

Earned Value Management — Where Are We Going from Here? Part I

by Mr. Terry Jones, Staff Writer

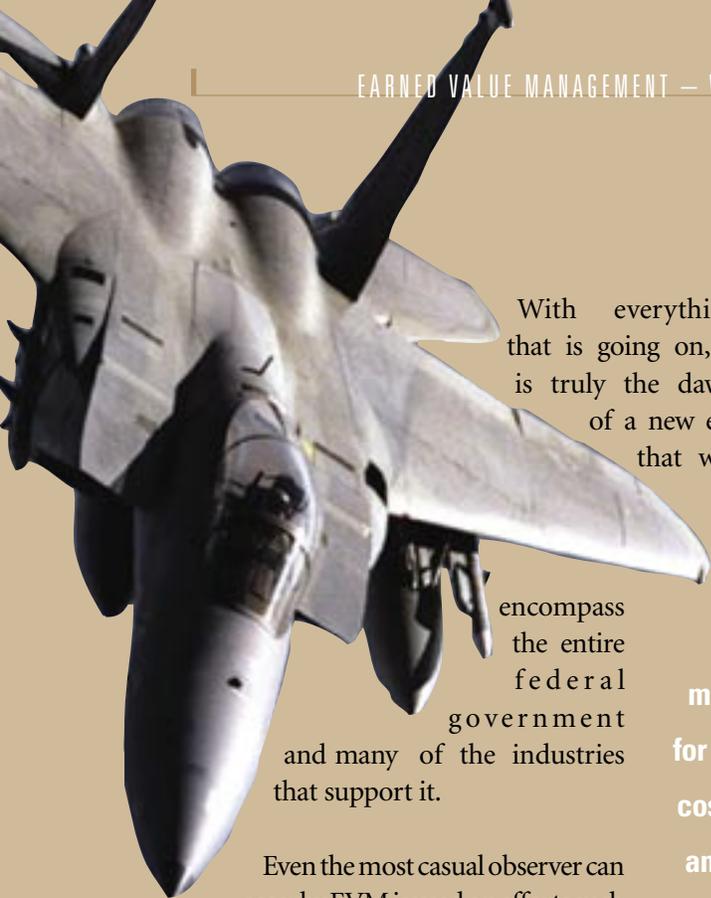
With earned value language coming out in the Federal Acquisition Regulation and Department of Defense policy changes in the works, it's a milestone year for Earned Value Management professionals.

Editor's note: This is a reprint of an article, with corrections. Originally published in the Summer 2004 issue of the Communicator, it is the first installment in a two-part series that examines Earned Value Management (EVM) issues in government and industry. In this report, we will look at new provisions being added to the Federal Acquisition Regulation (FAR) mandating EVM throughout all government high-dollar and high-risk programs as well as the new Department of Defense (DoD) policy that is being prepared concurrently.

These are pretty heady times for the EVM professionals throughout the federal government, industry and the DoD. The Office of Management and Budget (OMB) has proposed a standardized EVM System clause and other changes to the FAR, requiring that EVM be included in all high-dollar and high-risk federal contracts. The changes are currently being reviewed by the FAR councils with expected publication for public comment in January 2005. At the heart of these and other issues bubbling up over the

next eight to 12 months is the Defense Contract Management Agency (DCMA), the DoD executive agent for Earned Value.

EVM is a methodology for determining the cost, technical and schedule performance of a complex program or project by comparing work that is planned with work that is accomplished in terms of dollar value assigned to the work. It has been a cornerstone of DoD acquisition practices since the mid-1960s. Although technology is speeding up Earned Value reporting, major changes in EVM have been relatively few and far between over the decades. One of the last major changes in the mid-1990s transferred the responsibility for EVM implementation to industry and the EVM certification and compliance authority from DoD to DCMA. In recent years, there has been a worldwide movement in countries such as Australia, Canada, Great Britain, Russia and Sweden to use EVM. The American National Standards Institute (ANSI), a private, non-profit organization that coordinates the U.S. voluntary standardization and conformity assessment system, establishes the standards for EVM certification.



