

Strategies and Lessons-Learned for the Successful Alignment of Contract Cost with the Contract Budget Base (CBB) within the First Year of Contract Award – 13154

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ABSTRACT

In order to provide a sound basis and foundation for integrated Project and Contract change management, it is imperative to ensure the alignment of the Negotiated Contract Costs (NCC) with the Contract Budget Base (CBB), where CBB is defined as the Performance Measurement Baseline (PMB) plus Management Reserve (MR). The achievement of this alignment assures customer and contractor agreement on scope, requirements, quantities, schedule and cost, which facilitates the identification of change conditions and ultimate agreement on the value of changes to the NCC and the CBB. Delays in contract/CBB true up/reconciliation can negatively effect measurement of project progress, limiting owner understanding of liability, and may result in increased contract disagreements and potential claims. The Department of Energy Oak Ridge Office of Environmental Management (OR-EM) and URS | CH2M Oak Ridge LLC (UCOR) achieved alignment of the NCC with the CBB within 10 months of UCOR taking over work on the East Tennessee Technology Park (ETTP) cleanup contract by:

1. Managing as a discrete project
2. Establishing expectations and setting tone of interactions
3. Using personnel experienced with Federal Acquisition Regulation (FAR)
4. Partnering
5. Establishing ombudsmen

INTRODUCTION

On April 29, 2011, the Department of Energy Oak Ridge Office of Environmental Management (OR-EM) awarded URS | CH2M Oak Ridge LLC (UCOR) the East Tennessee Technology Park (ETTP) contract for the Decontamination and Demolition (D&D) of major and minor facilities at ETTP; remediation of associated media; and continuation of Environmental Management (EM) activities ongoing at the Oak Ridge National Laboratory and the Y-12 Security Complex. UCOR mobilized a team within days to begin the transition of all on-going work scope from the incumbent, including subcontracted work and the existing work force.

Among the thousands of tasks required for successful transition, UCOR was required to identify any material differences in the systems, facilities, waste sites, property and services that had been described in the Request for Proposal (RFP) Performance Work Statement (PWS) from the actual conditions in the field. These Material Differences (MDs) and the interim Performance Measurement Baseline (PMB) that was developed during transition formed the basis from which OR-EM and UCOR initiated reconciliation of the proposed contract cost with the estimated contract cost updated to include the as-found conditions.

The importance of having the estimated Negotiated Contract Cost (NCC) match the Contract Budget Base (CBB), where CBB is defined as the PMB plus Management Reserve (MR), cannot be overstated. It has been stated that good Contract Management and good Project Management go hand-in-hand, and they are “two sides of the same coin.” By aligning the estimated cost of the PWS/Scope of Work (SOW) with the CBB, both the customer and the contractor share a complete understanding of each element of work, quantities, and estimated cost. When the customer and the contractor are reading from the same page, contract disputes and claims can be avoided. Achieving this alignment in a timely fashion ensures a successful start to the Contract Management/Project Management partnership. As figure 1 demonstrates, alignment ensures the owner will get built what was sold and purchased.

