



TITLE: Corporate Performance Evaluation Process for M&O Contractors

- I. **OBJECTIVE:** To establish and implement a uniform, corporate process for evaluation of National Nuclear Security Administration (NNSA) Management and Operating (M&O) contractors' performance that promotes effective and efficient accomplishment of the NNSA mission while balancing safety and production effectively. This process results in documented, consistent and fair evaluation of M&O contractor performance.
- II. **APPLICABILITY:** This process applies to all NNSA organizations and elements excluding NA-30.
- III. **REQUIREMENTS:**

The Contractor Performance Evaluation Process will be an "NNSA-corporate," integrated process applied consistently by all NNSA sites. The corporate process may be updated periodically to reflect changes and lessons learned. The annual Performance Evaluation Plan (PEP) for each site will follow the format and boundaries as follows:

- PEPs shall contain Performance Objectives (POs) and Performance Based Incentives (PBIs), if applicable;
- PEPs shall provide both Essential and Stretch goals whereas fee for stretch can only be earned if performance on essential goals meets certain expectations;
- PEPs shall provide appropriate weight/fee distribution among Performance Objectives and PBIs based on criticality of the represented scope and its relative cost, benefit and risk; and,
- Fee Determining Official (FDO) has the discretion to adjust the Site Office Manager's recommended rating or fee.

The FDO will review and approve, unless otherwise specified in the contract, the fee rate, the amount of available fee for each period of performance, the award term incentives and the performance targets in the PEP based on the recommendation of the Site Office Managers and Management Council.

At a high level, the evaluation process is divided into four phases for NNSA M&O Contracts:

- 1. The Planning Phase precedes the execution year (generally a Government fiscal year) and includes:
 - Review and incorporation of lessons learned from the prior year;

- Identification of performance measures consistent with the Planning, Programming, Budgeting and Execution/Evaluation (PPBE/E) process and associated Program Implementation Planning (PIP) process;
 - Development, review and approval of PEPs for each NNSA M&O contract by the FDO; and,
 - Determination of the amount of fee to be available and allocated within the PEP for the period of performance.
2. The Monitoring Phase takes place during the execution year and includes:
- Monitoring of contractor performance – operational awareness and evaluation of results achieved and safely performed during the execution year, supported by appropriate documentation;
 - Linkage of evaluation activities to the PPBE/E, including the Quarterly Program Review processes, PIPs and Work Authorizations for Approved Funding Programs (AFP); and,
 - Periodic reporting of performance results to appropriate NNSA Program Officials.
3. The Assessment Phase begins after the execution year has ended and shall be completed before interest penalties are assessed on late payment of fee, if applicable.
- Site Offices, with input from program offices, functional offices and non-NNSA offices, as applicable, shall validate contractor performance at the end of the performance period and provide recommended ratings and/or a recommended fee amount to the Management Council and ultimately the FDO (NNSA Administrator) Timely and effective Headquarters input is critical to a successful Assessment Phase;
 - The FDO will determine the final performance rating and earned fee for the contractors; and,
 - The FDO has the discretion to adjust the recommended rating or earned fee within the available fee pool. The adjustment should generally be within the range of plus or minus 10 percent. If the adjustment is more than plus or minus 10 percent, the Site Office Manager's letter to the contractor that transmits the final Performance Evaluation Report (PER) will provide a rationale for the adjustment.
4. Post Assessment Phase: Site Office Managers shall be aware that a “fully releasable” PEP and Performance Evaluation Report suitable for public posting may be requested for Public Affairs and/or Congressional purposes. At a minimum, the following documents should be readily available:
- Summary of available and earned fee;
 - One page narrative summary on contractor performance;
 - Performance Evaluation Report; and,
 - Redacted Performance Evaluation Report.

NNSA sites shall use consistent format and definitions for describing the desired performance for its M&O contractors in the PEP. PEPs shall be organized into the following sections: Introduction, Mission, Operations, Business/Management and Multi-Site. PEPs shall use the following definitions:

Performance Objective: A statement of desired results for an organization or activity.

Common = performance objectives that are common to all or several sites and the reward is based on individual site performance.

Site Specific = performance objective that is unique or specific to a particular site and the reward is based on individual site performance.

