



The Deputy Secretary of Energy

Washington, DC 20585

May 15, 1996

**MEMORANDUM FOR: SECRETARIAL OFFICERS
OPERATIONS OFFICE MANAGERS
FIELD OFFICE MANAGERS**

FROM:

CHARLES B. CURTIS

A handwritten signature in black ink, appearing to read "Charles B. Curtis".

SUBJECT:

**Performance-Based Business Management (Staff)
Oversight for Selected Department of Energy Site
Operating Contractors**

Recently the Department completed a pilot process to improve oversight of business management activities at our laboratories. The laboratory pilot had been subsequently expanded to also include non-laboratory management and operating contractors. A Steering Committee consisting of representatives from Headquarters, the Field and the contractors guided the pilot. The committee assessed the pilot and based on the positive results made recommendations to institutionalize the performance-based process for all contractors identified in the attached guidance.

Consistent with agency goals to improve management oversight and performance, I am directing the continuation of the performance-based business management oversight process described in the attachment. Department of Energy business management reviews will be limited to those defined in the attached process. As a goal, all parties should work toward a level of communication, partnership and trust that minimizes the Department's need for conducting on-site reviews of contractors. I expect reporting requirements and the size of review teams will be kept at the minimum level necessary.

Characterizing the performance-based process are the following key principles:

- A high value is placed upon partnering. Headquarters, Field and contractor organizations communicate and work in coordination and cooperation with each other to assure mutual understanding of required performance.
- Management oversight reviews and self-assessments are results-oriented, focusing on agreed-to, predetermined performance objectives and measures. Management focus will shift from a compliance approach to performance results and improvement. The evaluation of contractor performance will be based upon agreed to performance objectives and measures that address results and appropriate internal controls.

- Contractors set up their own management systems to meet performance objectives, measures and expectations.
- Oversight is performance-based, relying substantially, but not exclusively, on results of contractor self-assessments.
- Operations Office oversight of the contractor's performance of contract business management is done using: 1) operational awareness, 2) an annual review, and 3) "For Cause" reviews.
- Headquarters and Operations Offices will agree upon roles and responsibilities. Headquarters will provide performance objectives to the Operations Offices.
- A contractor's success in meeting or exceeding its performance expectations in a particular business management element is rewarded with less frequent, or no review of that element. Conversely, poor performance or "for cause" situations may result in more frequent reviews by the Operations Office.
- Using support services contractors to conduct reviews independently or as most of a review team is unacceptable. Operations Offices will reduce, to the extent necessary for an effective review, use of such contractors.

There may be some disagreement on scope, participants and other factors associated with performance-based business management oversight. In this regard, I have asked Field Management to continue to facilitate resolution of these issues and forward those requiring my attention. I have also asked Field Management to maintain an agency-wide steering committee to oversee the transition and implementation of these policies and methods. This committee includes Headquarters, Field and contractor representation.

I further direct Field Management and Human Resources and Administration to establish this policy and guidance in the Department of Energy Directives system by September 30, 1996.

Performance-based oversight offers tremendous potential for improved cost-effectiveness and streamlining Department-wide management oversight practices. I believe your continued efforts to carry out and nurture these policies and methods will add to the successes demonstrated during the pilot. I commend you for it.

Attachment

PERFORMANCE-BASED BUSINESS MANAGEMENT (STAFF) OVERSIGHT PROCESS GUIDANCE

- I. **INTRODUCTION.** Recognizing the need to immediately change inefficient and non-value added management activities which were jeopardizing the long-term quality and effectiveness of the Laboratories, the Department and the Laboratories partnered to develop and implement a performance-based pilot Laboratory oversight program for business management (staff)¹ activities. The objective was to demonstrate more effective methods of management oversight by institutionalizing a management system that encouraged and rewarded excellence, continuous improvement, and timely communications. This twelve-month pilot was completed April 3, 1996. Based on the results of the pilot, the steering committee has recommended this process guidance for the full implementation of performance-based oversight for business management activities for contractors at those sites identified in the Appendix .

