DEPARTMENT OF THE AIR FORCE

AWARD-FEE GUIDE

OCTOBER 2008

FOREWORD

In the spring of 2000, the Air Force Inspection Agency (AFIA) undertook an “Eagle Look” study entitled “Effectiveness of Award-Fee Applications Within the Base Environment.” This study reviewed the use and application of award fee in base-level contracting. As a result of the study, a number of recommendations were made, including one to provide Air Force-level guidance on the appropriate use of award fee. This Air Force Award-Fee Guide is the implementation of that recommendation.

The guide was accomplished by an Air Force Integrated Product Team (IPT) using existing guides developed by Air Force Materiel Command (AFMC), Air Force Space Command (AFSPC) and the Air Force Logistics Management Agency (AFLMA) as a baseline. The IPT, led by the Air Force Deputy Assistant Secretary (Contracting) Contract Policy Division (SAF/AQCP) and AFMC Contracting Policy (HQ AFMC/PKP) co-chairs, included representatives from the Deputy Assistant Secretary (Contracting) Operational Contracting Division (SAF/AQCO), the Deputy General Counsel (Acquisition) (SAF/GCQ), AFSPC, AFLMA, Air Education and Training Command (AETC), and the Air Force Civil Engineering Support Agency (AFCESA).

We hope the guide has adequately captured the spectrum of acquisitions for which award-fee arrangements are appropriate. Furthermore, through use of this guide, we expect Air Force activities to demonstrate clear, consistent and logical principles when using award fee. This will help to ensure outstanding contract performance and mutually benefit the Air Force and its contracting partners in industry alike.

SUMMARY OF CHANGES

DATE	DESCRIPTION
Mar 2002	First Edition Published
Oct 2008	Reviewed and updated for impacts from AFAA Report, Effective Use of Award Fees on Service Contracts (Project F2006-0008-FC1000) Sep 08, paragraphs 3.2.1.2.1, 3.2.1.2.2, 5.2, 6.9, 8.2, 8.3, and 8.4 are affected by this update.

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Chapter 1
General

1.0 Purpose

The purpose of this guide is to provide assistance on the application of award fee. Award fee are mechanisms to motivate the contractor to perform beyond satisfactory. A contractual agreement should always result in both parties having the same understanding regarding the work to be performed or product to be delivered and the consideration (payment) to be provided in exchange for that work or product. But for some contracts, we want to encourage more than simply satisfactory performance. A crucial question in acquisition is how do we motivate the contractor to *excel* in the performance of the contract? How can we positively influence the contractor to concentrate resources and effort in the areas critical to program success, *and* do so in an outstanding manner? Award fee, when properly used, is a valuable tool to accomplish this. Its application is intended to motivate the contractor's performance in areas that are susceptible to judgmental/qualitative measurement and evaluation, such as technical, logistics support, cost, and schedule. An award-fee provision provides for a pool of dollars that can be earned based upon the Government's evaluation of the contractor's performance in those critical areas. By entering into an award-fee arrangement with the contractor, the Contracting Officer (CO) initiates a process that, if properly structured, incentivizes the contractor to improve performance.

Award fees may be used in either fixed-price or cost-reimbursement contracts and may be used in combination with other incentives. Its use with fixed-price contracts is described in the Federal Acquisition Regulation (FAR) and its supplements as "fixed-price contracts with award fees" while its use with cost-reimbursement contracts is described as "cost–plus-award-fee (CPAF) contracts." Since the FAR makes a distinction, this guide will therefore use the terms, "award-fee arrangement", "award-fee provisions", or "award-fee incentive" to describe award fees use with either contract type.

In fixed-price contracts with award fee, contractor profit is built into the contract price and the contractor's efficiency in contract performance provides the opportunity to improve profit margin. Generally the award fee is a "bonus" to motivate the contractor to provide optimum performance in critical areas that are susceptible to qualitative evaluation. Award fee should not normally be earned for contractor performance that is rated as "satisfactory". However, in the case of a contract that was the result of a best value selection process, satisfactory contract performance could very well be rewarded with award fee depending on the evaluation criteria in the award fee plan. In CPAF contracts with zero-base fee, satisfactory or better performance should result in the earning of award fee. In all instances of "unsatisfactory" contractor performance, award fee (exclusive of the base fee, if applicable) should not be paid.

Contracts with the award-fee incentive require periodic evaluations of contractor's performance throughout the life of the contract. The award-fee process allows the

Government to assess contractors' performance and appropriately recognize their accomplishments. The Government has the flexibility to consider both the contractor's performance levels and the conditions under which these levels were achieved during the evaluation process.

In both selecting the award-fee incentive and developing the award-fee strategy, consider interrelated factors such as the dollar value, complexity and criticality of the acquisition; the availability of Government resources to monitor and evaluate performance; and the benefits expected to result from such Government oversight. Contracts containing the award-fee incentive require additional administrative and management effort and **should only be used** when the contract amount, performance period, and expected benefits warrant the additional administrative and management effort. Once the decision has been made to include the award-fee incentive, the evaluation plan and organizational structure must be tailored to meet the needs of that particular acquisition.

Applicable sections of FAR 16 and its supplements should be reviewed in conjunction with this guide when contemplating the use of an award fee incentive.

Chapter 2
Definitions

2.1 Acquisition Plan (AP) / Single Acquisition Management Plan (SAMP) - The AP is a document that reflects the strategy for fulfilling the agency's need in a timely manner and at a reasonable cost, including managing the acquisition. The SAMP incorporates the AP and serves as the roadmap for life cycle sustainment, tailored to the specific needs of a program. The SAMP represents a corporate USAF or Department of Defense position on how to best execute and manage a specific program.

2.2 Award-Fee Plan - Captures the award-fee strategy. The plan details the procedures for implementing the award fee by structuring the methodology of evaluating the contractor's performance during each evaluation period.

2.3 Award-Fee Pool - The total of the available award fee for each evaluation period.

2.4 Award-Fee Review Board (AFRB) - The AFRB evaluates the contractor's overall performance for the evaluation period. The board is composed of Government personnel only whose experience in acquisition allows them to analyze and evaluate the contractor's overall performance. The required members are a Chairperson, the CO and a Recorder. Members provide objective, impartial view of the contractor's performance to the overall process. Throughout this guide, AFRB will be referred to as the "Board."

2.5 Base Fee - The fixed amount of fee that is established at the inception of the contract and is automatically paid throughout the performance of the contract. It is allocated to each award-fee evaluation period. Only applicable to CPAF, not used in Fixed Price Award-Fee (FPAF). The base fee may range from 0%-3% of the estimated contract cost amount exclusive of the fee.

2.6 Business Requirements Advisory Group (BRAG) - BRAG is a customer-focused multifunctional team established to plan and manage service contracts throughout the life of the requirement.

2.7 Bona Fide Need Rule (31 U.S.C. 1502(a)) - The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period availability, or to complete contracts properly made within that period of availability, and obligated consistent with section 1501 of Title 31.

2.8 Cost-Plus-Award-Fee Contract - A cost-reimbursement contract that provides for a fee consisting of:

(1) a base amount fixed at inception of the contract and

(2) an award amount that the contractor may earn in whole or in part during performance and that is sufficient to provide motivation for excellence in such areas as quality, timeliness, technical ingenuity, and cost-effective management. The amount of the award fee to be paid is determined by the Government's judgmental evaluation of the contractor's performance in terms of the criteria stated in the contract. This determination and the methodology for determining the award fee are unilateral decisions made solely at the discretion of the Government.

2.9 Evaluation Criteria - The subjective and/or objective criteria that are used to grade each category of performance. The criteria should emphasize the most important aspects of the program that will motivate the contractor in a positive way to improve performance. The criteria should be specific to the program and be clearly stated.

2.10 Evaluation Period - The total contract performance is divided into evaluation periods. These periods can end on specific dates or milestones.

2.11 Fee-Determining Official (FDO) - Designated by position in the award-fee plan. The FDO makes the final determination regarding the amount of the award fee earned during the evaluation period by the contractor.

2.12 Fixed-Price Contracts With Award Fees - Award-fee may be used with fixed-priced contracts when the Government wishes to motivate a contractor and other incentives cannot be used because contractor performance cannot be measured objectively. Such contracts:

(1) Establish a fixed price (including normal profit) for the effort. This price will be paid for satisfactory contract performance. Award fee earned (if any) will be paid in addition to the fixed price; and

(2) Provide for periodic evaluation of the contractor's performance against an award-fee plan.

2.13 Purpose Statute (31 U.S.C. 1301(a)) - Appropriations shall be applied only to the objects for which the appropriations were made.

2.14 Hybrid Contracts - A combination of contract types within a contract.

2.15 Performance Monitors (PM) / Quality Assurance Personnel (QAP) - Personnel designated to work with the contractor on a daily basis and monitor performance against the evaluation criteria. These personnel are working-level specialists familiar with their assigned evaluation areas of responsibility. This monitoring is the foundation of the award-fee evaluation process. Throughout this guide, these personnel will be referred to as “Monitors.”

2.16 Reallocation - The process by which the Government moves a portion of the available award fee from one evaluation period to another for reasons such as government-caused delays, special emphasis areas, changes to the Performance Work Statement (PWS), etc.

2.17 Rollover - The process of moving unearned available award fee from one evaluation period to a subsequent evaluation period providing the contractor an additional opportunity to earn that unearned award-fee amount.

2.18 Special Interest Item - During the life of the contract, the government anticipates that it may want the contractor to devote special emphasis to subjects of particular interest to the government. Contractor assistance in these areas would be subject to award-fee consideration; however no additional award fee will be added to the pool to cover these items.

Chapter 3
Selection Criteria

3.1 Overview

3.1.1 Use of award fee allows the Government to evaluate the contractor's performance and, if necessary, institute changes in the award-fee plan to reflect changes in Government emphasis or concern. By entering into such arrangements, the CO initiates a process that rewards good performance, incentivizes a contractor to improve poor performance, and records the Government's assessment of the contractor's progress.

3.1.2 When deciding to use award-fee, the CO should document the contract file. The documentation should include the analysis that determined the additional administrative effort and cost required to monitor and evaluate performance are justified by the expected benefits. The acquisition plan or the Single Acquisition Management Plan (SAMP) is an appropriate place for this documentation. When an acquisition plan or SAMP is not required a separate memo for the file should be prepared.

3.2 Criteria for Selecting Award-Fee Contracts

3.2.1 Award-fee arrangements are appropriate when key elements of performance are susceptible to judgmental/qualitative measurement and areas of importance may shift over the course of the contract. Award-fee clauses can be used in contracts for research and development, major weapon systems, production items, logistical support, construction, services or manpower support. The award-fee incentive may also be applied in FAR part 12, Acquisition of Commercial Items contracts to incentivize contractor performance in the areas of quality and schedule, but not in the area of cost. Before entering into an award-fee arrangement, the CO should consider the following.

3.2.1.1 - Contractor Motivation

3.2.1.1.1 Use of an award-fee incentive motivates the contractor to concentrate resources in areas critical to program success. The award-fee plan should identify the specific areas of performance that are most important to the program's success. An objective in negotiating an award-fee arrangement is to achieve effective communication between Government and contractor personnel at all levels to achieve desired results.

3.2.1.2 - Administrative Cost

3.2.1.2.1 Administrative costs, to implement and sustain structured award fee processes throughout the life of the contract, must not exceed the expected benefits. These costs are part of the cost benefit analysis and include training, monitoring, documentation, briefings, staffing and replacement personnel. The most obvious government administrative cost is the labor resource dedicated to continuously monitor performance. Although monitoring performance is necessary for all contract types, the award-fee evaluation process is a structured approach that requires additional documentation, continual evaluation, and briefings. Since award-fee evaluation periods will continue throughout the life of the contract, total administrative cost is the sum of <u>all</u> evaluations. The same level of performance monitoring, reporting, and documentation continues throughout all award fee periods, which may include option periods. Consider costs (inclusive of man-hours) to educate and train technical personnel, performance monitors, AFRB members, and other related acquisition personnel prior to implementation of the contract. Also consider the estimated time required to properly monitor/evaluate contractor's performance, determining contractor's rating and briefings to the FDO.