With everything that is going on, it is truly the dawn of a new era that will

encompass the entire federal government and many of the industries that support it.

Even the most casual observer can see why EVM is used on efforts such as the Joint Strike Fighter (JSF), the largest DoD procurement program in history, currently valued at \$200 billion. Three different companies assemble the aft, mid and forward fuselages of the aircraft. Virtually thousands of parts and a multitude of systems provided by more than 58 global suppliers must be seamlessly integrated into the aircraft to work properly.

But why is EVM needed in agencies other than Defense? It is because there are risks that need to be addressed even in the most mundane projects.

“Many civilian agencies have \$100 million and bigger programs,” said Mr. David Muzio, OMB procurement policy analyst and the man charged with putting the EVM language into the FAR. “The FAA, NASA and Department of Energy have lots of programs in the hundreds of millions to billion dollar range. Others have many programs in the \$20-\$50 million range for information technology and construction. You have to weigh risk in almost every program.

We think that those programs also need to be managed with a disciplined management system.”

The FAR change that Mr. Muzio has drafted is intended to be flexible. “It will be a standard clause that requires a minimum of reporting,” he said. “An agency can certainly ask for more reporting if they desire. It is likely that there will be more requirements in the clause for the JSF than there would be for a \$25 million Job Corps Center.” He admits that they are early in the process of getting the final EVM change in the FAR. “We have a FAR case number, 3004-019, and both the Defense Acquisition Regulatory Council and the Civilian Agency Acquisition Council have reviewed the case and are finalizing a proposed rule, which should be published for public comment in January 2005. There will be some new concepts proposed in the rule that should generate a lot of comments. At the present pace, the final rule will not be published until May 2005.”

The proposed language was sent to the FAR Council, which asked the Defense Acquisition Review

Committee and the Civilian Acquisition Committee to implement the policy. The committees opened FAR Case Number 2004-019 and assigned an interagency implementation team to review the proposal and recommend the draft FAR change that should be published in the *Federal Register* for public comment. At the present pace, the final FAR rule could be published soon.

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(Above) A U.S. Air Force F-15 Eagle Fighter aircraft. (U.S. Air Force photo.)

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DoD Is Making Policy Changes of Its Own

Present and former DoD staffers are playing a leadership role in helping to shape the new EVM language for the FAR. Among them is Mr. Wayne Abba, a private consultant on EVM and retired senior program analyst for contract performance management in the Office of the Secretary of Defense (OSD). “I try to talk to Mr. Dave Muzio at least once every week,” Mr. Abba said. “As the immediate past president of the College of Performance Management of the Project Management Institute, I have been able to work with Dave and help him edit all of the Earned Value requirements to ensure that something boneheaded doesn’t creep in there.” Mr. Abba has also helped Mr. Muzio organize materials and meetings. Mr. Muzio has made a number of presentations at conferences and industry forums in a concerted effort to obtain feedback. In each presentation, he has asked concerned parties to send their comments directly to him.

The DoD focal point for Earned Value has also been providing input to Mr. Muzio on the new FAR clause. According to Ms. Debbie Tomsic, program analyst in the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics (AT&L), implementing the proposed FAR clause will mean as many as three major adjustments for DoD. At the

same time, “DoD is revisiting its own EVM policy with the intent of making some pretty radical changes,” Ms. Tomsic said. But not to fear, “I have been working with Dave Muzio and sharing our proposed policy changes with him to ensure that we are not going in a direction inconsistent with the OMB vision for future Earned Value

in the federal government. From his feedback, we are consistent with where OMB is heading,” she added.

