



# OSD Earned Value Management Activities Update

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# Agenda

- **Work Breakdown Structure (WBS) Handbook Update**
- **New Earned Value Management (EVM) Policy**
- **Government/Industry EVM Working Group**



# WBS Handbook Update

- MIL-HNBK 881 last published in January 1998
- Contract awarded to update the WBS Handbook:
  - Incorporate changes to DoD acquisition policy/guidance
  - Add/improve upon WBS definitions for space, ships, and aircraft (especially UAVs); incorporate advancements in technology
  - Clarify how WBS is used with newer terms/processes (system of systems/family of systems, spiral/agile development, software, risk analysis)
  - Ensure WBS is characterized as an acquisition tool
  - Support budget, cost, schedule, technical, contractual, and performance management
  - Integrate program management, systems engineering, and cost estimating documents
- Working with OSD CAIG to ensure product meets needs of both program management and cost estimating communities
- User friendly, web accessible final product expected early next calendar year



# New EVM Policy

- **Proposed Changes**
- **Actions Completed**
- **Actions in Progress**
- **Future Actions**



# Highlights of Proposed Changes

- New dollar thresholds for cost or incentive contracts – no differentiation between development and production
- Revise CPR DID (rename “Contract” Performance Report)
- Eliminate C/SSR and CPR-No Criteria
- Revise IMS DID and link to CPR
- IBR required when EVM required
- EVM on FFP contracts is risk-based decision



# Proposed New Policy/Guidance

<u>Contracts</u>	<u>Thresholds</u>	<u>Requirements</u>
Cost or Incentive Equal to Or Above Threshold	≥ \$50M	<ul style="list-style-type: none"> <li>- Compliance with industry EVM standard</li> <li>- Formal validation of contractor's EVM system</li> <li>- Contract Performance Report</li> <li>- Integrated Master Schedule</li> <li>- Integrated Baseline Review</li> <li>- Ongoing surveillance</li> </ul>
Cost or Incentive Equal to Or Above Threshold	≥ \$20M	<ul style="list-style-type: none"> <li>- Compliance with industry EVM standard</li> <li>- Formal system validation <u>not</u> required</li> <li>- Contract Performance Report (tailored)</li> <li>- Integrated Master Schedule (tailored)</li> <li>- Integrated Baseline Review (tailored)</li> <li>- Ongoing surveillance</li> </ul>
Cost or Incentive Less Than Threshold Plus All FFP	< \$20M	<ul style="list-style-type: none"> <li>- EVM optional (risk-based decision)</li> <li>- Ongoing surveillance</li> </ul>



# Actions Completed

- Released change recommendations/rationale and revised DIDs for government and industry comment in late April 2004
- Presented proposed new policy at PMI-CPM conference in May 2004
- Developed draft business case on potential impacts of policy changes
- Developed draft guidance for tailoring reporting on contracts below \$20M threshold
- Completed final draft of change recommendations/rationale (revised to incorporate comments)



# Actions In Progress

- Assessing comments and working on final drafts of CPR and IMS DIDs
- Finalizing business case; incorporating input from industry
- Finalizing tailoring guidance for reporting; incorporating input from industry (will reside in EVMIG and Defense Acquisition Guidebook)
- Working with Air Force to transfer ownership of IMS DID to OSD
- Developing guidelines for applying EVM on FFP contracts (will reside in EVMIG)
- Updating EVMIG; removing industry guidelines and focusing on how to contract for EVM





# Future Actions

- Finalize policy change recommendations/rationale; finalize CPR and IMS DIDs
- Formally coordinate policy changes within DoD
- Obtain USD(AT&L) approval of new policy
- After approval:
  - Issue interim policy memorandum (revise DoD 5000.2 during next update cycle)
  - Publish new DIDs
  - Publish new EVMIG
  - Revise Defense Acquisition Guidebook
  - Revise/publish new DFARS clauses (consider EVMS FAR clause)
- Effective date of implementation to be determined (contingent upon all pertinent documents being updated/approved/published); changes not retroactive
- Develop common DoD IBR Handbook to supplement IBR Guide (if deemed appropriate/necessary)



# Government/Industry EVM Working Group

- Established in response to Defense Acquisition Excellence Council (DAEC) tasking
- Working-level forum to “assess EVM and broader program management issues and concerns by sharing improvement ideas and recommending solutions, capitalizing on existing industry practices”
- Standing body that meets at least quarterly or as required
- Membership includes reps from NDIA PMSC, companies on DAEC, OSD, DCMA, DAU, Services, MDA, and Intelligence Agencies
- Meetings held on July 13-14 and August 23, 2004:
  - Discussed main issues regarding policy changes
  - Developing action plan to address overarching DoD and industry issues
- Status update on tasking planned for September 2004 DAEC meeting