3.2.1.2.2 When developing a cost benefit analysis, the analysis should demonstrate that the expected benefits are sufficient to warrant the additional effort and cost involved with managing and administering the award-fee process. Since both the anticipated benefits and added administrative costs are judgmental, the benefit analysis may not be quantifiable. Federal Acquisition Regulations (FAR) lists this analysis requirement under 16.405-2(c), Limitations. Defense Federal Acquisition Regulation Supplement (DFARS) 216.470 extends this requirement to other types of contracts by listing that the "award amount" portion of the fee may be used in other types of contracts under certain conditions. DFARS (PGI 216,470, (5)) requires the administrative costs of evaluations do not exceed the expected benefits. Therefore, the acquisition team members should analyze the anticipated benefits versus added administrative costs before committing to an award fee type contract. The cost benefit analysis becomes part of the contract file in support of the contracting officer's determination for the use of a CPAF or FP/AF contract.

3.2.1.3 - Contract Value

3.2.1.3.1 Avoid using dollar thresholds as the sole determinant to select use of award-fee. Estimated contract dollar amount is only one measure of value and may not be the most important consideration. Instead, consider contract value in terms of the criticality of the acquisition and its impact on related efforts. A relatively small dollar value contract may be extremely significant to the mission or overall major program and, therefore, require the flexibility and judgmental evaluation inherent in using the award-fee incentive.

3.3 Hybrid Contracts

3.3.1 With different levels of uncertainty and risk, different contract types may be appropriate within a contract. Use caution in establishing hybrid contracts to ensure that an award-fee incentive does not conflict with or de-incentivize the incentive-fee objectives. Also, the complexity of the contract can lead to problems in the areas of payment and contract administration.

Chapter 4
Award-Fee Pool

4.1 Overview

4.1.1 The award-fee pool is the total of the available award fee for each evaluation period. Base fee is paid on a regular basis without the contractor's performance being evaluated. Since the available award fee during the evaluation period must be earned, the contractor begins each evaluation period with 0% of the available award fee and works up to the evaluated fee for each evaluation period. Contractors do not begin with 100% of the available award fee and have deductions taken to arrive at the evaluated fee for each evaluation period. However, the potential for the contractor to earn 100% of the award fee amount should be a mutual goal as it demonstrates the program's objectives were clearly communicated and achievable.

4.2 Base Fee

4.2.1 Base fee is only applicable to cost-plus-award-fee contracts (CPAF). When base fee is used, it is fixed at the inception of the contract and is regularly paid throughout the performance of the contract. **Base fee is not allowed in fixed-price-award-fee (FPAF) contracts** (DFARS 216.470(2)).

4.2.2 Base fee is a fixed amount received by the contractor regardless of the contractor's evaluated performance. The base fee may range from 0% to 3% of the estimated contract cost exclusive of the fee (see DFARS 216.405-2(c)(ii)((2)(B)). The amount of base fee to include in the award-fee pool is based on the particulars of your acquisition situation. The use of base fee enhances a contractor's cash flow, but it may be unnecessary if the CPAF portion is combined with other types of incentives. When developing a base-fee objective for CPAF contracts, see DFARS 215.404-74(c) for application of the DoD Offset Policy for Facilities Capital Cost of Money.

4.3 Establishing the Award-Fee Pool

4.3.1 Establishing the award-fee pool is critical and requires careful consideration including budgetary constraints. Potential fees must be sufficient enough to provide the contractor motivation to achieve excellence in overall contractor performance. The potential fees should not be excessive for the effort contracted nor should they be so low that the contractor has limited incentive to respond to Government concerns. An inadequate award-fee pool does not provide the motivation incentive to the contractor that this type of contract is intended to stimulate.

4.3.2 There is no single approach required by FAR for establishing the amount of an award-fee pool. However, it should be logically developed and reflect the complexity of the contract effort. Award fee should not apply to cost reimbursable items such as travel and incidental material identified by individual Contract Line Item Numbers (CLINs).

4.3.2.1 When developing the award-fee pool consider the following factors,

- The pool should be sufficient to compensate the contractor for the highest level of performance. If not, the pool should be adjusted accordingly, while keeping reasonableness in mind.

- Complexity of the work and the resources required for contract performance.

- Reliability of the cost estimate in relation to the complexity and duration of the contract task.

- Degree of cost responsibility and associated risk that the prospective contractor will assume as a result of a contract with an award-fee clause.

- Amount of base fee, if applicable. Remember to apply the DoD Offset Policy for Facilities Capital Cost of Money in calculating the pre-negotiation base-fee amount.

4.3.2.2 Different methods can be used to establish the award-fee pool. The methods listed below are possible approaches:

- Review previous acquisition efforts for similar requirements

- Research current award-fee pools for similar efforts

- Use Weighted Guidelines Method only as a reference point

- Establish evaluation criteria and apply a percentage based on risk and importance

- Cash flow analysis

4.3.2.3 Offerors can provide an award-fee percentage and minimum fee/profit in their draft and/or final proposals. You may also want to include a fee percentage range between which they can propose. This approach can complicate the contract award evaluation process. If used, ensure the fee amounts proposed are neither excessive nor so low that they fail to achieve the desired motivational benefits of an award-fee incentive.

4.4 Allocation of Award Fee by Evaluation Period

4.4.1 The award-fee pool is allocated over all award-fee evaluation periods. Deduct the base fee (if any) and allocate the remainder of the pool over the various award-fee evaluation periods. The base fee ($100,000 in the example below) is allocated equally throughout the award-fee portion of the contract. The award-fee pool distribution depends on the acquisition strategy and individual circumstances of each procurement. The available award fee allocated for each evaluation period is the maximum amount that can be earned during that particular evaluation period. The available award fee may be allocated equally among the evaluation periods if the risks and type of work are similar throughout the various evaluation periods. Otherwise, if there is greater risk or critical milestones during specific evaluation periods, a larger portion may be distributed to those periods. This permits the Government to place greater influence on those evaluation periods. The same holds true for additional award fee amounts based on modifications to the contract. Distribution of any additional available-award-fee dollars should be tailored to the specific acquisition. The dollar amounts in Figure 4-1 are provided for the examples in 4.4.2 - Equal Allocation and 4.4.3 - Unequal Allocation.

Estimated Cost	$5,000,000
Award Fee	$ 500,000
Base Fee	$ 100,000
Total	$5,600,000

Figure 4-1, Example of Base Fee Allocation

4.4.2 - Equal Allocation

4.4.2.1 The total available award fee ($500,000) may be allocated equally among the evaluation periods as shown below if the risks and type of work are similar throughout the various evaluation periods.

EVALUATION PERIODS	1	2	3	4	Total
Allocation (%)	25%	25%	25%	25%	100%
Allocation ($)	$125,000	$125,000	$125,000	$125,000	$500,000

Figure 4-2, Example of Equal Allocation

4.4.3 - Unequal Allocation

4.4.3.1 Unequal allocation of the available award fee ($500,000) can be used to motivate the contractor's performance to correspond to different degrees of emphasis or risk. If the contract has a short initial evaluation period so the contractor becomes familiar with the work (e.g., janitorial services), the initial evaluation period may have a smaller allocation while the remaining available award fee is divided equally among the remaining evaluation periods. Conversely, if the contract effort requires the contractor to become familiar with the work quickly, the initial evaluation period may have a larger allocation. If there is greater risk or a critical milestone(s) during specific evaluation periods, a larger portion of the award-fee pool may be distributed to certain periods. Unequal allocation permits the Government to place greater emphasis on certain award-fee evaluation periods. Figure 4-3 illustrates an unequal allocation that reflects different degrees of emphasis.

EVALUATION PERIODS	**1**	**2**	**3**	**4**	**Total**
Allocation (%)	10%	26%	40%	24%	100%
Allocation ($)	$50,000	$130,000	$200,000	$120,000	$500,000

Figure 4-3, Example of Unequal Allocation

4.4.4 - Award-Fee Hourly Rate Allocation

4.4.4.1 The available award-fee amounts can also be calculated by multiplying the maximum or estimated hours by an established award-fee hourly rate before the evaluation periods start for cost-reimbursement term contracts. The available award-fee amount at the end of each evaluation period is then determined by multiplying the number of hours incurred or authorized, whichever number of hours is less, times the award-fee hourly rate. The contractor's performance must still be evaluated at the end of the evaluation period to determine the award-fee amount earned by the contractor. When this method is used, extra care is needed to ensure that the number of hours the contractor used bears a reasonable relationship to the accomplishments during the period. The motivation for cost control is minimal in these situations especially where the type or quality of labor used can fluctuate.

4.4.5 - Reallocation

4.4.5.1 Reallocation is the process by which the Government moves a portion of the available award fee from one evaluation period to another due to such things as Government-caused delays, special emphasis areas, changes to the Performance Work Statement (PWS) or Statement of Work (SOW), etc. Reallocation is not normally associated with the contractor's performance. Reallocation may be done unilaterally if projected before the start of the affected award-fee evaluation period. Within an award-fee evaluation period, reallocation can only be done by mutual agreement of both parties.

4.5 Rollover

4.5.1 Rollover is the process of moving unearned available award fee from one evaluation period to a subsequent evaluation period, thereby providing the contractor an additional opportunity to earn that unearned award-fee amount. Neither the FDO nor contractor should automatically expect the unearned fee to be used in some later award-fee evaluation period. There are instances when it is advantageous to add additional incentives for improved contractor performance. If the FDO allows rollover, documentation that justifies its use becomes part of the official contract file.

4.5.2 Award-fee payments are bona fide needs of the same fiscal year and appropriation that finance the related contractual effort on which the award-fee determination is based. Since both the bona fide need rule and Purpose Statute apply, sufficient funds must be available for payment of the rollover amount and must be of the correct appropriation (type and year) for the related effort in the subsequent evaluation period.

Chapter 5
Roles and Responsibilities

5.1 Overview

5.1.1 Evaluations for award-fee are judgmental due to the nature of the work. Therefore, it is especially important that all personnel involved understand the overall process, and the specific roles and responsibilities of the evaluation team. The evaluation team includes either the FDO, the Board, and Monitors. The FDO determines the final rating for the evaluation period and ensures process integrity. The Board provides an impartial view of the contractor's performance to the overall process. The Monitors interact with the contractor on a daily basis.

5.1.2 Although use of award fee allows for subjective evaluation of the contractor's performance, it must be a disciplined approach. Documentation ensures the integrity of the evaluation process. Therefore, this documentation should demonstrate that the process set forth in the award fee plan has been followed, that the rating recommendations and final determinations have been based on actual performance and evaluated according to the award fee plan, and that timely feedback was provided to the contractor that addresses strengths and weaknesses.

The award fee organizational structure should be as simple as possible and avoid an excessively structured evaluation process. Excessive layers can hamper the flow of information and cause unnecessary paperwork, delays in turnaround, and large demands on the work force.

5.2 Fee-Determining Official (FDO)

5.2.1 The FDO should be an individual at a senior level, normally no lower than a Directorate (two letter office symbol) or wing commander for complex systems requirements, or the chief of the functional office, group commander or higher for base services contracts. The FDO must be senior enough to ensure the contractor's confidence in the objectivity of the evaluation process and enable communication with the appropriate level of contractor management. The FDO is identified in the plan by organization title. Responsibilities include approving the plan and any changes to it, approving the Board membership, and determining the final rating. The FDO should remain neutral during each evaluation period. The FDO ensures the final earned rating accurately reflects the contractor's performance. The FDO decision <u>must</u> <u>be</u> documented. If the FDO determination differs from the Board recommendation, the rationale must be documented in the official contract file and explained in reference to the plan. The FDO should be made aware that the contractor has rights and remedies under the Contract Disputes Act and should avoid arbitrary and capricious determinations.

The FDO determination letter should include the final earned rating and address the contractor's strengths and weaknesses for the evaluation period. The FDO determination letter is normally sent to the contractor 30-45 days after the end of the evaluation period.

5.3 Award-Fee Review Board (AFRB)

5.3.1 The qualifications of Board membership will vary depending upon the nature, dollar value and complexity of the acquisition. However, those individuals with overall responsibility for technical and contracting aspects of contract performance should be included. Board members should be familiar with the type of work to be evaluated and be able to devote enough time to their assignment to perform thorough and prompt reviews. Members may include major functional area representatives, contracting representatives, small business specialist, etc. (See Appendix B, Award Fee Plan Template, Annex 1, Organization). The Board evaluates the contractor's overall performance for the evaluation period, and recommends a rating to the FDO. The Board reviews the Monitor's evaluations; the contractor's self-evaluation, if any; and other pertinent information to arrive at an overall evaluation of the contractor's performance. The Board may request the Monitors to discuss their evaluations so that the Board gains further insight into the contractor's performance. The Board may also recommend changes to the plan to the appropriate approval authority. The Board is also responsible for preparing interim evaluation reports to provide formal feedback to the contractor during the evaluation period. The Board should not include Monitors. Board members:

- Should be familiar with the evaluation process, contract requirements, and the plan.

