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Reference: 28 June 2010 Ashton Cater Correspondence – “Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending”; and 13 July 2010 Brett Lambert Memorandum to the Defense Industrial Base – “Industry Participation for the Sec Def directed USD (AT&L) Efficiency Initiative.”

Mr. Lambert:

The NDIA Program Management Systems Committee (PMSC) believes there are numerous opportunities to boost efficiency within the DoD and industry. By ensuring DoD contract requirements are codified and implemented with contractors in an expeditious manner, improving the audit process, addressing non-value added costs, redefining and focusing our efforts toward the production and reporting of actionable management information with the goal to improve management decision making, and controlling cost, schedule and technical growth on DoD programs we will enhance the accuracy and integrity of performance data.

The NDIA PMSC is pleased to provide you with our initial comments and recommendations with specific relevance to Earned Value Management Systems (EVMS) and how that relates to the issues raised at the July 13th meeting, and in your memorandum of 13 July 2010.

The remaining sections of this letter contain NDIA PMSC’s initial recommendations and suggestions associated with each of the focus areas outlined in the 13 July letter.

A. Targeting Affordability

1. Mandate affordability as a requirement.
2. Stabilize production rates.
 - In order to effectively target affordability, the industry submits that certain existing areas need attention or should be readdressed before any additional initiatives are started.

- Program management tools cannot fix a contract that is ill defined, with changing requirements, and is poorly funded. We can measure but cannot control cost growth and schedule uncertainty unless requirements are understood, requirements “creep” is controlled, and programs are fully funded.
 - Industry recommends that more focus be placed on pre-award contractual activities, including funding of pre-award IBRs, to ensure that a program has a reasonable “probability of execution.”
 - The conduct of a post-award IBR to verify the established baseline is also an excellent method for determining program executability. We recommend strengthening this process with internal government reviews that assure that technical people lead the IBR with support from EVMS/scheduling personnel so that the IBR does not become another compliance evaluation. In all too many situations the IBR’s have become another costly EVMS compliance review, not a review to evaluate the program technical baseline against the cost and schedule parameters as it was intended.
- **Stabilizing Production Rates:**
- A great deal of technical/schedule/cost planning occurs in order to create a well conceived Performance Measurement Baseline (PMB). In any environment a stable PMB allows for a maximum use of resources (facilities, tools and people). Assumptions about these resources result in a unit cost that is used for cost estimating, contract negotiations and performance of a technical task with the maximum schedule and cost effectiveness. Unstable PMBs occur when funding is reduced below original planning goals. The result is a less than effective schedule and cost performance. Unit cost goals can become unrealistic and both customer and contractor fail to achieve their desired goals.
 - The industry submits the following for consideration:

Recommend the DoD budget and structure their procurements of systems to ensure assembly line work is kept at efficient levels. When these procurements are stretched out over many years, the prime contractor losses the ability to keep its workforces fully employed which leads to inefficiencies and additional cost. Specifically DoD should clarify industrial and acquisition policy so that they are in with each other and provide both clarity and focus to DoD acquisition personnel and Industry.

Recommendations:

- Announce an Industrial Base policy
- Ensure that Industrial Base policy and Acquisition Policy are synched
- Staff the office, or a subordinate agency office, to be capable of:
 - Cataloging industrial base capabilities
 - Identifying industrial base shortfalls
 - Advising acquisition personnel in the acquisition planning process

- Stabilize production rates - Current production rates are insufficient to drive costs down and to maintain the industrial base's capability of support surge capabilities.

B. Sharpening Contract Terms

1. Use proper contracting type for development and procurement.
2. Improve audits.
3. Target Non value added costs.

- Proper Contracting Type: NDIA PMSC suggests the department adopt the recent recommendations from the Defense Business Board presented to Deputy Secretary of Defense William Lynn and Undersecretary of Defense Ashton Carter in January of this year concerning this topic. They are as follows:

Findings:

- Guidance in FAR and DFAR reflects historical perspective, however, leaves too wide of a range for interpretation, and further guidance is needed.
- The primary problems driving cost overruns are poor planning and task definition (inadequate planning of requirements and poor assessment of risks), cost realism, stability of requirements and quality of program leadership. The contract type should be based on the technology readiness level commensurate with the risk during the efforts phase in the program life cycle.
- Although more money is spent on services, more scrutiny/oversight and congressional attention is directed at major weapon systems.
- Contracting officers frequently use the contract type they prefer, or most familiar with, rather than the most appropriate for the contract purpose.
- Fixed-price incentive-fee contracts for both weapon systems development and services contracts pose the challenge of identifying what to incentivize and how to measure success.
- Government does not adequately plan for a transition of contract type across the acquisition life-cycle.

Recommendations:

- Add specific guidelines regarding contract selection to DoD Instruction 5000.02 and the Defense Acquisition Guidebook:

Consistent with existing FAR and DFARS delineate a clear hierarchy of contract preference in DoD Instruction 5000.02 and rigorously enforce compliance. Hierarchy of use: Preferred choice is fixed-price, then cost-plus, then T&M-contracts.

