

**INTERIM REPORT ON AWARD-FEE CRITERIA
FOR THE TRANSPORTATION INFORMATION
PROJECT SUPPORT CONTRACT**

Volpe Center

Research and Innovative Technology Administration

Report Number: FI-2008-070

Date Issued: August 14, 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 Transportation Information Project
Support Contract
Volpe Center, Research and Innovative
Technology Administration
Report Number: FI-2008-070

Date: August 14, 2008

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

Reply to
Attn. of: JA-60

To: Acting Director, Volpe Center

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 Volpe National Transportation Systems Center (Volpe)¹ Transportation Information Project Support (TRIPS) contract for information technology support. 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.²

On February 7, 2006, Volpe awarded a 5-year, hybrid-structured contract to Computer Sciences Corporation (CSC) for a broad range of information technology support services. This contract includes both CPAF and fixed-price line items for approximately \$178 million. Volpe established an award-fee pool totaling about \$8.9 million. The contractor is currently in the fifth award-fee performance period.³ Approximately \$4.4 million in award-fees remain available for the sixth and subsequent performance periods. The TRIPS contract states that Volpe may unilaterally change the performance evaluation plan provided the contractor receives notice of the changes at least 45 days prior to the beginning of the evaluation period to which the changes apply.

¹ Volpe is part of the Research and Innovative Technology Administration (RITA) of the Department of Transportation.

² This interim report does not address the second objective, which will be addressed in our Department-wide audit of award fees.

³ A performance period is a 6-month timeframe.

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 Volpe did not structure the performance evaluation plan in a way that effectively motivated the contractor to improve performance and achieve acquisition outcomes. Volpe officials stated that they used the National Aeronautics and Space Administration's (NASA) Award-Fee Contracting Guide as a reference in preparing the TRIPS performance evaluation plan. NASA developed this guidance to improve the effectiveness of using award-fee contracts. For example, the guidance emphasizes tying fees to outcome-based⁴ criteria and evaluating the costs and benefits of such contracts before using this contract type.

We found that Volpe did not always follow the preferred approach laid out in NASA's guidance. For example, the criteria in the performance evaluation plan were vague and did not include measurable criteria needed to adequately evaluate contractor performance. Further, the descriptions defining adjectival ratings were vague and inconsistent and did not clearly define the basis for assigning such a rating. This resulted in performance monitors arbitrarily determining which ratings they believed best reflected how well the contractor performed. The effect of having evaluation criteria without clearly defined metrics, and vague and conflicting adjectival ratings, could result in inflated contractor performance evaluations and, consequently, inappropriately approved award fees.

Also, although the Federal Acquisition Regulation (FAR) and NASA's guidance require considering the costs and benefits before choosing a CPAF contract because of the cost and administrative burden associated with these contracts, Volpe did not perform such analysis. 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, Volpe had no assurance that a CPAF-type contract was appropriate. As a result of our audit, senior Volpe officials agreed to take action to address issues cited in this report.

⁴ Outcome-based criteria are measurable, quantifiable factors. They assess the results of an activity compared to its intended purpose. An example of an outcome criterion is to ensure that 99.5 percent of payment vouchers are paid within 30 days of receipt.

Performance Evaluation Plan Award-fee Criteria Were Too Vague

The performance evaluation plan did not include clear and measurable award-fee criteria needed to adequately evaluate contractor performance. For example, the Quality of Deliverables criteria used undefined terms such as “achieves high quality deliverables” as the standard of review. The Timeliness of Deliverables criteria used general terms such as “Contractor provides timely notification of potential schedule slippages” and the Project Staffing and Planning factor used vague wording that the “Contractor effectively staffs, plans and manages job orders.”