# Overarching DoD and Industry Issues\*

1. Policy, Validation, and Surveillance
2. Contract Requirements
3. Training
4. Contract Definitization
5. Management Acceptance
6. Process Integrity
7. Subcontractor Management

\*In priority order as agreed to by working group members



# Contents of Action Plan

(For Each Issue)

- Description of Issue
- Impact(s)
- Cause(s) of Problem
- Recommended Improvement Action(s)
  - Point(s) of Contact
  - Target Completion Date
  - Approval Process



## Next Steps

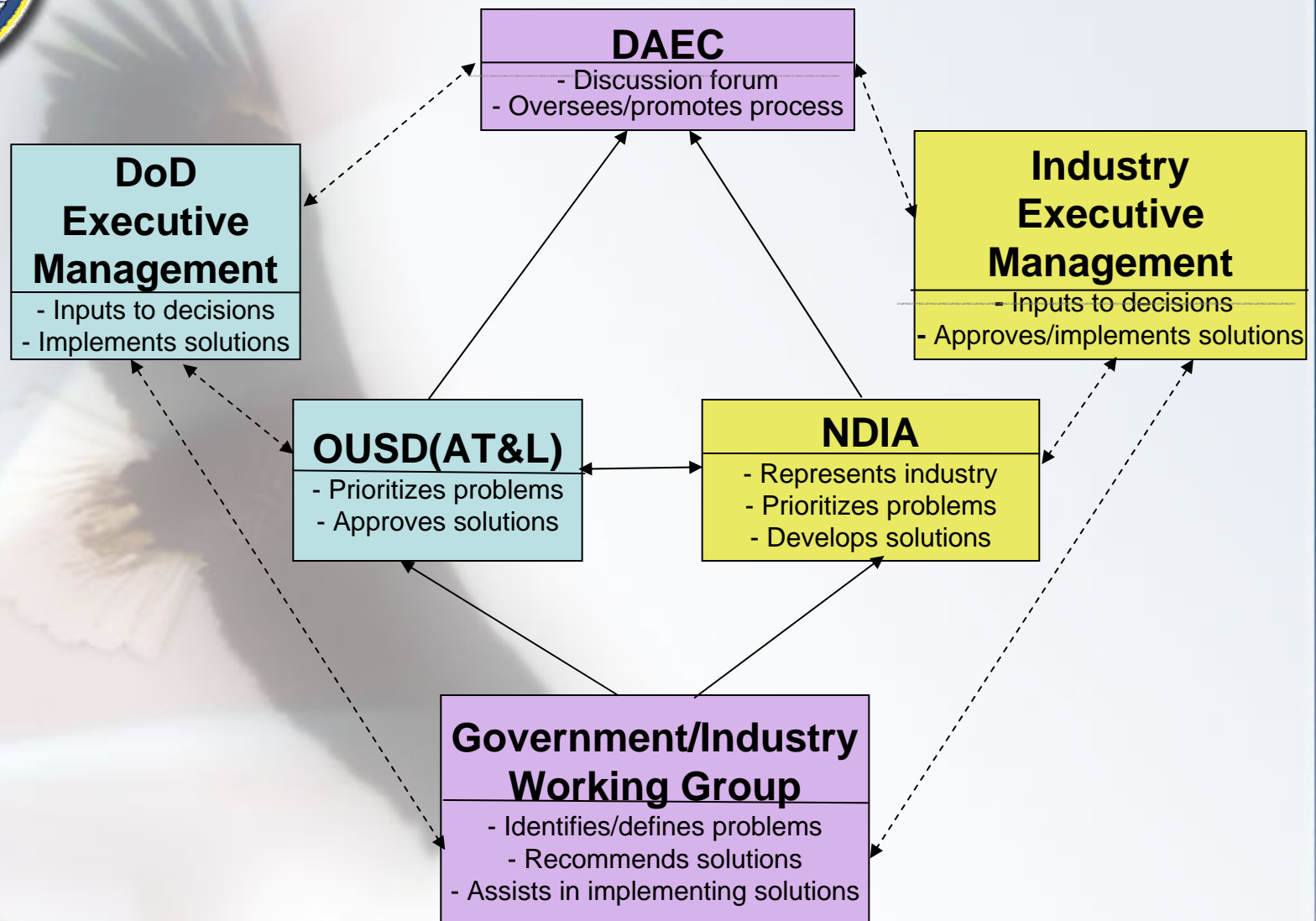
- Complete action plan
- Seek appropriate approvals of near-term improvement actions
- Assist in implementing improvement actions
- Assess progress and update plan
- Continue to dialogue on concerns, share improvement ideas, and recommend solutions