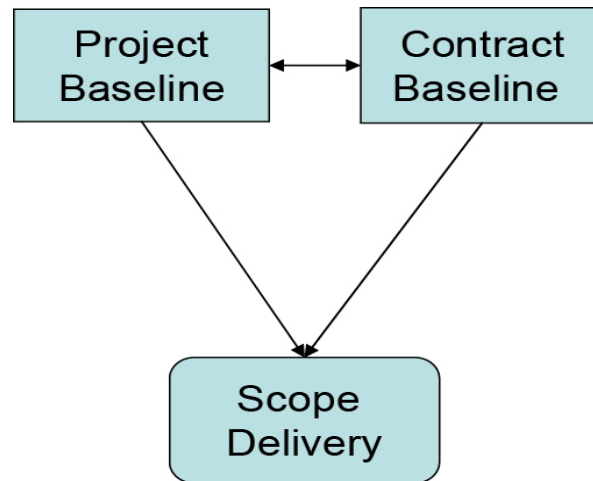


Figure 1 - Alignment ensures Scope Delivery

MANAGE AS A DISCRETE PROJECT

There are several moving parts that need to come together in order to finalize NCC/CBB reconciliation. As such, the entire process must be managed like any other project with a Project Manager from both the customer and the contractor, establishing an approach and a schedule for the project. Without a well-planned route, the individual teams may work toward different objectives and miss the rally point. Without a critical path schedule to which individuals and teams are held accountable, the process can be derailed by competing priorities or other distractions.

The four main tasks that need to be completed in order to be successful are a.) Transition, b) PMB Development/Validation, c.) Reconciliation, and d.) Earned Value Management System (EVMS) Certification. To accomplish the mutual goal, both the customer and the contractor need to commit the skilled resources with the will to succeed in each of these tasks.

Transition

The contractor must form teams who are experienced with the scope of work and project conditions to perform due diligence walk downs. These teams perform identification of MDs and changed conditions. UCOR formed multiple due diligence teams based on expertise in major PWS areas such as Surveillance & Maintenance (S&M), D & D, Waste Disposition, Environmental Management, Project Integration, Business Systems, Human Resources, etc. Each team walked down and investigated their assigned area of responsibility and completed Due Diligence Discovery Identification Forms (DDDIF) whenever a facility, site, or system differed from the description provided as part of the PWS and the Request for Proposal (RFP).

Each DDDIF was reviewed by UCOR's Due Diligence Board to verify if indeed a MD existed

and to determine the magnitude of each verified difference. During the transition of the ETTP contract, the UCOR due diligence teams generated 137 DDDIFs. Of those 137, 22 were determined to be significant, constituting an MD. UCOR submitted Contract Change Proposals (CCPs) to OR-EM for the differences.

OR-EM formed a knowledgeable team to review the UCOR MD submission. The MD review team consisted of the Project Manager, Contracting Officer (CO), the Contracting Officer's Representatives (COR), and other technical representatives and experts as required, based upon the complexity of the facility, site, or system involved. The team reviewed the information and documentation provided by UCOR to determine if they agreed that the item identified was different than as presented in the PWS or RFP.

OR-EM and UCOR conducted multiple coordination meetings so that both sides could discuss their points of view on the individual items. These meetings enhanced open communication on the issues and facilitated understanding between the parties on scope and quantities, thereby accelerating the reaching of agreement on the final MD listing. During these discussions OR-EM and UCOR established a consistent method for determining if MDs were *de minimis*.

In addition to the MDs that required the submission and disposition of change proposals, DOE added new Authorized Unpriced Work (AUW)¹ to the UCOR contract. These four major scopes were planned for completion by the previous contractor prior to the end of transition. The CO formally issued direction for UCOR to begin work on these uncompleted scopes on August 1, 2011, when UCOR took over contractual responsibility for the ETTP site.

PMB Development/Validation

Immediately after the completion of transition, UCOR began to develop the PMB. The PMB was created from the interim PMB (iPMB), which covered a 6 month period of execution that was developed, submitted and validated during transition. The iPMB and subsequent PMB are based on the original UCOR proposal, and the estimated costs provided therein, with some realignment of the WBS structure to account for as found conditions (those that do not change scope, schedule or cost) and the CO directed AUW. It is very important for the customer and the contractor that the PMB be based on the initial proposal, so that any subsequent changes can be evaluated against that reference point, while also demonstrating to OR-EM that UCOR was building what it sold in the proposal.

As part of the ETTP RFP, OR-EM provided “plug” or “conformed” costs for almost half the scope to assist in the cost evaluation. These conformed costs were for S&M, business functions,

¹ Authorized Unpriced Work – The effort for which contract cost adjustments have not been agreed to, but for authorization to proceed has been granted

and other infrastructure items and were not critical to the technical approach or other evaluation criteria. The development of the PMB would be the first time that UCOR was able to bring its envisioned efficiencies from this area of scope to the ETTP contract and also the first time UCOR would estimate these costs.