NASA’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 Departments of the Air Force, Navy, and Army, also prefer using measurable criteria to evaluate contractor performance. Additionally, guidance from these agencies, including NASA, 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. Performance monitors, i.e., Volpe staff who track and assess contractor performance daily, cannot provide meaningful comments and evaluations using too-broadly-defined criteria. The effect of having evaluation criteria without establishing clear and measurable metrics for assessing performance could result in inflated contractor performance evaluations and, consequently, inappropriately approved award fees. For the first four award-fee periods of the TRIPS contract, Volpe paid the contractor approximately \$3.4 million (93 percent of the available award fee) without assurance of whether the acquisition outcomes fell short of, met, or exceeded expectations. Without indicating areas of emphasis or desired outcomes, Volpe 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.

Additionally, Volpe did not provide performance monitors with a performance evaluation plan containing the award-fee criteria. Instead, they provided the monitors a questionnaire to fill out at the end of each performance period. In our comparison of the award-fee criteria in the performance evaluation plan with the questionnaire, we found that three criteria were inadvertently missing from the questionnaire—under the category of Financial and Business Management. Having thorough and complete evaluation criteria is critical as it indicates to the contractor and performance monitors which aspects of contractor performance are most significant during the evaluation period. Missing criteria could result in

missed opportunities to motivate the contractor and help to mitigate significant Government risks.

Adjectival Rating Factors Were Too Vague and Inconsistent for Rating Performance

The conversion table (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) 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 very good is defined as:

“Contractor’s performance of most contract tasks is consistently **above standard** and provides **highly effective results**; several strengths observed. The few, if any, weaknesses have minimal adverse effect on overall performance; there are no deficiencies. Although some areas may require improvement, these areas are minor and are more than offset by better performance in other areas. The few, if any, recurring problems have been noted. Contractor identifies problems in **timely manner** and solutions are implemented with no adverse impact on quality, cost, schedule, or timeliness.”

Terms, such as “above standard,” “highly effective results,” and “timely manner” are undefined. Performance monitors used personal criteria, applied arbitrarily, that possibly resulted in the Government overpaying award fees with funds that could have been put to better use. Discussions with eight performance monitors revealed that each had a different interpretation on how to apply the adjectival ratings to contractor performance. For example, to rate the quality of the work performed by the contractor on a project, one monitor stated that an “excellent” rating equated to having one error in a report, while another monitor stated three. In another example, one monitor said that to assign a rating of “very good,” the contractor must perform only minor rework, while another said that the contractor’s performance was “above and beyond meeting the requirements without raving comments” from the sponsor.

Additionally, Volpe’s performance evaluation plan for its TRIPS contract contains inconsistent descriptions of adjectival rating factors. For example, a “**satisfactory**” rating is defined, in part, as:

“...Contractor’s performance of most contract tasks is effective and provides adequate results; some strengths and **weaknesses** observed; any reportable **deficiencies** have a **limited impact on overall performance.**”

We compared the above definition of a satisfactory rating to the plan’s description of the terms “**weaknesses**” and “**deficiencies,**” and found they do not support a satisfactory rating.

Table 1. Definitions of Performance Weakness and Deficiency

Performance Weakness	Performance Deficiency
<p>“Performance that has resulted in <u>serious disruption</u> in quality, effort, cost, schedule, or impact. Performance that has <u>negatively impacted the project</u> and increased the risk of unsuccessful delivery of high quality products or services on time and/or within budget.”</p>	<p>“Performance that has created <u>unacceptable results</u> and/or <u>failed to address, and/or meet contract,</u> task order or job order level requirements or performance evaluation criteria.”</p>

Source: Volpe’s performance evaluation plan for TRIPS contract

Volpe must clearly describe its adjectival ratings so there will be a basis for performance monitors and award-fee board to use in assessing contractor performance.

