



**Australian Government**  
**Department of Defence**  
Coordination & Public Affairs

Ministerial and Executive Support

SRA 17/2005

2 June 2005

Dr Kathleen Dermody  
Secretary  
Senate Legislation Committee on Foreign Affairs,  
Defence and Trade  
Parliament House  
CANBERRA ACT 2600

Dear Dr Dermody

In its March 2003 report on Materiel Acquisition and Management in Defence, the Senate Foreign Affairs, Defence and Trade References Committee recommended that the Defence Materiel Organisation table before the Senate Foreign Affairs, Defence and Trade Legislation Committee, during Budget Estimates, 'an audited summary of the feedback provided by industry to the Defence Materiel Organisation, via the 360° ScoreCard process'. Defence agreed to the recommendation.

As an opportunity to table the report didn't arise during the recent hearings, the attached 360° ScoreCard Report is now forwarded to you for that purpose.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Alison West'.

Alison West  
Director Statutory Reporting and Accountability  
Ministerial and Executive Support  
Coordination and Public Affairs Division  
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# **360° SWORD REPORT**

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## **A Summary of Outcomes of the Second Round**

**Report to Senate Foreign  
Affairs, Defence and Trade  
Legislation Committee**

**May 2005**

Prepared by:  
Contractor Performance Section  
Industry Assessment Branch

## Introduction

1. The 360° ScoreCard reporting program allows defence industry contractors to report to the Defence Materiel Organisation (DMO) Executive their assessment of the DMO's performance in managing major acquisition and in-service support contracts.
2. The program helps the DMO Executive identify industry perceptions about the performance of System Program Offices (SPOs) as part of a continuing process that will contribute to contract and project improvement in the DMO.
3. Companies provide feedback on the basis that their ratings and comments will remain Commercial-in-Confidence.
4. The current round of the 360° ScoreCard program is Round 2 extending from April to September 2004. The analysis of Round 2 covers responses received from 37 contractors of the 66 contractors invited to participate, and 90 contracts each with seven reporting categories.
5. This summary provides a snapshot of industry perceptions of DMO during Round 2.
6. DMO manages upwards of 240 acquisition project phases at any one time. It is not mandatory for Defence suppliers to participate in the 360° ScoreCard program. Therefore, the 90 contracts assessed in Round 2 may not be totally representative of DMO's overall activities.
7. The categories against which companies provided ratings are:
  - a. **Contract Management** - DMO's management of the contract under the agreed Terms and Conditions.
  - b. **Requirements Management** – the extent to which the DMO Project Office understands, applies and manages the requirements.
  - c. **Cost Drivers** – DMO's understanding of the significant cost drivers impacting on the success of the contract.
  - d. **Schedule** – DMO's ability to meet agreed milestones and monitor and review the contracted schedule.
  - e. **Relationships** – Assesses the Project Office against reasonable and cooperative behaviour, business relations and the general satisfaction of the contractor with the state of the relationship.
  - f. **Australian Industry Involvement (AII) Management** – DMO's effectiveness in articulating and implementing its Industry Requirements.
  - g. **Intellectual Property (IP) Management** – DMO's effectiveness in managing Intellectual Property.

8. The ratings given against each reporting category are given in one of three areas as follows:
- “Satisfactory”** - covering performance ratings of “Very Good” (VG) and “As Contracted” (AC);
  - “Marginal”** - covering situations in which a contract is not benefiting, as a result of DMO not meeting some contractual obligations or performing inadequately; and
  - “Unsatisfactory”** - covering performance ratings of “Unsatisfactory but Improving” (UI) and “Unsatisfactory” (UN).

### Summary of Company Ratings

9. A summary of responses for the current round and the previous round across all reporting categories is shown below:

**Overall Performance Levels (%)**

Performance Level	Previous Round (Round 1)	Current Round (Round 2)
Satisfactory	86.61	85.76
Very Good	18.35	24.58
As Contracted	68.26	61.19
Marginal	11.01	12.88
Unsatisfactory	2.39	1.36
Unsatisfactory but Improving	1.10	0.85
Unsatisfactory	1.28	0.51
Number of Contracts Assessed	83	90

10. The results show two main patterns. Firstly, DMO continues to receive a relatively high overall performance rating. At approximately 86 percent, the number of contracts for which DMO was rated as Satisfactory by industry indicates that the vast majority of its contract management is being conducted at a reasonable standard. Secondly, DMO has had some success in improving areas of performance in which its ratings from industry have been lowest. The results indicate that the number of contracts for which DMO received an Unsatisfactory performance rating declined during Round 2 relative to the number applying in Round 1, from 2.4% to 1.4%.

11. On a more cautionary note, the results show some increase in the proportion of contracts for which DMO received a Marginal performance rating - with the relevant figures increasing from approximately 11% to 13%. They also show a small decline, from approximately 87% to 86%, in the proportion of contracts for which DMO received the highest performance ratings.

12. For Round 2, DMO received the highest Satisfactory performance rating in the areas of All Management, Relationships and IP Management. The category in which DMO received the highest Unsatisfactory performance rating was Cost Drivers.

