the performance monitor clearly distinguished the contractor's performance in terms of ingenuity, creativity, and motivation?

13. Has the performance monitor clearly expressed the impact of the event?

14. Has the performance monitor clearly assessed the contractor's performance in regard to all tasks and specific objectives?

b. Performance Evaluation Board (PEB) - The PEB generally is established by the Fee Determination Official; however, in the larger, higher priority procurements, it is not uncommon for the head of the contracting activity to assume the responsibility for appointment of PEB members (in certain of these cases, the head of the contracting activity and the Fee Determination Official may be the same individual). The PEB is intended to bring a broader management perspective to the evaluation process than exists at the monitor level, and its members accordingly should be at a relatively high management level. The qualifications of PEB members will vary, depending upon the nature, dollar value and complexity of the procurement; however, those individuals with overall, primary responsibility for the technical and business aspects of contract performance normally are included. Board members should be familiar with the type of work to be evaluated, and able to devote enough time to their assignment to perform thorough and prompt reviews.

Among its other duties, the PEB is responsible for the development of the award fee evaluation plan (subject to the approval of the Fee Determination Official). It is important to establish the Board in sufficient time so it can exercise this responsibility and assure the distribution of an approved plan before the effective date of the first evaluation period. Remaining PEB responsibilities include:

- Conducting ongoing evaluations of contractor performance based upon Performance Monitor Reports and such additional performance information as may be obtained from the contractor and other sources.

- Submitting a PEB Report (PEBR) to the Fee Determination Official covering the Board's findings and recommendations for each evaluation period.

- Recommending appropriate changes in the award fee evaluation plan for consideration and approval by the Fee Determination Official.

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

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

- Calling PEB meetings, controlling attendance and chairing the meetings.

- Recommending the appointment of nonvoting members to assist the PEB in performing its functions; e.g., a nonvoting secretary.

- Appointing monitors for the contract effort and assuring they are provided appropriate instructions and guidance.

- As appropriate, requesting and obtaining performance information from other units or personnel normally involved in observing contractor performance.

- Calling on personnel from various organizational units to consult, as needed, with the PEB.

- Assuming Responsibility for the actual preparation and approval of the PEBR and other documentation such as Board minutes.

C. Fee Determination Official (FDO) - The FDO is always organizationally senior to the PEB membership and either is the head of the contracting activity or in a position is designated by the head. The FDO normally is identified in the contract, but by position title only, not name. This assures the contractor that award fee determinations will not be made at a level lower than agreed upon, while at the same time eliminating the need to modify the contract in the event there is a change in the incumbent FDO. The responsibilities of the FDO include:

- Considering the PEBR for the evaluation period and discussing it with the PEB Chairman and, if appropriate, with others such as the contractor.

- Determining the award fee earned and payable for each evaluation period.

- Issuing and signing the award fee determination report or letter for the evaluation period, specifying the amount of award fee determined and the basis for that determination.

- Approving the award fee evaluation plan and any changes required during performance.

3. Optional Organizational Levels and Functions - In certain high value, complex efforts involving a multifaceted evaluation effort, one or both of the following organizational levels also may be required.

a. Functional Monitors (FMs) - Functional Monitors also may be identified within certain activities by titles such as Performance Evaluation Coordinator or Contract Technical (or Business) Manager. Whatever the title used, the purpose of this level is to provide centralized direction to the various performance monitors in the performance of their assigned evaluation efforts, and to consolidate the findings of the performance monitors for review at the next highest evaluation level. The FM level generally is required only when a relatively large number of performance monitors are involved in the evaluation process. Each FM appointed (normally by the PEB

Chairman, with appropriate notification to the contractor) is responsible for one of the broad functional areas to be evaluated, such as technical or business management. FM duties generally include:

- Fishing instructions to performance monitors.

- Coordinating, compiling and analyzing data submitted by the performance monitors.

- Promptly notifying the contractor whenever a problem is identified requiring immediate contractor attention.

