



# Successful Contracting for Program Performance Management

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# Agenda



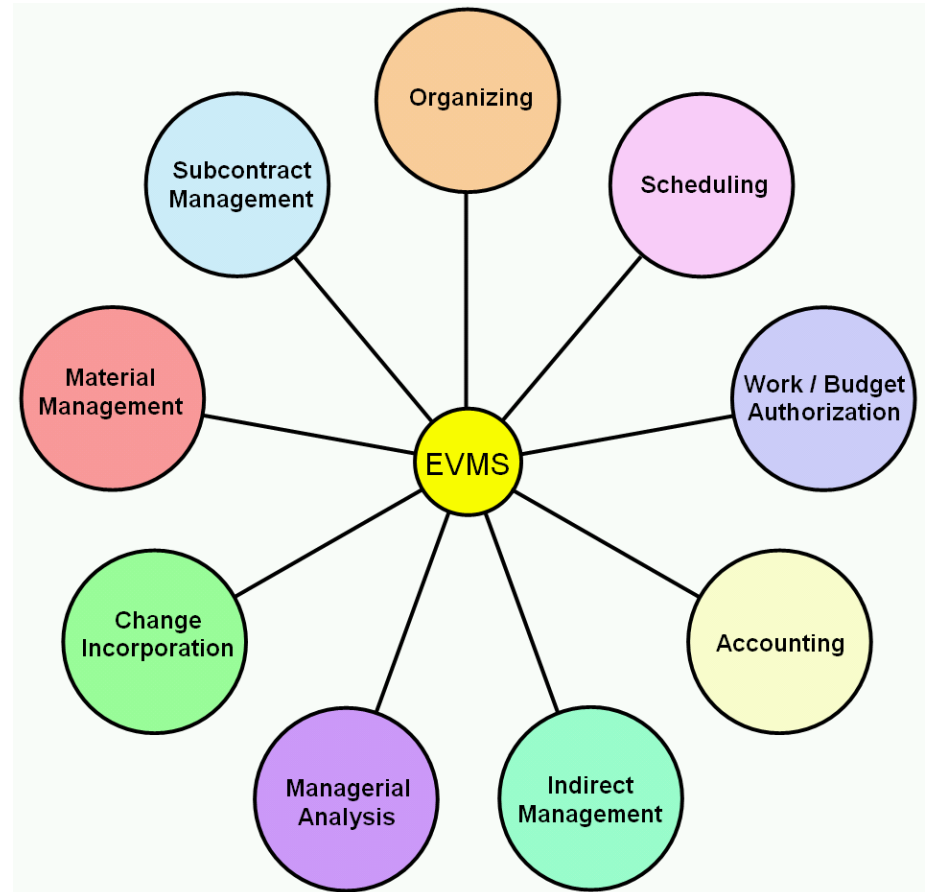
- About Earned Value Management (EVM)
- DoD EVM Policy
- EVM Contracting Issues and Recommendations
- Questions/Discussion



# About Earned Value Management



- EVM is the use of an integrated management system that coordinates work scope, schedule, and cost goals and objectively measures progress toward these goals
- EVM is a widely accepted industry best practice for project management in government and commercial sectors
- Governed by industry standard (ANSI/EIA-748)
- The 32 EVM system guidelines in ANSI/EIA-748 address nine management processes



***A management control tool for program managers***



# DoD EVM Policy: Summary of Changes



- Uniform requirements for compliance with industry EVM standard (ANSI/EIA-748)
- New application thresholds for cost/incentive contracts (no differentiation between development and procurement)
- Improved Cost Performance Report (CPR) - renamed “Contract” Performance Report
- Expanded use of Integrated Master Schedule (IMS)
- Clarified requirement for Integrated Baseline Reviews (IBRs) (required when EVM required)
- Eliminated Cost/Schedule Status Report (C/SSR) and CPR-No Criteria

***Changes not retroactive but are effective now on new cost/incentive contracts***



# DoD EVM Policy: What Has Not Changed



- EVM still required on cost and incentive contracts
- EVM on Firm-Fixed Price (FFP) contracts continues to require waiver from Milestone Decision Authority (MDA)
- Responsibility and requirements for government surveillance of contracts remain unchanged
- Process for obtaining EVM system validation and acceptance remains unchanged