- Assess the contractor's overall performance for each plan criterion. It is critical that the Board evaluates the contractor's overall performance according to the criteria stated in the plan.

Document the results to show how the Board arrived at the recommended rating presented to the FDO. This documentation may include monitor evaluations; interim letters, if applicable; the contractor's self-evaluation, if any; briefings presented to the Board; and other data considered.

5.4 Board Chairperson

5.4.1 The Chairperson should normally be a senior member of the using activity (e.g. Group Commander or System Program Office (SPO) Director). The Chairperson, who is appointed by the FDO, recommends the remaining members to the FDO for approval. The Chairperson also selects the Monitors. The Chairperson:

- Ensures training of all award fee participants.

- Briefs the FDO on recommended ratings and the contractor's overall performance.

- Recommends significant award-fee plan changes to the FDO.

5.5 Board Recorder

5.5.1 The Board Recorder, who is designated by the Board Chairperson, is the administrative backbone of the award-fee process. The Recorder is a non-voting member and is responsible for coordinating the administrative actions required by the FDO, the Board, and Monitors. In some instances, the CO may act as the recorder. The Recorder:

- Notifies Monitors that their evaluations are due.

- Receives, processes and distributes evaluation reports from all required sources and maintains official files.

- Schedules and assists with internal evaluation milestones, such as briefings.

- Schedules FDO Determination Briefing.

- Schedules contractor debriefing, if applicable.

- Accomplishes other actions required to ensure the smooth operation of the award-fee process, such as documenting the Board’s activities.

- Retains all Monitor evaluation reports, if they are not included in the official contract file.

- Retain other pertinent data not contained in the official contract file.

5.6 Contracting Officer

5.6.1 The CO is the liaison between the Government and the contractor. The CO transmits FDO letters to the contractor. The CO prepares and distributes the modification awarding the fee authorized by the FDO within 15 calendar days after the FDO determination. The CO ensures that the award-fee amount is certified and administratively reserved prior to the beginning of the applicable award-fee evaluation period. The CO also ensures that all unearned-award-fee funds are de-committed after each evaluation period. The CO notifies the contractor in writing of any change(s) to the award-fee plan, after FDO and Board Chairperson approval.

The CO ensures an audit trail is in place to substantiate the Board recommendation and FDO determination. In contracts requiring Contractor Performance Assessment Reports (CPAR), the CO should verify that the contract's CPARs evaluation data correlates with the award fee evaluation for that period so that a consistent message is sent concerning performance and the integrity of both processes is maintained. Significant discrepancies should be explained and documented in the contract file.

In addition to the required documents already in the official contract file such as the award-fee plan, appointment letters, etc., the official contract file should also contain the following documentation for each separate evaluation period:

- A copy of the FDO briefing.
- Copy of the FDO determination letter.
- Supporting FDO determination rationale, if FDO determination differs from the Board recommendation.
- Fee to be available, if applicable.
- Interim evaluation letter, if applicable.
- Contractor's self-assessment, if any.
- Funding documents.

5.7 Performance Monitors (PM) / Quality Assurance Personnel (QAP)

Monitors provide the continuous evaluation of the contractor's performance in specifically assigned areas of responsibility. This monitoring which often occurs daily is the foundation of the evaluation process. Monitors are working-level specialists, such as engineers, cost analysts, or QAP, who are familiar with their assigned evaluation areas of responsibility. Normally Monitors are not members of the Board. Monitors:

- Should be familiar with the contract requirements and the award-fee plan, especially the performance rating criteria for their assigned evaluation area(s).

- Conduct all assessments according to contract requirements and the award-fee plan so that evaluations are fair and accurate.

- Maintain written records of the contractor's performance in their assigned evaluation area(s) that detail specific examples where (1) improvement is necessary or desired; (2) improvement has occurred; and (3) performance is below, meets or exceeds contract requirements.

- Prepare interim and end-of-period evaluations as directed that address the contractor's weaknesses and strengths.

- Should be prepared to brief the Board on their specific evaluation area(s).

- Recommend changes to the award-fee plan; e.g., award-fee pool reallocations, performance area weights, evaluation criteria.

Monitors should provide justification for their ratings and document both strengths and weaknesses in their areas of responsibility.

Chapter 6
Award-Fee Preparation

6.1 Overview

6.1.1 The award-fee plan captures the strategy and is the basis for the Government's evaluation of the contractor's performance for determining award-fee rating. It is essential that the plan clearly communicates the process that will be followed, what will be evaluated, how it will be evaluated, who will participate, and the fee that can be earned. This information will ensure the contractor understands the performance level that the Government desires and that the Government's evaluation is fair and consistent with its stated performance objective.

- The BRAG or the acquisition team responsible for the requirement prepares the plan.

- The award-fee plan is coordinated through the CO, the buying activity small business specialist (if the plan addresses small business subcontracting), the legal advisor, and others as appropriate.

- The FDO approves the plan.

- The plan is included in the solicitation.

Contractors begin the evaluation period with 0% of the available award fee and work up to the earned award fee based on performance during that evaluation period. Contractors <u>do not</u> begin with 100% of the available award fee and have deductions taken.

6.2 Award-Fee Plan Contents.

6.2.1 The award-fee plan includes (see Appendix A, Checklist, and Appendix B, Award-fee Template):

- Title Page
- Acquisition Name
- RFP/contract number
- Coordination/approval signatures and dates
- Introduction
- Organization
- Roles and Responsibilities
- Criteria
- Categories of Performance
- Ratings/Grades/Weightings
- Evaluation Periods

- Award-Fee Process
- Change Procedures
- Terminations
- Appendices

6.2.2 For smaller acquisitions, plans need not be as elaborate as for larger efforts; however, the plan should, as a minimum, address the items above.

6.3 Organization

6.3.1 Identify the FDO and the Board members by title/position to eliminate the need for administrative changes to the plan when an individual member changes. PMs are identified by function in the plan. For more information, see Chapter 5, Roles and Responsibilities.

6.4 Evaluation Period Length and Allocation

The total contract performance is divided into evaluation periods. Allocate the amount of award fee available over each evaluation period. The length of the evaluation periods and allocation of the available award-fee pool depend on the acquisition strategy, and program needs and goals of each procurement. (See 4.4, Allocation of Award Fee by Evaluation Period, for further information.)

Evaluation periods can end on specific dates or milestones. If duration is used, evaluation periods need not be equal in length. In some instances (e.g., janitorial services), the contractor may need a short initial evaluation period to become familiar with the work required while the remaining periods of performance are divided equally. The evaluation periods can also be established by milestones with specific anticipated milestone completion dates. If milestones are used, the actual evaluation period must end either at the completion of the milestone or the anticipated milestone completion date, whichever occurs first.

When determining the appropriate length for evaluation periods, there are pitfalls to be avoided. Evaluation periods that are too short can prove administratively burdensome. Short evaluation periods can also lead to hasty evaluations, late determinations, or insufficient time for the contractor to improve areas of weakness. Evaluation periods that are too long jeopardize effective formal communication between contractor and Government and diminish opportunities to influence the contractor’s performance. Evaluation periods should not exceed six months for small businesses or one year for large businesses. Performance feedback to the contractor should be provided formally at scheduled intervals as well as informally on a continuous basis. Continuous communication between the Government and the contractor is critical to their performance as a team and program success.

The Government may unilaterally reallocate or revise the distribution of remaining award-fee dollars among subsequent evaluation periods. (See 4.4.5, Rollover) If the total award-fee pool and available award-fee dollars for each period are stated in the contract, a contract modification is required.

6.5 Evaluation Requirements

Even though the evaluation is subjective, every effort should be made to make the criteria and the measurement of the criteria as clear and understandable as possible. Including the contractor in the development of the criteria and the performance measurements will help ensure mutual understanding. Clear and measurable criteria also help the FDO ensure that the final determination is based on preset objectives and not anecdotal examples of performance brought forward at decision time.

A critical part of developing the plan is defining the ratings, categories of performance, and evaluation criteria. Ratings, categories of performance, and associated criteria are specific to the needs and goals of the contract. Remember, Unsatisfactory evaluation ratings should not be rewarded.

6.5.1 - Ratings

Three to five standard ratings can be used to evaluate the contractor's performance. A point range may be assigned to each evaluation rating for the designated categories of performance. The plan should include the range of points (if used) assigned to each rating. Determine the overall performance rating by totaling the sum of the weighted rating points (if weights are used) for each category of performance. If adjectival ratings are used, determine an overall rating based on specific ratings assigned against evaluation criteria. Sample rating definitions are provided in Appendix C, Sample Rating Definitions. These definitions can be tailored to reflect the facts and circumstances of your particular acquisition.

If points are assigned to the ratings, the range of points for Unsatisfactory should be a minimum of 50% of the total points. For example, the Unsatisfactory range would be at least 0-50 if there are a total of 100 points assigned. However, the Unsatisfactory range could be 0-60 points depending on the corresponding level of performance expected.

6.5.2 - Categories of Performance

The award-fee plan lists the categories of performance (e.g., technical, management, and cost) to be evaluated and the associated weights, if any. Too many categories dilute the contractor’s ability to place emphasis on key areas for program success. Instead, a few broad categories are selected (such as technical, organization and management, cost control and special emphasis/interest items). The categories are then supplemented by a limited number of significant evaluation criteria over which the contractor has effective management control. Program history and past performance can be helpful in identifying key problem or improvement areas to focus on during evaluations.

The award-fee and plan is tailored to the strategy of the individual procurement. There is no requirement to standardize the categories of performance. It is neither necessary nor desirable to include a category of performance for each function in the statement of work. Government quality assurance can be accomplished under the purview of the award-fee plan. A separate surveillance plan would only be required for those areas of the contract not covered by the award-fee plan. (See AFI 63-124, Performance-Based Service Contracts, for additional information regarding performance measurement.)

Some basic areas of performance need to be in every award-fee plan. For instance, all cost-incentive contracts are required to include a cost incentive or constraint (See FAR 16.402). Therefore, cost control should <u>always</u> be evaluated in CPAF contracts. Although controlling the cost, quality (technical merit, design innovation, reliability, etc.), and scheduled delivery of hardware or services provided will always be important, the relative importance and measure of performance in each area may vary.

6.5.3 - Evaluation Criteria

The award-fee plan must state the evaluation criteria used to rate each category of performance. The criteria should emphasize the most important aspects of the program that will motivate the contractor in a positive way to improve performance and be specific to the needs and goals of the acquisition. Non-critical or too broadly defined criteria make it difficult for Monitors to provide meaningful comments and evaluations.

The criteria and the evaluation against that criteria should be clear and understandable to the contractor. Understanding the criteria and what is important gives the contractor a clear picture of what it takes to obtain 100% of the available award fee points. The contractor earning 100% indicates the objectives were communicated and achieved. Contractor input into the development of the plan is an effective method of helping the contractor understand acquisition objectives.

Depending upon the procurement situation, performance evaluation criteria may include output, input or a combination of both factors. Output factors refer to the end results of contract performance, such as the quality of the end items delivered or services rendered, the actual time of delivery or completion, and the incurred costs. Input factors refer to intermediate processes, procedures, actions, or techniques that are key elements influencing successful contract performance. These may include testing and other engineering processes and techniques; quality assurance and maintenance procedures; subcontracting with small and small disadvantaged businesses; purchasing department management; and inventory, work assignment and budgetary controls.

Although award-fee evaluations are subjective, objective measurement of contractor performance to support the evaluation is a unique approach that clearly articulates to the contractor what is expected to be achieved for program success during the evaluation period. Using this approach, categories of performance are still identified, but measurable outputs are determined before the evaluation period begins to communicate what performance level is necessary to achieve a particular rating. For instance, if improving productivity/performance is established as an objective, metrics are established to measure performance within that productivity/performance category. Within each metric, performance levels are identified to rate contractor performance. If completion of productivity initiatives is identified as a metric for improving productivity/performance, it could be predetermined that 90% - 100% is an excellent, 80% - 90% a very good, etc. The metrics provide an indication of contract performance for a particular category and are an input for the overall subjective evaluation of that category (see the Performance Assessment Matrix Template in Appendix E).

Examples of categories of performance and associated criteria are shown in Appendix D, Sample Evaluation Criteria. These examples do not cover all possibilities, but they illustrate some of the categories of performance.

6.5.4 - Weighting of Categories of Performance

As contract work progresses from one evaluation period into the next, the relative importance of specific performance criteria may change. The award-fee plan may indicate the relative priorities assigned to the various categories of performance through percentage weightings. If weights are used to communicate relative priorities, the total assigned weights must equal 100%.

