

**INTERIM REPORT ON AWARD-FEE CRITERIA
FOR THE SYSTEM ENGINEERING AND
TECHNICAL ASSISTANCE II CONTRACT**

Federal Aviation Administration

Report Number: FI-2009-002

Date Issued: October 7, 2008



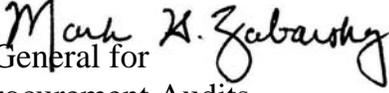
Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Interim Report on Award-Fee
Criteria for the System Engineering and
Technical Assistance II Contract
Federal Aviation Administration
Report Number: FI-2009-002

Date: October 7, 2008

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

Reply to
Attn. of: JA-60

To: Vice President of Acquisition and Business Services
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 interim report regarding the award of the Federal Aviation Administration's (FAA) System Engineering and Technical Assistance (SETA II) contract to support the National Airspace System (NAS) Architecture and Capital Investment Plan. The objectives of our audit were 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.

On August 16, 2000, FAA awarded a 10-year CPAF contract for SETA II to BAE Systems Applied Technologies¹ for approximately \$455 million. The SETA II contract is broad in scope and covers facilities and equipment; operations and maintenance; and research, engineering, and development requirements. BAE Systems provides assistance to a wide range of FAA organizations, such as the Office of Research and Acquisitions and other FAA lines of business. FAA established an award-fee pool totaling approximately \$36 million. The contractor is currently in the sixteenth award-fee performance period, which ended on September 30, 2008.² Approximately \$8 million remains available for the seventeenth and subsequent performance periods. The SETA II contract states

¹ BAE Systems was formed in November 1999 when British Aerospace merged with Marconi Electronics Systems.

² A performance period is a 6-month timeframe.

that FAA may unilaterally change the performance evaluation plan provided the contractor receives notice of the changes, in writing, within the first 30 days after commencement of the award-fee evaluation period.

We performed this performance audit in accordance with Generally Accepted Government Auditing Standards as prescribed by the Comptroller General of the United States, and included such tests as we considered necessary to detect fraud, waste, and abuse. Exhibit A describes the scope of our audit and the methodology we used to achieve our objectives. The information in this interim report will be included in a later report addressing Department-wide CPAF contracting issues.

FINDINGS

We found that the evaluation criteria in the performance evaluation plan³ for the SETA II contract did not include measurable criteria needed to adequately evaluate contractor performance. Also, descriptions defining scores to rate contractor performance were vague and performance evaluators⁴ were not required to document the rationale for the performance ratings. Evaluation criteria without clearly defined metrics, and vague scoring descriptions, could result in inflated contractor performance evaluations and, consequently, inappropriately approved award fees.

Additionally, FAA no longer requires its performance evaluators to provide succinct narrative comments, including the identification of specific strengths, weaknesses, and deficiencies, when rating a contractor. Removing such a requirement allows for and relies on unsupported personal opinions and individual judgments, and raises questions as to what was actually the basis for judging contractor performance and awarding fees.

Further, we found that contracting officials did not justify the cost-effectiveness of selecting a CPAF-type contract by evaluating administrative costs versus expected benefits to the Government. Without this evaluation, FAA had no assurance that a CPAF-type contract was appropriate. The award-fee guidelines used by FAA⁵ and other Federal agencies require costs and benefits consideration prior to choosing a CPAF contract.

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 Performance evaluators are FAA staff who track and assess contractor performance daily.

⁵ FAA included this best practice in its Award-Fee Contracting Guide, issued September 2007; however, it was 7 years after the contract was awarded.

Award-Fee Plan Criteria Were Too General

The performance evaluation plan did not include clear and measurable award-fee criteria needed to adequately evaluate contractor performance. For example, the Technical Achievement factor used undefined terms such as “the quality and accuracy of deliverables” or “the degree of flexibility” as the standards of review. The Task Order Management factor used general terms such as “understands task order requirements and deliverables.” Additionally, the Contract Management factor used general terms such as “submits documents requiring FAA review and approval in a timely manner.”

FAA’s guidance states that outcome-based criteria are the least administratively burdensome type of performance evaluation criteria, and should provide the best indicator of overall success. Guidance from other Federal Government agencies, such as the National Aeronautics and Space Administration (NASA) and the Departments of the Air Force, Army, and Navy, also prefer using measurable criteria to evaluate contractor performance. Additionally, guidance from these agencies, including FAA, states that using evaluation criteria that are too broad can result in evaluators not being able to provide meaningful comments to support ratings.