Multi-Site = performance objectives that apply to multiple sites and the reward is based on multi-site performance with a collective outcome that involves the earning of the associated fee at risk based on the achievement of the collective outcome. If the outcome is not achieved, none of the participating sites can earn the associated fee at risk.

Performance Measure: Term used to describe a particular value or characteristic designated to measure input, output, outcome, efficiency, or effectiveness. Performance Measures are composed of a number and a unit of measure. The number provides the magnitude (how much) and the unit is what gives the number its meaning (what). Performance can be measured by: Time, Error rates, Compliance, Cost, number of outputs per input, Standardized tests, Length, footage, etc. (e.g. Average percentage reduction of the facility “footprint” when compared to last year’s).

Performance Target: The desired condition or target level of achievement for each measure, established at an appropriately detailed level that can be tracked and used for a judgment or decision on performance assessment. The following is an example of a Performance Objective, Measure and Target for a site:

Performance Objective: Provide effective management of facility space.

Performance Measure: Reduction of the site’s facility footprint.

Performance Target for FYXX: Reduce facility footprint by 10 percent within budgeted cost and schedule.

Award Fee/Incentive Fee Amount: The amount of fee from the available fee pool earned by the contractor based on the evaluation of the contractor’s performance during a specific contract period. Award Fees are earned based on qualitative/subjective performance results. Incentive Fees are earned based on quantitative/objective performance results such as technical performance, schedule or cost.

Essential Performance. The minimum essential performance requirements for the contractor to accomplish the basic mission in three general performance groups (Mission, Operations, and Business/Management) that will be assessed on an annual

basis. Accomplishment of the basic mission will generally result in the contractor earning the associated fee stipulated in the PEP for the performance period. The work under the essential incentive has priority. (e.g. Level 1 and level 2 milestones contained in the FYXX Program Implementation Plans (PIPs).

Stretch Performance. The performance measures beyond the minimum essential performance requirements that present incentivized opportunities for the contractor to meet challenging stretch goals and objectives that may earn performance award/incentive fees. This type of work generally has a lower priority than essential work incentive. (e.g. The work above and beyond that of level 1 and level 2 milestones in the PIPs).

Minimum Performance Threshold. Regardless of performance in stretch, to be eligible to earn any stretch pool of fee at risk, a minimum level of performance on the essential scope must be accomplished. This threshold will be established by the FDO on an annual basis when the PEP Guidance is issued. This helps to ensure that a high level of performance on essential work is expected and given priority and not neglected.

For Non-NNSA M&O contracts performing work for NNSA, NNSA will follow the Cognizant Program Secretarial Officer's process for providing input for the PEP and PER.

IV. RESPONSIBILITIES:

1. **Administrator (NA-1)** – As the FDO, and based upon recommendations of the Site Office Manager and the Management Council:
 - Determines the fee rate or amount of available fee for each M&O contractor and other NNSA prime contractors designated by the NNSA Senior Procurement Executive and if applicable, the earned Award Term;
 - Determines the final performance rating and earned fee for each M&O contractor and other NNSA prime contractors designated by the NNSA Senior Procurement Executive; and,
 - Determines any unilateral reduction in fee during a performance evaluation period under the Conditional Payment of Fee, Profit, or Incentives clause of the contract.
2. **Principal Deputy Administrator (NA-2)** – Ensures timely review of PEPs in Headquarters performs and the resolution of Headquarters comments with the Site Offices. It also takes action as required to ensure timely and effective Program Official's input to the Site Offices for the Assessment Phase.
3. **Senior Procurement Executive (NA-63)** – Designates non-M&O contracts to which the Administrator will serve as the FDO.
4. **NNSA Management Council** – Comprised of the HQ principals to the NNSA Administrator. Provides integration and calibration function among the NNSA Site

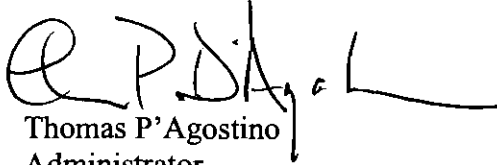
Offices. Receives presentation by each Site Office Manager on the proposed total available fee before the beginning of the annual evaluation period, and final performance evaluation results, proposed fee award, and if applicable, earned Award Term in the PER. Ensures that total available fees, final evaluation results and proposed fee awards and/or Award Term, if applicable, are fair and balanced across the complex. Recommends decision to FDO on each PER for proposed Award Fee and Award Term earned, (if any) at the end of the evaluation period.