II. RELATIONSHIP OF HEADQUARTERS AND THE FIELD

- A. Headquarters business functional (Staff) organizations working with Program Organizations and Operations/Field Offices provide Departmental policy and performance objectives for the Operations and Field Offices (Operations Offices). Headquarters functional organizations monitor and evaluate Operations Office performance for their functional areas. Headquarters Program Organizations participate as customers in the functional organizations' development, maintenance, and continuous improvement of business policies, management systems and processes, and performance objectives, measures and expectations.
1. Annually, headquarters business functional organizations will communicate to the Operations Offices specific business management performance objectives.
 2. The timeliness of the communication of these performance objectives shall be such that the Field has time to incorporate them into their formal agreements and contracts with contractors.
- B. Operations Offices ensure that Headquarters policy is carried out and that contractors achieve the Department's performance objectives. (The prime focus of

¹ As used in this document, business management refers to those functions which in the commercial sector would be referred to as "staff" (staff vs. line). The specific functions are listed at the end of this guidance.

this document.) The Operations Offices share with headquarters, as information, the performance objectives, measures, and expectations agreed to with their contractors.

III. RELATIONSHIP OF FIELD AND CONTRACTOR

- A. Out of a partnering relationship, the Operations Office works with each contractor, with a goal to document in a formal agreement and/or contract, the establishment and use of agreed-upon performance-based management objectives, measures and expectations to assess the contractor's overall performance. The performance-based management objectives, measures and expectations:
1. Should drive cost-effective performance improvement, focus on system performance and maintain appropriate internal controls. The mutually developed objectives and measures should reflect a mutual assessment of key performance elements for overall successful operations.
 2. Should, when possible, include objectively measurable performance expectations allowing meaningful trend and rate of change analysis.
 3. May reference industry business standards that are meaningful, appropriate and consistent with Department requirements. To this end, benchmarking initiatives are encouraged.
- B. The contractor sets up its own management systems for meeting performance objectives, measures and expectations. Included is an ongoing, internal self-assessment to advise management and parent organizations of how well the contractor is meeting its predetermined performance objectives. Also included is a continuous improvement process.
- C. Contractors provide the Operations Office a written self-assessment of their performance. Included are:
1. How key in-process requirements are met, including how the contractor ensures key Department of Energy and Federal requirements (Laws, Regulations, Directives, Orders, etc.) and key internal controls are met and the degree to which those key requirements and internal controls have been met.
 2. Identification of improvement opportunities and improvement plans.
 3. Assessment against performance objectives and measures.

- D. Operations Office oversight of the contractor's performance of contract business management requirements is done using:
1. Operational awareness.
 2. An annual review that validates and verifies the contractor's assessment of compliance with contract requirements and performance against agreed to performance objectives, measures and expectations. This review may be conducted on-site. Encouraged are operational awareness activities that allow the Operations Office to validate and verify the contractor's performance, thus reducing the scope and/or duration of an on-site review.
 3. "For cause" reviews.
- E. Coordinating with the contractor and Headquarters, the Operations Office plans, schedules, conducts and documents no more than one multi-disciplinary business management oversight review per year. The on-site portion of this review is targeted to last no more than two weeks. As a goal, all parties should work toward a level of communication, partnership and trust that minimizes the Department's need for conducting on-site reviews of contractors.
- F. As incentive, the Operations Office and contractor define a basis for agreeing that the contractor's success at meeting or exceeding its performance-based management objectives and measures in a particular business management element will result in less frequent, or no reviews for that particular element. Conversely, poor performance or "for cause" situations may result in more frequent reviews by the Operations Office.

IV. SCOPE OF BUSINESS MANAGEMENT REVIEW

The Operations Office Manager and the contractor, in coordination with Headquarters business management functional organizations, agree upon the areas to be covered by the Business Management Review. The review may include the following areas, or other areas, as agreed to:

- A. Information Management
- B. Procurement
- C. Manpower and Personnel
- D. Property
- E. Scientific and Technical Information Management
- F. Finance and Budget

- G. Institutional Project and Facilities Management
- H. Work-for-Others Administration
- I. Security Oversight (including NATO reviews)
- J. Diversity (includes minority education programs, affirmative action/EEO, and small business participation)
- K. Technology Partnerships Administration
- L. Public Affairs

In addition, with the concurrence of the General Counsel, legal and patent services may be added as an area to be covered under this process.

