

**INTERIM REPORT: AWARD-FEE CRITERIA
FOR THE NATIONAL AIRWAY SYSTEMS
CONTRACT**

Federal Aviation Administration

Report Number: FI-2008-054

Date Issued: May 28, 2008



Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Interim Report: Award-Fee Criteria for the National Airway Systems Contract
Federal Aviation Administration
Report Number FI-2008-054

Date: May 28, 2008

From: Mark H. Zabarsky *Mark H. Zabarsky*
Assistant Inspector General for Acquisition
and Procurement Audits

Reply to
Attn. of: JA-60

To: Acting Associate Administrator, Regions and
Center Operations, Federal Aviation Administration

As part of our ongoing audit of the Use of Cost-Plus-Award-Fee (CPAF) contracts within the Department, we are issuing this report regarding the recent award of the Federal Aviation Administration's (FAA) National Airway Systems contract for engineering and technical support. The objectives of our audit are to determine whether: (1) award-fee plans established adequate criteria for evaluating contractor performance, and (2) the amount of award fees paid to contractors was adequately supported.¹

On June 18, 2007, FAA's Mike Monroney Aeronautical Center² (Aeronautical Center) awarded a hybrid-structured contract to ASRC Management Services that encompasses a broad range of engineering, technical, and administrative support for civilian and military aircraft guidance and surveillance systems. This contract includes both CPAF and cost reimbursable line items, for approximately \$316 million—about \$243 million was for the CPAF line item. The contract includes 1 base year and 4 option years. The contractor began providing services in August 2007, and is presently in the first year of the contract. About \$199.4 million remains programmed for the CPAF line item for the 4 option years. The Aeronautical Center established an award-fee pool totaling about \$6.6 million. The contractor is presently in the second award-fee performance period. About

¹ This interim report does not address the second objective, which will be addressed in our Department-wide audit of award fees.

² The Aeronautical Center is located in Oklahoma City, Oklahoma.

\$5.4 million in award-fees remain available for the third and subsequent performance periods.

We performed this audit in accordance with generally accepted government auditing standards as prescribed by the Comptroller General of the United States. The details of our scope and methodology are presented in Exhibit A. The information in this interim report will be included in a later report addressing Department-wide CPAF contracting issues.

FINDINGS

We found that contracting officials did not justify the cost-effectiveness of selecting a CPAF-type contract for the National Airway Systems contract. Through an evaluation of the administrative costs versus the expected benefits, the contracting officer should be able to assess whether the benefits the government gains through a CPAF contract will outweigh the additional costs of overseeing and administering the contract. Without such an evaluation, the Aeronautical Center had no assurance that a CPAF-type contract was appropriate. Additionally, the evaluation criteria in the performance evaluation plan³ did not include measurable criteria needed to adequately evaluate contractor performance. Further, a portion of the award-fee criteria required the contractor to merely comply with basic contractual requirements. The performance evaluation plan allowed award-fee payments up to 72.5 percent of the award-fee pool for average or below results. The problems cited in this report existed, in part, because Aeronautical Center personnel did not have detailed guidance⁴ on how to structure award-fee plans to incentivize contractors. As a result of our audit, senior FAA officials agreed to take action and use another contract type more suitable for obtaining engineering and technical support, and revise Aeronautical Center guidance.

The Aeronautical Center Has No Assurance That the CPAF-Type Contract is Appropriate

Aeronautical Center contracting officials did not justify the cost-effectiveness of selecting a CPAF-type contract. Performance evaluation on award-fee contracts requires greater effort and more resources than other contract types because significant oversight is required to monitor and document contractor performance. Contracting officers should be able to assess, through an evaluation, whether the

³ The performance evaluation plan is the basis for determining the amount of award fee and includes the award-fee criteria to be considered under each area evaluated; the percentage of award fee, if any, available for each area; and the frequency of evaluation periods.

⁴ Aeronautical Center guidance on CPAF contracts is contained in Acquisition Work Instruction-103, as amended.

benefits gained by selecting a CPAF contract would outweigh the additional costs of overseeing and administering such a contract. Guidance from other Federal Government agencies, such as the Departments of the Army and the Air Force, National Aeronautics and Space Administration, and Environmental Protection Agency states that before a CPAF contract is selected, a contracting officer should perform a cost-benefit analysis of the expected benefits versus the added administrative costs. Such a best practice would be beneficial in helping the Aeronautical Center ensure an award-fee contract is appropriate. FAA included this best practice in its Award-Fee Contracting Guide, issued September 2007;⁵ however, it was three months after the contract was awarded.

