



Department of Energy

Washington, DC 20585

October 30, 1998

MEMORANDUM FOR DISTRIBUTION

FROM:

MICHAEL L. TELSON *Michael L. Telson*
CHIEF FINANCIAL OFFICER

SUBJECT:

Field CFO Roles in Contract Performance Incentives

As the Department has moved to performance-based contracting, concerns have been raised by the Inspector General and the Under Secretary regarding the ability of the Department to track costs related to performance incentives in our contracts. As a result, Field CFOs were tasked with conducting a review to determine the adequacy of accounting systems to track such costs. During this review, it was determined that systems generally have the ability to track the necessary cost information. The review report recommended that Field CFOs should have a more active role in performance-based contracting to ensure that incentives are structured in a manner that facilitates the tracking of costs. These report findings and recommendations were submitted to and approved by the Under Secretary.

The purpose of this memorandum is to begin implementation of the report recommendations by conveying my expectation that all Field CFOs play a very active role in the formulation and tracking of performance incentives in Departmental contracts. Specifically, I would expect Field CFOs to:

1. Participate actively in the formulation of all performance incentives negotiated with DOE contractors to ensure sound cost-related considerations are incorporated.
2. Assist the Contracting Officer with fee pool negotiations and the related cost incentive considerations.
3. Participate actively in any groups that have a role in validating costs related to incentives, allocating award and incentive fees and recommending the fee amounts to be paid to DOE contractors.
4. Ensure that costs related to performance incentives are adequately tracked.
5. Ensure that as the Department incorporates incentives in contracts that cover multiple fiscal years, adequate administrative funds controls exist to preclude violations of budgetary and legal requirements.
6. Inform Headquarters CFO of any significant financial management or budgetary problems concerning performance incentives.



7. Field CFOs will evaluate contractor accounting system capabilities to ensure they are optimized and understood by program managers with respect to tracking costs related to performance-based incentives.

I believe that active involvement by Field CFOs will preclude recurrence of past problems with respect to tracking costs related to contract performance incentives.

Field CFOs also concluded during their review that formal Cost Reduction Incentive Programs present significant administrative and financial burdens, both from a system and process perspective. This type of program creates a challenge in accurately establishing the original cost basis from which subsequent process changes are measured. It requires considerable Federal resources to administer and challenges existing capabilities of contractor systems. In addition, there is the added risk of paying a fee twice for the same performance when both Performance-Based Incentives and Cost Reduction Incentive Programs are included in the same contract. If the Department plans to continue using Cost Reduction Incentives, I would expect Field CFOs to be actively involved to the same degree in the Cost Reduction Incentive Program efforts as in the Performance-Based Incentive activities and to inform Headquarters CFO of any significant financial management or budgetary problems concerning Cost Reduction Incentives.

I would appreciate your support in actively involving Field CFOs in your Office's efforts to incentivize contract performance. If you have any questions regarding my expectations, please contact me on 202-586-4171 or Rick Sweeney of my staff on 301-903-2551.

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cc:

Field CFOs

CFO Office Directors