6.6 Rating Considerations

Some general considerations are:

- When Government actions impact contractor's performance either positively or negatively, consider those actions in the rating process. Such Government actions may include changes in funding allocation or increased emphasis on certain technical requirements that require the contractor to make unexpected and extensive trade-offs.

- Keep the process as clear and simple as possible.

- The entire available award-fee amount or highest possible rating should be attainable.

- Documentation regarding the contractor's performance should be available for the FDO's review before a final evaluation decision for the evaluation period is made. Documentation of assigned rating points, if points are used, is required to support recommendations.

Contractors should not be incentivized to excel in cost control to the detriment of the other important performance objectives. When cost control is included as a factor in the plan, measure the contractor's success at controlling cost against contract estimated cost and not budgetary or operating plan costs. The predominant consideration when evaluating cost control is to measure the contractor's performance against the negotiated estimated cost of the contract, including the cost of undefinitized change orders when appropriate. When evaluating cost control, consider the following:

- If there was a cost overrun in the previous evaluation period, consider the contractor's current efforts to control or mitigate it.

- If there are repeated overruns or underruns, it may be an indicator of a systemic problem requiring further investigation.

- Cost underruns within the contractor's control will normally be rewarded. However, cost underruns may not indicate good cost control unless the actual effort during the evaluation period matches that originally proposed or planned. The extent to which the underrun is rewarded will depend on the size of the underrun and the contractor's level of performance in the other categories of performance. Use caution not to build incentives that encourage a contractor to over-estimate in order to achieve underruns.

6.7 Award-Fee Conversion

The earned award fee amount is usually a linear point-to-percentage conversion of overall performance above Unsatisfactory. For example, if a contractor receives an Excellent grade with an overall score of 91, the contractor would also receive 91% of the available award fee for that evaluation period. Remember, zero award fee will be earned for an overall Unsatisfactory performance rating.

6.8 Evaluation Process

The award-fee plan details the interim (if any) and end-of-period evaluation processes. Interim evaluations are recommended for all uses of award fee, especially those with evaluation periods greater than six months. For more information, see sections 7.3, Interim (mid-term) Evaluation Process and 7.4, End-of-Period Evaluation Process.

6.9 Procedures for Changing the Award-Fee or Award-Term Plan

Before the start of the upcoming award fee period, the plan should be reviewed to ensure that it is current. Increase in technical performance requirements, changes in evaluation criteria, adjusting of weights to redirect contractor’s emphasis to areas needing improvement, or changes in emphasis due to progression of the work from one phase to another, are some of the reasons a plan needs to be revised. All significant changes to the award-fee plan should be coordinated with the Board and sent to the

FDO for approval. In order for this to be an unilateral change, and to ensure that the contractor is fully aware of what is required to earn award fee for the upcoming period, changes to the award fee plan must be transmitted by the CO to the contractor in writing, at least 15 days before the beginning of the new evaluation period. Changes affecting the current evaluation period must be by mutual agreement of both parties. Examples of significant changes include changing evaluation criteria, adjusting weights to redirect contractor's emphasis to areas needing improvement, changing Board membership, and revising the distribution of the award-fee dollars.

6.10 Contract Termination

If a contract with an award-fee clause is terminated for convenience of the Government after the start of an award-fee evaluation period, the earned award-fee amount should be determined by the FDO using the normal award-fee evaluation process. The remaining available award-fee dollars for all subsequent evaluation periods should not be considered available or earned and, therefore, should not be paid.

6.11 Pre-Award Phase Preparation

The purpose of this section is to discuss the major tasks required by the contracting officer and the functional organization prior to the preparation of the solicitation package for a contract containing an award fee clause.

6.11.1 **The Acquisition Strategy Panel (ASP).** At the ASP, the acquisition strategy is decided upon. If award fee is contemplated, its use should, therefore, be discussed and decided upon as part of the acquisition strategy. Discussion should center on what areas of contract performance are critical to program success and would benefit from the use of award fee. It is also appropriate at the ASP to formally nominate the FDO. Approval of the ASP nominations as part of the acquisition plan or Single Acquisition Management Plan (SAMP) will constitute approval of these positions. Prior to the ASP, introduce the award-fee or award-term concept to key personnel, including the wing commander, Program Manager (PM), or whoever holds the responsibility for the management of this acquisition to gain their support. After the ASP, provide training on award-fee to all process participants including the BRAG, other commanders, functional area personnel, legal, and accounting and finance personnel.

6.11.2 **Solicitation Preparation.** A preliminary award-fee plan should be included in the draft and final RFP. The BRAG/PM ensures the plan is approved for release with the solicitation.

6.11.3 **AP/SAMP.** When incorporating award-fee provisions in a solicitation, consider including additional time to the solicitation milestones. In many instances the additional time is required in order to explain and coordinate the award fee process.

6.11.4 **Preparing the Commitment Document (Award-Fee).** Award fees are funded by establishing a contingent liability at the beginning of the award fee period and subsequently obligating the award fee amount after approval from the fee determining official. Maintaining potential award fee funds as commitments (contingent liabilities) ensures funds are accurately and properly identified in Air Force accounting records and reduces the potential for overstating obligations. The CO should, therefore, receive a commitment document just prior to the beginning of the evaluation period for the entire potential award-fee amount the contractor is eligible to receive for that period. After the FDO determination, the earned award-fee amount is then obligated.

Chapter 7
Award-Fee Evaluation Process

7.1 Overview

The award-fee evaluation process actually begins when the award-fee plan is drafted. It is the plan that determines what and how the contractor's performance will be evaluated. End-of-period evaluations are based on elements found within the plan and not outside factors (e.g. Inspector General Reports, government audit agency reports). (For more information on how to write a plan, see Chapter 6, Award-Fee Plan Preparation.) For the purpose of discussion in this chapter, the evaluation process will be divided into three segments: Training, Interim Evaluation, and End-of-Period Evaluation.

7.2 Training Process

Training should begin before a contract is awarded so that personnel understand the award-fee process before beginning their duties. Training of all personnel involved in the process is essential for successful monitoring and evaluation of the contractor's performance.

Training should cover such things as the plan, roles and responsibilities, documentation requirements, and evaluation techniques. Training for all personnel involved in the evaluation process should address:

- What is award-fee contracting?
- What is being evaluated? What is the desired performance level for the established criteria?
- How will information be gathered? What techniques will be used? (e.g., inspection, sampling of work, observation, review of reports or correspondence, and customer surveys.)
- How is information protected?
- What are the standards of conduct for personnel associated with the evaluation process?
- How are evaluation scoring processes and consistency between scoring and evaluation summaries accomplished?
- When or how often will information be obtained? (e.g., daily, weekly, or monthly.)

- How will Monitors secure information in areas that they may not be able to personally observe? (e.g. off-site testing may be covered by one person for two different Monitors.)

7.3 Interim (mid-term) Evaluation Process

Continual communication with the contractor is essential for a successful award-fee incentive. Continual communication allows the contractor to receive feedback and understand where to make corrections in performance. Tracking contractor performance on an electronic database is one method for providing continuous feedback and can allow contractors continuous access to view their assessed performance during the course of an evaluation period. Formal interim evaluations identify strengths and weaknesses in the contractor's overall performance during the period and are recommended whenever using the award-fee incentive. When evaluation periods exceed six months, it is imperative that an interim (mid-term) evaluation be provided.

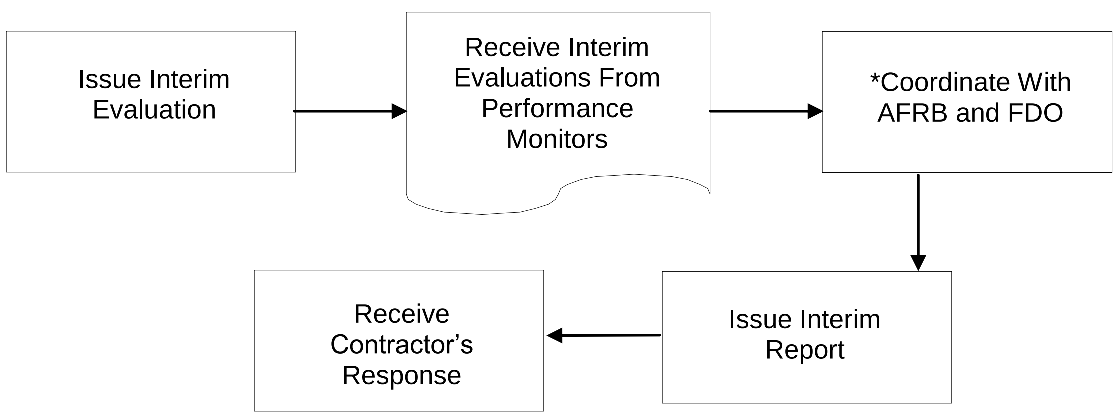

Figure 7-1, Example of Interim Evaluation Process

The Recorder notifies Monitors in sufficient time (e.g. 14 days) before the mid-point of the evaluation period to submit their interim evaluations. Monitors annotate areas where they feel improvements in the contractor’s performance are expected or required. They should also annotate areas of strength. Monitors’ interim evaluations are consolidated by the Recorder and presented to the Board. The consolidated mid-term evaluation should be documented in narrative or briefing format and should involve the FDO prior to distributing it to the contractor.

The interim evaluation provided to the contractor should not contain any fee determination or rating. It should address the strengths and weaknesses noted for the current evaluation period. A written interim evaluation ensures that the contractor is informed of areas where corrective action(s) can be taken in sufficient time to correct these deficiencies prior to the FDO’s award-fee amount determination. Interim evaluation letters should be sent through the CO to a senior contractor official to ensure the contractor's responsiveness. The contractor's response, if required, should include plans for increasing effectiveness in the areas for improvements and be submitted to the CO.

As part of the interim evaluation, Monitors and the Board assess the upcoming requirements and recommend any significant changes to the plan to the FDO.

7.4 End-of-Period Evaluation Process

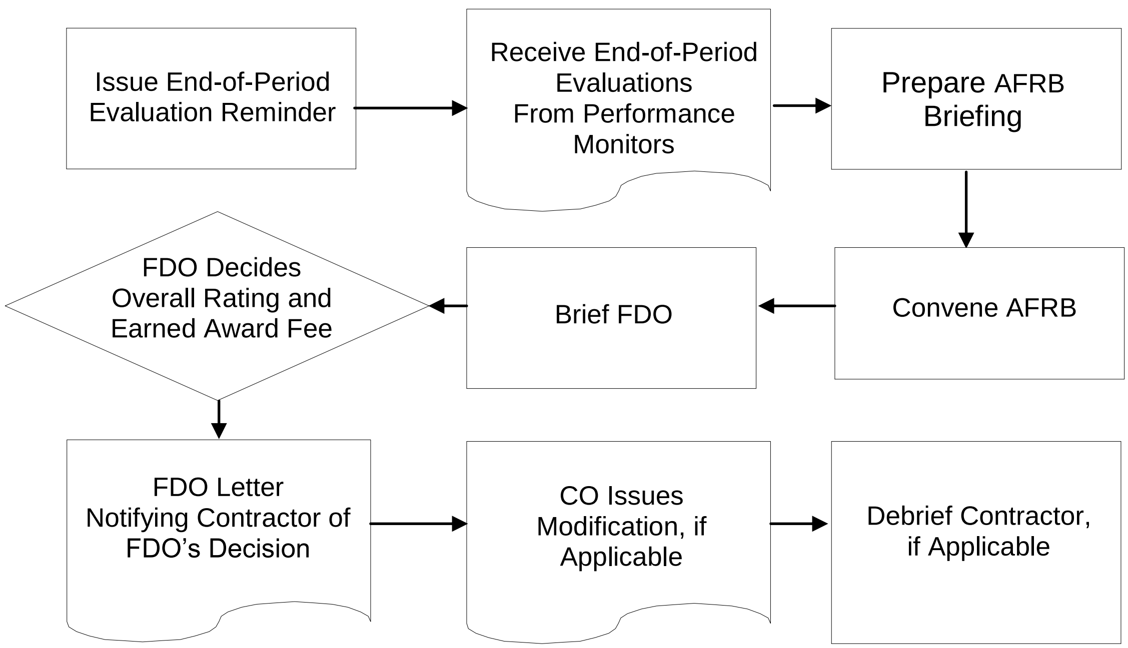

Figure 7-2, Example of End-of-Period Evaluation Process

The Recorder notifies Monitors in sufficient time (e.g., 14 days) before the end of the evaluation period to submit their evaluations. If monitors are in an operational/installation environment, the monitor should consider the quality assurance surveillance reports and other documentation when producing a separate document for reporting award fee evaluation. At the midpoint and upon completion of each evaluation period, Monitors should provide specific comments concerning the contractor's strong and weak performance during the award fee period under consideration. The monitor's periodic award fee reports and evaluations should be part of the official file. Upon receipt of the Monitors' evaluations, the Recorder summarizes the evaluation and provides it to the Board. The CO should also send a copy of the summary evaluation to the contractor in order to provide the contractor an opportunity to review and comment on the evaluation. The summary evaluation provided to the contractor may be in a narrative or briefing format and should not include an actual rating. The contractor may also submit a self-evaluation of its performance for that period. The self-evaluation may be a written assessment submitted to the CO or a presentation to the AFRB. The AFRB evaluates the findings; contractor's self-assessment, if submitted; and other pertinent information to develop a recommended earned award-fee amount for the FDO.

