

Approved: 12-8-97
Sunset Review: 12-8-99
Expires: 12-8-01

**SUBJECT: CONTRACTOR PERFORMANCE-BASED BUSINESS
MANAGEMENT PROCESS**

1. OBJECTIVE.

- a. To improve contractor performance in business management functions (Attachment 1) through a performance-based process.
- b. To institutionalize a business management system that encourages and rewards excellence, continuous improvement, and timely communication.
- c. To effect a level of communication, partnership, and trust that minimizes the Department's need for conducting on-site reviews of contractor business management functions.
- d. To establish performance objectives, measures, and expectations that—
 - drive cost-effective performance improvement, focus on performance results, and maintain appropriate internal controls and compliance;
 - when possible, are objectively measurable, thereby allowing meaningful trend and rate of change analysis; and
 - encourage benchmarking initiatives as a means of incorporating industry business standards that are meaningful, appropriate, and consistent with DOE requirements.

2. CANCELLATIONS. None.

3. APPLICABILITY.

- a. This Order applies to DOE elements that conduct operations through or administer management and operating (M&O) and M&O-like contracts as may be designated by the Procurement Executive.

- b. This Order applies to M&O and other contractors as designated by the Procurement Executive to the extent provided for in a contract or other agreement. Attachment 2, CONTRACTOR REQUIREMENTS DOCUMENT, contains specific requirements that pertain to contractors.
- c. This Order does not apply to independent oversight conducted by the Office of Oversight (EH-2) or external oversight (i.e., that oversight conducted by IG, GAO, and DNFSB).

4. REQUIREMENTS.

- a. Management of contractor business management functions is on a performance basis.
- b. A high value is placed upon partnering. Headquarters, field, and contractor organizations shall communicate and work in coordination and cooperation with each other to ensure mutual understanding of required performance.
- c. Contractor performance in business management functions is results-oriented, focusing on agreed-to, predetermined performance objectives, measures, and expectations.
- d. Contractors shall establish their own management systems to meet performance objectives, measures, and expectations.
- e. Contractor performance evaluations shall be based upon demonstration of performance results and appropriate internal controls and compliance.
- f. Self-assessments shall be the primary tool used at all levels to assess and evaluate results and to improve performance. Assessment and evaluation also includes:
 - (1) operational awareness,
 - (2) annual reviews, and
 - (3) “for cause” reviews.
- g. Contractor success in meeting or exceeding performance expectations in a particular business management function shall be rewarded with less frequent—or no—review of that function. Conversely, poor performance or “for cause” situations may result in more frequent reviews.
- h. With the exception of “for cause” reviews, Field Elements may conduct no more than one business management review of a contractor per year. The on-site portion of such reviews shall last no more than 2 weeks.
- i. Annual business management reviews shall focus on validating the contractor self-assessment, including validation of improvement results on a graded basis.

5. RESPONSIBILITIES.

- a. Associate Deputy Secretary for Field Management.
 - (1) Sponsors a steering committee to facilitate implementation of this Order and resolution of problems associated with implementation.
 - (2) In consultation with responsible Headquarters business management organizations, concurs in Field Element approval of proposals for exemption from this Order.
- b. Heads of Headquarters Business Management (Staff) Organizations. (See Attachment 1.)
 - (1) Work with program organizations and Field Elements to develop, maintain, and continuously improve DOE policy, management systems and processes, and performance objectives. Annually or at other times as required, communicate specific business management performance objectives to the Field Elements.
 - (2) Maintain appropriate operational awareness to monitor and evaluate Field Element management of contractor performance for their functional areas.
- c. Heads of Headquarters Program Organizations. (See Attachment 1.) Participate as customers in business management organization development, maintenance, and continuous improvement of business policies, management systems and processes, and performance objectives for the Field Elements.
- d. Heads of Field Elements.
 - (1) Ensure that DOE business management policy is carried out and that contractor performance is consistent with DOE performance objectives.
 - (2) Out of a partnering relationship, work with each contractor to document in a formal agreement and/or contract, the establishment and use of agreed-upon performance-based business management objectives, measures, and expectations. Revise the agreement as necessary to reflect changes to objectives, including changes by Headquarters business management organizations
 - (3) Work with the contractor to define an operational awareness process that continuously monitors contractor success in meeting the agreed-to performance objectives, measures, and expectations.
 - (4) Coordinating with contractors and Headquarters Business Management and Program Organizations, conduct reviews of business management functions, focusing on validation of the contractor's self-assessment of its performance results against agreed-to performance objectives, measures, and expectations and appropriate internal controls and compliance. Provide the contractor appropriate feedback.