- Consolidating data and preparing a concisely written Functional Monitor Report (FMR) for presentation to the next highest evaluation level. The FMR covers the evaluation of the contractor's performance in the FM's assigned area during the evaluation period in question.

b. Performance Evaluation Committee (PEC) - The PEC level is established only where the contract's dollar value and complexity merit a PEB composed of individuals at a rather high management level. The PEC's purpose under these circumstances is to relieve the PEB of much of the detailed preparatory work required for contractor evaluation, and to fill what would otherwise be a significant gap in evaluation perspective between the high level PEB and the working level performance monitors. The FDO, or the PEB Chairman acting for the FDO, appoints PEC members (including a PEC Chairman) with appropriate notification to the contractor. The responsibilities of the PEC normally include:

- Meeting monthly to perform a detailed examination and evaluation of Performance Monitor Reports, FMRs and such additional performance information as may be obtained from other organizational elements or sources (including the contractor).

- Promptly at the end of each evaluation period, submitting a PEC report (PECR) to the PEB, summarizing the monthly evaluations and including overall findings and recommendations.

4. Administrative Issues - Assuming a basic, three-level organizational structure as earlier described, the sequence of events leading to an award fee determination normally is as follows:

- During the course of the evaluation period, performance monitors monitor contractor performance and act as liaisons between the contractor and the contracting officer.

- At the end of the period, the performance monitors assess the contractor's performance and provide a written report to the PEB.

- The PEB considers the Performance Monitor Reports and any other pertinent information. The PEB may discuss overall performance with the contractor during this period.

- The PEB provides an evaluation report to the FDO. The contractor is provided a copy of this report and is permitted to rebut its findings and recommendations either to the PEB or the FDO.

Once the contractor has been provided an opportunity to rebut the PEB report, and the PEB has made any changes, the FDO makes a final determination as to the amount of fee awarded. The FDO makes this award fee determination in writing and provides it to the contracting officer and the contractor.

a. Timeliness - The timing of the events outlined above is critical, for delays may compromise the benefits accruing from periodic evaluations and reporting. Unless final evaluation results are transmitted to the contractor in a timely manner, and any award fee payments promptly made, these results and payments may not have the desired influence upon the contractor's performance during the follow-on evaluation, period. The timeliness of actions involved in changing evaluation plan coverage also is of considerable importance. Proposed changes should be processed expeditiously and the contractor notified in advance of the evaluation period to which they apply.

For obvious reasons, timeliness is not meaningful if it results from a failure to perform an adequate evaluation or to provide the contractor with a reasonable opportunity to respond in his own behalf. In the final analysis, sound ad-ministration of an award fee contract is characterized by a proper balancing between the need for adequate evaluation efforts and supporting documentation on the one hand, and timely actions on the other. This kind of balance generally reflects a good planning effort prior to award, including development of some form of time schedule covering each step in the evaluation process, and the maintenance of open communication channels and a spirit of cooperation afterward.

b. Documentation - The reporting formats used by monitors should be structured to insure clarity and conciseness. Where possible, several evaluation parameters may be consolidated in a single format. Consistency may be achieved by using the same general format for all closely related work at a given activity. However, caution is required here. Carefully tailored evaluation plans must not be compromised by ill-conceived attempts to follow a rigid rating format. Any format adopted should provide a place for the monitors to make narrative comments. These narrative comments cover pertinent information not readily discernible from a review of the completed format. For example, they cover the circumstances under which reported performance levels were achieved, especially if these circumstances were abnormal in any way, or reflected upon the contractor's efficiency in managing assigned personnel and other resources.

Documentation also is important to support the recommendations of committees and boards, particularly where these recommendations differ from the conclusions reported by cognizant monitors. Minutes of meetings or other documentation should summarize the information reviewed, including any additional or explanatory information provided by the contractor, and the consideration given to all such information. Documentation is required even though the ultimate recommendation reflects the best judgment of the committee or board. This is because the objective of evaluation is a judgment based upon all pertinent information, and that information needs to be identified and discussed in applicable documentation. Similarly, the FDO must document the basis for his determination, especially in situations involving a contractor rebuttal of PEB findings and conclusions, or an award fee determination different from that recommended by the PEB.

c. Contractor Inputs - Award fee contracts can be effective tools for promoting and communicating Government objectives. They also promote improved communications between the parties by placing contractor program managers directly in line with the Government's evaluation reporting system, and as participants in periodic performance review meetings. Open communications are essential and the contractor should be encouraged through the award fee process to identify potential problem as promptly as possible (as opposed to withholding such "bad news" from the Government for fear it might result in lowered evaluation ratings).