We expressed concern to FAA officials about whether a CPAF contract type was suitable for this contract. As a result of our audit, senior FAA officials agreed to change the CPAF contract to a cost-plus-fixed-fee contract because the cost and time required to oversee, monitor, and document the award-fee process outweighs the benefits of administering the contract.

Award-Fee Plan Criteria Were Too General

The Aeronautical Center did not structure and implement the contract in a way that effectively motivated the contractor to improve performance and achieve acquisition outcomes. The performance evaluation plan was vague and did not include measurable award-fee criteria needed to adequately evaluate contractor performance. For example, the Performance of Work factor used undefined terms such as “responsive to changes in work schedules” and “personnel are utilized in an effective and efficient manner” as standards of review. Performance of Work and Business Management factors used general terms such as “timely” and “acceptable” as standards of review. FAA’s Award-Fee Contracting Guide states that using evaluation factors that are either too broad, or include factors that are not applicable to a given function, can result in evaluators not being able to provide meaningful comments to support ratings. FAA’s guidance also states that outcome-based factors are the least administratively burdensome type of performance evaluation factors, and should provide the best indicator of overall success.

Establishing specific criteria based on performance objectives would reduce the risk of unwarranted or subjective performance evaluations and ratings. Performance monitors cannot provide meaningful comments and evaluations using vague or too broadly defined criteria, which could result in inflated evaluations and, consequently, inappropriately approved award fees. As contract work progresses from one evaluation period into the next, the relative importance of

⁵ Award-Fee Contracting Guidance, Acquisition Policy Division, September 28, 2007.

specific evaluation factors may change. The award-fee approach permits unilateral modification of the detailed evaluation plan to reflect changes in management emphasis. The Aeronautical Center included a clause in the contract allowing unilateral change to the evaluation criteria if the contracting officer provides written notice to the contractor no later than 10 days before the start of an evaluation period.

Evaluation Criteria and Payment Structure Reward Basic Contract Compliance

CPAF contracts include a merit-based award fee earned for performance exceeding contract requirements. For the National Airway Systems contract, we found the evaluation criteria did not provide proper incentives for the contractor to strive for better-than-expected results. In our comparison of the performance evaluation plan with the performance work statement, we found that the award-fee criteria were not designed to elicit performance above contract requirements. Rather, a portion of the award-fee evaluation factors merely required the contractor to comply with basic contractual requirements. For example, one award-fee factor required that the contractor assign qualified personnel to accomplish the work—a normal contract expectation. Guidance from other Federal Government agencies, such as the Departments of the Army and the Air Force, states that award-fee criteria should focus on the most important aspects of the procurement that will motivate the contractor to perform in an exceptional manner. Such a best practice would be beneficial in helping the Aeronautical Center ensure effective use of award fees.

Additionally, the payment structure used when calculating the award fees under this contract did not elicit incentives for the contractor to attain better-than-average results. For example, the payment structure awarded no fee for a performance score of less than 60, but did award a fee for a score above 60 (Exhibit B). Thus, a performance score of 65, in the “Poor” range, and slightly above the award threshold, would bestow on the contractor 22.5 percent of the award-fee pool. If the contractor receives a performance score of 76–85, equating to average performance with some weaknesses, the payout jumps up to 50 to 72.5 percent of the award-fee pool. Guidance from other Federal Government agencies, such as the Departments of the Army and the Air Force, and Environmental Protection Agency, states that contractors should not receive an award fee for satisfactory performance. Contractors are to be compensated for satisfactory work through the base fee.⁶ The Aeronautical Center must revise its award-fee payment structures to require contractors to earn high ratings in order to receive high award fees.

⁶ A fixed fee paid to the contractor regardless of the contractor’s evaluated performance.

