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To: Gordon Kranz, Director of EVMS, PARCA

From: NDIA Integrated Program Management Division (IPMD)

Subject: EVMS Thresholds

Reference: (1) Department of Defense Instruction (DoDI) 5000.02
(2) Defense Federal Acquisition Regulation Supplement (DFARS) 252.234-7001

Dear Mr. Kranz,

Thank you for allowing the National Defense Industrial Association (NDIA) Integrated Program Management Division (IPMD) to provide input on dollar thresholds for when an Earned Value Management System (EVMS) requirement should be placed on a contract. Below are the IPMD's recommendations on the subject.

As you are aware, the current thresholds of utilizing EVMS on contracts over $20M and requiring an approved system if over $50M (for cost reimbursable or flexibly priced contracts) was established in 2005. With no change in 10 years, just the impact of inflation would warrant a fairly large increase in the threshold amounts. Beyond inflation there has been a myriad of changes in DoD purchasing in the last 10 years – more emphasis on small business awards, more complex products leveraging advances in technology, expansion of performance based logistics contracts, and many other factors.

The result of these changes is that many smaller companies (or larger companies with smaller divisions) with just one or two contracts now have the added cost of implementing EVMS on their efforts. For example, a small company with a contract over $20M (or even $50M requiring an approved system) could end up spending a significant portion of its expected profit on trying to implement an EVMS. Larger companies face similar issues when their portfolio of contracts increases or smaller sites now have a requirement.

Many companies utilize EVM principles to manage their contracts even below the threshold, but often they tailor their use when a requirement is not on contract. This is because the use of EVM is considered beneficial to managing a contract and the tailoring of "full EVMS" allows for efficient use without the need to document everything to government auditors. However, the cost of EVM increases greatly when reports are required and questions have to be answered, when government surveillance occurs and is supported, when DCMA corrective action requests (CARs) are generated and have to be responded to, and when validations are required and lengthy and costly preparations take place to support reviews. As such, the cost of compliance is a significant impact in this evaluation.

While data is hard to gather on what the benefit would be for changing thresholds amount, companies that have attempted to analyze the subject estimate that tens of thousands are spent responding to CARs and millions are spent working to achieve a validated system. If hundreds of contracts would be affected by increasing the threshold for EVMS requirements then savings across industry and within DoD could be in the hundreds of millions of dollars. Based on a sample analysis of industry companies, the very large companies may have 1/3 or more of its contracts in the range of the current thresholds. For mid-size or smaller companies the amount is

50% or even 75%. Thus, significant manpower and cost is devoted to the cost of compliance driven by the current thresholds. DoD may be in the best position to analyze the percent of contracts that fall within the various dollar ranges and therefore set the appropriate thresholds. It should also be noted that subcontracts are always going to be lower than the prime contract level and therefore the total number of contracts that are impacted will be even greater.

As such, it is the IPMD's recommendation to increase the threshold for when EVMS is required to $50M or even $75M, and when a fully validated system is required to $100M or even $200M. A range is provided because as noted DoD can best assess where the best "cut off" would fall. This would still provide DoD with reporting information and assurances of compliance to contractual requirements on the majority of its contract dollar value with industry. At the same time the following benefits would result:

1. Reduced need for audits by DCMA and DCAA at a time when government budgets are stretched. This benefits both the government and industry. While the majority of DoD's spend in dollars would be unchanged in terms of EVMS policy, a significant number of contracts/companies would not need to be reviewed and validated. This would allow government agencies to focus on their areas of risk where the major dollars are being spent.

2. Small businesses and emerging commercial companies would be able to do business with the government without significant added cost. Then, if their government business portfolio grows they would have the business base to then implement EVMS in a more cost effective manner.

3. "The cost of compliance" can be reduced. As noted above, the risk to DoD falls primarily in the extremely large dollar value contracts. Program delays or cost overruns can result in significant impacts that range from the tens of millions to billions of dollars. Contracts in the tens of millions of dollars do not pose the same risk. However, these lower dollar value contracts represent a significant amount of the total contracts and therefore time and cost can be saved by changing the thresholds.

Respectfully,

Carol S. Boser
Chairperson
NDIA - Integrated Program Management Division