At the higher levels, some PEBs obtain written support information from the contractor prior to evaluation meetings, so that all inputs are available during the evaluation process. These contractor self-assessment reports have the advantage of establishing a written record and providing another viewpoint of contractor performance. On the other hand, the contractor must develop its self-assessment without full knowledge of the Government's evaluation, and accordingly may not address those areas actually in issue. Also, these self-assessment reports typically display only that effort reflecting favorably on the contractor, and prove costly under a cost-reimbursement type contract. For this reason, any contractor inputs of this type should be limited to performance data readily available in contractor management reports, with the contractor discouraged from engaging in "brochuremanship."

Once the PEB report is prepared, the contractor normally is provided an opportunity to comment on or rebut its findings and recommendations. This may be done in writing, verbally as part of a conference with the PEB or the FDO, or both. Contractor input at this point assures pertinent communications and allows the contractor to participate in a meaningful way in the evaluation process.

Throughout the period of performance, the contractor should be encouraged to submit suggestions for improving or changing the evaluation process. In addition to the various formal communications channels just discussed, both parties should recognize that the less formal discussions inherent in the award fee evaluation process go a long way toward insuring ultimate program success. Both the Government and the contractor should work to eliminate any unnecessary contractual, organizational or conceptual barriers that diminish information sharing and other Communications needed for successful joint problem solving.

D. LESSONS LEARNED

Government use of the award fee approach dates back approximately 25 years. This experience has confirmed that in many procurements of support services and complex R&D efforts, the award fee approach can provide contractor motivation, flexibility, and improved management and communications discipline. Experience has provided certain lessons in how best to assure the successful development and administration of an award fee contract, and every effort has been made to incorporate these lessons in this paper. These basic lessons are perhaps best summarized as follows:

1. Need to Assure Award Fee Determinations Reflective of Overall Performance quality - overall quality in this context refers both to ongoing contractor performance and to the performance of the product or service ultimately delivered. In this paper, we have discussed several possible approaches to addressing this need, including various award fee allocation techniques, the "rollover" or "rollforward" of unused award fees, and the use of certain retroactive adjustment approaches. We also have stressed the need for balance, to protect the credibility and influence of the periodic award fee evaluation process. In the long run, perhaps the best approach to assuring Government fee payouts that match ultimate performance values is to encourage the development of innovative evaluation approaches, designed to provide a more timely and realistic identification of potential problems and outcomes.

2. Importance of Tailoring Evaluation Plans and Procedures to Specific Situations - If there is any idea this paper has attempted to emphasize, it is this: There is no cookbook approach to award fee contracting. Each award fee contract must be structured and administered in full recognition of its use as a management tool. To be successful, an award fee contract needs to be tailored to reflect and complement the management approach, objectives and priorities the Government believes best suited to the particular procurement.

3. Need to Maximize Use of Award Fee Flexibility - This means giving more than lip service to the idea of evaluating both performance levels and conditions. We need to assure ourselves of an award fee determination based upon a reasonable evaluation of how effectively the contractor is managing the contract effort, given the Government objectives and priorities hopefully communicated to the contractor by the "tailored" evaluation plan just discussed. We also need to take full advantage of the flexibility provided to adjust the plan promptly, to reflect any changes occurring during performance in Government management emphasis or concern.

4. Importance of Award Fee Approach as Management and Communication Tool

Both experience and research to date have indicated that a major benefit of a properly structured and administered award fee contract is the basis it provides for more effective communications among Government and contractor personnel, at management levels where decisions can be made and results achieved. Frequent and honest communication is essential, both between the Government and contractor, and within their respective organizational frameworks. To illustrate, it may be just as important for the FDO to communicate the rationale for his award fee determination to all those who participated in the Government evaluation process, as it is for him to communicate that rationale to the contractor. Last but not least, open communication implies an environment in which the early informal settlement of potential conflicts is possible, and the timely identification and solution of unexpected problems is encouraged.

EXHIBIT A

AWARD FEE DETERMINATION PLAN FOR

Contract No.________________ With _______________________________

Contents

APPROVED BY:

________________________ ______________

(Signature) (Date)

____

(Typed Name)

____

(Title)

A. INTRODUCTION

1. This plan covers the administration of the award fee provisions of Contract No.__________________________________, dated ___________, with ____. The contract was awarded after completion of negotiations in accordance with the provisions of RFP No. _____________________.

