

## IPMD Clearinghouse Working Group Notes

### February 7, 2018 IPMD Meeting

The working group discussed the following topics.

1. Handling adjustments to cumulative earned value, or “negative BCWP”. This was a follow up discussion to the notes and examples from the September 2017 working group meeting. Subsequent discussions concluded that this can occur when work is lacking sufficient accomplishment criteria. Recommendation is to avoid it. Negative adjustments to BCWP should only be used on rare occasions when it provides more accurate information for management – it makes sense, is logical, and you clearly document why you changed the BCWP. For more information, see the working group notes posted for September 2017 on the IPMD web site Clearinghouse Working Group page.
2. Harvesting underruns. This was also a follow up discussion to the September 2017 meeting. The topic has been handed off to the IPMD Contracts Working Group. Attachment A is an August 2015 PARCA memorandum that discusses this topic. The message: Do not harvest a budget underrun.
3. Using “historical” actuals for long lead material items. This can occur when a contractor must purchase material items, typically on company funds, when the material needs to be procured well in advance of a contract award (the example from one participant) or when they will use it on the contract. The material cost is recorded on the Contract Funds Status Report (CFSR) with the award of a contract or at the time of payments to suppliers as accrued expenditures. The Accrued Expenditures are subsequently reconciled to the Actual Cost of Work Performed (ACWP) in the Integrated Program Management Report (IPMR). Plan the BCWS for when it will be used and hold recording the ACWP until the BCWP is claimed.
4. Proactively managing LOE. The 2018 release of the EVMSIG discusses this more fully. The BCWS in LOE work packages can be changed in current and future periods even if actuals have been incurred. The message: Proactively manage but do not make any retroactive changes.
5. Calculating material price and usage variances with a maturing Bill of Material (BOM) or “low value” material. Some companies use the PERT method for this type of material. Without a priced BOM, you won’t be able to determine material price and usage variances. Once the configuration firms up and you can price the material items, then you can calculate material price and usage variances. The Cost/Schedule Control Systems Criteria (C/SCSC) Joint Implementation Guide (JIG) has some good jargon explaining that material price and usage variances are less useful/meaningful until a BOM firms up.
6. Planning in house labor that is performed by “purchased services” or vice versa. When planning for labor, it may be planned in hours in the work package. When purchased services is used to perform some of the work, it may come in as an Other Direct Cost (ODC) dollar value only. So, you have a difference in how it was planned (in labor hours) versus how the ACWP is recorded (a direct cost) with different element of cost

categories (labor versus ODC). This has the potential to create additional performance analysis activities to normalize the differences between element of cost categories such as generating an assumed rate for the ODC values (you may or may not know the hours incurred for the purchased services). You will need to normalize these differences following your documented process/procedures to be able to do valid labor rate and usage analysis. With respect to planning and internally replanning, some would leave this work in planning packages until they knew whether this would be in house labor or purchased. That was generally rejected because the decision may not be made until the current period.

7. Work authorizations for initial planning at contract award or authorization to proceed (ATP). Issue a simple or informal initial work authorization for any initial planning activities that occur immediately following ATP until the official or formal work authorizations are processed. Treat the initial work authorizations as any other work authorization (scope, schedule, and budget) following your documented process/procedures. Much of this discussion addressed the work package versus control account level in terms of planning and analysis. Relevant examples should be presented, but a blend like this is very common in industry.
8. Handling tasks that are in scope, but were not in the original baseline that must be performed with no source of budget. The question was, should the task be added with only forecast dates (i.e., ETC only activities) and no baseline dates? No. For reference see the PASEG that states: "Each task in the IMS has both baseline and forecast dates," so don't enter a task with just forecast dates. The existence and handling of such tasks can vary based upon the situation and the process from which the requirement for additional tasks originated. The handling can be as simple as accepting a variance to formal reprogramming the balance of the related work. It would be best to gain more information into the exact situation before providing a generic response to a complex question.
9. Including Undistributed Budget (UB) work scope in the IMS. Not applicable for UB. UB is meant to be a temporary holding account until you are able to schedule and budget the work. If you have enough information about the scope, schedule, and budget, then it is no longer UB – you can define the activity/work package, planning package, or Summary Level Planning Package (SLPP) that you can include in the IMS. An approach employed by most contractors is to place the UB in the last month of the planned period of performance recognizing that UB is a temporary account used as a clearinghouse for changes. Because many system descriptions limit UB for work to 60 days, a SLPP is commonly used to place budget for work to ensure that the entire period of performance is complete.