V. PROCESS EXPECTATIONS

The performance-based business management oversight process envisions improved, timely communications between the Department and its contractors. This strengthened communications will foster a more effective working partnership with a clearer focus on required outcomes and results. As a final result the Department will be able to engage in more cost-effective, value-added oversight of its contractors. As a result the process guidance will be stated as guiding principles rather than rigid rules.

It is most important that oversight of the contractor make sense and be effective. To that end, Operations Offices may consider other oversight processes and propose to exempt a contractor from one or more of the elements of this process. Any proposed exemption must have the agreement of Field Management and identify the alternative process for oversight of the contract. The alternative process must be feasible and more effective.

Standard elements of the performance-based oversight process will include:

- A. Limitation on "on-site" reviews of contractors. The Department may conduct no more than one on-site business management review of the contractor. The only exception is "for cause" reviews.
- B. Refinement of performance objectives. Consistent with sections III and IV above, when informed by Headquarters Business Functional Organizations of revisions to top-level performance objectives, Operations Office and contractors annually review existing performance objectives and measures with the intent to revise them or develop new measures as needed. In all cases these performance measures need to be agreed to as specified in the contract or at least 120 days before a review.
- C. Self-Assessments. Contractors provide the Operations Office a self-assessment as detailed in section III. Timely requests for self-assessments and other relevant data

will be made of contractors allowing them sufficient response time.

D. Conducting the Review

1. **Planning.** The Operations Office, coordinating with Headquarters, contractor management and other Field elements, as appropriate, establishes a coordinated contractor review schedule with the objective of avoiding overlapping reviews. The scope of the review is prepared by looking at:
 - Contractor self-assessments
 - Headquarters business functional organization concerns
 - Headquarters program organization concerns
 - Prior review results
 - Agreed to performance expectations
 - External reports (IG, GAO, etc.)
2. **Preparation.** The Operations Office Manager will request information before the review, which supports review efficiencies and effectiveness. Any requests will minimize the demands on the contractor. The Operations Office Manager will reduce to the extent necessary for effective reviews the use of support service contractors and will eliminate support service contractors that conduct independent reviews, or form most of a review team.
3. **Execution.** Operations Office Managers ensure the conduct of a review validating and verifying the effectiveness and efficiency of the contractor's assessment of compliance with their contract and their performance against agreed to performance objectives, measures and expectations. When necessary this review may be conducted on-site but will be targeted to last no more than two weeks. Open communications with contractor management during the review will include keeping them apprised of observations made during the review.
4. **Review documentation is not anticipated to be extensive.** A report will be available at the exit brief. It will contain a concise executive summary (2 to 3 pages), including graphical representation of findings. To minimize the size of the report documentation supporting assessed conclusions need not be included, but shall be available. Observations are attached as are areas of improvement. Reviewers will strive for mutual (Operations Office and contractor) identification of targeted "for cause" follow-up by Federal employees. Mutually agreed to root cause analysis and follow-up validation of improvement results by the Department of Energy on a graded basis shall also be a goal.

- E. **Training.** Operations Office Managers will use just-in-time training as necessary to ensure review team members are knowledgeable of new assessment techniques and performance outcome assessments.
- F. **As process champion,** the Associate Deputy Secretary for Field Management sponsors a steering committee to oversee implementation of these policies and facilitate resolution of problems associated with performance-based business management oversight.

VI. DEFINITIONS:

To aid in common understanding of the terms used in this document the following definitions are provided. The definitions for performance objective, measure and expectation are tentative and are currently being developed by a team for Department-wide application.

- A. **Performance Objective:** A statement of desired outcomes for an organization or activity.
- B. **Performance Measure:** A quantitative or qualitative method for characterizing performance.
- C. **Performance Expectation:** The desired condition or target level of performance for each measure.
- D. **Operational Awareness:** Continuous management of those activities which enable the Department to determine how well the contractor is performing to meet the requirements of the contract. Factors influencing the degree of operational awareness include the nature of the work, the type of contract, and past performance of the contractor. Specific activities constituting an ongoing operational awareness process should be defined and understood by Operations Office Managers and the contractor.
- E. **For Cause Review:** Review of contractor operations or performance which is required as a result of the identification of significant areas for improvement or trends indicating the potential for improvement requiring the Department of Energy follow up to protect the Government's interest. They may also arise from implementation of new requirements on the contractor, or new contractor systems, requiring validations.