The Chairperson briefs the FDO on the AFRB's recommendation and any significant changes to the award-fee plan. The briefing includes discussion of the contractor's related strengths and weaknesses. The FDO may consider allowing the contractor to attend this briefing and present comments, but the contractor should not be allowed to participate in the final decision-making. If the contractor does not attend the FDO brief, a debriefing of the contractor may be considered to enhance communication.

After the FDO decides an overall rating and the award-fee amount for the evaluation period, a FDO determination letter is sent to the contractor (normally within 45 days after each evaluation period). The determination letter should be clear and concise, informing the contractor of the earned-award-fee amount and the major strengths and weaknesses of the contractor for that award-fee evaluation period. The CO should make every effort to issue the modification the same day as the FDO determination. Worst case, the modification should be issued not later than 15 days after the FDO determination. The CO should de-commit all unearned award fee for that evaluation period.

7.5 Delivery or Task-Order Contracts

The basic award-fee process is similar for delivery or task order contracts. The increasing use of these contracts for ordering supplies and services poses additional challenges to award fee administration and fiscal integrity. There are two basic approaches that can be used to evaluate performance on delivery order or task order contracts: evaluation at the contract level or evaluation at the order level.

7.5.1 - Delivery or Task Order Contracts Evaluated at the Contract-Level

In many cases the Government wants to motivate the contractor's performance at the contract level versus each individual order. This condition may exist when the overriding objective is not how each individual order is executed, but how the contractor's performance of multiple orders contributes to meeting the overall contract objectives. For example, an unknown requirement may arise that has a higher priority than an existing order. The primary objective is for the Government/contractor team to make trade-offs between the orders in a constrained environment (contract dollars, hours, etc.) to ensure the optimal capability is achieved.

The award-fee plan should incentivize meeting overall contract objectives rather than individual order performance. It should clearly state that the evaluation criteria are applicable at the contract level and not to each individual order placed on the contract. This does not preclude management of individual orders (e.g. discussions with the contractor in the fulfillment of each order). But, the award-fee plan should clearly communicate that the contractor earns award fee based on how the accomplishment of each order contributed to the overall contract objectives.

When multiple customers are involved, their evaluation inputs normally reflect their focus on individual orders. However, the AFRB must stay focused on overall contract objectives and on how well the contractor met the evaluation criteria in the plan. Understanding the trade-offs exercised during the performance of the contract can be integral in evaluating the degree in which overall contract objectives were achieved.

The key to successful implementation of this approach is for the Monitors, AFRB and FDO to ensure the integrity of the award-fee plan by maintaining this higher level perspective on the overall contract performance rather than on individual orders during the evaluation process. At the end of the award-fee evaluation period, the contractor's performance in achieving the overall contract objectives is evaluated using the award-fee plan criteria.

7.5.2 - Delivery or Task-Order Award-Fee Contracts Evaluated at Order-Level

In some situations the criticality of individual orders requires the award fee evaluation process to occur at the order level. When this occurs, evaluate the contractor's performance on each order against the award-fee criteria on a task-by-task basis. The earned-award-fee amount would then be specific to each order and ensures it matches the funds used on the associated effort. Be aware that this approach requires greater time and resources to administer.

Chapter 8
Funding

8.1 Overview

Award-fee pools are budgeted as part of the total contract budget. When planning and budgeting for award fees, you must adhere to bona fide need rule and Purpose Statute. The bona fide need rule, 31 U.S.C. 1502(a), provides that: "The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title." The Purpose Statute, 31 U.S.C. 1301(a), says, "appropriations shall be applied only to the objects for which the appropriations were made."

An award-fee requirement is a bona fide need of the same year and appropriation that financed the related effort against which the award fee was earned. From propriety of funds' standpoint, award fees are inherently inseparable from the work with which they are associated. This means the financial manager will plan and budget award fees in the same fiscal year and appropriation as the related effort. This includes award-fee amounts that cross fiscal years. If an unearned award-fee amount is moved to a subsequent evaluation period, there must be sufficient funds of the same year and appropriation as for the work performed in the subsequent evaluation period. (For more information, see section 4.5, Rollover)

Award fees for Air Force procurement and research, development, test and evaluation (RDT&E) appropriations are planned and budgeted as a part of the total weapon system cost. To comply with appropriation law and RDT&E incremental funding policy, award fees must be budgeted for and funded with the same fiscal year funds as the increment of associated effort. For procurement appropriations, appropriation law and DoD full funding policy mandate that award-fee pools are funded with the same appropriation and fiscal year funds as the associated effort.

8.2 Commitment of Award Fees

Funds should be committed at the beginning of the award fee evaluation period in accordance with AFI 65-601, Vol 1, Budget Guidance and Procedures and DoD Financial Management Regulation 7000-14R. In situations involving organizations from another military service using an AF contract, the CO should seek assurance from the requesting activity that funds have been administratively reserved prior to the beginning of the evaluation period. The CO should require receipts of the Military Interdepartmental Purchase Request (MIPR) prior to convening of the AFRB for that period. Award fees cannot be obligated until the FDO has made a determination of the award fee amount since they are contingent liabilities until this time. In light of the bona file need and funding proprietary rules, the CO and financial manager are responsible to ensure that the commitment cites the same fiscal year and appropriation as the related effort.

AFI 65-601, Vol 1, Budget Guidance and Procedures, paragraph 8.3.1 reads as follows: "Award fee requirements are planned and budgeted for as part of the total weapon system cost. Award fees are a bona fide need of the same fiscal year and appropriation that finances the related effort on which the award fee is based. They are inherently inseparable from the work with which they are associated. Therefore, DoD full funding policy mandates award fee requirements be budgeted in and funded with the same appropriation and the same fiscal year as the associated effort. Until the determination has been made that a contractor is due an award fee, the award fee funds are committed as a contingent liability, not obligated. (See DoD 7000.14R, Vol 3, Chapter 8, Paragraph 080202.A.). However, if funds committed as a contingent liability expire or become expired when the award fee is decided, approval must be obtain for an upward obligation adjustment (per direction in Chapter 6 of this volume) before the funds may be obligated."

DoD 7000.14R, Vol 3, Chapter 8, Paragraph 080202.A), has a very clear description of the procedures for committing contingent liabilities (award fees) it reads in part:

"Amounts to cover contingent liabilities should be carried as outstanding commitments pending determination of actual obligations. The amounts of such contingent liabilities, however, need not be recorded at the maximum or ceiling prices under the contracts. Rather, amounts should be committed that are estimated conservatively to be sufficient to cover the additional obligations that probably will materialize, based upon judgment and experience."

Review commitments for award fees periodically to ensure the amount committed is a reasonable estimate of the remaining contingent liability and according to the award fee plan.

8.3 Obligations and Payment of Award Fees

Earned award fee amounts are obligated by issuance of a contract modification after the completion of the award fee period prior to payment. Award fee determinations made after the funds have expired require special consideration. These constitute upward obligation adjustment (UOA) to expired appropriations and must be approved through Financial Management channels (AFI 65-601, Vol 1, Budget Guidance and Procedures, Chapter 6, Expired and Canceled Appropriations).

8.4 Decommitment of Award Fees

Once the contract modification authorizing payments of the earned award fee is issued, all excess funds must be decomitted immediately. If there are additional award fee amounts for subsequent evaluation periods held in commitment, the CO may be required to determine the size of the decommitment. Unearned award fees rolled over to the next evaluation period are held in commitment status; however, care must be taken to ensure that the same fiscal year and appropriation, used to fund the related contractual effort, will be used to pay the earned award fee.

Appendix A

Award Fee Plan Checklist

Award-Fee Plan Checklist

AS A MINIMUM:	
Identify FDO and AFRB by Position	
Identify Performance Monitors by Function	
Define Grades used to Measure Contractor's Performance	
Define Categories of Performance (e.g., Technical, Cost Control)	
Specify Weights, if applicable	
Define the Evaluation Criteria (e.g., What constitutes Excellent Performance for Cost Control?)	
List Evaluation Periods by Date or Milestone and Anticipated Milestone Completion Date	
List Allocation of Funds by Dollar Amount or Percentage of Available Award Fee by Evaluation Period	
Establish Scoring Mechanism, if applicable	
Address Interim Evaluations, if applicable	
Set up General Procedures for AFRB	
GENERAL:	
Incorporate Award-fee Plan in the Draft RFP	
Incorporate Award-fee Plan in the Final RFP	
Train all personnel involved in the award-fee process	
Document Justification for Rollover in Official Contract File	
Document FDO Determination in Official Contract File	
CONTRACT CLAUSE: Insert award-fee clause in contract	

Appendix B

Award-Fee Plan Template

See also the Air Force Civil Engineer Support Agency homepage for additional award-fee plan templates for plans addressing specific operational contracting requirements at http://www.afcesa.af.mil/Directorate/ceo/Contracts/Outsourcing/PWS/Market/Default.html

AWARD-FEE PLAN

FOR

(TITLE OF PROGRAM)

(DATE OF APPROVAL)

(Contractor's Name)

(RFP / Contract Number)

APPROVED:

____
Fee-Determining Official
(Title)

(Fill-in information is shown in ***bold italics***.)

Table of Contents

Annexes

AWARD-FEE PLAN

1.0 Introduction

a. This award-fee plan is the basis for the ***(Acquisition name)*** evaluation of the contractor's performance and for presenting an assessment of that performance to the Fee Determining Official (FDO). It describes specific criteria and procedures used to assess the contractor's performance and to determine the amount of award fee earned. Actual award-fee determinations and the methodology for determining award fee are unilateral decisions made solely at the discretion of the Government.

b. The award fee will be provided to the contractor through contract modifications and is in addition to the ***(type contract)*** provisions of the contract. The award fee earned and payable will be determined by the FDO based upon review of the contractor's performance against the criteria set forth in this plan. The FDO may unilaterally change this plan prior to the beginning of an evaluation period. The contractor will be notified of changes to the plan by the Contracting Officer, in writing, before the start of the affected evaluation period. Changes to this plan that are applicable to a current evaluation period will be incorporated by mutual consent of both parties. Unless the CO gives the contractor specific written notice of any changes to evaluation areas 15 days prior to the start of a new evaluation period, the same evaluation criteria and weights listed for the preceding period will be used in subsequent periods.

2.0 Organization

The award-fee organization consists of: the Fee Determining Official (FDO); an Award Fee Review Board (AFRB) which consists of a chairperson, the contracting officer, a recorder, other functional area participants, and advisor members; and the Performance Monitors. The FDO, AFRB members, and performance monitors are listed in Annex 1.

3.0 Responsibilities

a. **Fee Determining Official**. The FDO approves the award-fee plan and any significant changes. AFRB members are approved by the FDO. The FDO reviews the recommendation(s) of the AFRB, considers all pertinent data, and unilaterally determines the earned award-fee amount for each evaluation period.

b. **Award Fee Review Board**. AFRB members review Performance Monitors' evaluation of the contractor's performance, consider all information from pertinent sources, prepare interim performance reports, and arrive at an earned award-fee recommendation to be presented to the FDO. The AFRB may also recommend changes to the award fee plan. If the contractor provides written or verbal self-assessment of its performance, the AFRB must consider this assessment when developing the earned award-fee recommendation to the FDO.

c. **AFRB Recorder**. The AFRB Recorder is responsible for coordinating the administrative actions required by the Performance Monitors, the AFRB and the FDO, including: l) receipt, processing and distribution of evaluation reports from all required sources; 2) scheduling and assisting with internal evaluation milestones, such as briefings; 3) accomplishing other actions required to ensure the smooth operation of the award fee; and 4) scheduling FDO determination debriefing with the contractor.

d. **Contracting Officer (CO)**. The CO is the liaison between contractor and Government personnel.

e. **Performance Monitors**. Performance Monitors maintain written records of the contractor's performance in their assigned evaluation area(s) so that a fair and accurate evaluation is obtained. Prepare interim and end-of-period evaluation reports as directed by the AFRB.

