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CONTRACTOR PERFORMANCE
EVALUATION IN
SOURCE SELECTION

Task 69-2

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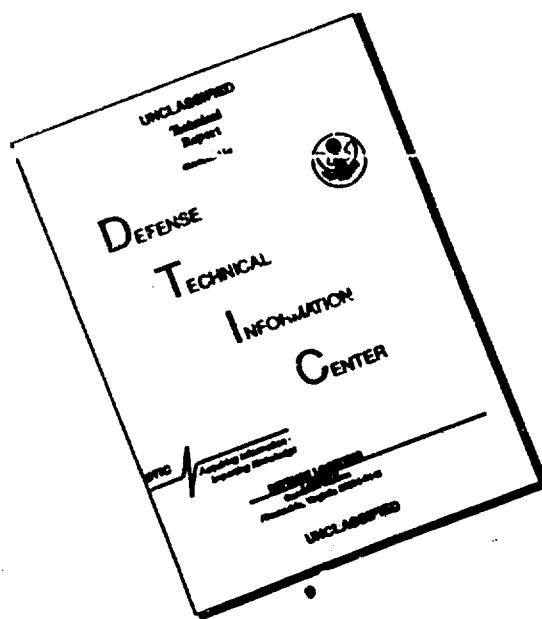
October 1968

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I. INTRODUCTION

STUDY OBJECTIVES

The Assistant Secretary of Defense (I&L) requested LMI to conduct a brief reconnaissance to review and evaluate the DoD program of contractor performance evaluation (CPE).¹ The effort was to concentrate on the uses and utility of contractor past performance information in major proposal evaluation and source selection activities.² It was also to include a review of techniques to impress contractors with the influence of past performance and the CPE program on source selection and profit guidelines.

SCOPE OF EFFORT

The major effort was interviewing source selection personnel. The personnel interviewed were those who had been responsible for preparing the evaluation of contractor past performance for the source selection process. Hardware programs in each of the military departments were studied to determine: (a) the information that source selection personnel want; (b) what problems they encountered in doing their analyses; and (c) what might be done to assist them. In addition to source selection personnel, interviews were conducted with pricing policy personnel in each of the departments, with the contractor performance evaluation group (CPEG) offices at headquarters and with field representatives (CPEGRs), with personnel in the Office of the Director of Defense Research and Engineering (DDR&E), with industry personnel associated with the CPE program, and with representatives in the Council of Defense and Space Industry Association (CODSIA). We also examined similar programs of two major DoD suppliers

¹See Appendix for task order.

²See DoD Directive 4105.62, "Proposal Evaluation and Source Selection."

who use the program to review and evaluate the performance of their subcontractors and suppliers.

The investigative and analytic efforts under this task order were completed within a period of two months. We did not have direct access to the official source selection records on consideration of past performance on specific contractor selections. We have not made an exhaustive analysis of the CPE program in operation. We feel constrained to point out, as a consequence, that our "conclusions" should be viewed more as observations and our "recommendations" should be viewed more as suggestions. However we do not believe that additional study on this project would have resulted in significant differences in our conclusions and recommendations. We found virtually the same facts emerged throughout the hardware programs studied and with the persons interviewed.

REFERENCED PROGRAM

As described briefly in Section II of this paper, there are three DoD programs for consideration of contractor past performance.¹ The large dollar development and production program was initiated in October 1964. When the term CPE is used in this paper, it will refer to the large dollar value development and production program. The proposed small dollar development and production program has not been published in ASPR as of this date, but is imminent. The term CPE extended will be used to refer to this program under consideration by the ASPR committee. The supply contract program was promulgated in ASPR Change 29 on 28 June 1968. The term CPR will refer to this supply contracts program.

¹We have excluded the performance evaluation programs on architect-engineer contracts and construction contracts (ASPR 1-908.3 and 1-908.4).

II. PRESENT PROGRAMS

A. THE NEED FOR PAST PERFORMANCE INFORMATION

In Source Selection

DoD Directive 4105.62 requires each source selection advisory council to review the CPE program histories of contractors who submit acceptable proposals and to obtain a complete transcript of the data in the Defense Documentation Center (DDC) bank or a statement from DDC that there is no record on file. Source selection personnel have not found the CPE data in the DDC files to be of much use to date. The problem of these data will be discussed later in more depth; however, the two main reasons for this lack of utility of the data bank are: (1) there are not many contractors covered;¹ (2) the breadth of coverage of products is very limited. There are many cases when the source selection person who queries the bank for data is the same person who submitted all the reports on that contractor in the data bank.