5. **Contracting Officer's Representative and Program/Functional Point of Contact (PPoC)** – Participates in developing program (e.g., weapons program, nonproliferation program, Facilities Infrastructure Recapitalization Program, Security)/functional (e.g., Chief Information Officer, Chief Financial Officer, Acquisition and Supply Management, Environment Safety & Health Adviser) objectives with the Headquarters PoC in the timeframe established to support PEP development; monitors contractor performance throughout the evaluation period via interaction with Site Offices and the monitoring process; provides timely input with appropriate detail to support Site Office assessment processes and PER development.
6. **Headquarters Point of Contact (HQ PoC), NA-63** – Chairs the Process Ownership Team for the NNSA Contractor Performance Evaluation Process for M&O contractors and is responsible for coordinating the process, along with the Site Performance and Quality Assurance Division (NA-172.3) and meeting key action dates. Coordination includes communicating with the PPoCs and the Field Points of Contact (FPoCs) throughout the process, and facilitating feedback between the PPoCs and FPoCs. Facilitates Headquarters review of PEPs on behalf of NA-2 and assists resolution of comments between Headquarters and Site Offices. Obtains and communicates approval of PERs and earned fee awards. Supports appropriate Cognizant Program Secretarial Officers in obtaining NNSA input on non-NNSA M&O contractor performance of NNSA-sponsored work.
7. **Process Ownership Team** – Team chaired by NA-63 with representatives from NNSA functional program offices (NA-10, NA-20, NA-40, NA-50, and NA-70) and Site Offices who advise the Team Chair on the NNSA-corporate process and have the authority to speak for their respective organizations. Develops and recommends periodic process updates to the Team Chair, and facilitates implementation by their respective organizations.
8. **Site Office Manager** – Owns and oversees the performance evaluation process from the Site Office perspective; periodically briefs program offices and Management Council on contractor performance via standard report format; recommends an available fee rate or pool to the Management Council and FDO based on the draft PEP; issues final PEP; presents PER to Management Council for review and to NA-1 for approval of the rating and fee; issues the PER; and, briefs the contractor's Board of Directors on the evaluation results following the FDO's decision. Ensures appropriate ES&H standards are effectively integrated into mission deliverables.
9. **Field Point of Contact (Field PoC)** – Oversees and participates in the development of contractor Performance Objectives, Measures, and Targets for determining achievement

of PEP objectives; oversees the PEP and PER development process, as directed by the Site Office Manager; serves as focal point for receipt of contractor's Self-Assessment Report; solicits, incorporates, and addresses PPOC input for PEP elements and PER through the Headquarters PoC; manages Change Control process; monitors contractor performance and provides periodic status reports to Headquarters managers; advises Site Office Manager as required; and prepares contractor PER and Management Council presentations for the Site Office Manager, as required.

10. **Contracting Officer** – Issues contract modification or, as directed by the Site Office Manager, transmittal letter for the PEP and/or PER letter to contractor. Leads PEP and fee negotiations with the contractor in accordance with the NNSA Fee Policy.
11. **Non-NNSA Offices** or Work for Others sponsors – Provide performance objectives, supporting information and input on contractor performance when requested by Headquarters PoC or Field PoCs.

V. REFERENCES: NNSA Policy Letter BOP-003.0501, "Deviation to DEAR 970.1504 Contract Pricing, and associated 970.5215 clauses."



Thomas P'Agostino
Administrator
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Department of Energy
National Nuclear Security Administration
Washington, DC 20585

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OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR DEPUTY ADMINISTRATOR FOR DEFENSE NUCLEAR
NONPROLIFERATION
DEPUTY ADMINISTRATOR FOR NAVAL REACTORS
PRINCIPAL ASSISTANT DEPUTY ADMINISTRATOR FOR
OPERATIONS, DEFENSE PROGRAMS
ASSOCIATE ADMINISTRATOR FOR EMERGENCY
OPERATIONS
ASSOCIATE ADMINISTRATOR FOR INFRASTRUCTURE &
ENVIRONMENT
ASSOCIATE ADMINISTRATOR FOR MANAGEMENT &
ADMINISTRATION
ASSOCIATE ADMINISTRATOR FOR DEFENSE NUCLEAR
SECURITY
DIRECTOR, CONGRESSIONAL, PUBLIC AND
INTERGOVERNMENTAL AFFAIRS
GENERAL COUNSEL
CHIEF, DEFENSE NUCLEAR SECURITY
CHIEF, DEFENSE NUCLEAR SAFETY
SENIOR ADVISOR FOR ENVIRONMENT, SAFETY
AND HEALTH
CHIEF INFORMATION OFFICER