OR-EM technical and project personnel worked closely with UCOR as the PMB was developed, so that the validation could be accomplished in a timely fashion. As the PMB was developed, OR-EM personnel were able to compare the WBS structure, the Basis of Estimate, and the cost against the original UCOR proposal. To assist in the review process, UCOR provided OR-EM a crosswalk of the WBS from the proposal and the realigned WBS now included in the PMB.

Reconciliation

After OR-EM and UCOR reached agreement on the MDs the hard work began. In order to settle the MDs in the most efficient manner, OR-EM and UCOR “chunked” them in agreed upon logical groupings. Once the “chunks” were determined, a detailed schedule was jointly developed for each proposal from kickoff through evaluation and settlement. The schedule was updated weekly, and the status was reported to the respective Project Managers so that issues or barriers to successful disposition could be expeditiously resolved.

UCOR established proposal preparation teams and augmented staff, where needed, in order to quickly deliver quality proposals that were FAR-compliant (Part 15.2). FAR-experienced personnel ensured proposals were submitted correctly the first time, thus alleviating rejected proposals and rework. Therefore, OR-EM was able to provide optimal allocation of limited resources to evaluate proposals as soon as they were received.

OR-EM and UCOR were able to use the FAR as a tool to efficiently and effectively settle the proposals by agreeing on a standard proposal format, agreeing on an established FAR method for fee determination, and using Alternative Dispute Resolution as a means to avoid impasses.

EVMS Certification

Attaining EVMS certification is an integral part of the Contract/Project Management partnership and the NCC/CBB alignment process. Having a certified EVMS allows for a critical eye to be used by both the customer and the contractor in determining project progress against the project baseline and associated commitments.

UCOR brought the best practices and procedures from the numerous DOE sites where its parent companies and affiliates are operating. During transition UCOR met with the OR-EM EVMS subject matter expert to establish expectations and understandings. These meetings were highly instrumental in establishing trust between both teams, along with sharing mutually beneficial ideas and experiences. These best practices were incorporated into UCOR’s procedures, and its

personnel trained in accordance with the best practices, expectations, and understanding that had been shared.

ESTABLISH EXPECTATIONS AND SET TONE

Early in the transition period, DOE Headquarters (HQ) representatives travelled to Oak Ridge, TN to visit personally with the OR-EM and UCOR teams to mentor them on DOE HQ expectations. At this session both sides were coached using a lessons-learned approach. This session engaged both sides and lent legitimacy to the concept that was presented. Both sides were able to benefit from learning what has worked on other projects to gain an understanding of the best industry practices that should be applied on this project. Without an executive sponsor, both sides may have been discouraged by the difficult task ahead. Bringing both sides together early in transition provided an opportunity for each group to endorse the expectations set for them. It also provided everyone with a better understanding of how important it is to perform their distinct functions in a collaborative manner as each side is dependent upon the other to ensure that the goal of successful completion of the project is achieved. Figure 2 shows relationship between Contract and Project Management