***DCMA still Executive Agent for EVM on DoD contracts***



# DoD EVM Policy: New Application Thresholds



<u>Contracts</u>	<u>Thresholds</u>	<u>Requirements</u>
Cost/Incentive Equal to or Above Threshold	<b>≥ \$50M</b>	<ul style="list-style-type: none"> <li>- Compliance with industry EVM standard</li> <li>- <u>Formal EVM system validation</u></li> <li>- Contract Performance Report</li> <li>- Integrated Master Schedule</li> <li>- Integrated Baseline Reviews</li> <li>- Ongoing surveillance</li> </ul>
Cost/Incentive Less Than Upper Threshold but Equal to or Above Lower Threshold	<b>&lt; \$50M but ≥ \$20M</b>	<ul style="list-style-type: none"> <li>- Compliance with industry EVM standard</li> <li>- <u>No formal EVM system validation</u></li> <li>- Contract Performance Report (tailored)</li> <li>- Integrated Master Schedule (tailored)</li> <li>- Integrated Baseline Reviews</li> <li>- Ongoing surveillance</li> </ul>
Cost/Incentive Less Than Threshold	<b>&lt; \$20M</b>	<ul style="list-style-type: none"> <li>- EVM optional (risk-based decision)</li> <li>- Cost-benefit analysis required</li> </ul>

***Requirements flow down to applicable subcontracts***



# DoD EVM Policy: Contract Requirements



- DoD uses DFARS in lieu of FAR; DFARS clauses are “substantially the same” as the FAR clause
- New DFARS in process (Case Number 2005-D006); final rule expected late 2006 or early 2007
  - Solicitation Provision: 252.234-7001 – Notice of Earned Value Management System
  - Contract Clause: 252.234-7002 – Earned Value Management System
- Interim guidance
  - Apply existing clauses (252.242-7001 and 252.242-7002) directly on contracts  $\geq$  \$50M
  - For contracts  $\geq$  \$20M but  $<$  \$50M, include paragraph in statement of work excluding the requirement for DoD acceptance of EVM system (no validation review)
- CDRLs with associated data item descriptions
  - Work Breakdown Structure – common structure for all reports
    - Contract Performance Report (cost and schedule reporting)
    - Integrated Master Schedule (schedule reporting)
    - Contract Funds Status Report (funding projection)
    - Cost and Software Data Reports (cost estimating)

***Reporting should be tailored within bounds of policy  
...and based on information needs***



# EVM Contracting Issues and Recommendations: Genesis of Issues



- Introduced at NDIA Program Management Systems Committee meeting – February 2006
- Discussed at Government/Industry EVM Working Group meeting – February 2006
- Joint government/industry subgroup formed to refine issues and develop recommendations – February 2006
- Subgroup reported findings to Working Group – June 2006
- Issues and recommendations presented at NCMA's 44<sup>th</sup> Annual Aerospace and Defense Contract Management Conference – July 2006

***Common issues that require collaborative solutions***



# EVM Contracting Issues and Recommendations: Presentation/Handout



- Presentation developed primarily for DoD audience but could be tailored for civilian agencies
- An EVM Contract Requirements Checklist handout, based on DoD requirements, developed for reference purposes
- Presentation and handout will be modified as policy changes occur (e.g., new EVMS DFARS clauses expected by late 2006 or early 2007)
- Presentation will be used to communicate more broadly in both DoD and industry

***A joint government/industry communication campaign is now underway!***



# EVM Contracting Issues and Recommendations



## Issue

## Recommendation

- **Problems with policy implementation**
  - Retroactive application of March 2005 EVM System requirements thresholds
  - Retroactive application of the new IMS and CPR DIDs
  - Lack of tailoring when appropriate (will drive unnecessary costs)
  - Duplication of requirements (e.g., duplicate reporting CDRLs or DFARS clauses)
  
- **Lack of realistic baseline**
  - Hampers EVM effectiveness
  - Can impact EVM system credibility
  - Can impact management acceptance of EVM

- Increase program management and contracting communities understanding of policy
  - Involve subject matter experts in establishing contract requirements
  - Participate in enterprise-wide awareness training
  - Review and discuss SOW and CDRLs (customer/prime/major subcontractors)
  
- Starting point is an achievable contract schedule and proposal estimate
  - Emphasis on cost realism
  - Integrate cost estimating and EVM efforts



# EVM Contracting Issues and Recommendations



## Issue

## Recommendation

- **SOW and Performance Measurement Baseline (PMB) not consistent**
  - Time lag in incorporating changes into baseline

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- **Undefinitized Contract Actions (UCAs)**
  - Contractual direction to defer baseline planning until definitization

- Contracting and EVM communities work closely together to ensure integrity of scope of work and PMB

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- Incorporate authorized unpriced work into PMB
  - Detail plan near-term effort