FROM:

THOMAS P. D'AGOSTINO
ADMINISTRATOR

SUBJECT:

Functional Accountability

In his May 23, 2006, memorandum, subject as above, the Secretary established a policy of functional accountability whereby, while not eliminating fundamental line responsibilities, the heads of such functional components such as finance, human capital, public affairs, procurement, information technology, and legal have specific responsibilities and authorities over senior level individuals in their areas of responsibility in both Headquarters and field locations. The Secretary identified the Department's Functional Heads as: the Chief Financial Officer, the Chief Information Officer, the General Counsel, the Senior Procurement Executive, the Director of Public Affairs, and the Chief Human Capital Officer.

These Functional Heads were determined to need the ability to play a substantive role in how certain positions/employees that do not currently report to them in a supervisory/management



chain are staffed, compensated, and developed, and how the positions that perform the functions which do not report to them are organized and performed.

The Secretary enumerated certain line authorities for these functional executives to perform within their functions, including: (1) concurrence with existing management on the establishment of positions, including grade level, appointment type, and scope of duties; (2) concurrence in the selection of new hires; (3) concurrence on reorganizations and requests for workforce shaping authorities such as the Voluntary Separation Incentive Program, Voluntary Early Retirement Authority, and reduction-in-force impacting or affecting the function; (4) concurrence on compensation, performance recognition, and retention, recruitment and relocation matters; (5) active participation in performance management, including in the development of performance standards, concurrence on performance ratings of record, and consultation and coordination on disciplinary actions; (6) active participation in employee development, including the ability to require that incumbents have certain specified core competencies and the ability to require certain training; and, (7) active participation, through the Corporate Program Review process, with respect to budgets for the respective functional activities. The ability of the functional heads to exercise these line authorities that are employee specific will apply only to the highest ranking functional official in a field office or Headquarters office who is not already an employee of the functional head's organization or program office.

Subsequently, the Deputy Secretary created a Functional Accountability Working Group to determine exactly who is within each functional group head's functional authority by position (e.g., Human Capital Officer, Savannah River Operations Office) and the current incumbent by name (e.g., John Doe) for each organization.

While the Secretary specifically exempted the National Nuclear Security Administration (NNSA) from this change in Departmental management, the then-Administrator elected to have NNSA follow the broad intent of the Secretary's policy and created a comparable scheme of functional accountability within NNSA, especially between Headquarters and the field. In addition, NNSA added the nuclear safety and security functions to those functions identified by the Department. However, though an October 2006 draft was widely discussed by the NNSA Management Council and Leadership Coalition with general consensus, and NNSA has implemented functional accountability principles in many parts of NNSA, this policy was never issued formally.

Since the time of the Secretary's original policy issuance, NNSA has evolved its organizational model, both by realigning the Site Office reporting structure, as well as by developing, deploying and maturing innovative contractor oversight and assurance methodologies. Given the changes in reporting and oversight, I have decided that we need to formally reaffirm and expand the existing unofficial policy guidance on Functional Accountability in NNSA.

Functional Accountability within NNSA:

1. For purposes of this policy, functional leaders will include: the Chief of Defense Nuclear Security (security to include, in conjunction with the NNSA Chief Information Officer, Cyber Security), the Associate Administrator for Management and Administration (Finance, Human Resources, and IT areas (Cyber coordinated by CIO and CDNS)), the NNSA Senior Procurement Executive, the Director of Congressional, Public and Intergovernmental Affairs (Public Affairs), the NNSA General Counsel (Legal), Chief of Defense Nuclear Safety (Nuclear Safety), the Senior Advisor for Environment, Safety & Health (ES&H), and the Associate Administrator for Infrastructure and the Environment (Project Management, Environmental Management, and Nuclear Materials Consolidation).
2. Consistent with the Departmental policy, we will implement functional accountability in NNSA in accordance with the following procedures:
 - a. The functional heads will participate in the selection of the senior individual in their areas of responsibility at Site Offices, the Service Center, and the Office of Secure Transportation. This participation will include input or concurrence by functional heads on compensation, position descriptions, position establishment, and budgets of such functional organizations, as set forth below.
 - b. If the functional heads disagree with the selection made by component line managers, selection shall be held in abeyance and reviewed by the Principal Deputy Administrator, who will consult with the Deputy Administrator for Defense Programs for any Site Office appointees, and who will provide a recommendation to the Administrator. The decision of the Administrator will be final.
 - c. Functional heads shall provide formal input to annual performance evaluations of the specific senior officials in their areas at the subordinate organizations listed above. This may include providing specific performance objectives for inclusion into the senior officials' performance standards. The Site Managers, the Service Center Director, and the Assistant Deputy Administrator for Secure Transportation, however, will determine what weight to give to standards and evaluation inputs.
 - d. Functional heads may establish specified core competencies and training requirements for the incumbents or selectees for the senior positions in their functional area at field elements; however, all new requirements for training or certification, within the control of the NNSA, must be approved in advance by the Principal Deputy Administrator.
 - e. To ensure consistency throughout NNSA, functional heads shall keep informed of local policy decisions in order to ensure that NNSA is operated in a consistent fashion. The form of this communication flow shall be left to the functional heads and program/field elements; however, participation by the functional heads in the weekly Site Office Manager telecoms is encouraged.

- f. This policy will not lessen the authority or managerial/supervisory span of control of operational elements (e.g., Site Office Managers), nor will this policy create direct lines of control between functional heads and field staff. Should functional heads attempt to exercise such controls, the operational/Field elements are to bring such violations of this policy to the attention of the Principal Deputy Administrator for resolution.
- g. Nothing in this policy changes the current direction that the Site Office Managers report to NNSA Headquarters via the Deputy Administrator for Defense Programs (NA-10). NNSA functional heads and their senior individual counterparts are encouraged to communicate directly with each other on matters associated with their area of functional accountability and are not expected to route all such communications through NA-10/Site Office Manager; however, Site Office Managers should be included in all written communications.

NNSA Functional Heads and the Department:

This section applies to the executives identified in #1, above:

1. To ensure that NNSA remains effectively coupled into the broader Department, it will be NNSA policy to seek advice (for example, by representation on selection boards) from the appropriate DOE functional leaders in any selection of these officials. This policy will include cases where selection is not competitive, but is directed by the Administrator.
2. It will also be NNSA policy to invite comments from the senior functional heads in the Department on the performance of the functional counterparts within NNSA. Consistent with the principle of line authority and of the semi-autonomous nature of NNSA, the use made of these comments will be at the discretion of the rating and reviewing officials.
3. Where a DOE functional head formally establishes specified core competencies and training for specific functional positions, NNSA will normally adopt these standards. Exceptions require the approval of the Principal Deputy Administrator.

Within the next 15 days, each addressee will identify by name, by title and by field or Headquarters organization, all senior individuals who are within their sphere of authority and accountability under this policy. This list will be submitted to the Principal Deputy Administrator, who shall maintain the Matrix of NNSA Members of Functional Accountability Groups.

The attached NNSA Corporate Implementation Plan expands on these principles, including identifying timeframes for exercise of the identified functional authorities.

This policy is effective immediately. It will be further codified in an appropriate internal NNSA directive if and when the broader Department policy is similarly codified.

Should you have any questions on this policy, or its implementation, please contact Bill Ostendorff, Principal Deputy Administrator.

Attachment

cc: Deputy Secretary
Principal Deputy Administrator, NNSA
Associate Principal Deputy Administrator, NNSA
Chief of Staff, NNSA

NNSA Corporate Implementation of the Seven (7) Line Authorities.

A) The following authorities will apply only to the **highest ranking** functional official in a field or headquarters office who is not already an employee of the functional head's organization or program office. These individuals will be identified by the Functional Heads on a Matrix of the NNSA Members of Functional Accountability Groups, which will be maintained by the Office of the Administrator. Concurrence will be assumed for all actions if no response is received within timeframes described below.

1) Concurrence with existing management on the establishment of positions, including grade level, appointment type and scope of duties.