2. The following matters, among others, are covered in the contract:

a. The contractor is required to (very brief statement identifying scope of contract)___________________________________.

b. The term of the contract is from ___________________ through __________________________________.

c. The estimated cost of performing the contract is $_______________________.

d. The base fee is $_______________________.

e. The award fee pool is $_________________.

f. The estimated cost, base fee and award fee pool are subject to equitable adjustments on account of change or other contract modifications.

g. The award fee earned and payable will be determined periodically by the Fee Determination Official in accordance with this plan.

h. Award fee determinations are not subject to the Disputes clause of the contract.

i. The FDO may unilaterally change the matters in this plan, as covered in Part E and not otherwise requiring mutual agreement under the contract, providing the contractor receives notice of the changes at least _______________ work days prior to the beginning of the evaluation period to which the changes apply.

B. ORGANIZATIONAL STRUCTURE FOR AWARD FEE ADMINISTRATION

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

1. Fee Determination Official (FDO)
   - a. The FDO is _____________________________________.
   - b. Primary FM responsibilities are:
     - (1) Determining the award fee earned and payable for each evaluation period as addressed in Part D.
     - (2) Changing the matters covered in this plan as addressed in Part E, as appropriate.

2. Performance Evaluation Board (PEB)

   a. The Chairman of the PEB is The following are voting members:

b. The Chairman may recommended the appointment of non-voting members to assist the Board in performing its functions.

c. Primary responsibilities of the Board are:

(1) Conducting periodic evaluations of contractor performance and the submission of a Performance Evaluation Report (PEBR) to the FDO covering the Board's findings and recommendations for each evaluation period, as addressed in Part D.

(2) Considering changes in this plan and recommending those it determines appropriate for adoption by the FDO, as addressed in Part E.

3. Performance Monitors

a. A monitor will be assigned to each performance area to be evaluated. The assignment will be made by the PEB Chairman as addressed in Part D.

b. Each monitor will be responsible for complying with the General Instructions for Performance Monitors, Attachment D-2, and any specific instructions of the PEB Chairman as addressed in Part D. Primary monitor responsibilities are:

(1) Monitoring, evaluating and assessing contractor performance in assigned areas.

(2) Periodically preparing a Performance Monitor Report for the PEB, or others as appropriate.

(3) Recommending appropriate changes in this plan for consideration, addressed in Part E.

C. EVALUATION REQUIREMENTS

The applicable evaluation requirements are attached as indicated below.

Requirement	Attachment
1. Evaluation Periods and Maximum Available Award Fee for Each	C-1
2. Performance Areas and Evaluation Criteria	C-2
3. Grading Table	C-3
4. Award Fee Conversion Chart	C-4

The percentage weights indicated in Attachment C-2, the Attachment C-3 grading table, and the Attachment C-4 award fee conversion chart are quantifying devices. Their sole purpose is to provide guidance in arriving at a general indication of the amount of fee earned. In no way do they imply an arithmetic precision to any judgmental determination of the contractor's overall performance and amount of award fee earned.

D. METHOD FOR DETERMINING AWARD FEE

A determination of the award fee earned for each evaluation period will be made promptly by the FDO after the end of the period. The method to be followed in monitoring, evaluating, and assessing contractor performance during the period, as well as for determining the award fee earned, is described below. Attachment D-1 summarizes the principal activities and schedules involved.

1. The PEB Chairman will assign a monitor for each performance area or subarea to be evaluated under the contract. Monitors will be selected on the basis of their expertise relative to prescribed performance area emphasis. Monitor personnel administration will be in addition to, or an extension of, regular responsibilities. The PEB Chairman may change monitor assignments at any time without advance notice to the contractor. The PEB Chairman will notify the contractor promptly of all monitor assignments.

2. The PEB Chairman will assure that each monitor receives the following:

- A copy of the contract and all modifications.
- A copy of this plan along with any changes made in accordance with Part E.
- Appropriate orientation and guidance.
- Specific instructions applicable to monitor assigned performance areas.