Establishing specific criteria based on performance objectives would reduce the risk of unwarranted or subjective performance evaluations and ratings. Evaluation criteria must emphasize the most important aspects of the program to motivate the contractor to improve performance for each performance period. Performance monitors cannot provide meaningful comments and evaluations using vague, general, or too broadly defined criteria.

The effect of having evaluation criteria without establishing clearly defined metrics for assessing performance could result in inflated evaluations and, consequently, inappropriately approved award fees. For the first fifteen award-fee periods of the SETA II contract, FAA paid the contractor approximately \$13 million (90 percent of the available award-fee pool) without assurances of whether the acquisition outcomes fell short of, met, or exceeded expectations. Without indicating areas of emphasis or desired outcomes, FAA does not have assurances that contract objectives are being met, nor does the contractor have motivation to perform the best possible job in those areas deemed critical.

Revising the SETA II performance evaluation plan to include measurable award-fee criteria will put approximately \$8 million in expected award fees for the SETA II contract to better use by ensuring FAA’s contract objectives are being met, and motivating the contractor to perform the best job in those areas deemed critical by the FAA.

Evaluator Scoring Descriptions Were Too Vague for Rating Performance

The chart in the performance evaluation plan (Exhibit B) used to compute the amount of award fee contains a payment structure that associates a range of award fees (between 0 and 100 percent) with four adjectival ratings—Excellent, Very Good, Satisfactory, and Poor. The descriptions defining the adjectival ratings, however, did not clearly define the basis for assigning such a rating. For example, a rating of Excellent is defined as:

“Contractor's performance significantly exceeds the general level of achievement of a qualified Contractor in this field with all objectives exceeded.”

Terms such as “significantly exceeds” and “general level of achievement of a qualified Contractor in this field” are undefined. FAA must clearly describe its adjectival ratings so there will be a basis for performance monitors to use in assessing contractor performance.

Performance Evaluation Plan No Longer Requires Evaluators to Justify Scores

FAA no longer requires performance evaluators to provide succinct narrative comments, including the identification of specific strengths, weaknesses, and deficiencies, when rating a contractor. Instead, FAA only encourages its evaluators to provide such comments. The SETA II Director of Systems Engineering said the removal of the documentation requirement was intended to increase the number of evaluation responses submitted by performance evaluators. The director said the response rate has since increased; we did not verify if the rate increased.

Guidance from other Federal Government agencies such as NASA, and Departments of the Air Force, Army, and Navy, states that performance monitors should observe contractor performance based on the criteria specified in the performance evaluation plan, and document results by giving specific examples to support their conclusions. FAA consistently provided the contractor with high ratings and award fees—approximately \$13 million, or 90 percent of the available award-fee pool. Without sufficiently documenting contractor evaluations, we could not determine if FAA properly awarded fees. Such a process allows for and relies on unsupported personal opinions and individual judgments.

FAA Has No Assurance the Contract Type Is Appropriate for the SETA II Contract

FAA contracting officials did not justify the cost effectiveness of selecting a CPAF-type contract. Performance evaluation on an award-fee contract requires greater effort and more resources than other types of contracts because oversight is required to monitor and document contractor performance. FAR, FAA, and award-fee guides used by other Federal agencies require agencies to consider costs and benefits before choosing a CPAF-type contract. For example, NASA guidance 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.

RECOMMENDATIONS

We recommend that the Vice President of Acquisition and Business Services, FAA:

1. Develop measurable award-fee criteria for assessing contractor performance and link the criteria to the acquisition outcomes for the work to be accomplished.
2. Describe adjectival ratings clearly so there will be a basis for assessing performance.
3. Require performance evaluators to provide succinct narrative comments, including the identification of specific strengths, weaknesses, and deficiencies to support assigned ratings.
4. Require the SETA II contracting officer to reevaluate the contract type for future SETA procurement contracts and justify the use of an award-fee contract by performing a cost/benefit analysis.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL'S RESPONSE

We discussed the problems cited in this report with FAA officials including the Acting Program Director for the Contract Operations and Oversight Group, the Manager of the Contracting Services Group, and the SETA II Program Manager

on August 26, 2008. As a result, FAA officials agreed to take the following actions to address the problems cited in this report.⁶

- The SETA Team intends to revise its practices to more closely align with the goal of performance-based contracting.
- The SETA Team will define contract goals and objectives that are performance-based. This includes requiring the SETA-II contractor to provide a plan to accomplish the goals and objectives.
- The SETA Team will include performance metrics in all applicable task orders for incorporation into the award-fee process.
- The Contracting Officer recommends the revision of the award fee plan for SETA II for all subsequent Award Fee Periods to more accurately identify measurable award fee criteria for determining contractor performance and link the criteria to the acquisition outcomes for the required work.