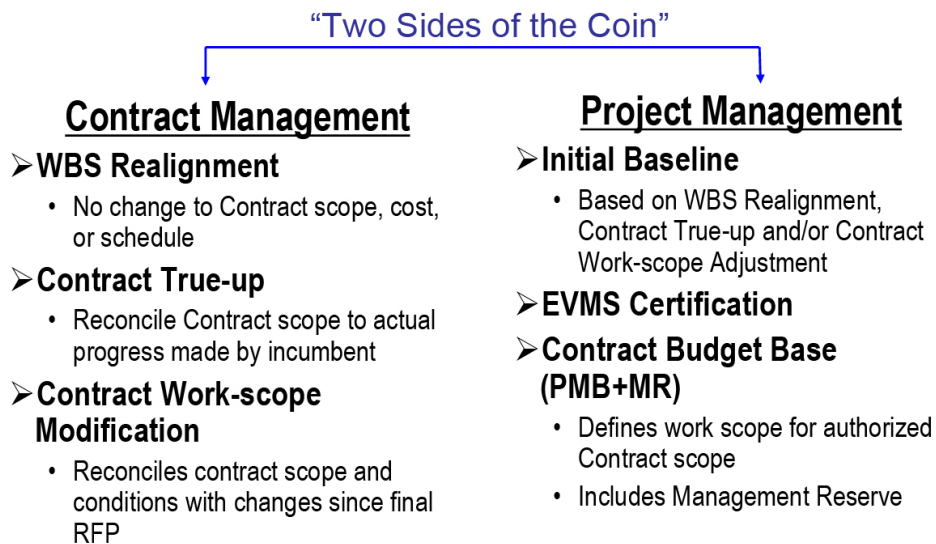


Figure 2 - Contract/Project Management – Two sides of the same coin

FAR-EXPERIENCED PERSONNEL

UCOR and OR-EM were fortunate to have personnel who were experienced at managing FAR-based contracts. The Management and Operations (M&O) model is completely different from the FAR-based model in that scope changes in the M&O model do not typically require specific

actions or compliant proposals in accordance with FAR Part 15.408. On the other hand, in FAR-based contracts, both UCOR and DOE personnel must be ever vigilant in recognizing change conditions, alert to the implications of those changes, and knowing the appropriate actions to take in handling those changes.

Having FAR-experienced personnel with the knowledge, skills, and abilities to understand how to apply the FAR, DEAR, and other federal contracting principles and practices appropriate for a particular set of circumstances enables changes to be managed with a high level of proficiency as evidenced in the expeditious manner in which FAR-compliant proposals were produced to achieve contract true up in record time. This expertise plays an integral role in the successful execution of the Change Management process in the FAR-based model. Where under an M&O model the customer and contractor personnel can become lax in the practice of disciplined contract and project management, doing so under the FAR model may very well result in a disaster for both sides.

Understanding this importance, UCOR selected contract management personnel who together had more than 60 years experience administering both DOE and Department of Defense (DOD) FAR-based contracts. Along with the hand-selected CO and the OR-EM Contracting Division, both sides have been able to use the FAR as a helpful tool instead of a hindrance. Two outstanding examples are the use by OR-EM and UCOR of FAR Part 15.405 to assist in determining a fee mechanism for small dollar changes and the use of a balanced settlement approach for settling complicated change proposals are two examples.

PARTNERING

The ETTP contract includes a clause dedicated to Partnering. OR-EM and UCOR personnel took partnering to heart and signed a framework for mutual benefit during the transition period. By establishing a mutually beneficial and trusting working environment, the customer and contractor are able to have insight into the other's processes and deliverables. This insight facilitates the technical reviews and cost analyses, thereby allowing for open lines of communication and expeditious settlement of proposals. For example of the good faith partnering demonstrated by both sides, UCOR offered OR-EM personnel full access to the proposal preparation team while the estimates were in progress, thus ensuring transparency and achieving speedy review process.

Twice a year OR-EM and UCOR use a facilitator to further the partnering progress. Modeled after the United States Army Corps of Engineers and CalTRANS approaches, the ETTP team discusses each others strengths and weaknesses, establish teams to review emerging issues and provide recommendations for improvement, and air concerns in a collaborative environment. The partnering approach has proven successful to date, and the OR-EM/UCOR team will

continue the beneficial practice.

OMBUDSMEN

When the DOE-HQ representatives made their trip to mentor OR-EM and UCOR personnel, a recommendation was made that the teams should establish Ombudsmen as a form of Alternative Dispute Resolution. The theory being recommended was that a level-headed individual from each side could weigh in when an impasse may be approaching, and these Ombudsmen can potentially avoid escalation of developing disputes. It provides a path to follow in resolving differences in an informal venue to make the process less adversarial than might otherwise result if an outside third party participant is involved as part of a more formal resolution process.