This authority will be implemented by obtaining the functional head's concurrence on actions that establish positions. The package submitted to the functional head must include a draft of the vacancy announcement and a description of how the position will be advertised and how long it will be open, as well as a brief description of the process that will be used to recruit for, rank, interview and select the successful candidate. Functional heads will have five working days to concur or provide comment back to the requesting office. Concurrences on position establishment should be on position description coversheets. The position cannot be established prior to this process.

The NNSA Office of Human Capital Management will institute procedures for servicing personnel offices to verify that concurrence of the functional head is obtained prior to establishment, including the tracking of requests for concurrence.

Effective immediately, all actions coming to the NNSA Executive Resources Board will follow this process.

2) Concurrence in the selection of new hires.

This authority will be implemented by: 1) obtaining the functional head's concurrence on the text of the job announcement (including, in the case of an SES position, the technical qualifications set forth in the announcement); and 2) obtaining the functional head's signature on the selection certificate.

The selection package submitted to the functional head must include a copy of the selectee's application. Functional heads will have five working days to concur or provide comment back to the requesting office. The selection cannot be effective prior to this process.

The NNSA Office of Human Capital Management will institute procedures for servicing personnel offices to verify that concurrence of the functional head is

obtained prior to a formal offer of employment being made, including the tracking of requests for concurrence.

Effective immediately, all actions coming to the NNSA Executive Resources Board will follow this process.

3) *Concurrence on compensation, performance recognition, and retention, recruitment and relocation matters.*

This authority will be implemented by obtaining the functional head's signature on the SF-52. The package submitted to the functional head must include a statement explaining the need for the action. Functional heads will have five working days to concur or provide comment back to the requesting office. The personnel action cannot be processed prior to this process.

The NNSA Office of Human Capital Management will institute procedures for servicing personnel offices to verify that concurrence of the functional head is obtained prior to processing, including the tracking of requests for concurrence.

Effective immediately, all actions coming to the NNSA Executive Resources Board will follow this process.

4) *Active participation in performance management, including the development of performance standards, input on performance ratings of record, and consultation and coordination on disciplinary actions.*

For the FY 2008 performance cycle, line management is to provide a copy of the relevant performance plans to the functional heads, and informally consult with the appropriate functional heads prior to obtaining the functional heads' concurrence on the performance rating. For the FY 2008 performance cycle, all draft performance standards will be submitted by appropriate rating officials to the functional head by October 26, 2007. The functional head will submit any comments by November 16, 2007.

For performance ratings, the functional head will be informally consulted by the rating official prior to the issuance of any mid-cycle reviews. At the end of the rating period, the rating official will obtain input from the functional head before the performance rating is submitted to the reviewing official. The functional head should be given a minimum of five working days to review the proposed rating.

The NNSA Office of Human Capital Management will institute procedures to carry out this process and amend position descriptions, as needed.

With regard to disciplinary actions, the functional head should be advised as early as practicable in the process and be given the opportunity to consult on the appropriate level of discipline.

5) *Actively participate in employee development, including the ability to require that incumbents have certain specified core competencies and the ability to require certain training.*

h. Functional heads do not need to be consulted on training instigated by line management. Any requirements made by the functional head must take into account budgetary constraints and workload. All new requirements for training or certification, within the control of the NNSA, must be approved in advance by the Principal Deputy Administrator.

B) The following authorities will apply to all of the functional officials in a field or Headquarters office who are not already employees of the functional head's organization or program office.

6) *Concurrence on reorganizations and requests for workforce shaping authorities as the Voluntary Separation Incentive Program, Voluntary Early Retirement Authority, and reduction-in-force impacting or affecting the function.*

Any proposed reorganization or workforce shaping authority impacting or affecting the function must be submitted for the concurrence of the functional head. Functional heads will have ten working days to concur or provide comment back to the requesting office.

The NNSA Office of Human Capital Management will institute procedures to verify that concurrence of the functional head is obtained prior to processing, including the tracking of requests for concurrence.

7) *Actively participate, through the NNSA Planning, Programming, Budgeting, and Evaluation process, with respect to budgets for the respective functional activities, and through Source Evaluation Boards/Teams for major contracts.*

Functional heads will be afforded the opportunity to review and comment on proposed budgets that directly impact their areas of accountability, including review by the functional heads of any significant contracts that may support or carry out duties in the functional area.