The benefits to be obtained by considering contractor past performance are recognized by source selection personnel, even apart from the directive requirements. It was evident that those who are charged with the evaluation of contractor past performance are clearly motivated to obtain all the information they can reasonably gather. The extent of their motivation is demonstrated by the fact that when only a small amount of information was available in the formal CPE data files of DDC, they turned to other sources for information. The important point here is that the source selection people go beyond the literal requirements of the DoD directive and do not settle for the record available. Additional information is sought in a variety of places: in the AFSC R&D contractor performance evaluation reports,² in the records of resident contract administration

¹As of 15 July 1968 the data bank contained reports on 303 contracts.

²Commonly known as the Air Force 189 system from the AFSC Form 189 and 189A. (See AFSC Regulation 70-7.)

offices, and in correspondence with, and visits to, other agencies which have procured similar items under earlier contracts.

In Contract Negotiation

The weighted guidelines provisions of ASPR (3-808.5(d)) require the contracting officer to evaluate the record of a contractor's performance within a range of profit on total cost of -2% to +2% and, for contracts in excess of \$1,000,000, to obtain a complete file of all data in the DDC data bank or a statement from DDC that there is no record on file. A suitable record of contractor past performance is an essential element in this program of establishing profit objectives. However LMI could not find a single instance which demonstrated the usefulness of the current data bank in the negotiation process. The reasons for this are the same as in source selection with an additional factor: if there are data on a contractor, the reports are often too bulky, awkward, and uncorrelatable to be of help to a busy contracting officer.

One concrete manifestation of the lack of data is that adequate guidance has not been published by DoD on how contracting officers should approach profit consideration for past performance. Pricing policy personnel in each of the military departments stated that guidance would be issued when the contracting officers had data which made the question a practical one, and not just theoretical.

Current Collection of Data

There are some who propose to eliminate the data bank and have source selection personnel gather the necessary information during proposal evaluation. This proposal is viewed by others as impracticable in source selection and proposal evaluation; in addition, it would not provide information necessary to implement the weighted guidelines concept.

No matter what system is suggested regarding the use of past performance information, there is almost universal agreement that a better bank of data should be accumulated on a current basis as a foundation for evaluating that performance. LMI believes that DoD's objective should be to strive for a better package of past performance information for use in each source selection and negotiation. One aspect of this objective should be to develop better information, while another should be to develop procedures for the use of this information. These two goals should be pursued concurrently.

Disengagement

The development and implementation of a system for giving proper consideration to contractor past performance should contribute materially toward the DoD objective of reducing controls on and direction of its contractors. When adequate consideration can be focused on past performance, the government might be able to relax its present emphasis on the techniques by which performance is achieved.

B. PRESENT FORMAL PROGRAMS

A brief description of the present DoD programs on contractor past performance will provide an introduction to the DoD activity in this area and also highlight some of the different approaches taken in individual programs.

Large Development and Certain Specified Production Contracts (CPE). (DD Form 1446 and DD Form 1447).

This is the original program. It provides for reports on all development contracts with projected cost exceeding \$2,000,000. The project manager prepares a report (the periodic report) every six months, usually beginning one year after the start of the contract. Upon completion of the contract, he also prepares a terminal report. These reports consist

essentially of a narrative summary of the contractor's performance and a comparison of actual versus contracted technical, cost, and schedule performance factors on individual items or milestone events. The contractor reviews these reports. The project manager's report and the contractor's comments are reviewed by the appropriate military departmental contractor performance evaluation group (CPEG) which also makes an independent review for objectivity. The contractor reviews the CPEG report also. The whole set of reports and comments--of the project manager, the contractor, and the CPEG--are stored by the DDC. The whole file on every contract of the contractor is reproduced and transmitted when the DDC is asked to furnish information to source selection personnel or contracting officers.

Small Development Contracts (CPE extended)

This is a new program which the ASPR Committee expects to add to ASPR shortly.¹ It provides only for terminal reports on development contracts exceeding \$100,000, and not included in the present program--that is, between \$100,000 and \$2,000,000. The report is a one-page document that evaluates the contractor's compliance with contract requirements in three separate areas: technical, schedule, and cost. The evaluation is a summarization that chooses between five descriptive categories of performance under the contract in each separate area. There is no overall evaluation or rating. The report is completed by the project manager and reviewed by an official at a higher organizational level. It is reviewed also by the contractor.

¹Proposed new ASPR 1-908.1(b); ASPR Case 68-33.