4.0 Award-Fee Processes

a. **Available Award-Fee Amount**. The available award fee for each evaluation period is shown in Annex 2. The award fee earned will be paid based on the contractor's performance during each evaluation period.

b. **Evaluation Criteria**. If the CO does not give specific notice in writing to the contractor of any change to the evaluation criteria prior to the start of a new evaluation period, then the same criteria listed for the preceding period will be used in the subsequent award-fee evaluation period. Any changes to evaluation criteria will be made by revising Annex 3 and notifying the contractor.

c. **Interim Evaluation Process**. The AFRB Recorder notifies each AFRB member and Performance Monitor ***(insert number of days)*** calendar days before the midpoint of the evaluation period. Performance Monitors submit their evaluation reports to the AFRB ***(insert number of days)*** calendar days after this notification. The AFRB determines the interim evaluation results and notifies the contractor of the strength and weaknesses for the current evaluation period. The CO may also issue letters at any other time when it is deemed necessary to highlight areas of Government concern.

d. **End-of-Period Evaluations**. The AFRB Recorder notifies each AFRB member and performance monitor ***(insert number of days)*** calendar days before the end of the evaluation period. Performance monitors submit their evaluation reports to the AFRB ***(insert number of days)*** calendar days after the end of the evaluation period. The AFRB prepares its evaluation report and recommendation of earned award fee. The AFRB briefs the evaluation report and recommendation to the FDO. At this time, the AFRB may also recommend any significant changes to the award-fee plan for FDO approval. The FDO determines the overall grade and earned award-fee amount for the evaluation period within ***(insert number of days)*** calendar days after each evaluation period. The FDO letter informs the contractor of the earned award-fee amount. The CO issues a contract modification within ***(insert number of days)*** calendar days after the FDO's decision is made authorizing payment of the earned-award-fee amount.

e. **Contractor's Self-Assessment**. When the contractor chooses to submit a self-evaluation, it must be submitted to the CO within five working days. This written assessment of the contractor's performance throughout the evaluation period may also contain any information that may be reasonably expected to assist the AFRB in evaluating the contractor's performance. The contractor's self-assessment may not exceed ***(insert number of pages)*** pages.

5.0 Award-Fee Plan Change Procedure

All significant changes are approved by the FDO; the AFRB Chairperson approves other changes. Examples of significant changes include changing evaluation criteria, adjusting weights to redirect contractor's emphasis to areas needing improvement, and revising the distribution of the award-fee dollars. The contractor may recommend changes to the CO no later than ***(insert number of days)*** days prior to the beginning of the new evaluation period. After approval, the CO shall notify the contractor in writing of any change(s). Unilateral changes may be made to the award-fee plan if the contractor is provided written notification by the contracting officer before the start of the upcoming evaluation period. Changes affecting the current evaluation period must be by mutual agreement of both parties.

6.0 Contract Termination

If the contract is terminated for the convenience of the Government after the start of an award-fee evaluation period, the award fee deemed earned for that period shall be determined by the FDO using the normal award-fee evaluation process. After termination for convenience, the remaining award-fee amounts allocated to all subsequent award-fee evaluation periods cannot be earned by the contractor and, therefore, shall not be paid.

3 Annexes:
1. Award-Fee Organization
2. Award-Fee Allocation by Evaluation Periods
3. Sample Evaluation Criteria

Annex 1 - Award-Fee Organization

Members:

Fee-Determining Official:	***(Position Title)***	***(Office Symbol)***
Award-Fee Review Board Chairperson:	***(Position Title)***	***(Office Symbol)***

Award-Fee Review Board Members:

Deputy Program Director	***(Office Symbol)***
Program Manager	***(Office Symbol)***
*Contracting Officer	***(Office Symbol)***
*Recorder	***(Office Symbol)***
Contracting Staff Member	***(Office Symbol)***
Judge Advocate Staff Member	***(Office Symbol)***
Financial Management Staff Member	***(Office Symbol)***
Plans Staff Member	***(Office Symbol)***
Director of Logistics	***(Office Symbol)***
Director of Engineering	***(Office Symbol)***
Director of Contracting	***(Office Symbol)***
Director of Configuration and Data	***(Office Symbol)***
Director of Program Control	***(Office Symbol)***
DCMA representative	***(Office Symbol)***

*These are mandatory members.

Performance Monitors

Area of Evaluation	Performance Monitor(s)
Program Management	***(Office Symbol)***
Subcontract Management	***(Office Symbol)***
Manufacturing Management	***(Office Symbol)***
Quality Assurance	***(Office Symbol)***
Configuration Management	***(Office Symbol)***
Engineering and Test Management	***(Office Symbol)***
Cost and Schedule Management	***(Office Symbol)***
Logistics	***(Office Symbol)***
Technical Orders	***(Office Symbol)***

Annex 2 - Award-Fee Allocation by Evaluation Periods

The award fee earned by the contractor will be determined at the completion of evaluation periods shown below. The percentage and dollars shown corresponding to each period is the maximum available-award-fee amount that can be earned during that particular period.

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

*****The Government may unilaterally revise the distribution of the remaining award-fee dollars among subsequent periods. The contractor will be notified of such changes, if any, in writing by the CO before the relevant period is started and the award-fee plan will be modified accordingly. Subsequent to the commencement of a period, changes may only be made by mutual agreement of the parties.

**Will be computed in and expressed in dollars at conclusion of negotiations (for sole source) or in proposal and Final Price Revision (for competition) using percentage shown.

Annex 3 – *Sample Evaluation Criteria

*Criteria should be tailored for specific acquisition

Cost Management

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

Appendix C
Sample Rating Definitions

NOTE: Ratings need to be identified in the Award-Fee Plan. These definitions are provided to assist you in establishing evaluation criteria. The description of what constitutes each level of performance within each performance category must be included in an annex. For four ratings use Unsatisfactory, Satisfactory, Very Good and Excellent. For three ratings use Unsatisfactory, Satisfactory and Excellent.

For Five Ratings

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

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

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

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

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

Appendix D
Sample Evaluation Criteria

This annex contains 12 samples of evaluation criteria for various categories of performance. There are four samples for the basic performance category of cost to show the variety of criteria that can be used. Tailor the criteria for each performance category based on your acquisition.

A Performance Assessment Matrix Template is also provided. The template demonstrates how to develop objective measurement to support the subjective evaluation process.

The 12 performance categories, with number of grades in parentheses, are listed below. The page numbers on which they can be found are also listed.

COST AND SCHEDULE MANAGEMENT

UNSATISFACTORY

1. Cost and schedule reports are unclear and not easily reconcilable to a common database.

2. Funds requirements data are not received timely.

3. Cost and schedule variances (including subcontractor) are not identified early.

4. Contractor does not ensure all proposal data, including subcontractor data, is adequate for technical review and cost analysis.

5. Contractor does not meet schedule identified in the contract.

SATISFACTORY

1. All cost and schedule reports are clear and reconcile to a common database.

2. Funds requirements data are projected accurately and clearly and are received timely.

3. Cost and schedule variances (including subcontractor) are identified early and plans for recovery revised, reported, and implemented.

4. Contractor ensures all proposal data, including subcontractor data, is adequate for technical review and cost analysis.

5. Changes are suggested timely to achieve maximum cost savings when implemented.

6. Schedule milestone tracking and projections are accurate with only minor impacts occurring.

7. Contractor meets schedule identified in the contract.

GOOD

1. Cost reports are submitted with full traceability within and between reports. Adjustments are fully and clearly explained.

2. All requirements for additional funding are thoroughly documented and justified.

3. Contractor takes measures to avoid cost growth. Corrective actions are briefed to the Government and are generally accepted without changes.

4. Cost data is consistent and logical and based on program requirements. Contractor recognizes where cost growth may be occurring and provides timely and well-documented justification of actual problems that would require application of additional resources.

5. Cost proposals are well organized and provide visibility to the Government.

6. Risk analyses of all proposed or required schedule changes, including the impact on all levels of the program, performed accurately and timely. Contractor employs early corrective action and planning to preclude potential delays in the schedule. Contractor communicates schedule risk areas and proposed action to the Government well in advance of required action.

7. Contractor plans, develops and executes procedures that meet the existing timetable.

VERY GOOD

1. Funds requirements reflect constant scrutiny to ensure accuracy.

2. Cost savings are considered and reported in change proposals.

3. Contractor prepares and develops graphic program cost and schedule data that provides clear Government visibility into current and forecast program costs and schedules. Variances recovered without serious impact to technical or schedule goals when recovery plans are implemented. Schedule variances are well explained and recovered with minor impact to overall program goals.

4. Contractor performs necessary contingency planning and keeps close and timely communication with the Government on cost and schedule issues.

5. Baseline integrity is consistently maintained, and all changes are fully documented. Narratives explaining data variances (cost/schedule at completion) are current, explicit, and relevant to the variances observed. They are fully accurate and a consistent indication of the program development. Narratives

address anticipated future program impacts and fully describe both current and future programmatic and cost impacts of the current cost/schedule performance.

6. Schedule milestone tracking and projections are very accurate and reflect true program status.

7. Plans, develops and executes viable procedures that incorporate the flexibility necessary to be responsive to changing priorities and schedules without adversely effecting overall system cost and completion schedule. Contractor executes innovative resource management and planning to minimize the adverse impact on the program of any scheduled slip.

8. Contractor is ahead of schedule with no adverse effect on cost or performance.

EXCELLENT

1. Contractor consistently submits high quality cost and schedule forecasts. Contractor prepares and develops comprehensive, clear schedule data that provides excellent correlation with cost performance reports and permits early identification of problem areas.

2. Funds requirements data and projections reported are extremely accurate and received ahead of schedule.

3. Change proposals stand-alone and require no iteration for Government understanding.

4. Cost variances are fully explained and recovered without impact to overall program goals.

5. Contractor consistently anticipates possible sources of cost growth and seeks ways to avoid potential cost problems. Contractor proposes innovative and thoroughly cost-effective approaches to problems with which the Government agrees.

6. Cost management system automatically identifies problem areas and implements solutions to maintain cost and staff growth levels below the negotiated levels. No support or redirection required by the Government to control cost growth.

7. Contractor plans, develops and executes procedures that allow completion of major milestones ahead of schedule with no adverse impact on coordination, performance or cost and which cause the accrual of benefits to the program.

8. Schedule milestone tracking and projections are extremely accurate and prevent program impact.

COST CONTROL

UNSATISFACTORY

1. Contractor's planning for staff utilization goals left up to designers on drafting board.

2. Contractor does not control expenditures for direct charges (i.e., services).

3. Contractor does not meet cost estimate for original work or changes 30% of the time.

SATISFACTORY

1. Contractor's management sets and reviews staff utilization goals.

2. Contractor's management occasionally reviews expenditures for control direct charges (i.e., services).

3. Contractor does not meet cost estimate for original work or changes 20% of the time.

GOOD

1. Contractor's management sets staff utilization goals by system planning that are reviewed by engineering.

2. Contractor sets direct charges (i.e., services) and accounts for them on each work package.

3. Contractor exceeds original estimate on change orders 10% of the time and meets original design costs.

VERY GOOD

1. Contractor's system engineers establish design parameters that are held in design plans.

2. Contractor provides services as part of normal design function without extra charges.

3. Contractor exceeds original estimate on change orders 5% of the time and meets original design costs.

EXCELLENT

1. Contractor limits modifications to the design plan to less than 5% that result from lack of engineering system correlation.

2. No cost overruns on original estimates.

3. Contractor never exceeds original estimate on original design package or change orders.

COST CONTROL - REPORTING

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

COST PERFORMANCE

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

ORGANIZATION AND MANAGEMENT

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

PROGRAM MANAGEMENT

UNSATISFACTORY

1. Program planning does not contain a logical flow of activities. No program status and visibility into near term actions provided.

2. No clear lines of authority or effective communication with Government, other agencies, and associate contractors.

3. Contractor defines problems without factual supporting information and rationale.

SATISFACTORY

1. Program planning is comprehensive and contains a logical flow of activities. Program status and visibility into near term actions are provided through schedules and status of contract tasks.

2. Contractor establishes clear lines of authority and provides effective communication with Government, other agencies, and associate contractors. Minimal programmatic or technical impacts experienced because of communication problems.

3. Contractor implements management control systems that provide for identification of problems to the appropriate management level. Contractor clearly defines problems with factual supporting information and rationale.