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 the problems identified in this report. Implementing the planned corrective actions will put approximately \$8 million in expected award fees to better use by revising the performance evaluation plan and ensuring FAA's acquisition objectives are being met.

ACTIONS REQUIRED

In accordance with Department of Transportation Order 8000.1C, we would appreciate receiving your written comments within 30 calendar days. If you concur with the recommendations, please indicate the specific action taken or planned and provide the target date for completion. If you do not concur with the findings or recommendations, please provide your rationale. You may provide alternative courses of action that you believe would resolve the issues presented in this report. Also, please comment whether you agree that the estimated \$8 million remaining in award fees for the SETA II contract could be put to better use by revising the performance evaluation plan.

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.

⁶ FAA's planned corrective actions were provided in a memorandum, September 23, 2008.

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cc: Acting Federal Aviation Administrator
Senior Procurement Executive
Martin Gertel, M-1
Anthony Williams, ABU-100

EXHIBIT A. SCOPE AND METHODOLOGY

This audit is associated with our Department-wide Audit of the Use of Cost-Plus-Award-Fee Contracts, Project Number 07F3011F000. We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and included such tests as we considered necessary to detect fraud, waste, and abuse.

To determine whether the SETA II contract award-fee plans were adequately designed we reviewed:

- FAA's guidance for award-fee contracts;
- Award-fee plans and criteria;
- Statements of work and deliverables for the contract and selected task orders;
- Two performance evaluation reports used to measure the contractor's performance against award-fee criteria; and
- Best Practices for award-fee contracts (Departments of the Air Force, Army, and Navy, and NASA Award-Fee Guides).

We reviewed the acquisition plan for the contract to determine whether improvements could be made in the methods used for obtaining the SETA II contract. We also interviewed FAA acquisition and program officials regarding the performance evaluation plan and processes and discussed the results of our findings with senior FAA acquisition officials.

EXHIBIT B. EVALUATOR SCORING CHART

<u>DESCRIPTORS</u>	<u>DESCRIPTIONS</u>
<p>EXCELLENT Rating 90 – 100</p>	<p>Contractor’s performance significantly exceeds the general level of achievement of a qualified Contractor in this field with all objectives exceeded.</p>
<p>VERY GOOD Rating 80 – 89</p>	<p>Contractor’s performance has achieved highly effective results that are fully responsive and compliant with all requirements contained within the contract and task orders.</p>
<p>SATISFACTORY Rating 50 – 79</p>	<p>Contractor’s performance is fully responsive to SETA-II Contract and task order requirements; adequate results.</p>
<p>POOR Rating 0 – 49</p>	<p>While Contractor’s performance may be responsive to SETA-II Contract and task order requirements, results are barely adequate. Performance that doesn’t meet expectations is noted with a clear negative impact on overall contract performance.</p>

EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT

<u>Name</u>	<u>Title</u>
Terrence Letko	Program Director
Dormayne Dillard-Christian	Project Manager
Jelilat Ojodu	Auditor
Jean Diaz	Writer/Editor

The following page is a textual version of an exhibit found in this document that was not in the original document; it has been added here to accommodate assistive technology.

Interim Report on Award-Fee Criteria for the System Engineering and Technical Assistance II Contract

Section 508 Compliant Presentation

Exhibit B. Evaluator Scoring Chart

A descriptor rating of excellent, 90 to 100 percent, is described as a contractor's performance significantly exceeds the general level of achievement of a qualified Contractor in this field with all objectives exceeded.

A descriptor rating of very good, 80 to 89 percent, is described as a contractor's performance has achieved highly effective results that are fully responsive and compliant with all requirements contained within the contract and task orders.

A descriptor rating of satisfactory, 50 to 79 percent, is described as a contractor's performance is fully responsive to SETA II contract and task order requirements; adequate results.

A descriptor rating of poor, 0 to 49 percent, is described as while a contractor's performance may be responsive to SETA II contract and task order requirements, results are barely adequate. Performance that doesn't meet expectations is noted with a clear negative impact on overall contract performance.