3. Monitors will monitor, evaluate, and assess contractor performance and discuss the results with contractor personnel as appropriate, in accordance with the General Instructions for Performance Monitors, Attachment D-2,, and the specific instructions and guidance furnished by the PEB Chairman.

4. Monitors will submit monthly Performance Monitor Reports and, if required, 'make verbal presentations to the PEB.

5. As appropriate, the PEB Chairman will request and obtain performance information from other units or personnel normally involved in observing contractor performance.

6. Periodically, the PEB will consider Performance Monitor Reports and other performance information it obtains and discuss the reports and information with monitors or other personnel, as appropriate.

7. Promptly after the end of each month, except the final month of the evaluation period, the PEB will meet with the contractor and discuss overall performance during the period. As requested by the PEB Chairman, monitors and other personnel involved in performance evaluations will attend the meeting and participate in discussions.

8. Promptly after the end of each evaluation period, the PEB will meet and consider all the performance information it has obtained. At the meeting, the PEB will summarize its preliminary findings and recommendations for coverage in the Performance Evaluation Board Report (PEBR).

9. Then the PEB will meet with the contractor and discuss its preliminary findings and recommendations. As requested by the PEB Chairman, monitors and other personnel involved in performance evaluation will attend the meeting and participate in discussions. At this meeting, the contractor will be given an opportunity to submit matters in its behalf, including an assessment of its performance during the evaluation period.

10. After.meeting with the contractor, the PEB will consider matters presented by the contractor and establish its findings and recommendations for the PEBR.

11. The PEB Chairman will prepare the PEBR for the period and submit it to the FM for use in determining the award fee earned. The report will include a recommended range of award fee with supporting documentation. When submitting the report, the Chairman will inform the FDO whether the contractor desires to present any matters to the FDO before the award fee determination is made.

12. The FDO will consider the PEBR and discuss it with the PEB Chairman or other personnel, as appropriate. If requested by the contractor, or if the FDO considers it appropriate, the FDO will meet with the contractor for discussions. If requested by the FDO, the PEB Chairman and any other personnel involved in performance evaluation may be required to attend the meeting with the contractor.

13. The FDO will determine the amount of award fee earned during the period. The amount determined will not result solely from mathematical summing, averaging or the application of a formula. The FDO's determination of the amount of award fee earned and the basis for this determination will be stated in the Award Fee Determination Report (AFDR). The report will be signed by the FDO and given to the contractor for attachment to its voucher requesting payment of the award fee.

E. CHANGES IN PLAN COVERAGE

1. Right to Make Unilateral Changes

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

2. Method for Changing Plan Coverage

The method to be followed for changing plan coverage is described below. Attachment E-1 summarizes the principal actions and schedules involved.

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

b. Prior to the end of each evaluation period, the PEB will submit changes applicable to the next evaluation period for approval by the FDO with appropriate comments and justification, or inform the FDO that no changes are recommended for the next period.

c. ___________ work days before the beginning of each evaluation period, the FDO will notify the contractor in writing of any changes to be applied during the next period, or that there are no changes. If the contractor is not provided with this notification, or if the notification is not provided within the agreed-to number of work days before the beginning of the next period, then existing plan coverage will continue in effect for the next evaluation period.

ATTACHMENT C-1 TO AFDP FOR

Contract No.______________________

With_______________________________.

EVALUATION PERIODS AND AVAILABLE AWARD FEE FOR EACH

Evaluation Period			Max. Avail.
No.	Duration	Ending	Award Fee
1			$
2			
3			
4			

ATTACHMENT C-2 TO AFDP FOR

Contract No.___________________________

With __________________________________.

PERFORMANCE AREAS AND EVALUATION CRITERIA

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

Area No.	Brief Area Identification	Area Weight	See Attachment
1			C-2.1
2			C-2.2
3			C-2.3

ATTACHMENT C-2.1 TO AFDP FOR

Contract No.________________________

With _______________________________.

EVALUATION CRITERIA FOR PERFORMANCE AREA NO. 1

[Area Identification Per Attachment C-2]

Area Weight ___________________

Description of Area:

Subareas to Consider:

Evaluation Criteria: Criteria Weights

Basis or Standard for Measuring Performance:

ATTACHMENT C-3 TO AFDP FOR

Contract No. ___________________________

With ____________________________________.