4. Responsive to Government in supporting programmatic and technical issues. Contractor responds to Government direction in compliance with industry standards and modes of operation. Contractor provides timely, logical response to Government concerns.

GOOD

1. Contractor plays a key role in identifying issues and recommendations for program improvements.

2. Contractor makes decisions and recommendations that demonstrate sensitivity to the cost-effectiveness and efficiency of the program.

3. Contractor anticipates, assesses, and makes only necessary changes to program milestones.

4. Contractor provides pertinent planning data to Government management.

5. Contractor provides efficient management and control over program resources.

6. Contractor properly maintains Earned Value Management System (EVMS).

7. Management initiates and promotes strong two-way communication with Government counterparts and associate contractors. Contractor seeks continual interaction with Government representatives on contract status, goals, and objectives. Contractor coordinates with the Government to ensure contractor interpretation of contract tasking is correct. Takes the initiative to see that all relevant personnel are kept informed.

8. Management identifies problems, causes and solutions that have a potential for impact on program cost, schedule or performance. Solutions minimize impacts and life cycle costs. Contractor implements an effective program to identify and resolve internal problems that adversely effects contractor's performance in meeting Government needs. Contractor takes corrective action to minimize impacts.

9. Contractor provides adequate staffing levels and selection of personnel for program to proceed smoothly. Contractor re-evaluates staffing and resources to re-forecast requirements to meet long range contract replanning with minimum inefficiency due to reallocated resources. Contractor constantly evaluates staff needs to support meetings and takes action to ensure appropriate attendance.

10. Responsive to Government technical and business management requests, such as Requests for Proposals, cost/schedule reporting, and forecast information. Contractor responds effectively to directed program changes accomplishing procurement actions on a timely basis within the constraints of the contractor's system and in a cost effective manner. Responses to special studies authorizations are submitted timely, within budget, fulfilling the specific requirements of the special study task. Contractor makes maximum use of informal reporting to provide timely data.

11. Contractor identifies open items and risk resolution alternatives and defines preferred solutions. Contractor provides comprehensive status of open items and risk items at management level and provides results to the Government. Takes the initiative in coordinating scheduled meetings and reviews and responds quickly to action items and questions.

VERY GOOD

1. Contractor plays a key role in identifying issues and recommendations for program improvements. Contractor anticipates new requirements and incorporates them well before critical need dates, thereby avoiding unnecessary work. Contractor accommodates changing schedules, program activities, and associate contractors with minimal impact to the overall program. Contractor makes decisions and recommendations that demonstrate a high level of sensitivity to identifying cost-avoidance opportunities that could reduce overall program costs. Contractor demonstrates positive management control over program resources; minimizes conflicts with allocation of corporate resources to other programs. Design, development, and production activities provide for increased performance, reliability, maintainability, and supportability without additional cost or risk.

2. Contractor demonstrates strong leadership through effective internal communications. Inter-organization coordination and planning are exploited to the maximum. Contractor ensures the Government is informed of all upcoming decisions that will potentially impact schedule, technical performance, and/or cost. Early coordination with Government management to keep the Government informed of problem developments, schedule changes, and required decision points.

3. Contractor demonstrates initiative and foresight in planning for potential problems, analyzing program impact, resolving program problems and instituting prompt corrective actions. Contractor's positive management control over problem areas results in early problem resolution and minimal program impacts. Proposed solutions require little revision or Government intervention and consider life cycle costs. Contractor anticipates most associate contractor's potential problem areas and provides alternative resolutions that clearly consider and identify impact to schedule and cost to all parties.

4. Contractor continuously reviews labor resource allocations in order to minimize labor usage, while maintaining adequate staffing levels to maintain schedule, an acceptable quality of work, and maximum productivity. Contractor provides visibility to Government of resource concerns and solutions.

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

EXCELLENT

1. Management demonstrates the highest degree of foresight into program planning, depth of analysis, accomplishment of tasks, advance identification of problems and problem resolution, integrating total program concept and a comprehensive management approach. Critical milestones are planned as early as possible to provide for maximum program contingency time. Many milestones are met early, to the benefit of the program, with no adverse effect on performance, schedule, cost, or risk. Contractor demonstrates a concern for the correct understanding of contract tasking and cost growth avoidance, and is responsive to the changing nature and levels of work.

2. Contractor develops an effective, efficient contractor team that reflects strong, open lines of communication. Improvements to the planned program result from high quality communication with Government and other external focal points with no program impacts attributed to poor communication. Contractor maintains complete and effective coordination and liaison with Government counterparts and other contractors. Contractor independently supports program activities in a consistent and cooperative mode.

3. Contractor demonstrates initiative in planning, analyzing, and assessing the total impact of potential problems. Contractor identifies high-risk/problem areas early, plans alternative/parallel courses of action, and keeps the Government well informed of developments. Life cycle costs are minimized by problem solutions.

4. Contractor demonstrates to the Government how net reduction in labor loading and overtime will be effected and how these reductions will produce cost and schedule savings to the program without degrading performance. Contractor's team consists of highly qualified and motivated personnel, with an emphasis on productivity. Contractor minimizes changes of key individuals.

5. Contractor demonstrates initiative in support of the Government by taking a leadership role in identifying issues and providing significant, timely recommendations and actions for program improvements.

QUALITY ASSURANCE

UNSATISFACTORY

1. Responsibilities for ensuring quality in design not described in written procedures.

2. Planning to implement quality in design is incomplete. Environmental, contamination, corrosion, and other special controls are not identified.

3. Producibility, inspectability and testability are not evaluated prior to design release.

4. Contractor does not ensure that appropriate suppliers evaluate producibility, inspectability and testability prior to design release.

SATISFACTORY

1. Responsibilities for ensuring quality in design are assigned, described in written procedures and implemented.

2. Planning to implement quality in design is complete and includes provisions for employing appropriate fixtures, tooling, and skills. Environmental, contamination, corrosion, and other special controls are identified.

3. Producibility, inspectability and testability are evaluated prior to design release and result in no major related impact to contract requirements.

4. Handling, packaging, packing and transporting of materials and products are considered during the design resulting in no major related impacts on the contract performance.

5. Contractor ensures that appropriate suppliers evaluate producibility, inspectability and testability prior to design release.

6. Contractor strives to increase quality management effectiveness by promoting continuous process improvement.

7. Contractor promotes an attitude of continuous process improvement to subcontractors.

GOOD

1. The results and influence of functional participant (i.e., manufacturing, reliability, testing and quality) from design development through production are formally documented.

2. Planning is based on the results of research from past experiences of similar product lines and incorporates preventive measures to avoid recurrence of previous problems.

3. Quality in design is considered throughout life cycle; any changes to facilitate producibility, inspectability and testability after design are released for manufacturing are incorporated immediately.

4. Handling, packaging, packing, storing and transporting of materials and product result in no damage or delays attributable to a design deficiency or omission.

5. Contractor participates with appropriate suppliers to ensure quality in design is emphasized and effected.

6. Contractor strives to increase process quality by the use of many of the following tools: statistical process control (SPC), training, continuous process improvement and defect reduction programs, subcontract process improvement teams, and other self-initiated enhancement techniques.

7. Departures from standard procedures rarely impact contract performance, cost or critical product assurance milestones.

8. Contractor establishes effective techniques to shift focus of quality assurance from defect detection and reduction to defect prevention. Contractor further increases quality improvement by establishing an affirmative program for defect prevention through quality in design, producibility, and manufacturing process controls. Contractor increases product quality and production efficiency by developing methodologies designed to reduce product variability and the production of defective material.

9. Contractor realizes cost savings from reductions in the cost of quality; number of part or material rejects; line rework; and scrap, rework, and repair dispositions.

10. Contractor emphasizes continuous quality improvement through quality in design, producibility, manufacturing process controls, reduced product variability, and defect prevention in subcontractor/vendor competition.

VERY GOOD

1. The design review process is structured to include independent reviewers of the design for evaluating quality in design features which include producibility, testability and inspectability. The results are fully integrated with appropriate closure of all concerns.

2. An active lessons-learned approach to design and manufacturing is documented, maintained and used to avoid problems.

3. Producibility, inspectability and testability considerations are included in the released design. All major and critical characteristics are producible, measurable and verifiable as released in the design.

4. Facilities are designed to minimize the adverse effects of handling, packaging, packing, storing and transportation to adversely effect the hardware. There is no damage related to design.

5. Appropriate suppliers demonstrate performance in producibility, inspectability and testability resulting in no significant supplier-related problems. Contractor is actively involved in preventing related problems at supplier facilities.

6. Contractor regularly demonstrates that product assurance disciplines and process improvement tools have been utilized to their fullest during the design of each part of the system.

7. Contractor establishes an aggressive vendor defect prevention program.

8. Contractor realizes cost savings from a reduction of manufacturing wrap rates due to lower overhead allocations required for scrap, rework or repair dispositions.

9. Contractor's subcontractor/vendor competition process provides for the optimum cost, schedule, and technical performance through implementation of quality initiatives, including an SPC variability reduction program, at subcontractor facilities. Contractor includes quality initiatives in their subcontractor/vendor-rating program.

EXCELLENT

1. Strong corporate involvement in, and support of, the quality in design effort is demonstrated by the establishment of quality in design measurement methods, evaluation of performance, and effect improvement.

2. Design quality problems are anticipated and acted upon to eliminate any impact. No significant changes requiring adverse impacts to the cost, schedule, or performance planning are needed to meet or exceed contract requirements.

3. Incorporation of producibility, inspectability, and testability efforts result in reduced manufacturing or inspection costs and improves on contract schedule requirements. No deviations or waivers requested for associated contractor omissions or errors.

4. Supplier management efforts result in performance where designs did not require any change after delivery, relating to producibility, inspectability and testability.

5. The contractor exhibits a thorough and successful integration of quality concepts throughout other functional disciplines such as design, safety, manufacturing, configuration management, quality assurance, and purchasing.

6. Exhibits a complete understanding of a variability reduction program, especially at the subcontractor/vendor facilities, resulting in total process control, reduced cost of quality, and lower overhead allocations.

7. Contractor realizes savings to total program cost through the optimum application of subcontractor/vendor competition management to include increases in technical performance as measured through increased responsiveness by the subcontractor to total system requirements in support of mission success.

QUALITY OF WORK

UNSATISFACTORY

1. Contractor leaves questionable situations for Government to resolve.

2. Contractor tends to follow past practices with no variation to meet requirements of the current contract.

3. Contractor maintains indifferent liaison with subcontractor, vendors, and Government.

4. Constant surveillance required to keep job from slipping.

SATISFACTORY

1. Contractor follows guidance, type, and standard drawings.

2. Contractor adapts existing designs to suit job on hand for routine work.

3. Contractor maintains satisfactory liaison, but dependent on Government to force resolution of problems without constructive recommendations to subcontractors or vendors.

4. Occasional surveillance required to stay on schedule and expects Government resolution of most problems.

GOOD

1. Contractor follows guidance, type, and standard drawings questioning and resolving doubtful areas.

2. Contractor engineered existing designs to satisfy specs, guidance plans, and material provided.

3. Contractor maintains effective contact with subcontractors and vendors, depends on Government for problems requiring military resolution.

4. Normal interest and desire to provide workable plans with average assistance and direction by Government.

VERY GOOD

1. Contractor provides work complete with notes and thorough explanations for anticipated questionable areas.

2. Contractor displays knowledge of contract requirements that consider systems aspect, cost, shop capabilities, and procurement problems.

3. Contractor maintains independent contact with subcontractors and vendors, keeping them informed to produce compatible design with little Government assistance.

4. Complete and accurate job. Free of incompatibilities with little or no Government direction.

EXCELLENT

1. Contractor's work of highest caliber incorporating all pertinent data required including related activities.

2. Contractor displays exceptional knowledge of contract requirements and adaptability to work process incorporating knowledge of future planning in design.

3. Contractor maintains expert contact with subcontractors and vendors, obtains information from subcontractors and vendors without Government assistance.

4. Contractor develops complete and accurate plans, seeks out problem areas and resolves them to remain ahead of schedule.

PRODUCT QUALITY

Sample 1:

Product Quality (PQ): (Specific areas of interest: ISO 9002 (or equivalent) compliance & minimizing material/workmanship defects)

Unsatisfactory: PQ program is not compliant with standards for ISO 9002 (or equivalent) and initial quality of products fails to meet baseline standards

Satisfactory: PQ program is compliant with standards for ISO 9002 qualification (or equivalent) and initial quality of products meets baseline standards

Excellent: PQ program significantly exceeds standards for ISO 9002, reducing material/workmanship defects; implements some process improvements

Sample 2:

Quality of Deliverables. The government will assess the quality of the delivered product. This will be accomplished by assessing whether the contractor's quality program is compliant with an ISO 9000 series or comparable system auditable by the cognizant DCMA activity. Additionally, the Government assessment will include quality assurance processes and material/workmanship indicators through in-shop monitoring and customer satisfaction. Products delivered to using customers will be monitored for quality, failure rates, and contractor's controlled situations which directly affect mission readiness.