As per FAR and DFAR:

- Fixed-price type contracts should be used when services provide for defined deliverables or requirements to meet specific milestones.

- Cost-type contracts should be used when the degree of uncertainty about cost, schedule and task precludes the use of fixed price.
 - T&M-contracts should be used only when it is not possible to accurately estimate the extent or duration of the work or to anticipate costs with any reasonable degree of confidence. Subcontractor labor should be included in the labor categories, not the subcontract.
- Clarify the application of the FAR and DFAR general term “risk” by adding a section to DoD Instruction 5000.02 on Selection of Contract Types to include use of Technology Readiness Levels.
 - Cost-type contracts should be used for complex systems, and particularly major weapon systems, if TRL has not achieved TRL 7 for the system & all its elements.
 - When the achieved TRL is between 7 and 8, a form of cost or cost incentive type contract should be considered.
 - Fixed-price type contracts can be considered for systems that have demonstrated TRL 8 and should be used when TRL 9 is achieved.
 - Modify DoD Instruction 5000.02 to require service contracts over \$1B to be broken into tasks of smaller increments with the contract type determined on a task-by-task basis.
 - Based on results of earlier tasks, use fixed-price contracts for future tasks of similar nature under same contract.
 - Modify Defense Acquisition Guidebook to integrate these recommendations into the acquisition life-cycle process.
 - Modify DoD Instruction 5000.02 to add the requirement for an independent assessment of the TRL by the Director of Cost Assessment and Program Evaluation, since TRL should be a major determining factor for selecting contract type, consistent with recommendation #1.
 - Modify DoD Instruction 5000.02 to reflect the FAR:
 - Cost-type contracts should strive to be “incentive-based,” where practical, with clear performance measures for success.
 - Fixed-price contracts should also consider incentives to help manage government and contractor risk.
 - Award-fee contracts should be considered only when contractor performance cannot be measured objectively.
 - Enforce adherence to rules through peer review, management oversight and new training:
 - To clarify the application of Independent Management Review (“Peer Reviews”) for supplies, replicate the details of Pre-Award Peer Reviews at the end of Enclosure 2 (Procedures) (reference Section 6(a) of Enclosure 9 of DoD Instruction 5000.02).

- Modify DoD Instruction 5000.02 to add a review of contract type at Pre-Award Peer Reviews, e.g. prior to issuance of solicitation for competitive contracts and at the pre-business clearance phase for non-competitive contracts.
 - Emphasize these new recommendations by expanding education of contracting officers and program managers on appropriate application of each contract type to ensure a broad understanding of the rationale for selection.
 - Direct the Defense Acquisition University to develop a computer-based training module on the application of contract type to teach regulations but also include real-life examples and interactive testing to ensure understanding.
 - DAU should collect training metrics to ensure compliance.
 - USD (AT&L) and Service Acquisition Executive should review DAU training metrics to enforce compliance.
 - Deputy Secretary and USD/AT&L should direct the Service Acquisition Executives to align their programs and policies with these guidelines.
- Improving Audits: The NDIA PMSC encourages the Department to focus on the following:
- The DoD should perform a cost/benefit analysis of the current oversight process. Currently, the emphasis is on strict compliance rather than the efficient management and use of program performance data, by contractor and customer alike, for effective decision-making. EVMS is not an Accounting System but rather a Program Management tool to be used for effective and timely decision making. DoD oversight must move away from strict compliance toward trend analysis and assessment of whether the data provided reliably reflect program trends and enable focus on areas that require management attention. Government and industry have become “data rich” and “management information poor.” The current pursuit of perfection in contractor EVMS implementation and its resultant data provides limited benefit at considerable cost.
 - Consider placing a mandatory timeframe (90 calendar days) on DCAA approval of Forward Pricing Rate Agreements (FPRA’s). This will enhance program performance baseline stability by ensuring that the most current rates are known early on in the program phase and eliminating the need for retroactive changes to incorporate the updated rates. If the mandatory time limit is not achieved, then the contractors’ proposed rates are implemented by default.
 - Consider placing a mandatory timeframe (90 calendar days) on the government’s evaluation of contractor proposals after contract award. This will ensure that undefinitized contractual actions and the associated costs are kept to a minimum and thereby stabilize the performance measurement baseline. If the mandatory time limit is not achieved the program negotiations will be reported as delinquent to the Dep. Sec. Def.
- Targeting Non-Value Added Costs: The NDIA PMSC encourages the Department to focus on the following:
- Contract Performance Report (CPR) Flexibility - Ensure that when a contract performance report is required, the reporting structure and thresholds are tailored

based on the risk associated with the contract. Currently the EVMS Report DIDs do not allow the necessary flexibility to tailor report CDRL's to meet individual contract management needs. In addition, in many cases, CDRLs may need to be tailored progressively during the contract period of performance to allow less detailed reporting on contract elements containing retired risks, while requiring more detailed reporting on those elements containing risk that is emerging or elevating in importance in a later contract phase.

