



DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND
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WASHINGTON, DC 20374-5065

IN REPLY REFER TO
ACQ 021
10 Jun 99

MEMORANDUM FOR ACQUISITION PERSONNEL

Subj: AWARD FEES (99-19)

Encl: (1) OASN(RD&A) memo of 20 Apr 99

1. By enclosure (1), ASN(RD&A) requests that award fee contracts be reviewed to determine whether award fee periods, evaluation factors, and earned award fee percentages are commensurate with overall contractor performance. To the extent the wrong factors are being evaluated or the judgment of the evaluators is not motivating performance excellence, consideration should be given to modifying the contract or changing evaluators.

A handwritten signature in black ink, appearing to read "Michael F. Howard".

MICHAEL F. HOWARD
Director, Strategic Programs/
Community Management Section



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH DEVELOPMENT AND ACQUISITION
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APR 20 1999

MEMORANDUM FOR DISTRIBUTION

Subj: AWARD FEES AND CONTRACTOR PAST PERFORMANCE EVALUATIONS

End: (1) USD(A&T) memo of Feb 27, 1999, subj: Award Fees

Enclosure (1) from the Under Secretary of Defense (Acquisition & Technology) expresses concern that award fees earned by contractors are not always commensurate with overall contractor performance.

You are requested to review award fee contracts under your cognizance to determine whether the rating factors in the award fee evaluation plan are consistent with desired future outcomes and whether the evaluations that have been conducted accurately reflect overall contract performance. To the extent that you find otherwise, I suggest considering a change in the rating factors or evaluators. Other suggestions or comments on ways to improve award fee evaluations as an excellence-motivating tool are requested. My point of contact on this matter is Ms. Louise Slates (703-602-2798), slates.louise@hq.navy.mil.

On a related subject, I am pleased to note that the number of Contractor Performance Assessment Reports (CPAR) collected in our automated system has risen dramatically in the past few months. I strongly believe that the communication of performance satisfaction is the key to positively influencing the quality of the product both in current contracts and as we select contractors for future requirements. Timely and meaningful data entered into the CPAR system should be a priority of all program managers, regardless of the size of their programs.

A handwritten signature in black ink that reads "H Lee Buchanan".

H Lee Buchanan
Assistant Secretary of the Navy

Distribution: (see page 2)

Subj: AWARD FEES AND CONTRACTOR PAST PERFORMANCE EVALUATIONS

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**THE UNDER SECRETARY OF DEFENSE
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**MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
ATTENTION: SERVICE ACQUISITION EXECUTIVES**

SUBJECT: Award Fees

Award fee can be an effective motivator for excellence in contract performance in areas such as quality, timeliness, technical ingenuity, and cost-effective management. The amount of award fee earned is determined by the Government's judgmental evaluation of contractor performance against the criteria stated in the contract. Evaluations serve as periodic notifications to contractors of areas where improvement is expected. We know that contractor management monitors closely the levels of fee earned.

When programs are reviewed that have performance problems, schedule slips, and cost growth, that are being performed on award fee contracts, program managers often indicate that the contractors are nevertheless earning award fees in the 90 percents. Ratings of that level are not consistent with poor contract performance. Program Manager responses to why this occurs are that rating factors did not include appropriate elements (such as cost), or the rating periods were too long, making it difficult to focus the contractor's attention on emerging problems, or the Fee Determination Official was at a level too close to the government program office and put a premium on maintaining cordial relations with the contractor's program office.

Award fee periods, evaluation factors, and whether earned award fee percentages are commensurate with overall contractor performance, should be assessed during contract performance. To the extent the wrong factors are being evaluated or the judgment of the evaluators is not motivating performance excellence, consideration should be given to modifying the contract or changing evaluators.

Please sample your award fee contracts and determine whether the factors used in prospective award fee periods are suitable for the intended positive outcome. Also, when award fee programs are reviewed, it would be helpful if you would judge whether evaluations reflect overall contract performance. I would be interested in your views on other ways to improve award fee evaluations.

A handwritten signature in black ink, appearing to read "J. S. Gansler". Below the signature, the name "J. S. Gansler" is printed in a small, black, sans-serif font.

cc:
Dr. George Schneiter (OUSD(A&T)/S&TS)
Mr. John Landon, (C3I/PA&E)