Further, the grading table (Exhibit C) used to compute the amount of award fee contains a payment structure that associates numerical performance scores (between 0 and 100) with six adjectival ratings—Superior, Excellent, Good, Fair, Poor, and Unsatisfactory. The description defining each adjectival rating, however, was vague and did not clearly define the basis for assigning such a rating. For example, a rating of excellent is defined as:

“The contractor’s performance exceeds standard. Although there may be several areas for improvement, these are more than offset by better performance in other areas.”

In this case, the contractor need not excel to receive a large portion of the available award-fee pool since the payment structure does not foster exceptional performance.

Additionally, performance monitors, i.e., Aeronautical Center staff who track and assess contractor performance daily, were provided with a contractor performance evaluation form (Exhibit D) containing three adjectival ratings—Excellent, Satisfactory, and Unsatisfactory—not consistent with the grading table’s six adjectival ratings.

The Aeronautical Center must clearly describe its adjectival ratings so there will be a basis for assessing performance, and provide performance monitors with adjectival ratings consistent with the grading table. Otherwise, performance monitors may use what appear to be personal criteria, applied arbitrarily, possibly resulting in the Government overpaying award fees with funds that could have been put to better use.

RECOMMENDATIONS

We recommend that the Acting Associate Administrator, Regions and Center Operations, direct the Director of the Aeronautical Center to:

1. Require that the contracting officer use another contract type more suitable for the National Airway Systems engineering and technical support services contract.
2. Revise Aeronautical Center Acquisition Work Instruction–103 to improve performance evaluation plans. Ensure the guidance explains how to:
 - a. Develop measurable award-fee criteria for evaluating contractor performance;

- b. Develop award-fee payment structures that encourage contractor excellence and explain that contractors will not receive award fees for simply meeting contract requirements; and
- c. Define adjectival ratings clearly and provide performance monitors with adjectival ratings consistent with the grading table.

AGENCY'S PLANNED ACTIONS TO IMPROVE ONGOING AND FUTURE AWARD-FEE CONTRACTS

We discussed the problems cited in this report with Aeronautical Center contracting officials on February 20, 2008, and senior FAA officials, including the Acting Associate Administrator for Regions and Center Operations, the Assistant Chief Counsel, Acquisition and Commercial Law Division, and the Deputy Director of the Aeronautical Center on April 30 and May 1, 2008. As a result, FAA officials agreed to take the following actions to address the problems cited in this report:⁷

- Modify the existing National Airway Systems Engineering Division support services contract to a cost-plus-fixed-fee-type contract (retroactive to the date of the award) within the next 90 days.
- For future CPAF contracts awarded by the Aeronautical Center:
 - Require that performance evaluation plans contain award-fee structures that motivate excellent contractor performance by only paying award fees for above-satisfactory performance.
 - Clearly describe adjectival ratings so there will be a defined basis for assessing performance and ratings consistent with any grading tables.
 - Enhance the Acquisition Work Instruction–103 related to CPAF contracts, and the documentation needed for these contracts, within the next 90 days.
 - Enhance the evaluation criteria to become more performance based, and ensure that evaluations are properly conducted and documented in accordance with the criteria set forth in the performance evaluation plan and contract.

⁷ FAA's planned corrective actions were provided via electronic mail, April 30, 2008.

- Require that contracting officers review, compare, and document their strategies when justifying the appropriateness of the type of contract chosen in accordance with Acquisition Management System policy.

As FAA management's actions are ongoing at the time of this report, we cannot evaluate the efficiency of these actions; however, we believe the results of these actions will correct problems identified in this report. Implementing the planned corrective action of modifying the contract to a cost-plus-fixed-fee will put approximately \$199.4 million in remaining contract funds to better use by ensuring FAA's acquisition objectives are being met by using a more suitable contract type.

ACTIONS REQUIRED

In accordance with Department of Transportation Order 8000.1C, we would appreciate receiving your formal comments within 30 calendar days. Please indicate the specific actions taken or planned for each recommendation, the target date for completion, and whether you agree that the remaining \$199.4 million of contract funds can be put to better use by ensuring FAA's acquisition objectives are being met via a more suitable contract type. Please provide the original signed document and an electronic version in Word, not a scanned version. We appreciate the courtesies and cooperation of FAA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5225 or Terrence Letko, Program Director, at (202) 366-9917.