If the contractor and the government reviewer cannot resolve their differences, the contractor may request a final review and determination by the military department CPEG office. The official form is stored at the DDC and copies of all the forms on all completed contracts of the contractor are reproduced and transmitted when the DDC is asked to furnish information.

Contractor Performance Record (CPR) (Supply Contracts).
(DD Form 1661).¹

The contractor performance record (CPR) provides only for terminal reports on substantially all supply contracts in excess of \$100,000. It is essentially a check-list on the contractor's technical performance record on the contract as a whole (quality program, inspection program, user quality complaints, waivers, etc.) and a statement of the number of units delivered late on each major line item of the contract. The form is completed by the cognizant contract administration office. The contractor may obtain a copy of the report and his comments are to be included in the record unless satisfied by a revised report. The data bank of reports is maintained in the pre-award survey activity in the cognizant contract administration office. They will furnish a copy of all the reports on a particular contractor when requested.

Other Performance Records

DoD estimates that there are at least 28 other programs that review a contractor's performance on a contract. Among these are the AF Systems Command 189 program, the Naval Ship Systems Command program,² and the Army Status Report for the Secretary of the Army. Many procurement groups also have

¹ASPR 1-908.2.

²See NAVSHIPS Manual 0900-000-3010.

their own lists of "qualified" suppliers. To date there has been little attempt to integrate these programs into a system that contains all the usable data on a contractor's performance.

COST OF THE PROGRAM

An Air Force estimate of costs for the large development contract program places the cost of a periodic evaluation report at \$1,000 and a terminal evaluation report at \$3,000, excluding the time expended by contractor personnel. A conservative LMI estimate of the 1968 costs for this program in full operation would be \$1,000,000. There is another measure of the program costs. There are the equivalent of at least 34 full-time people, (27 professionals and 7 clerical) spread throughout the DoD organization, presently involved in the CPE program.

In addition to the official data bank at the DDC, it should be noted that there are ten additional complete data banks at locations where intensive use might be anticipated. The data bank consists of a small file of microfiche cards. No great expense is presently involved in storing these files.

CONTRACTOR INTEREST

The CPE program for large development and related production contracts is the only DoD-wide program with which the contractors have had experience. There is every evidence that contractors are being motivated by the program while, at the same time, they are questioning whether positive results are in fact being obtained in source selection or in weighted guideline profit objectives. It appears that the mysterious operations of the source selection process--with unknown values for many things including past performance--have created a situation in which the contractors are concerned with their record even though they do not know how it is being used or even whether it is being

used at all. Simultaneously, they are interested in just how past performance is taken into consideration. LMI believes that there is still much in the way of desirable motivation implicit in the program even if no steps are taken to make more obvious how the rewards or penalties for past performance are doled out. However, later in the report LMI will describe a technique to provide additional motivation to performance.

III. PROBLEMS OF THE CPE PROGRAM

A. DATA

The fundamental problem with the CPE program today is the lack of a credible body of data. There are too few reports in the bank to provide a foundation for consideration by either source selection activities or contracting officers in developing weighted guidelines profit objectives. It is commonly said that what the program really amounts to is this: form letters are sent to DDC requesting copies of the data; form letters are returned from DDC documenting that there is no data.

The extent of the data problem may be gauged by the following commentary on the data file as of 15 July 1968:

- Source selection personnel attach more weight to terminal reports than to periodic reports. Terminal reports are a final measure of contract performance. They are also certified by the CPEG office with independent field visits and inquiries not usually accorded to the normal review afforded to periodic reports. Most source selection people found the terminal reports significantly more useful in gauging contractor performance. Although there are reports in the bank on 139 contractor organizations, there are terminal reports on only 42 contractor organizations. There are terminal reports on only 65 contracts.

- Source selection personnel are reluctant to attach significance to performance on one or a few contracts. They believe it is essential to have a record which would be representative of the contractor and not a reflection of a single occurrence. Such a record is available on very few contractors.

<u>Number of Contracts Reported</u>	<u>Number of Contractor Organizations (Profit Centers)</u>
1	74
2	28
3	15
4	7
5	4
6	5
7	3
8	1
10	1
11	1

The number of terminal reports per contractor organization is similarly few in number:

<u>Number of Terminal Reports</u>	<u>Number of Contractor Organizations</u>
1	27
2	11
3	1
4	2
5	1

B. SUMMARIZED DATA

Many source selection personnel complain that the complete transcript of the performance evaluation record on a contract in the DDC bank presents them with a mass of undigested data from which it is difficult to extract pertinent facts. Source selection personnel convert the data to simple arithmetic measures which can be subjected to quantitative analysis for evaluation and as a basis for comparing the records of competing contractors. We were told that it was essential to aggregate information on individual items of the record in a numerical form summarizing (in a quantitative manner) the contractor's performance in the three areas of technical, schedule, and cost achievement. This was very time-consuming work and, it was suggested, something which could be done for, rather than by, source selection people.