Unsatisfactory: Quality program is not compliant with an ISO 9000 series quality system or equivalent system, quality assurance processes do not result in an acceptable level of material/workmanship defects. Contractor's delivered products don't meet customer needs.

Satisfactory: Quality program is compliant with an ISO 9000 series quality system or equivalent system, quality assurance processes result in a minimally acceptable level of material/workmanship defects. Contractor's delivered products meet customer needs.

Very Good: Quality program is compliant with an ISO 9000 series quality system or equivalent system, quality assurance processes result in an acceptable level of material/workmanship defects. Contractor's delivered products exceed customer needs.

Excellent: Quality program is compliant with an ISO 9000 series quality system or equivalent system, quality assurance processes result in an acceptable and declining level of material/workmanship defects. Contractor's delivered products significantly exceed customer expectations.

TECHNICAL PERFORMANCE

UNSATISFACTORY

1. Site-specific Quality Program Plans (QPPs) are incomplete, contain inaccuracies and/or fail to comply with the contract level QPP. Deficiencies adversely impact on the contractor's ability to complete tasks resulting in project delays and increased costs to the Government.

2. Technical/periodic reports and other deliverable data are not submitted in accordance with the Contract Data Requirements and are in formats not easily understood. Discrepancies are major and require extensive time and effort to correct.

3. Shop submittals and drawings do not meet specifications. Deficiencies impact schedule and cost.

4. Proposals are submitted late, are sometimes unacceptable and the change process does not proceed without adverse impacts to estimated cost and schedule.

SATISFACTORY

1. Site specific QPPs are complete, accurate and comply with the contract level approved QPP. Deficiencies are minor with limited adverse impact to construction schedule and estimated cost.

2. Meets all project major milestones as established in the Critical Path Method (CPM) schedule subject to those actions considered to be within the control of the contractor. Schedule updates are coordinated with all participants. CPM schedule is submitted on time. Critical tasks are easily identified.

3. All technical/periodic reports and other deliverable data are submitted in accordance with the Contract Data Requirements and are in a format that is easily understood. Discrepancies are minor and easily corrected.

4. Shop submittals and drawings are accurate, complete and meet QPP requirements and specifications. Deficiencies are minor with minimal impact to schedule and estimated cost. Corrections are made as required.

5. Acceptable proposals are submitted timely, and the change process proceeds with no adverse impacts to estimated cost and schedule.

EXCELLENT

1. Site specific QPPs are complete, accurate and exceed compliance requirements of the contract-level-approved QPP. Site-specific QPP is approved when initially submitted.

2. Contractor exceeds all project major and minor milestones as established in the CPM schedule subject to those actions considered to be within the control of the contractor. Schedule updates are coordinated with all participants. CPM schedule is submitted on time and no deficiencies noted. Critical tasks are easily identified.

3. All technical reports and other deliverable data are submitted well ahead of schedule. They far exceed the Contract Data Requirements and are submitted in a format that is complete, clear, concise, technically accurate and easily understood.

4. All shop submittals and drawings are accurate, complete and exceed specifications. No deficiencies are evidenced that impact schedule or estimated cost. Any corrections are very minor in nature and are expeditiously corrected.

5. High quality proposals are submitted timely, and the change process proceeds with no adverse impacts to estimated cost and schedule. No deficiencies, for completeness and accuracy, are noted in contractor proposal submittals.

TIME OF DELIVERY

UNSATISFACTORY

1. Contractor does not expose changes or resolve them as soon as they are recognized.

2. Contractor does not complete interrelated system studies concurrently.

SATISFACTORY

1. Contractor exposes changes but is slow in planning resolution.

2. Contractor completes system studies but not concurrently.

GOOD

1. Contractor anticipates changes and resolves them as soon as they are recognized.

2. Major work plans coordinated in time to meet production schedules.

VERY GOOD

1. Contractor keeps Government informed of delays, but resolves them independently as soon as they are recognized.

2. Design changes from studies and interrelated plans issued in time to meet production schedule.

EXCELLENT

1. Contractor keeps Government informed of delays, resolves them independently, and meets production schedule.

2. Design changes, studies resolved, and test data issued ahead of production requirements.

SCHEDULE

Sample 1:

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

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

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

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

Sample 2:

Schedule Performance. The Government will assess the contractor's performance in successfully completing all workload in accordance with schedule milestones to include contract delivery dates. The Government will also assess the contractor's ability to identify potential schedule problems early and project the impact of near term schedule adjustments on overall workload completion. Additionally, the Government will assess the effectiveness of the contractor's schedule recovery plans.

> **Unsatisfactory**: Fails to meet schedule milestones to include contract delivery dates, causing notable impact to customer mission or support readiness.
>
> **Satisfactory**: Generally meets schedule milestones to include contract delivery dates, causing only minor impact to customer mission or support readiness.
>
> **Very Good**: Generally meets and/or occasionally exceeds schedule milestones to include contract delivery dates without causing any impact to customer mission or support readiness.
>
> **Excellent**: Exceeds schedule milestones to include contract delivery dates resulting in notable positive impact to customer mission or support readiness.

Appendix E
Performance Assessment Matrix Template

Assessment Period

____

1 **Performance Categories** (Within an assessment area)	2 **Criteria** (Measures)	3 **Units**	4 **Baseline**	5 **Goal**	6 **Actual**	7 **Basis for Goal**	8 **Performance Color Code**	9 **Remarks** *(Break Points)
1)								
2) Quality	ISO 9000 Procedure Compliance	%	N/A	100%				95% =E, 85% =VG, 70%=G
3) Safety	Injury rate	Injuries per 2000 hrs	FY 96-97	2.4				2.9=E, 3.6=VG, 4.5=G
4) Maintenance Performance	Cost per service call	$	FY 97	≤ $226				
5)								

1. A standard set of performance categories addressed contract wide. However, this recognizes not all assessment areas will be able, or need to, address each category of performance, but neither will they add performance categories to the master list.

2. Criteria are the particular measurements that have been deemed necessary, and agreed to by the AF and Contractor, to understand performance. The measures may be for the entire period of contract performance or for the instant award fee period.

3. Units are simply the units of measure that will be used to quantify progress.

4. Baseline is the year/quarter/period that the particular measurement being addressed will be referenced back to, in order to show progress.

5. Setting the Goal is one of the more important items, an agreed to objective measure denoting excellent performance.

6. Actual will indicate the current measurement for the period being referenced.

7. The Basis for each goal is important to highlight it's source.

8. Performance Color Codes are the same as Award Fee colors:	Blue Excellent	Light Blue Very good	Dark Green Good	Light Green Satisfactory	Red Unsatisfactory	✓ Goal Attainment

The intent is for goals that are met to be equated with Excellent performance. The color codes blend the objective and subjective assessment of performance, based on the criteria and any overarching circumstances in which they are achieved, as described in the remarks.

9. Remarks may be the most important column on this chart. Remarks should indicate any overarching circumstances, or other non quantitative factor that must be considered. Break points for performance color codes are not normally shown on the matrix. They are developed for internal performance evaluator use, if applicable, and are shown here for example purposes.

Guidelines for Using Performance Assessment Matrix Template

1. The intent of a standardized assessment is to increase communications, assure agreed upon expectations, and set more objective criteria for evaluation, while retaining the important subjectivity aspects of the process.

2. Goals should be set at a stretch but yet achievable level, and attainment normally denotes excellent performance (assuming there are no overarching negative circumstances).

3. The performance categories are the same for all assessment areas. The criteria and goals for each performance category will vary based on specific performance requirements for the assessment area. A performance category may have multiple criteria and associated goals.

4. Goals for each period will normally be established by mutual agreement between the contractor and the Government. The matrices could never capture all the elements related to each area's performance, but should certainly address all the important criteria necessary for an appropriate evaluation.

5. A performance color code representing excellent, very good, good, satisfactory and unsatisfactory performance will be assigned by the evaluator for each performance criteria. The performance color code assigned blends the objective and subjective assessment of performance, based on the criteria and any overarching circumstances in which they are achieved, as described in the remarks column of the matrix. Each performance evaluator will subjectively integrate the assigned ratings for all the performance categories and assign an overall rating for the assessment area. These ratings form the basis for the integrated assessment of the contractors overall performance at the end of the evaluation period.

6. Other overarching factors may arise during the assessment period, and should be addressed in the "remarks" section. These factors can affect the assessment positively or negatively. Examples of items that could be considered here are failure to receive government furnished equipment, strikes, etc. Remarks are necessary to collect subjective inputs and to provide insight as to the operating environment.

7. Consistency across the performance assessment areas and by the performance evaluators in the use of the matrices is a key to successful implementation of this tool. Periodic collective reviews can ensure this happens.

Appendix F
Notional Example of Computation of Award-Fee Rating

The following example is provided by AFSPC and is for illustration.

		Percentage of Award Fee	
Standard Description	**Range of Rating Points**	**CPAF with Base Fee, FPAF and all other Award Fee Combinations**	**CPAF with no Base Fee**
Excellent	91 – 100	91 – 100%	91 – 100%
Very Good	76 – 90	76 – 90%	76 – 90%
Good	61 – 75	1 – 75%	61 – 75%
Satisfactory	51 – 60	0	1-60%
Unsatisfactory	1 – 50	0	0

Note 1: Award Fee should not be paid for "Unsatisfactory" performance in CPAF with no Base Fee type contracts.

Note 2: Award-Fee should not be paid for "Satisfactory" or "Unsatisfactory" performance in CPAF with a Base, FPAF type contracts and in combination type contracts.

COMPUTATION OF AWARD FEE

Technical Area	**50%**	**Monitor's Rating**	**Recommended Point Score**
Sub Area 1:	45%	Satisfactory	45 points
Sub Area 2:	35%	Excellent	95 points
Sub Area 3:	20%	Good	75 points
Management Area	**30%**	**Monitor's Rating**	**Recommended Point Score**
Sub Area 1:	50%	Very Good	90 points
Sub Area 2:	50%	Good	55 points
Cost	**15%**	**Satisfactory**	**45 points**
Special Interest Item	**5%**	**Excellent**	**95 points**

WEIGHTED AVERAGE SUB-AREA EVALUATIONS

						-------Rating and % of Fee Available--------	
TECHNICAL:	**Average Individual Score**	**x**	**Sub Area Weight**	=	**Weighted Score**	**With Base Fee or Any Other Award-Fee Combination**	**Without Base Fee**
Sub Area 1:	45	**x**	.45	=	20.25		
Sub Area 2:	95	**x**	.35	=	33.25		
Sub Area 3:	75	**x**	.20	=	15.00		
			Total Score This Area:		**68.50**	**Good (1-75%)**	**Good (61-75%)**
MANAGEMENT:							
Sub Area 1:	90	**x**	.50	=	45.00		
Sub Area 2:	55	**x**	.50	=	27.50		
			Total Score This Area:		**72.50**	**Good (1-75%)**	**Good (61-75%)**
COST:	45	**x**	1.0	=	45	**Satisfactory 0%**	**Satisfactory (1-60%)**
SPECIAL INTEREST ITEM:	95	**x**	1.0	=	95	**Excellent (91-100%)**	**Excellent (91-100%)**

Appendix G
List of Acronyms

AFMC	Air Force Materiel Command
AFMCFARS	Air Force Materiel Command FAR Supplement
AFRB	Award-Fee Review Board
AP	Acquisition Plan
BRAG	Business Requirements Advisory Group
CO	Contracting Officer
CPAF	Cost-Plus-Award-Fee
CPFF	Cost-Plus-Fixed Fee
DCMA	Defense Contract Management Agency
DFARS	Defense FAR Supplement
DoD	Department of Defense
EVMS	Earned Value Management System
FAR	Federal Acquisition Regulation
FDO	Fee-Determining Official
FFP	Firm-Fixed-Price
FPAF	Fixed-Price-Award-Fee
PM	Performance Monitor
PWS	Performance Work Statement
QAP	Quality Assurance Personnel
QPP	Quality Program Plans
RDT&E	Research, Development, Test, and Evaluation
R&M	Reliability and Maintainability
RFP	Request for Proposal
SPC	Statistical Process Control