# Back-Up Slides



# Government/Industry EVM Collaboration Framework





# Current EVM Policy

- **DoD Directive 5000.1**, The Defense Acquisition System, May 12, 2003 – EVM is not addressed
  
- **DoD Instruction 5000.2**, Operation of the Defense Acquisition System, May 12, 2003 – EVM is a Regulatory Information Requirement (Table E3.T2)
  - Implement EVM guidelines in ANSI/EIA-748 on contracts/agreements over designated dollar thresholds (RDT&E – over \$73M, Procurement – over \$315M)
  - Conduct Integrated Baseline Reviews (IBRs)





# Current EVM Guidance

- **DoD Regulation 5000.2-R, Mandatory Procedures for MDAPs and MAIS Acquisition Programs, April 5, 2002**
  - Canceled as a “regulation” - remains in effect as an “interim guidebook” (dated October 30, 2002) until replaced
  - Not mandatory, but should be used for best practices, lessons learned, and expectations
  
- **Defense Acquisition Guidebook**
  - Under development—EVM Chapter 12
  - Updating/revising EVM contents (cannot incorporate new guidance until policy changes are approved)
  - Electronic publication expected by end of calendar year
  
- **Program Managers’ Guide to the Integrated Baseline Review Process**



# Main Issues on EVM Policy Recommendations

- **Issue 1**: Compliance with 7 principles vs. 32 guidelines for contracts <\$50M
- **Response**: Policy will be modified to require compliance with “Industry Standard”
- **Rationale**: Provides flexibility for smaller contracts; principles are less specific and will drive inconsistent interpretation/application



# Main Issues on EVM Policy Recommendations

- **Issue 2:** Order of precedence of DFARS clauses and CDRLs/DIDs
- **Response:** DFARS clauses will be updated to ensure consistency with new policy, revised DIDs, and FAR changes
- **Rationale:** All impacted documents must be updated as appropriate to reflect new policy



# Main Issues on EVM Policy Recommendations

- **Issue 3**: Reduction in time period within which EV data must be available
- **Response**: Number of days prescribed in CPR DID will be changed from 8 calendar days to 10 to 15 calendar days
- **Rationale**: Reasonableness



# Main Issues on EVM Policy Recommendations

- **Issue 4**: Requirement for staffing forecasts monthly to end of contract
- **Response**: Policy will be changed to require monthly forecasts for next six months and monthly, quarterly, or annually to end of contract
- **Rationale**: Reasonableness; eliminates need to update CPR forms



# Main Issues on EVM Policy Recommendations

- **Issue 5: Granularity of analysis in Format 5 of CPR**
- **Response: EVMIG will be revised to include guidance on how to get EVM on contract, to include guidance on what to require in Format 5; DID will contain minimum set of requirements**
- **Rationale: Contents of Format 5 are directed by the CDRL not the DID**



# Main Issues on EVM Policy Recommendations

- **Issue 6**: Use of terms “network” and “all discrete” tasks/activities
- **Response**: Policy will specify applicable contract types; tailoring of the IMS will be allowed for contracts <\$50M and guidance is being developed
- **Rationale**: Scheduling continues to surface as a weak area needing improvement; challenges being overcome with today’s software tools



# Main Issues on EVM Policy Recommendations

- **Issue 7: Tailoring the CPR for contracts <\$50M**
- **Response: Tailoring of the CPR will be allowed and guidance is being developed**
- **Rationale: Reasonableness**





# Main Issues on EVM Policy Recommendations

- **Issue 8: Use of EVM on non-schedule based types of contracts**
- **Response: Tailoring guidance specifically excludes these types of contracts (T&M, LOE, etc.); policy will be modified to include definitions of non-schedule based types of contracts**
- **Rationale: Reasonableness**



# Main Issues on EVM Policy Recommendations

- **Issue 9: Impacts of lowering \$315M threshold to \$50M**
- **Response: Policy will remain unchanged; however, business case will be updated to add additional data provided by industry**
- **Rationale: Most production contracts are FFP and will not require EVM; research to date indicates that number of additional contracts requiring EVM will be negligible and may even decrease due to raising of lower threshold to \$20M**