It was apparent that source selection personnel want to make their own evaluation of contractor performance and do not want any binding ratings made by another organization. At the same time, however, they want the data gathered and displayed in such a manner as to facilitate their assignment and use of numerical indicators of performance. Narrative summaries are thought to be useful in communicating something of the "flavor" of a contractor, but simple go-no-go records appear to be the basis of the judgments made.

As stated before, the proposed program for small development contracts provides for a summary evaluation by the rating official in one of five standards of excellence. This provides the kind of simple measure that facilitates the use of numerical indicators. At the same time, however, summary ratings are not what the source selection personnel want on the large dollar programs--they want a display of the achievement of the contractor on each item reported which they can then evaluate.

Thus, LMI believes that DoD should design and develop a program that will take one or more CPE reports on a single contractor and digest the data for presentation to source selection people as a basis for the application of judgment. This summary can also be developed with the negotiator's problem in mind.¹ The individual CPE report summaries being prepared on a test basis by the Office of the Staff Director for Contract Performance Evaluation provide substantial quantitative summarization and constitute a step in the right direction. While further test may disclose a better method of handling summaries, the need is such that whatever is now available should be included in the DDC data files.

Another aspect of the problem of the volume of data is the question of the utility of periodic reports every six months. It appeared to be the consensus of source selection personnel that these reports could be made annually without detriment to the program. LMI believes that annual reporting should be instituted with the objective of reducing substantially the workload throughout the program, both for the government and industry.

C. FLOW OF DATA AND OBJECTIVITY OF REPORTS

There are a few significant aspects relating to the collection of past performance information which require consideration. The DoD Guide to CPE recommends that the project manager submit an evaluation plan to the CPEG when the contract has started. The plan contains those elements or milestone events that the project manager expects to use in the evaluation of the contractor. LMI believes that the DoD Guide to CPE should be changed to require the project

¹The need for summaries is presently limited to the CPE program reports. The same problem will arise, however, when a file of CPE extended and CPR program reports has been accumulated.

manager to coordinate an evaluation plan with the contractor as well as the CPEG. This requirement should be completed within the first four months of the life of the contract. A completed set of CPE forms, DD Form 1446, could serve as the evaluation plan. Thus the project manager could fill out the forms with the contractual parameters, coordinate them with the contractor and the CPEG, and then on evaluation day fill in the actual results. With a strong evaluation plan fully coordinated, many time consuming discussions after the fact can be eliminated. In addition the Guide calls for 15 technical or schedule parameters to use as performance parameters. There is a good case to increase the number of parameters to tie directly to contract end items (CEIs) and, in the case of periodic reports, to the work packages under the work breakdown structure. Several industry officials were very strong in their opinion that there was a need for more detailed parameters.

The DoD Guide to CPE calls for CPEG review of all reports and for certification of all terminal and selected periodic reports. The difference between "review" and "certification" is that CPEG must perform an independent investigation or inquiry to constitute a certified report. Currently source selection personnel voice concern with the quality of reports in the system. They feel that many reports are discursive and do not communicate an understanding of the contractor's performance. They feel that reports subjected to independent certification by CPEG offices rather than CPEG review are usually significantly better. However LMI believes that a strong evaluation plan, and adherence to that plan in subsequent reports, should make it possible to reduce the number of CPEG certifications. The CPEG should not have to certify the report, if the project office and the contractor concur in its content. A yearly sampling of several completed reports should

be sufficient to control any unconscious bias in the project manager-contractor relationship. Independent field reviews are very time-consuming and costly. Selective reviews would permit CPEG to spend more time in the review of evaluation plans and data digestion without impairment of objectivity.

An overview of these aspects of the data collection suggests that the key to objectivity and utility in a program of recording contractor past performance is in the following steps: (1) defining and selecting the performance measures to be used as milestones; (2) coordinating these milestones as an evaluation plan among the contractor, CPEG, and project office; (3) requiring the project manager to report on the established milestones; (4) resisting elimination of any previously established milestone(s); and (5) CPEG resolving any different views of the contractor and the project office concerning performance and responsibility for apparently poor (or excellent) performance. No matter what program changes the government may implement, continued attention must be devoted to ensuring the highest possible level of objectivity. Departmental internal audit organizations should be requested to provide continuing surveillance in this area. Nothing could frustrate the objectives of the program so surely or so fast as a widespread feeling that the basic reported data were deficient in objectivity--either for or against the contractor.¹

¹The Bureau of the Budget recommendation that teams of DoD personnel visit and evaluate major contractors is rooted in the belief that this essential objectivity cannot be assured otherwise. LMI believes that the drawbacks of this recommendation--obtaining qualified persons, travel, lack of familiarity with contractors and programs--lead to the conclusion that it should be considered only when it is demonstrated that objectivity cannot be obtained otherwise.