## Performance Level by Category in Percent: Current Round

Current Round	Contract Management	Requirements Management	Cost Drivers	Schedule Management	Relationships	All Management	IP Management	Total
Satisfactory	83.33	84.44	79.78	74.71	92.22	97.10	92.00	85.76
VG	24.50	21.11	8.99	13.79	68.89	24.64	5.33	24.58
AC	59.78	63.33	70.79	60.92	23.33	72.46	87.67	61.19
Marginal	14.44	13.33	17.98	24.14	7.78	2.90	6.67	12.88
Unsatisfactory	2.22	2.22	2.25	1.15	0.00	0.00	1.33	1.36
UI	1.11	1.11	1.12	1.15	0.00	0.00	1.33	0.85
UN	1.11	1.11	1.12	0.00	0.00	0.00	0.00	0.51

### Company Comments

13. Companies were provided with the opportunity to provide written comments with their ratings. In total, 478 comments were received - with 353 being positive, 99 negative and the remaining 26 having no clear classification. The majority of negative comments were fairly evenly spread across the categories of Contract Management, Requirements Management, Cost Drivers and Schedule Management. Approximately 60 percent of the negative comments received related to DMO management capabilities and administrative practices.

14. Industry perceives that poor management practices in DMO contracts have the potential to impact cost and schedule outcomes.

### Unsatisfactory Performance

15. Five contracts received an Unsatisfactory rating in at least one of the seven performance categories. Unsatisfactory reports dominated in only one contract, where four out of seven categories registered this score.

### Conclusion

16. As a general report card on DMO's project management performance the current round of the 360° ScoreCard indicates that Defence's suppliers consider the DMO to be performing well with some areas in need of attention.

17. The overall average of Marginal ratings was approximately 12.9% with Schedule Management receiving the highest level with approximately 24%. Overall Unsatisfactory ratings were low with the average rating across all categories being approximately 1.4%. In this context Cost Drivers received the highest level of Unsatisfactory ratings with 2.25%.

18. In only one contract of the 90 reported in Round 2 did Unsatisfactory reports dominate. This one contract is a contract in significant dispute and is under intensive management at the most senior levels within the DMO, and this may have influenced the ratings provided.

Mr Rob Hathaway  
Director Industry Programs  
Defence Materiel Organisation  
R2-5-B072  
Russell Offices  
Department of Defence  
Canberra ACT 2600

2<sup>nd</sup> May 2005

Dear Rob Hathaway

**Re: Provision of Audited Summary of 360° Scorecard Review for Defence Materiel Organisation**

The purpose of this letter is to provide a summary of the 360° Scorecard Review Engagement recently completed by Deloitte for the Defence Materiel Organisation (DMO). Deloitte was engaged to undertake a verification of data from the second formal round of the 360° Scorecard Program (April to September 2004). The 360° Scorecard Program provides DMO prime suppliers with an opportunity to assess and report on DMO performance as contract and project managers.

The terms of reference for this engagement outlined three requirements related to the verification of the second formal round of the 360° Scorecard results. Each of these requirements, the activities undertaken by Deloitte and our conclusion are outlined in the remainder of this letter.

1. *“DMO’s interpretation of the data provides an accurate indication of individual company comments on DMO’s performance in project and contract management”*

Individual company scorecard information is reconciled by DMO into a central repository from a number of data sources and then aggregated for analytical purposes. Deloitte undertook the activities required, including the review of the 90 raw data responses from source documents provided by suppliers, reconciliation of supplier responses with DMO databases and the provision of an opinion on whether or not all supplier feedback had been accurately recorded.

Based on the information provided to us by DMO and the procedures we performed, nothing has come to our attention to indicate that the DMO’s interpretation of the data does not provide an accurate indication of the individual company comments on DMO’s performance in project and contract management.

# Deloitte

2. *"whether the conclusions about company comments about DMO performance in project and contract management identified in the DMO report are supported by the data"*

Deloitte has reviewed the DMO report '360° Scorecard Report: A Summary of Outcomes of the Second Round' (current as at 29 April 2005), and compared the conclusions to the underlying supplier responses. Nothing has come to our attention to indicate that the matters concluded are not supported by the supplier responses.

3. *"provide feedback to DMO on the 360° Scorecard process and make recommendations where appropriate on its improvement"*

Deloitte has made a number of recommendations related to improving the 360° Scorecard Program, in a detailed report prepared for the DMO. These recommendations relate to process improvements, data capture and analysis as well as activities to contribute to contract and project performance improvement in the DMO.

The recommendations we have raised are solely based on the matters we identified while performing our procedures. The recommendations are not an exhaustive or comprehensive report of all improvements which might be made or all matters which might be uncovered if additional or more detailed procedures had been performed.

In summary, based on the procedures we have performed and the information we were provided, nothing has come to our attention to indicate that the information recorded by DMO in its 360° Scorecard Program from April to September 2004 is inaccurate or misleading.

We have prepared this summary letter in accordance with our engagement with the DMO, dated 6 April 2005. It is provided to the DMO for the purpose of assisting it with its assessment of the 360° Scorecard Program from April to September 2004 and not for any other purpose. This summary letter may not be made available or copied in whole or in part to any other party without our express written consent; however the DMO may make this summary letter available where it has a legal or statutory obligation to do so. Deloitte does not accept any responsibility to any party other than the DMO in respect to this summary letter.

Yours sincerely



Stephen Armytage  
Partner - Consulting