Attachment A  
PARCA Memo – Application of Excess Funds on an Earned Value  
Management Contract



ACQUISITION

ASSISTANT SECRETARY OF DEFENSE

3600 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3600

AUG 24 2015

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
CHAIRMAN OF THE JOINT CHIEFS OF STAFF  
UNDER SECRETARIES OF DEFENSE  
DEPUTY CHIEF MANAGEMENT OFFICER  
COMMANDERS OF THE COMBATANT COMMANDS  
DIRECTOR, COST ASSESSMENT AND PROGRAM EVALUATION  
DIRECTOR, OPERATIONAL TEST AND EVALUATION  
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE  
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE  
ASSISTANT SECRETARIES OF DEFENSE  
ASSISTANTS TO THE SECRETARY OF DEFENSE  
DIRECTOR, ADMINISTRATION AND MANAGEMENT  
DIRECTOR, NET ASSESSMENT  
DIRECTORS OF THE DEFENSE AGENCIES  
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Application of Excess Funds on an Earned Value Management Contract

Earned Value Management (EVM) is one of DoD's and Industry's most powerful proven program management tools. Government and Industry program managers use EVM to provide joint situational awareness of program status, to assess cost, schedule, and technical performance on programs, and to support proactive decision-making as program teams navigate constraints and risks in the performance of DoD programs. The Office of Performance Assessments and Root Cause Analyses (PARCA) in OSD serves as the policy and competency owner of EVM for the Department and ensures that EVM guidance is available to constituents.

PARCA recently published the DoD Earned Value Management System Interpretation Guide (EVMSIG) which is the DoD's interpretation of the 32 EVMS Guidelines and serves as the basis for DoD Earned Value Management System (EVMS) compliance activities. The DoD EVMSIG offers flexibility for a variety of program execution and development methodologies. A standard Government interpretation facilitates tailored solutions that meet unique management needs within varying operating environments. An important principle of EVMS outlined in the EVMSIG is a disciplined approach to maintaining EVM baselines.

*"To ensure the ongoing integrity of the Contract Budget Base (CBB), budget traceability throughout the lifecycle of a program must be maintained. Current budgets must reconcile to prior budgets in terms of changes to work scope, resources, schedule, and rates so that the impact of contract changes and internal re-planning on overall program growth is visible to all stakeholders"*

This includes the tenet that budgets in the baseline directly relate to scope to be completed.

*“The establishment of realistic budgets, directly tied to the authorized scope of work, is essential for each organization responsible for performing program effort”*

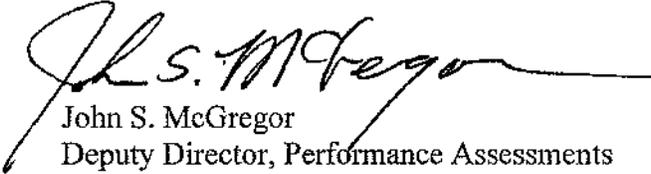
Situations occur where contractors are asked to move budget from control accounts which have cost under-runs and apply the remaining budget to new work; an activity sometimes known as “harvesting under-runs.” However, to maintain EVM and EVMS integrity, EVM budget amounts must remain with the scope for which they were budgeted, even where that scope is completed with favorable cost performance. In no cases should underrunning budget in the baseline move as a means to develop new baseline activities.

An underrun to the budget in the CBB does not automatically mean excess funds have become available. Practitioners may erroneously treat EVM budget and contract funding in the same ways. The application of budgets and of funding are distinct and follow separate rules; budget follows EVM rules, while use of funding follows contracting and fiscal rules:

- The term “budget” has a very specific meaning for EVM and refers to the resources estimated to be required to complete the contracted scope of work.
- “Funding” refers to the actual Government dollars obligated on the contract and available for payment for work being accomplished on the contract.
- The amount of obligated funding does not always equal the contract price. There is no rule that requires the CBB to equal either the amount of obligated funding or the contract price.

When the contracted scope has been completed for less than the amount funded, there may exist an opportunity for using that funding for new scope. The ability to use any underrun for new scope becomes a contracting action and must follow prescribed contracting fiscal laws and regulations. When funds that are available due to an underrun are used to acquire new work scope using proper contracting policies and procedures, budget for the new scope should be added to the CBB.

This memo serves to reinforce the information in the EVMSIG regarding maintaining baseline integrity and to provide clarity on the use of excess funding. PARCA supports this direction and will work with the Services to ensure EVM is applied appropriately across the Department.

  
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and Root Cause Analyses

cc:  
USD(AT&L) Direct Reports