F. Business Functional Organizations: These include:

**Congressional, Public and Intergovernmental Affairs
Human Resources and Administration
Policy
Chief Financial Officer
Economic Impact and Diversity
Field Management
General Counsel (Legal and patent services with the concurrence of the General Counsel)
Hearings and Appeals
Quality Management
Science Education and Technical Information
Worker and Community Transition**

G. Program Organizations: These include:

**Defense Programs
Energy Efficiency and Renewable Energy
Environment, Safety and Health
Environmental Management
Fossil Energy
Energy Information Administration
Civilian Radioactive Waste Management
Energy Research
Fissile Materials Disposition
Nonproliferation and National Security
Nuclear Energy**

LISTING OF SELECTED SITES

<u>SITE</u>	<u>CURRENT CONTRACTOR:</u>
KANSAS CITY PLANT	ALLIED-SIGNAL INC.
BROOKHAVEN NATIONAL LAB	ASSOCIATED UNIVERSITIES INC.
PACIFIC NORTHWEST NATIONAL LABORATORY	BATTELLE MEMORIAL INSTITUTE
HANFORD SITE	BECHTEL HANFORD, INC.
NEVADA OPERATIONS OFFICE AND TEST SITE	BECHTEL NEVADA, INC.
STRATEGIC PETROLEUM RESERVE	DYNMCDERMOTT PETROLEUM OPERATIONS COMPANY
MOUND PLANT	EG&G MOUND TECHNOLOGY
FERNALD PLANT	FLOUR DANIEL ENVIRONMENTAL RESTORATION MANAGEMENT COMPANY
HANFORD SITE	HANFORD ENVIRONMENTAL HEALTH FOUNDATION
AMES LABORATORY	IOWA STATE UNIVERSITY
ROCKY FLATS ENVIRONMENTAL TECHNOLOGY CENTER	KAISER HILL COMPANY
IDAHO NATIONAL ENGINEERING LAB	LOCKHEED IDAHO TECHNOLOGIES CO.
K-25, Y-12 SITES, & PADUCAH & PORTSMOUTH PLANTS	LOCKHEED MARTIN ENERGY SYSTEMS INC.
OAK RIDGE NATIONAL LAB.	LOCKHEED MARTIN ENERGY RESEARCH, INC.

PANTEX PLANT

MASON & HANGER-SILAS MASON CO., INC.

NATIONAL RENEWABLE ENERGY
LABORATORY

MIDWEST RESEARCH INSTITUTE

OAK RIDGE INSTITUTE OF
SCIENCE AND EDUCATION

OAK RIDGE ASSOCIATED
UNIVERSITIES

PRINCETON PLASMA PHYSICS
LABORATORY

PRINCETON UNIVERSITY

SANDIA NATIONAL
LABORATORIES

SANDIA CORP

CEBAF

SOUTHEASTERN UNIVERSITIES
RESEARCH ASSOCIATION

STANFORD LINEAR
ACCELERATOR CENTER

STANFORD UNIVERSITY

CIVILIAN RADIOACTIVE
WASTE MANAGEMENT/YUCCA
MOUNTAIN

TRW

FERMI NATIONAL
ACCELERATOR LABORATORY

UNIVERSITIES RESEARCH
ASSOC. INC.