GRADING TABLE

Symbolic (or Adjectival) Grade	Description	Range of Performance Points

ATTACHMENT C-4 TO AFDP FOR

Contract No. ________________________

With ________________________________.

AWARD FEE CONVERSION CHART

The following quantifying device is for use in converting weighted performance points into percentage of available award fee.

Performance Points	Percent of Available Award Fee

ATTACHMENT D-1 TO AFDP FOR

Contract No.__________________________

With__________________________________.

ACTIONS AND SCHEDULES FOR AWARD FEE DETERMINATIONS

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

Action	Schedule (Workdays)
1. PEB chairman appoints performance monitors and informs contractor.	_________days prior to period.
2. Monitors furnished orientation and guidance	_________days prior to period.
3. Monitors assess performance and discuss results with contractor.	Ongoing after start of period.
4. Monitors submit Performance Monitor Reports to PEB.	Last day of each month.
5. PEB obtains performance information from other procuring activity personnel.	As requested.
6. PEB considers Performance Monitor Reports and other obtained performance information.	Ongoing.
7. PEB discusses overall performance with contractor during period.	_______days after end of each month except last month in period.
8. PEB meets and summarizes preliminary findings and position of PEBR.	_______days after end of period.
9. PEB meets with contractor and discusses preliminary findings and position.	_______days after end of period.
10. PEB establishes findings and recommendations for PEBR.	_______days after end of period.

EXHIBIT A (continued)

Action	Schedule (Workdays)
11. PEB Chairman submits PEBR to FDO.	_______days after end of period.
12. FDO considers PEBR and discusses it with PEB, as appropriate.	______days after end of period.
13. FDO sends AFDR to contractor.	_______days after end of period.

The PEB will establish appropriate lists of subsidiary actions and schedules to meet the above schedules, with emphasis on concurrence to the extent feasible.

ATTACHMENT D-2 TO AFDP FOR

Contract No. ________________________

With ________________________________.

GENERAL INSTRUCTIONS FOR PERFORMANCE MONITORS

1. Monitoring and Assessing Performance

a. Monitors will prepare outlines of their assessment plans, discuss them with appropriate contractor personnel, and encourage maximum understanding of the evaluation and assessment environment.

b. Monitors will plan and carry out both announced and unannounced assessment visits; however, before each announced visit, the monitor should contact appropriate contractor personnel who may accompany the monitor, if desired.

c. Monitors will conduct all assessments in an open, objective and cooperative spirit so that a fair and accurate evaluation is obtained. This will enhance contractor receipt of information from which to plan improvements in performance. Positive performance accomplishments should be emphasized just as readily as negative ones.

d. The monitor will discuss the results with contractor personnel as appropriate, noting any observed deficiencies or accompanying recommendations. Adverse items or areas of poor performance will be covered to afford the contractor an opportunity to clarify possible misunderstandings and to correct or resolve deficiencies.

e. Monitors must remember that contacts and visits with contractor personnel are to be accomplished within the context of official contractual relationships. Monitors will avoid any activity or association which might cause, or give the appearance of causing, a conflict of interest.

f. Monitor discussions with contractor personnel are not to be used to instruct, to direct, to supervise, or as an attempt to control these personnel in the performance of the contract. The role of the monitor is to monitor, assess, and evaluate, not to manage the contractor's effort.

2. Documenting Evaluation/Assessment

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

(Specify format and minimum information requirements)

3. Evaluation/Assessment Reports

Monitors will prepare a formal Performance Monitor Report in accordance with the following instructions and submit it to the PEB, or others, if appropriate, at the end of each month.

(Specify format and minimum information requirements)

4. Verbal Reports

Monitors will be prepared to make verbal reports as required by the PEB Chairman.

ATTACHMENT E-1 TO AFDP FOR

Contract No.__________________________

With __________________________________.

ACTIONS AND SCHEDULES FOR CHANGING PLAN COVERAGE

The following is a summary of the principal actions involved in changing plan coverage.

Action	Schedule (Workdays)
1. PEB drafts proposed changes.	ongoing
2. PEB submits recommended changes to FDO	_____days prior to end of each period.
3. FDO notifies contractor of changes or that there are no changes.	____days before start of applicable period.

The PEB will establish appropriate lists of subsidiary actions and schedules to meet the above schedules, with emphasis on concurrence to the extent feasible.