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cc: Acting Federal Aviation Administrator
Vice President of Acquisition and
Business Services, FAA
Aeronautical Center Director
Martin Gertel, M-1
Anthony Williams, ABU-100

EXHIBIT A. SCOPE AND METHODOLOGY

This report is associated with our Department-wide audit of Use of CPAF Contracts, Project Number 07F3011F000. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed this ongoing contract because of the significant deficiencies found with our sampled contract,⁸ which will be addressed in our forthcoming Department-wide audit of award fees. The ongoing National Airway Systems contract is a follow-on contract for one of our sampled contracts. To determine whether the National Airway Systems engineering and technical support contracts' award-fee plans were adequately designed we reviewed:

- FAA's guidance for award-fee contracts,
- Performance evaluation plan,
- Performance Work Statement and deliverables for the contracts and selected task orders,
- Federal Administration Acquisition System Toolset, and Acquisition Work Instruction guidance for award-fee contracts, and
- Best Practices for award-fee contracts (Departments of the Army and the Air Force, National Aeronautics and Space Administration, and Environmental Protection Agency Award-Fee Guides).

We reviewed the acquisition plan for the ongoing National Airway Systems engineering and technical support services contract to determine whether improvements could be made in the methods used for obtaining contract support services. We also interviewed FAA acquisition and program officials regarding the performance evaluation plan and process and discussed the results of our findings on the prior and ongoing National Airway Systems engineering and technical support contract.

⁸ Contract Number DTFA-02-02-D-12127

EXHIBIT B. NATIONAL AIRWAY SYSTEMS CONTRACT AWARD-FEE CONVERSION CHART

This chart is for use in converting weighted performance points into percentages of the available award-fee pool:

	<u>Weighted Performance Points</u>	<u>Percentage of Available Award</u>
	100	100.0 Percent
Superior	99	100.0
	98	100.0
	97	100.0
	96	100.0
	95	97.5
Excellent	94	95.0
	93	92.5
	92	90.0
	91	87.5
	90	85.0
	89	82.5
	88	80.0
	87	77.5
	86	75.0
Good	85	72.5
	84	70.0
	83	67.5
	82	65.0
	81	62.5
	80	60.0
	79	57.5
	78	55.0
	77	52.5
	76	50.0
Fair	75	47.5
	74	45.0
	73	42.5
	72	40.0
	71	37.5
	70	35.0
	69	32.5
	68	30.0
	67	27.5
	66	25.0
	65	22.5
	64	20.0

Exhibit B. National Airway Systems Contract Award-Fee Conversion Chart

EXHIBIT B. NATIONAL AIRWAY SYSTEMS CONTRACT AWARD-FEE CONVERSION CHART (CONTINUED)

<u>Weighted Performance Points</u>		<u>Percentage of Available Award</u>
Poor	63	17.5
	62	15.0
	61	12.5
	60	10.0
Unsatisfactory	Below 60	0.0

EXHIBIT C. NATIONAL AIRWAY SYSTEMS CONTRACT GRADING TABLE

ADJECTIVE PERFORMANCE GRADE	DESCRIPTION	RANGE OF PERFORMANCE POINTS
Superior	The contractor's performance exceeds standard by a substantial margin. The monitor can cite few areas for improvement, all of which are minor.	96 – 100
Excellent	The contractor's performance exceeds standard. Although there may be several areas for improvement, these are more than offset by better performance in other areas.	86 – 95
Good	The contractor's performance is standard. Areas for improvement are approximately offset by better performance in other areas.	76 – 85
Fair	The contractor's performance is less than standard. Although there are areas of good-or-better performance, these are more than offset by lower rated performance in other areas.	66 – 75
Poor	The contractor's performance is less than standard by a substantial margin. The monitors can cite many areas for improvement, which are not offset by better performance in other areas. Less satisfactory performance would be unacceptable.	60 – 65
Unsatisfactory*	The contractor's performance is below minimum acceptable standards. Results are inadequate and require prompt remedial action. Significant deficiencies.	Below 60

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

EXHIBIT D. CONTRACTOR PERFORMANCE EVALUATION FORM

Performance Period: [Insert Start Date] to [Insert End Date]
(Please circle one response for each rating area)

I. PERFORMANCE OF WORK: (Performance to include both technical and administrative support, i.e., administrative/program analyst, quality assurance, secretarial support, etc., within your branch).