LAWRENCE BERKELEY
NATIONAL LABORATORY

UNIVERSITY OF CALIFORNIA

LAWRENCE LIVERMORE
NATIONAL LABORATORY

UNIVERSITY OF CALIFORNIA

LOS ALAMOS NATIONAL
LABORATORY

UNIVERSITY OF CALIFORNIA

ARGONNE NATIONAL
LABORATORY

UNIVERSITY OF CHICAGO

WEST VALLEY PROJECT

WEST VALLEY NUCLEAR
SERVICES

**WASTE ISOLATION PILOT
PLANT**

**WESTINGHOUSE ELECTRIC
CORPORATION**

HANFORD SITE

**WESTINGHOUSE HANFORD
COMPANY**

SAVANNAH RIVER SITE

**WESTINGHOUSE SAVANNAH
RIVER COMPANY**

***Current contractors subject to change based on normal competition cycles**

**DOE/AL's Appraisal/Evaluation Criteria/Measurements
for DOE Laboratory Science and Technology Efforts in FY 1996**

DOE's appraisal/evaluation in FY 1996 of the Laboratories' science and technology efforts should be based on the following criteria/measurement elements, as **highlighted**. Following each criteria element is a brief description of what factors should be considered relative to the appraisal/evaluation of the DOE laboratory's science and technology efforts. DOE's appraisal/evaluation should not be limited to these factors and should take into consideration other factors such as goals, strategies, and success indicators contained in the Department and the Albuquerque Operations Office's Strategic Plans and in other pertinent planning documents (e.g., DOE's FY 1996 Performance Agreement with the President, Departmental Operational Plans, Laboratory Institutional Plans, Five-Year Plans, The White House's National Security Science and Technology Strategy, etc.).

- 1) **Quality of science, technology and engineering.** Subjective indicators of excellence such as impact on the scientific community; scientific, technological, and engineering developments/accomplishments; research accomplishments; innovativeness; and sustained achievements should be considered in the appraisal/evaluation of the DOE laboratory under this criterion. The following performance measures/goals extracted from the above-referenced DOE and DOE-related planning documents may also be considered in appraising/evaluating the Laboratory:
- Quality of science, as indicated by outside peer reviews, judgments of expert advisory committees, and internal program/project review/self-assessment activities.
 - Sustained achievements in advancing knowledge as indicated by the impact of knowledge gained in scientific and technological fields, and the number of publications, citations and awards (e.g., R&D 100 Awards, Peer Recognition Awards, etc.) generated by DOE-supported research.
 - Development of new technologies that advance fundamental research capabilities and reduce costs, as indicated by new scientific and technology programs that emerge from research related to DOE's Energy Research (ER) Program, Environmental Restoration and Waste Management (EM) Program, Nonproliferation and National Security Programs, Defense Programs (DP), Nuclear Energy (NE) Program, and Environmental, Safety and Health (ES&H) Program, etc.
 - Demonstrations of new technologies and systems, and transfer of these technologies and systems to private industry and other federal facilities.
 - Increase in percentage of research and development efforts for which there are specific applications.
 - Maintenance of nuclear weapons scientific/technological/engineering competence that are responsive to national security needs.
 - Degree to which Laboratory's capacity supporting dismantlement meets requirements.

- Meeting schedules for stockpile maintenance evaluations, regular maintenance requirements, and experiments to access reliability and safety to stockpile.
- The Laboratory's technical and scientific support to develop and deploy energy efficient and renewable energy technologies; advance the efficient and environmentally-responsible production, transportation, and use of domestic fossil fuels and other conventional energy resources; promote development of sustainable energy technologies with high export potential; promote an equitable system of energy supply and end use; and reduce U.S. vulnerability to energy supply disruptions.
- The Laboratory's technical and scientific support towards promoting sustained U.S. economic growth that stimulates creation of high-wage jobs, diversity in research and development collaborations, efficiency and pollution prevention, and global DOE technology usage and exports.
- The Laboratory's technical and scientific support towards fulfilling DOE's environmental quality vision, goals and strategies.
- The Laboratory's efforts in performing world class basic and applied research that will advance U.S. security and economic productivity.

4) Performance in the operation and construction (if applicable) of major research facilities. Quantifiable performance measures such as success in meeting scientific, technical, engineering and research needs and cost objectives relative to the science and technology of the facility(s). The following additional performance measures/goals extracted from the above-referenced DOE and DOE-related planning documents may also be considered in appraising/evaluating the Laboratory under this appraisal/evaluation criterion:

- Improvements to the efficiency of operations and quality of services provided to scientists at the Department's leading-edge research facilities.
- Availability and accessibility of facility(s) to users.
- Extent of user participation and user satisfaction of facility(s).
- Operational reliability, efficiency, effectiveness and readiness of facility(s).
- Overall management of research facility(s).
- Operation of facility(s) in a reliable and predictable manner that ensure high quality research products and technology innovations.
- Optimal operation of major experimental facilities as indicated by operating efficiency and performance benchmarking.
- Preeminence of facility(s) as indicated by support by DOE and users, comparison with other facilities worldwide, the nature and extent of university and industrial involvement, and investment by users in the facility(s).
- Improved performance of facilities as indicated by meeting expectations of users.