D. RELATED DATA

The CPE program provides data on contractor past performance. Equally important, however, are data on contractor current capability. Source selection personnel want to know the present import of past performance--what has the contractor done about the past problems or to maintain the past excellence. Data on past performance would be more meaningful if accompanied by data which would illuminate the significance of the past performance record. The Navy's plan for departmental Source and Performance Information Centers (SAPICs) is illustrative of this need. Whether past performance is evaluated or considered by the Source Selection Advisory Council or the Source Selection Evaluation Board--or by both--there is an oft-expressed need to gather and present the related information on current capability.

LMI believes that the presentation of all the facts needed for evaluation is an essential prerequisite for the long-term viability of the CPE program. The gathering and presentation of facts are fundamental to any fruitful discussion of how to use or weight facts in the evaluation process.

E. POLICY GUIDANCE

There is need for clarification or amplification of policy guidance on the use of contractor past performance information. This need was expressed by both source selection and contracting personnel, several of whom stated their belief that CPE program advocates have not thought through their program.

What Is A Contractor?

The regulations and instructions require source selection and contracting personnel to evaluate the performance data on "contractors." The data bank at DDC is organized by contractor and divisions of the contractor. Nowhere is guidance provided

on whether the data to be considered are that of a division or of the whole corporation or of both.¹ Further, once it is decided what "contractor" means, there is need for guidance on the import of the decision. If, for example, the complete transcript of the whole corporation is to be obtained, some guidance on the effect to be given to performance in other divisions and on totally foreign products needs to be expressed. Otherwise, each group and each contracting officer must think it through independently. If, on the other hand, only the division record is to be considered, do we really mean that performance in other divisions should be ignored--no matter how good or bad?

What Is To Be Considered?

To evaluate a contractor's performance, even within a single division, there is the question whether (and generally to what extent) good or bad performances on other product lines are to be weighted in source selection or in determination of fee or profit. While the specific consideration given might be left to be determined in each individual case, general policy guidance would assist in establishing some common understanding of the goals.

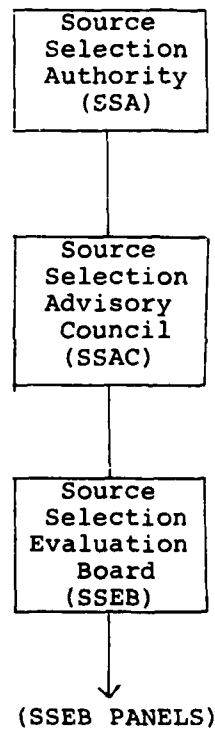
F. SOURCE SELECTION POLICY

Another problem in the CPE program is inherent in the DoD policy on source selection and, speaking very broadly, reflects different attitudes between technical personnel and contracts personnel on the correct approach toward consideration of contractor past performance in source selection.

¹ASPR 3-808.5(d) (3) provides some comment on this point.

DoD policy establishes three levels of organizational responsibility in the source selection process. The following figure portrays these relationships.

Source Selection Process



DoD Directive 4105.62 establishes as policy that the source selection authority shall be "an individual . . . fully responsible" for the selection decision and that it is intended that he have "a maximum latitude in the selection decision." To maintain this discretion, the source selection

advisory council is prohibited from making selection recommendations unless specifically requested by the source selection authority. The consideration of contractor past performance is listed as a function of the source selection advisory council--which implies that it will not be considered and point-rated by the source selection evaluation board.¹ The DoD directive and the implementing instructions in the military departments leave consideration of contractor past performance obscured from view. It is obviously being considered, but no one knows the weight or influence attributable to it. Source selection personnel, especially senior personnel, favor this approach. Procurement personnel, on the other hand, favor a more visible treatment of past performance consideration, with some clear impact on the selection procedure--even if the impact were small in relation to other factors considered.