Volpe Has No Assurance That Contract Type Is Appropriate For the TRIPS Contract

Volpe 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 and award-fee guides used by other Federal agencies require agencies to consider the 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 Acting Director, Volpe Center, direct the Chief of the Contracting Office, Volpe, to:

1. Develop measurable award-fee criteria for evaluating contractor performance.
2. Revise the questionnaire to include all award-fee criteria contained in the performance evaluation plan.
3. Describe adjectival ratings clearly so there will be a defined basis for assessing performance and ratings consistent with the conversion table.
4. Reevaluate the contract type for future TRIPS 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 issues cited in this report with senior Volpe officials on February 8, 2008. As a result, senior Volpe officials agreed to take the following actions to address the deficiencies cited in this report:⁵

- Update the current performance evaluation plan to add more measurable award-fee criteria.
- Re-examine the adjectival rating definitions and improve them for the award-fee board to use in assessing contractor performance.
- Conduct a training session with contracting officer technical representatives and job order initiators to ensure consistent performance monitoring and evaluation.
- Reevaluate the contract type for future TRIPS procurement contracts and justify the use of an award-fee contract.

As Volpe's management 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 actions will put approximately \$4.4 million in expected award-fees to

⁵ Volpe's planned corrective actions were provided in separate memorandum, dated June 12, 2008.

better use by revising the performance evaluation plan and ensuring Volpe'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 \$4.4 million in award-fees for the TRIPS contract could be put to better use by revising the performance evaluation plan.

We appreciate the courtesies and cooperation of Volpe representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5225 or Terrence Letko, the Program Director, at (202) 366-9917.

#

cc: Research and Innovative Technology Administrator
Volpe National Transportation Systems Center Director
Senior Procurement Executive
Director, Office of Acquisition Services, RITA
Martin Gertel, M-1
Timothy Klein, RTG-30
Dilcy Garro, Volpe Audit Liaison

EXHIBIT A. SCOPE AND METHODOLOGY

This report is associated with our Department-wide audit of the 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.

To accomplish our objectives, we reviewed the:

- Performance evaluation plan;
- Statements of work and deliverables for the contracts and selected task orders;
- Performance monitors' rating results;
- Federal Acquisition Regulation;
- Transportation Acquisition Regulation;
- Best Practices for award-fee contracts (Departments of the Army, Navy, and Air Force, National Aeronautics and Space Administration, and Environmental Protection Agency Award-Fee Guides) and;
- Grading methodologies of performance monitors.

We also interviewed:

- Eight performance monitors or job order initiators to determine how they rated the contractors' performance; and
- Volpe acquisition and program officials regarding the performance evaluation plan and the award-fee process.

EXHIBIT B. TRANSPORTATION INFORMATION PROJECT SUPPORT CONTRACT AWARD-FEE CONVERSION CHART

This chart is used to determine the percentage of award fees earned from the available award-fee pool:

Adjectival Rating	Percentage of Fee
Excellent	90-100
Very Good	80-89
Satisfactory	65-79
Poor	0

EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT

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

The following pages contain textual versions of the charts found in this document. These pages were not in the original document but have been added here to accommodate assistive technology.

**Interim Report on Award-Fee Criteria for the Transportation
Information Project Support Contract**

Section 508 Compliant Presentation

Table 1. Definitions of Performance Weakness and Deficiency

Performance Weakness is described as “Performance that has resulted in serious disruption in quality, effort, cost, schedule, or impact. Performance that has negatively impacted the project and increased the risk of unsuccessful delivery of high quality products or services on time and/or within budget.”

Performance Deficiency is described as “Performance that has created unacceptable results and/or failed to address, and/or meet contract, task order or job order level requirements or performance evaluation criteria.”

Source is Volpe’s performance evaluation plan for TRIPS contract.

Exhibit B. Transportation Information Project Support Contract Award-Fee Conversion Chart

An adjectival rating of excellent earns a 90-100 percent award fee from the available award-fee pool.

An adjectival rating of very good earns an 80-89 percent award fee from the available award-fee pool.

An adjectival rating of satisfactory earns a 65-79 percent award fee from the available award-fee pool.

An adjectival rating of poor does not earn a percent of the award fee from the available award-fee pool.