- (5) As requested, apprise Headquarters business management and program organizations of the performance objectives, measures, and expectations agreed to with their contractors and the results of assessments and/or reviews.
 - (6) With the concurrence of Field Management, approve any exemption to this process and the alternative that will be used in its place.
6. REFERENCES. DOE P 450.5, LINE ENVIRONMENT, SAFETY AND HEALTH OVERSIGHT.
 7. CONTACT. For assistance, contact the Office of Field Management at 202-586-5258.

BY ORDER OF THE SECRETARY OF ENERGY:



ARCHER L. DURHAM
Assistant Secretary for
Human Resources and Administration

DEFINITIONS

A. Business Management Activities. Include the following functions, or other functions, as agreed to:

- Administrative Services (includes mail, printing, and library)
- Congressional and Intergovernmental Affairs
- Diversity (includes minority education programs, affirmative action/EEO, and small business participation)
- Finance and Budget
- Human Resources Management
 - Federal
 - Contractor
- Information Management
- Laboratory Institutional Planning
- Life Cycle Asset Management
- Nonproliferation and National Security
 - Intelligence
 - Nuclear Safeguards and Security
 - Classification/Declassification
 - Emergency Management
- Personal Property
- Procurement
- Public Affairs
- Scientific and Technical Information Administration
- Technology Partnerships Administration
- Training
- Work-for-Others Administration

B. Business Management Organizations. For purposes of this Order, business management organizations are—

- Chief Financial Officer
- Congressional and Intergovernmental Affairs
- Economic Impact and Diversity
- Field Management
- General Counsel (legal and patent services with the concurrence of the General Counsel)
- Human Resources and Administration
- Nonproliferation and National Security (Portions)
- Policy
- Public Affairs
- Quality Management
- Worker and Community Transition

- C. For Cause Review:** Review of contractor operations or performance that is required as a result of poor performance or trends indicating the potential for improvement requiring DOE follow-up to protect the Government's interest. Specific reviews may also arise from implementation of new requirements placed on the contractor, or new, significantly revised contractor systems, requiring validations.
- D. Operational Awareness:** Day-to-day interaction between DOE and contractors that enables DOE 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 the Field Element manager and the contractor.
- E. Performance Expectation:** The desired condition or target level of performance for each measure.
- F. Performance Measure:** A quantitative or qualitative method for characterizing performance.
- G. Performance Objective:** A statement of desired outcomes for an organization or activity.
- H. Performance Result:** The actual condition or performance level for each measure.
- I. Program Organizations.** For purposes of this Order, the program organizations are—
- Civilian Radioactive Waste Management
 - Defense Programs
 - Energy Efficiency and Renewable Energy
 - Energy Information Administration
 - Energy Research
 - Environmental Management
 - Environment, Safety and Health
 - Fissile Materials Disposition
 - Fossil Energy
 - Nonproliferation and National Security (Portions)
 - Nuclear Energy, Science and Technology

CONTRACTOR REQUIREMENTS DOCUMENT

1. Out of a partnering relationship, work with the cognizant Field Element and document in a formal agreement and/or contract the establishment and use of agreed-to performance-based business management objectives, measures, and expectations by which overall performance will be evaluated.
2. Have management systems for meeting performance objectives, measures, and expectations. Such systems shall include—
 - a. ongoing, internal self-assessments to advise management and parent organizations of how well the contractor is meeting the predetermined performance objectives, measures, and expectations, and
 - b. a continuous improvement process.
3. Provide the cognizant DOE Field Element with a written annual, self-assessment, which shall include the following:
 - a. Assessment against performance objectives, measures, and expectations. Relevant supporting documentation shall be included or appropriately referenced.
 - b. A description of how key in-process requirements are being met, including—
 - (1) compliance with applicable DOE and Federal requirements (Statutes, Regulations, Directives, etc.),
 - (2) compliance with key internal controls, and
 - (3) the degree to which those key requirements and internal controls have been met.
 - c. Identification of improvement opportunities and improvement plans.