A second, and related, aspect of this problem is the different approaches to the question of ineligibility for contract award because of poor past performance. Source selection personnel do not want firm commitment to any principle which would bar (or administratively burden) award to a contractor otherwise considered the best selection among competing firms. Procurement personnel, on the other hand, believe that there is no point to feed data into a system unless there is some "bite" clearly visible. A significant portion of the apparent opposition to the CPE program is based on the alleged uselessness of the effort rather than any disagreement with the objectives.

¹This implication is strengthened by the DoD directives which indicate that the SSEB will evaluate and score "the proposals as submitted" by the potential contractors.

LMI believes that it is essential to the long-term vitality of the program to provide more visibility to government and contractor personnel--some evidence that past performance is concretely taken into some account. Two steps are possible: one, to provide for point-rating of contractor past performance as a part of proposal evaluation; second, to require highest-level approval before awards may be made to certain identified contractors. The first step should be implemented immediately, and no significant problem should be encountered in obtaining general agreement on its implementation. The second step is a longer range objective which will require much consideration of technique and standards before general agreement is obtained. This will be expanded upon in the following section.

IV. A PROPOSED SYSTEM

Introduction

Nearly everyone recognizes that the present large dollar volume CPE program is just that--a program. They do not recognize it as a workable system. CPE is not all encompassing and by itself does not and will not provide some information vital to the users of this type of data. High DoD officials have long indicated the need for an integrated system to tie together the various programs that could be useful to source selection people and negotiators. For example, a 26 January 1968 OASD (I&L) memorandum to the steering committee on CPE recognized the need for an integrated system. Earlier parts of this report have also described this need.

Elements of Input

ASPR 1-905.1 states that:

- (b) Maximum practicable use shall be made of currently valid information on file or within the knowledge of personnel in the Department of Defense.
...Contract administration offices shall maintain files of information reflecting on the ability of contractors to perform Government contracts successfully.

LMI believes that this last sentence contains the key to the dilemma of creating a useable system out of a variety of programs. LMI proposes that the DoD contract administration organizations would be the best place to compile past performance and current capability information for use by source selection and other procurement personnel. What types of specific information are we talking about? Table I on the following page lists some inputs that will probably gain the users' consensus as very meaningful data. The elements of

TABLE 1

Possible List of Key Inputs to a
Contractor's Profile System

Selected Contract Administration Statistics
CPE Program
CPE Extended Program
CPR Program
AFSC Forms 189 and 189A
Latest Pre-award Survey
Report on Contractor Procurement System Review
Report on Survey of Estimating Methods and Procedures
Results of Negotiation Proceedings
Report on Small Business Subcontracting
Statement on Contractors Accounting System - DCAA
DCAA Audit on Cost and Pricing Data
DCAA Audit on ADP System Cost
Quality Assurance Data
Configuration Management Survey
Government/Contractor Investment - Industrial Facilities
Approval of Property Control Procedures

TABLE 1 (continued)

Latest Monthly Production Status Report

Review of Rental Payment for use of Government Facilities

Contractor Participation in Defense Contractor Cost
Reduction Program

Results of Contractor Value Engineering Program

Contractor's Latest Annual Report

Copy of Commercial Ratings for Contractor

Data From Contractor Experience List, if applicable

Data From the Debarred, Ineligible and Suspended list,
if applicable

Report on CSCS/C Validation, if applicable

CWAS rating, if applicable

Report on Industrial Security Violation, if applicable

the proposed system are many and varied. They range from completed CPE reports to the latest pre-award survey. One side aspect of accumulating these data is that the frequency of pre-award surveys may be reduced with an up-to-date profile on a contractor. Another benefit of this approach is that the efforts of DoD to obtain responsiveness to the correction of deficiencies in the contractor's systems and activities ought to be enhanced by this overview of their operations.

For illustrative purposes only, LMI compiled a set of these inputs on a DoD/NASA contractor, demonstrating that only a small effort was required to gather a meaningful file. The total volume is very bulky and less useful than it should be to a source selection group. However, after further refinements of inputs, i.e., forms design, data digestion, summarization, and analysis, the contractor's file would be more useful and much less bulky.

One major deficiency exists in these inputs. No satisfactory program has been developed to tie user performance history into a contractor's history. For example, once the Military Airlift Command (MAC) has taken operational control of an aircraft, MAC's degree of satisfaction with the performance of the aircraft, together with all unsatisfactory reports (UR) on failed equipment, should be keyed into the contractor's profile. Neither the Navy's 3M data system nor the Air Force's 66-1 system will readily provide this type of data. DoD should develop a procedure to tie this important aspect into the proposed system presented herein.

Thus, LMI envisions that all of these inputs would be placed together into a single data file for a specific contractor's profit center.