One of the adjustments in the new FAR clause affecting DoD is OMB’s advocacy that EVM be used on firm fixed-priced contracts. “Typically in DoD we have not done that. In fact, our old policy prohibited program managers from applying EVM on a firm fixed-price contract unless they got permission to do so,” Ms. Tomsic noted. Cost-type contracts are most often used for development work considered to be higher risk. Firm fixed-price contracts are typically used for manufacturing after most of the development work has been done. However, both Mr. Muzio and Ms. Tomsic agree that EVM should be used in some of these production contracts to prevent contractors from taking shortcuts that could be detrimental to the final product if they are faced with cost or schedule overruns. “One of the policy changes we are proposing will lift that prohibition on EVM for firm fixed-price contracts,” Ms. Tomsic said. “We intend to leave it up to the discretion of the program manager to determine whether he thinks he needs EVM on a firm fixed-priced contract. If he does, it will be within his prerogative to do so.”

Within the new policy, Ms. Tomsic and the DoD Working Group for Earned Value, which includes representatives from DCMA, are drafting guidance that program managers can use to make that determination. Also, in response to Mr. Muzio’s feedback, the new guidance will recommend schedule reporting — and cost reporting if deemed necessary — on fixed-price development and integration work that is inherently more risky to the government, according to Ms. Tomsic.

Ms. Tomsic said she expects OMB will require that EVM be applied to processes internal to the government as well as to contractors. “Because this is something that we are not doing on any widespread basis throughout the Department that I am aware of, this is something that will represent a change,” she said. “It will require some work to come up to speed.” Ms. Tomsic noted

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that contractors do the majority of the work on acquisition programs. “But there is often integration work that is being done by some government organizations and development in the labs,” she said. “All of those entities that have a role to play in acquiring the product or service, all of those component pieces, will need to have Earned Value on them, regardless of whether they are being done externally or internally. We typically don’t do that now. So that is another area where I see a potential impact to the Department.”

Mr. Muzio agreed that adding EVM to internal government processes is new to everyone. However, he said that the current draft of the FAR clause doesn’t say it. “Where it talks about that is in OMB Circular No. A-11, Part 7, ‘Planning, Budgeting, Acquisition, and Management of Capital Assets,’ dated July 2003,” Mr. Muzio said. “The language is there to ensure that agencies with a project that has both major contractor and government efforts that must be integrated for project success manage both parts in the same manner to provide the project manager with a complete picture of the project’s status.”

The third potential challenge for DoD from the new FAR language has to do with the timing of integrated baseline reviews (IBRs). The purpose of the IBR process is to achieve a mutual understanding between the government and contractor program managers of the risks inherent in the program and establish the management control processes they will use during the contract’s execution. In the FAR clause, OMB advocates that IBRs be conducted before a contract is awarded. “Typically, in DoD, we require that they be done within six months after contract award,” Ms. Tomsic said. When

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Mr. Muzio rolled the pre-award IBR concept out at various conferences during April and May 2004, a number of DoD people expressed their concern. “I think Dave [Muzio] now has a better appreciation for the difference between the current DoD post-award IBR concept and OMB’s intent to use a pre-award IBR to better understand risk up front to improve source selections,” Ms. Tomsic said.

However, the issue is still very much on the table, according to Mr. Muzio. “The problem with IBRs performed six months after contract award is that it means the government didn’t describe its requirements very carefully such that when the contractors bid, they give a generic proposal,” he said. “Then, we wait six months after we pick somebody, and the price always goes up as the definition of the contract gets better.” Mr. Muzio believes that most of the requirements should be worked out before the contract is awarded. “And, if they have to down select to a couple of bidders and let them go through a further proposal, then why not?” he asked. “This way you still have competition. Once you award the contract, no competition. So, I am looking for the middle ground. We probably can’t do it all, but how far can we go? That is why I have pushed it all the way in these various forums, to see what kind of reaction we would get back.”

DoD also intends to change the dollar thresholds dictating when EVM is required on a contract within the Department. Read about this and the other major issue that the Earned Value community is wrestling with — third-party certification — and where DCMA may play a role in the second installment of “Earned Value Management, Where Are We Going From Here?”