# Main Issues on EVM Policy Recommendations

- **Issue 10: EVM on FFP contracts**
- **Response: Policy will remain unchanged**
- **Rationale: New policy will not mandate EVM on FFP contracts; it will merely remove previous prohibition and allow a risk-based decision; consistent with OMB's vision for EVM throughout government**



# Main Issues on EVM Policy Recommendations

- **Issue 11: System approval vs. system validation**
- **Response: Policy will be modified to differentiate between system acceptance and system validation**
- **Rationale: “Validation” will be used consistently throughout policy to characterize requirement for systems being used to manage contracts  $\geq$ \$50M**



# Main Issues on EVM Policy Recommendations

- **Issue 12**: Contractors responsible for validation of their suppliers
- **Response**: Policy will remain unchanged
- **Rationale**: Proposed change takes risk decision away from government



# Main Issues on EVM Policy Recommendations

- **Issue 13**: Validations by single government agency and recognized by all customers
- **Response**: Policy will remain unchanged; issue needs to be raised by OMB
- **Rationale**: Policy applies to DoD only and cannot mandate requirements for government organizations outside of DoD



# Main Issues on EVM Policy Recommendations

- **Issue 14**: Replacing validation with compliance map, IBR, and surveillance
- **Response**: Policy will remain unchanged
- **Rationale**: This concept needs more research and discussion before it can be considered



# Main Issues on EVM Policy Recommendations

- **Issue 15**: Impacts of requiring surveillance on contracts between \$20M and \$50M
- **Response**: Policy will remain unchanged
- **Rationale**: Research indicates that impacts will be minimal, if any; surveillance is already required on contracts in this range





# Main Issues on EVM Policy Recommendations

- **Issue 16**: Adding references to joint surveillance and NDIA Surveillance Guide
- **Response**: Policy will be modified to limit coverage of surveillance to government surveillance; EVMIG will mention joint surveillance as an option and reference Guide
- **Rationale**: Policy applies to DoD only and cannot mandate requirements for contractor self-surveillance or joint surveillance



# Main Issues on EVM Policy Recommendations

- **Issue 17: Remedies for non-compliance**
- **Response: More work needs to be done in this area; this may also be an education issue**
- **Rationale: Guidance on remedies will be developed for inclusion in contract clauses**



# Main Issues on EVM Policy Recommendations

- **Issue 18**: Impacts of requiring IBRs on contracts between \$20M and \$50M
- **Response**: Policy will remain unchanged; however, scope of IBR may be tailored as appropriate for smaller projects
- **Rationale**: Research indicates that impacts will be minimal, if any; IBRs should already be conducted on contracts in this range; good business practice at start of any project



# Main Issues on EVM Policy Recommendations

- **Issue 19: Retroactivity of policy changes**
- **Response: Policy will be modified to state that costs associated with imposing new or different EVM requirements on existing contracts should and will be borne by government**
- **Rationale: No change from current practice**



# Business Case

## Raising lower threshold to \$20M – positive impact

- Reduction in number of contracts requiring EVM (preliminary data reflects reduction of approximately 50%)

## Lowering upper threshold to \$50M – minimal impact (if any)

- Minimal increase in number of contracts requiring EVM (many procurement contracts are FFP)
- Contractors in this range already using validated systems (few if any additional compliance reviews expected)
- Consistent with CCDR application threshold
- Consistent with OMB's vision for EVM throughout government



# Business Case

## Mandating CPR at \$20M - positive impact

- Standardizes reporting - eliminates two report configurations (CPR and C/SSR)
- May be tailored to obtain data necessary for management

## ➤ Mandating IMS at \$20M - minimal impact

- Integrated schedule already required by Industry Standard – change is government will now be provided a copy with CPR
- Scheduling continues to surface as a weak area needing improvement
- May be tailored to obtain data necessary for management

## ➤ Mandating IBRs at \$20M - minimal impact (if any)

- IBRs should already be conducted on contracts in this range
- Good business practice at start of any project
- May be tailored to size/scope of project



# Tailoring Guidance

- Guidance for tailoring CPR and IMS for cost or incentive contracts  $< \$50M$  but  $\geq \$20M$
- Things to consider when making a risk-based decision to require EVM on cost or incentive contracts  $< \$20M$ ; guidance for tailoring reporting
- Things to consider when making a risk-based decision to require EVM on FFP contracts; guidance for tailoring reporting