How should contract administration organizations handle the data?

Who Accumulates Data?

First we believe that there should only be a single file on each contractor in the DoD system. If the plant is administered by Air Force, Navy, or Army, then the plant representative would keep the file. There would not be duplicative files on any contractor at the higher headquarters, such as the Air Force Contract Management Division Headquarters. In Defense Contract Administration Service (DCAS), the DCAS plant representative or DCAS office would keep the information on its contractors. The data would not be held also at the region level. For smaller plants without resident DoD personnel, the DCAS district would accumulate the data on each of its contractors. Note that the region would not have a duplicate file in this case either.

When a source selection group or another procurement official desires information on a particular contractor, he will determine the appropriate CAS component which has plant cognizance from the DoD Directory of Contract Administration Services Components, DoD 4105.59-H. The DoD official would then contact the CAS component for the complete file or selected portions. The cognizant CAS component, if given proper reproduction capacity or microfiche files of the record, could respond to the requester in the given time frame.

A Note of Caution

The compilation of a contractor's past performance and current capability information is relatively easy. OSD could specify that the various records could be maintained at the CAS component level and sent to requesting users on demand. However, there is one major problem left to solve. The data must be analyzed, summarized, and reduced to workable size prior to shipment to both source selection and negotiation people. Neither group has the time nor the inclination to completely revise the

data from the raw inputs. Thus a great deal of creative study is needed to develop a system that will manipulate the data and slice it into the many different modes that the different users may desire. It may well need to be a continuing effort to provide this needed capacity to be flexible enough to be responsive. The initial effort could take as long as one year before the development of a "passable" system came into existence.

Annual Review

In addition to the storage and issue of contractor information, LMI believes that OASD (I&L) should develop criteria to select the best and worst groups of all DoD contractors. It may be difficult to reach a consensus on criteria among the four CAS organizations--DCAS, AF, Army, and Navy--but some degree of uniformity can be reached. Once all CAS components had screened their contractors and had selected candidates for the top and bottom groups, these names and files could be submitted to an OSD-level board. This board, comprised of very senior personnel would endeavor to pick the top several percentile and bottom several percentile from the two groups selected by CAS. If a firm truly deserved being on the top list, then the board would arrive at this determination. After SecDef review and approval, the firm could be given recognition along the lines of a DoD "E" award and flag for a year's worth of excellent work, all factors considered. Since this system will provide a single measure of the overall total performance of the top defense contractors, it could well warrant Presidential and SecDef recognition, including a formal award program such as the "E" award. This "E" award could carry with it decreased contract administration, less pre-award surveys, more profit dollars under weighted guidelines, and increased motivation of non-"E" firms to try to make the list the next year. The bottom several percentile would be placed on a DoD experience list after SecDef review and approval. It would

then take service secretarial approval to place an award with one of these firms or profit centers.

LMI believes that this technique has unique merit. It provides a stiffer reward and penalty system for the past performance program. In addition it may serve to combine or eliminate several existing DoD procurement lists, such as the mandatory pre-award survey list, the contractor experience list, the poor performance list, the contractor attention list, and the close surveillance list, to name a few.

V. OVERALL CONCLUSIONS

The CPE program is not working effectively in light of the burden which it carries as a consequence of the very limited amount of data in the bank. The new programs which will extend data collection to substantially all contracts of \$100,000 or more and the passage of additional time under the present system will overcome the present data problem. At the same time, however, another problem will be aggravated--how to gather and summarize the data being generated.

Source selection personnel require information on contractor current capability which is no less important in their activities than information on past performance. Contracting officers require similar information to determine contractor responsibility.¹ The twin requirements of current capability information and summarization lead LMI to conclude that responsibility for furnishing these data should be concentrated in the CAS organization that has cognizance of a plant.

The system envisioned by LMI was developed in some detail in the preceding section of this report. Basically it contemplates that the CAS component (military department CAS or DCAS) will maintain a complete file of past performance data and current capability information. The CAS office will be the one closest to the contractor: The AFPRO, NAVPRO, Army PRO, DCASPRO, DCASO, and, in the case of very small facilities, the DCASD. The cognizant CAS office is most knowledgeable of the contractor; it is the focus of all kinds of data on the contractor--his purchasing system, estimating system, facilities, workload, etc. It is in a position to analyze the effect of recent contractor activity on his past performance record--reorganization, staff changes, etc. It is a focal point for all other information about the contractor. Except for the possibility that additional workload for CAS might be a problem, there seems to be no reason to choose any other DoD organization rather than the CAS component.