Timeliness/Responsiveness: excellent satisfactory unsatisfactory

Contract employees make a concerted effort to meet established project due dates, comply with travel requirements, be responsive to changes in workload and work priorities, and provide project status reports; all in a timely manner.

Quality of Deliverables: excellent satisfactory unsatisfactory

It is understood that at times the FAA may review and request changes to a product before final delivery by the contractor to the FAA. The quality of the final delivered hardware, software, documentation, and administrative support products meet the requirements of the assigned task.

Manpower Utilization: excellent satisfactory unsatisfactory

Contract employees are being utilized in an effective and efficient manner, and the appropriate skilled personnel are assigned to accomplish the work requirements.

Equipment/Material Utilization: excellent satisfactory unsatisfactory

Equipment and materials are ordered and delivered in a timely manner, resulting in minimal downtime or delays in meeting established project milestones. Equipment and materials are utilized on projects for which they were requested.

II. PROJECT MANAGEMENT:

Management Performance: excellent satisfactory unsatisfactory

Contractor management participates in work planning, prioritizing of tasks, and responds to FAA direction on courses of action on work related issues.

Staffing: excellent satisfactory unsatisfactory

The contractor has assigned qualified personnel (with allowance for trainees) to accomplish the assigned tasks. Contractor employees attend requisite training courses to become proficient on FAA systems and processes.

III. REQUIRED COMMENTS: Please provide comments to support any rating below satisfactory. Continue on back of this page if additional space is needed. Positive comments also are welcome.

Routing Symbol _____ Initials: _____ Date: _____

.....Please return to [insert COTR name], AJW-14, by [insert date].....

EXHIBIT E. MAJOR CONTRIBUTORS TO THIS REPORT

<u>Name</u>	<u>Title</u>
Terrence Letko	Program Director
Dormayne Dillard-Christian	Project Manager
Stacie Seaborne	Program Analyst
Jean Diaz	Writer/Editor

The following page contains a textual version of the forms found in Exhibits B and C of this document. These pages were not in the original document but have been added here to accommodate assistive technology.

**Interim Report: Award-Fee Criteria for the
National Airway Systems Contract**

Section 508 Compliant Presentation

Exhibit B. National Airway Systems Contract Award-Fee Conversion Chart

This chart is for use in converting weighted performance points into percentages of the available award-fee pool:

For Superior, Weighted Performance Points are in the range of 100 to 96, and the Percentage of Available Award is 100 percent.

For Excellent, Weighted Performance Points are in the range of 95 to 86, and the Percentage of Available Award is 97.5 to 75 percent.

For Good, Weighted Performance Points are in the range of 85 to 76, and the Percentage of Available Award is 72.5 to 50 percent.

For Fair, Weighted Performance Points are in the range of 75 to 66, and the Percentage of Available Award is 47.5 to 25 percent.

For Poor, Weighted Performance Points are in the range of 65 to 60, and the Percentage of Available Award is 22.5 to 10 percent.

For Unsatisfactory, Weighted Performance Points are 0, and the Percentage of Available Award is 0.

Exhibit C. National Airway Systems Contract Grading Table

The Adjective Performance Grade of Superior is described as the contractor's performance exceeds standard by a substantial margin. The monitor can cite few areas for improvement, all of which are minor, with a range of performance points of 96 – 100.

The Adjective Performance Grade of Excellent is described as the contractor's performance exceeds standard. Although there may be several areas for improvement, these are more than offset by better performance in other areas, with a range of performance points 86 – 95.

The Adjective Performance Grade of Good is described as the contractor's performance is standard. Areas for improvement are approximately offset by better performance in other areas, with a range of performance points 76 – 85.

The Adjective Performance Grade of Fair is described as the contractor's performance is less than standard. Although there are areas of good-or-better performance, these are more than offset by lower rated performance in other areas, with a range of performance points 66 – 75.

The Adjective Performance Grade of Poor is described as the contractor's performance is less than standard by a substantial margin. The monitors can cite many areas for improvement, which are not offset by better performance in other areas. Less satisfactory performance would be unacceptable, with a range of performance points 60 – 65.

The Adjective Performance Grade of Unsatisfactory is described as the contractor's performance is below minimum acceptable standards. Results are inadequate and require prompt remedial action; significant deficiencies, with performance points below 60.

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