- Focus CPR format 5 narratives on the primary areas of risk to the program. These should include no more than the top 5 to 10 issues that are currently driving the program performance. These issues should be identified based on an integrated view of schedule performance (IMS) and EVM metrics indicative of significant performance trends, which will impact program cost and schedule if management action is not taken in the form of risk mitigation and other corrective actions.
 - Include a performance and risk assessment summary within the format 5 for quick management reference.
 - Tailor CPR reporting to evolve as the contract progresses, based on performance and risk to major milestones or products in the program. Targeted reporting based on summary level WBS and IMS elements, to provide an executive level view, would allow for better decision-making by program managers and ensure that reports contain actionable information rather than reams of data requiring analysis and interpretation before they can be used.
 - Consider varying the frequency of reporting, as well, based on where the contract is in the acquisition life cycle, e.g., programs that have a high technology readiness level, and/or are in a stable production build cycle, could reduce their frequency of reporting to a quarterly basis. This would allow for efficient use of DOD resources by allowing analysts to focus their attention on those programs that drive 80% or more of the defense departments' risk of cost growth.
- CPR Applicability - Ensure full EVMS is applied only to contract types where risk is a driving concern. Services should be acquired using performance-based acquisition in accordance with FAR subpart 37.6 and managed using performance-based standards and reporting other than EVMS. T&M contracts for staff augmentation should be managed at the program level, i.e., by the customer PM, where the work scope and schedule is controlled. Suppliers cannot correctly apply EVM to efforts where they do not control the schedule or work assignments. Similarly, other types of time and material, LOE, and ID/IQ contracts do not benefit from management using EVM. For firm fixed-price contracts where the supplier controls the schedule, cost reporting is inappropriate because the customer bears no cost risk. However, IMS reporting may be appropriate in this situation. Other efforts such as repair activity where great uncertainty exists as to what the scheduled activity will be should also be evaluated on a case by case basis.
- The industry recommends that the government incorporate an "Incremental Requirement Baseline" process where rolling wave planning is implemented to be consistent with the major program milestones (i.e. PDR, CDR). This will ensure that planning efforts are kept to a minimum and avoid the continual cost of replanning of out

year efforts. This will ensure that the contractors have clear entrance and exit criteria between program milestones, apply lessons learned between government and contractor and thereby providing a better environment for achieving technical accomplishment and program quality assurance. The potential to realize more cost effective reporting requirements should be considered during these reviews.

- The proliferation of guidance documents and/or operating procedures used in the oversight process are becoming de-facto policy, the content of which impacts industry's cost effective/value added program management capability, including EVMS. Resolving this issue is an avenue to reduce costs.
- Reciprocity between DoD elements and/or oversight functions concerning a common interpretation and approach for EVM implementation and use is a necessity. The current business environment is fractured by competing visions as to “how to implement” EVM. Resolving this issue is an avenue to reduce costs.

C. Rewarding productivity growth.

1. Align policy on profit and fee to circumstance.

- Align policy on profit and fee to circumstance: The NDIA PMSC encourages the Department to consider the following:
 - The industry submits that applying weighted guidelines to profit/fee must consider the Joint Industry/Government assessment of the Program Technology Readiness Level (TRL) and the associated cost and schedule risk it carries. Not considering these impacts will introduce an unacceptable level of risk within the programs.
 - Inappropriate contractual incentives, such as focus on incentivizing or penalizing contractors based on performance data, promote poor behavior in the establishment of program baselines and EVMS implementations. An example would be the continual use of incentives based on reported performance metrics, such as the cost performance index (CPI) and/or schedule performance index (SPI). Industry recommends a revision to the Defense FAR Supplement (DFARS) that prohibits the use of EVMS performance metrics as award fee criteria or performance incentives.

D. Measuring productivity growth

- The NDIA PMSC encourages the Department to consider the following:
 - Consider the issues discussed in paragraph C. “Rewarding productivity growth” before implementing any changes.

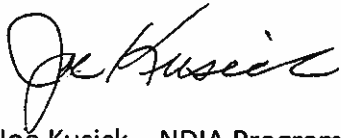
E. Creating tradecraft within service acquisition

1. Use proper contracting type for services

- Use proper contracting type for services: See paragraph B. “Sharpening contract terms” for NDIA PMSC recommendations.
 - Finally regarding the overall subject of creating a tradecraft within service acquisition, the DoD must consider its recent decisions to in-source depot level maintenance as non-competitive directed buys and thereby precludes “real competition.” DoD should

consider the full system level cost of decisions to create organic depot capabilities, especially where infrastructure investments haven't already occurred. The Government has had effective maintenance arrangements already in place which have substantially eliminated the need to build facilities, train, procure tooling and repair equipment, spare parts and components. If the objective can be met more efficiently through the private sector capacity, it should be given serious consideration.

Respectfully,

A handwritten signature in black ink, appearing to read "Joe Kusick". The signature is fluid and cursive, with a large initial "J" and "K".

Joe Kusick – NDIA Program Management Systems Committee Chairman

On behalf of

Mike Martin – NDIA Program Management Systems Committee Vice Chairman, and the NDIA Program Management Systems Committee Board of Directors