¹ASPR 1-900.

While there are many philosophical arguments concerning details of the use and application of CPE data in source selection and in fee or profit determination, LMI believes that they are of secondary importance and their resolution may be safely deferred until a data system is in fact in operation. We do believe that an essential early step is to add the evaluation of contractor past performance to the activities of the SSEB, to include it and current capability in the point rating system of the board. This will serve three purposes: first, it will provide additional visibility to the contractors that past performance matters in source selection. Second, an evaluation of past performance could be essential to guide other panels of the source selection evaluation board in their evaluation of the proposals. There is much talk of past performance as an index of credibility that may be attributed to the contractors' proposals. If a panel of the SSEB were responsible for evaluation of contractor past performance, its report could be made available to other panels and provide additional insight in the evaluation of the proposals. Third, assignment of this function to the source selection evaluation board will encourage the development of an expertise in the analysis of data to illuminate past performance evaluation. LMI believes that the CPEG offices, CPEG field representatives, and CAS component members are candidates for inclusion in this assignment. In addition to their knowledge of the formats, assignment of responsibility for evaluation analysis will provide a feedback to their duties to ensure adequacy and objectivity of CPE and other reports.

LMI suggests that the source selection evaluation board's evaluation of past performance be reviewed by the source selection advisory council in the same way as that group reviews other source selection evaluation board evaluations.¹ We would

¹One source selection advisory council member that we interviewed stated that the council's consideration of contractor past performance was an important part of the leverage which the council had on the conclusions of the evaluation board.

suggest, however, that the evaluation of past performance be presented to the SSA in a separate section of the SSAC report to highlight its further consideration.

A further step in the implementation of a CPE program would be to identify contractors at the extremes of good and bad performance for special consideration. We think this is a desirable goal, but one which must await formation of a suitable bank of data and development of a consensus on evaluation factors and criteria. We believe that OSD could defer consideration of this step for approximately two years, at which time it may be possible to develop criteria to be applied to real and substantive data to identify contractors at both ends of the spectrum.

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APPENDIX A
ASSISTANT SECRETARY OF DEFENSE
Washington, D. C.

Installations and Logistics

DATE: 29 July 1968

TASK ORDER SD-271-94
(TASK 69-2)

1. Pursuant to Articles I and III of the Department of Defense Contract No. SD-271 with the Logistics Management Institute, the Institute is requested to undertake the following task:

A. TITLE: Contractor Performance Evaluation For Use
in the Selection of Major Weapon Systems

B. SCOPE OF WORK: The purpose of this task is to conduct a brief reconnaissance to review and evaluate the objectives of the Contractor Performance Evaluation (CPE) Program and to examine alternative concepts for the accomplishment of the objectives of the Program. The effort will concentrate on the uses of contractor performance information in the formal DoD program of proposal evaluation and source selection.

This effort will include the following:

- (1) A review of the utility of contractor performance information, including CPE data, in major source selection activities with recommendations for improvement where appropriate.
- (2) An evaluation of alternative methods for considering performance in the source selection process.
- (3) A review of the activities of the military departments which contribute to the usefulness of CPE and other performance information.
- (4) A review of techniques to impress DoD contractors with the influence of the CPE program on source selection and profit guidelines.

2. SCHEDULE: An informal memorandum report will be submitted by 15 October 1968.

/s/ Thomas D. Morris

ACCEPTED /s/ William F. Finan

DATE 29 July 1968

UNCLASSIFIED

FORM 1 (10/14/73)

Legislative Management Institute
4701 Sington Road
Washington, D. C. 20016

UNCLASSIFIED

Contractor Performance Evaluation in Source Selection

6. DATE	October 1968	70. TOTAL NO. OF PAGES	34	71. NO. OF FIGS.	14
6a. CONTRACT OR GRANT NO.	SD-271	50. ORIGINATING MILITARY DISTRICT/AGENCY			
6b. PROJECT NO.	SD-271-9A	69-2			
51. OTHER REPORT NO. (If other than that by which this report is known)					

Distribution of this document is unlimited.

11. SUPPLEMENTARY NOTES	12. SPONSORING MILITARY ACTIVITY
	ASD (I&I)

13. ABSTRACT

This report is a brief reconnaissance study to review and evaluate the Department of Defense's program of contractor performance evaluation (CPE). The study concentrates on the problems, uses, and utility of contractor past performance information in major proposal evaluation and source selection activities. After a discussion of CPE problems and alternative solutions, the report presents a proposed system to accelerate and emphasize the use of past performance information in source selection.

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