There are times when the personnel who are in the middle of negotiating these change packages become so personally invested they may miss opportunities for agreement. The ETTP team has used the Ombudsmen on only a couple of issues, but the alternative method paid dividends in both cases. Too much reliance on Ombudsmen could lead to avoiding decisions on tough issues, so care should be taken to resolve minor issues at the lowest possible level. The first step should always be to resolve issues through unassisted negotiations by exchanging views and negotiating positions in a give-and-take effort to reach a mutually acceptable agreement. However, whenever it becomes apparent that the parties are not able to come to terms on their own, the ombudsmen serves an important role in keeping the resolution of disagreements within the DOE control and helps to preserve the collaborative relationship between the parties.

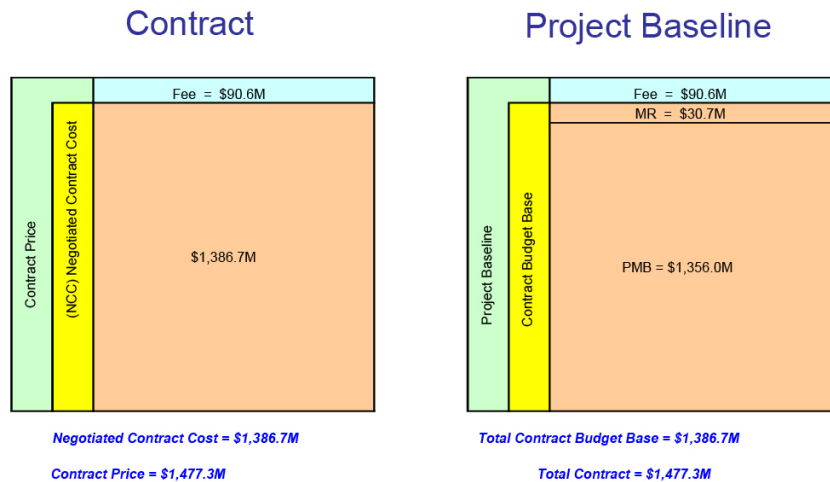
CONCLUSION

Having the NCC align with the CBB is a pre-requisite for sound and effective Contract/Project Management and is becoming a contract requirement within all new DOE EM FAR based solicitations. While there are many moving parts to alignment, it is important to achieve this balance as soon as possible after initiation of contract performance. Activities such as AUW incorporation, MD resolution, PMB development, EVMS Certification preparations, etc. add to the workload. In order to be successful, both the customer and the contractor must have Project Managers and teams that are skilled and fully dedicated to reaching the summit.

Running the entire alignment process as a project, no different than how a company would run the D&D of a facility, will ensure the discipline and rigor required for success. Senior executives from both sides need to set expectations early, then enforce them. The respective project managers should recruit team members that are experienced in the process to lead the teams assigned to each task. Embrace the partnering requirements of your contract. Consider using ombudsmen to head-off potential disputes.

By using these key methods, OR-EM and UCOR negotiated \$200M of changes and processed

the Baseline Changes to achieve alignment of the NCC with the PMB within ten months of beginning contract performance as shown in Figure 3. Every contract and site are unique and will have their own challenges, but the OR-EM and UCOR team have shown Contract/Baseline true-up can be achieved within the inaugural year of a major FAR based contract.



\$1,186.3M (contract cost at award) + **\$200.4M** (AUW/MDs) = **\$1,386.7M** (negotiated contract cost)

Figure 3 - ETP NCC and CBB Alignment

REFERENCES

1. US Department of Energy Oak Ridge Office, 2011, Contract DE-SC-0004645, “East Tennessee Technology Park” Contract
2. Department of Energy Order 413.3B, Program and Project Management for the Acquisition of Capital Assets