# EVM Contracting Issues and Recommendations



## Issue

## Recommendation

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>■ <b>Award fee</b><ul style="list-style-type: none"><li>– Inappropriate criteria selected<ul style="list-style-type: none"><li>• May result in unintended consequences</li><li>• May drive undesired behavior by incentivizing achievement of a metric vs. incentivizing contract performance</li></ul></li></ul></li></ul> | <ul style="list-style-type: none"><li>■ Avoid use of CPI and SPI and other EVM metrics as award fee criteria</li><li>■ Consult DoD EVMIG for appropriate EVM award fee incentives and how to rate them<ul style="list-style-type: none"><li>– Example: Realistic and current cost, expenditure, and schedule forecasts</li></ul></li></ul> |
| <ul style="list-style-type: none"><li>■ <b>Confusion regarding application of EVM requirements to IDIQ contracts</b><ul style="list-style-type: none"><li>– Contain multiple task orders or technical direction letters</li><li>– May contain mixed contract types</li></ul></li></ul>  | <ul style="list-style-type: none"><li>■ Evaluate EVM requirements by task order, CLIN, or technical direction letter based on contract type, dollar value, and nature of work</li><li>■ Do what makes sense in terms of reporting (e.g., may want to request one CPR versus multiple)</li></ul>  |



# EVM Contracting Issues and Recommendations



## Issue

- **Integrated Baseline Reviews**
  - Timing is sometimes an issue
    - Sometimes required prior to identification of scope

- **Weekly Earned Value**

## Recommendation

- IBR is a process, not an event
  - Should be initiated as early as practicable, and conducted within 180 days after contract award, exercise of significant contract options, or major modifications
  - Refer to the IBR Guide for practical guidance on how to effectively conduct
  
- If asked to put on contract:
  - Do what makes sense
  - Key is visibility and good program management
  - Consider cost



# EVM Contracting Issues and Recommendations



## Issue

- **EVM on FFP contracts**
  - Direction by customer for contractor not to apply EVM even if EVM is part of the company's standard program management process
  
- **Not sure if contractor has system validation**
  - More of an issue with subcontractors than with major primes
  - If validation required, important to complete in timely manner

## Recommendation

- Per policy, EVM not required/ recommended on FFP, however...
  - Many contractors today use EVM as a program management best practice
  - Okay to negotiate appropriate cost; however, should not direct deletion of EVM
  
- Contact DCMA for help
- DCMA has listing on web site of validated contractors
- Customer reps and primes need to help ensure that subcontractors support process



# Conclusion



- Refer to policy and guidance documents
  - DoDI 5000.2 (policy memorandum in interim)
  - Defense Acquisition Guidebook
  - Earned Value Management Implementation Guide
  - Work Breakdown Structure Handbook
  - Integrated Baseline Review Guide
- Involve EVM subject matter experts in SOW and RFP development
- Use handout as quick reference and refer questions to points of contact

***Key to success is integrated approach between program management, EVM, and contracting personnel***



# Questions/Discussion



# Back-Up Slides



# EVM Policy/Guidance: Sources of Information



- **OSD EVM web site** - <http://www.acq.osd.mil/pm>
  - Upcoming/Recent Events
  - DoD Policy
  - Contacts
  - Points of Interest
  - International Performance Management
  - Frequently Asked Questions
  - EVM Timeline
  
- **EVM Community of Practice (AT&L ACC web site)** - <https://acc.dau.mil/evm>
  - DoD Policy/Guidance
  - Contract Documents
  - Training Center (narrated training tutorials)
  - Tools
  - Noteboard (discussion forum)
  - Community Connection (related references/guides)
  - Research Library
  - OMB Recommended References



# EVM Policy/Guidance: Sources of Information



- **DCMA web site** - [http://guidebook.dcmamil/79/guidebook\\_process.htm](http://guidebook.dcmamil/79/guidebook_process.htm)
  - EVMIG (includes tailoring guidance)
- **ASSIST web site** - <http://www.assistdocs.com>
  - CPR and IMS Data Item Descriptions
  - WBS Handbook
- **DoD Forms Program** - <http://www.dtic.mil/whs/directives/infomgt/forms/formsprogram.htm>
  - CPR Forms (Formats)



# EVM Policy/Guidance: Sources of Information



- **NDIA web site -**  
<http://www.ndia.org/Template.cfm?Section=Procurement&Template=/ContentManagement/ContentDisplay.cfm&ContentID=2310>
  - Surveillance Guide
  - ANSI/EIA-748 Intent Guide
  - IBR Guide
  - White Paper: Integrating Risk Management with EVM