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November 17, 2013

The Honorable Mac Thornberry  
House Armed Services Committee  
2120 Rayburn House Office Building  
Washington, DC 20515

Subject: Expanded NDAA Defense Acquisition Reform - Earned Value

Dear Vice-Chairman Thornberry:

In my letter dated November 2, I recommend that the DFARS Earned Value Management System (EVMS) clauses be amended to require contractors to address the technical requirements (amend or tailor 3 guidelines) and to remove compliance with EVMS guidelines that provide no benefit but add to program and oversight costs (4 guidelines). After further review, I now recommend that 8 of 32 guidelines be removed from compliance requirements.

### **Reduce Costs**

Mr. Moshe Schwartz of the CRS recommended at the recent hearing that repealing or amending regulations that no longer provide a benefit could serve to

- Simplify the acquisition process
- Remove unnecessary regulatory burdens on industry
- Reduce the costs of doing business

Compliance with the EVMS guidelines that are required by DFARS is costly to the programs and the taxpayers. However, compliance does not ensure that Contract Performance Reports provide **timely, reliable, or verifiable** information, as required by DFARS 252.234-7002. Nor does compliance ensure that performance-based acquisition management meet the OMB objective to measure progress towards milestones, cost, **capability to meet specified requirements**, timeliness, and **quality** (OMB Circular No. A-11, Sec. 300-5).

In my opinion, the status quo provides false assurance that EVMS compliance meets DFARS and OMB objectives. If there are unnecessary compliance requirements, they waste taxpayer money by increasing program costs for:

- Contractor labor
- DCMA oversight
- Training
- Consultants
- Specialized software licenses

Compliance with twenty-five percent of the EVMS guidelines adds to program costs but does not provide value to DOD program managers.

## Revised Recommendations

It is now recommended that the GAO be requested determine whether the EVM process and reports meet DFARS and OMB objectives and provide sufficient early warning of growing program costs and, if not, why not. Neither the GAO nor any other independent organization has ever validated that EVM works as intended.

It is also recommended that DOD policy be revised to require contractor compliance with three amended or tailored EVMS guidelines and to remove compliance with eight guidelines. In my opinion, the cost savings by eliminating compliance with eight guidelines will offset any cost increases that may be incurred because of the tailored guidelines.

The rationale for eliminating compliance includes:

- Control and reporting by Work Breakdown Structure (WBS) is sufficient. There is no need for reporting by organization.
- DCAA audits are sufficient; DCMA compliance review is redundant.
- Not needed to meet DFARS or OMB objectives or to add management value to a development program.

## Tailored EVMS Guidelines

The following guidelines should be tailored for development programs. Tailoring will remove obstacles to meeting OMB objectives. The tailoring will overcome the “Quality Gap” in the EVMS Standard guidelines (Page 25, <http://www.crosstalkonline.org/storage/issue-archives/2013/201301/201301-Solomon.pdf> ) and to will increase focus on technical requirements.

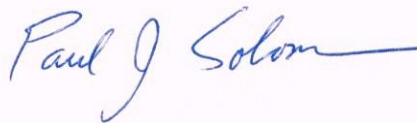
ANSI Guideline #	Guideline topic	Tailored Guideline
2.1a	Define the authorized work.	Add: “Include the work necessary to produce the <b>product scope</b> of the program, including rework (when applicable). The product scope is the <b>technical baseline</b> . It includes the <b>features and functions that characterize a product</b> or result.”
2.2b	Identify physical products, milestones, technical performance goals, or other indicators that will be used to measure progress.	Add, “All <b>technical performance measures</b> that have been identified at major technical reviews shall be used to measure progress in appropriate <b>work packages</b> .”
2.5c	Revisions and Data Maintenance, control retroactive changes.	Add, “Retroactive changes to earned value, including negative adjustments to correct cumulative earned value so that it is <b>consistent with achieved vs. planned technical performance</b> , must be made to improve the accuracy of performance measurement data.”
Summary: Tailor 3 guidelines to meet OMB objectives to measure progress towards <b>capability to meet specified requirements</b> and <b>quality</b> .		

## Remove Compliance with Guidelines

<b>ANSI Guideline #</b>	<b>Guideline topic</b>	<b>Rationale to remove compliance</b>
2.1b	Identify organizational structure	Control by product (WBS) is sufficient.
2.1d	Control overhead (OH)	DCAA audits are sufficient; DCMA compliance review is redundant.
2.1e	Measure performance by WBS or OBS	Control by product (WBS) is sufficient.
2.2d	Identify cost elements (labor, material etc)	Non-value added regulatory requirement.
2.2f	Control account budget = sum of work and planning packages	Non-value added regulatory requirement.
2.2h	Establish OH budgets	DCAA audits are sufficient; DCMA compliance review is redundant.
2.2j	Target cost goal is reconciled with sum of internal budgets plus MR	Non-value added regulatory requirement.
2.3c	Summarize direct costs into organizational elements	Non-value added regulatory requirement.
2.3d	Record indirect costs consistent with the OH budgets	DCAA audits are sufficient; DCMA compliance review is redundant.
2.3e	Identify unit costs, equivalent unit costs, or lot costs	Not needed for development programs.
2.3f	Material accounting system provisions	DCAA Material Management and Accounting System (MMAS) audits are sufficient. DCMA compliance review is redundant.
2.4d	Summarize variance analyses by OBS and/or WBS	Control by product (WBS) is sufficient.
Summary: Remove compliance with 12 guidelines to reduce costs for contractor labor, DCMA oversight, training, consultants, and software.		

## Further Discussion

I would be happy to discuss this with you or your staff. I believe these acquisition reforms will benefit the taxpayers and war fighters.

A handwritten signature in blue ink that reads "Paul J. Solomon" with a long horizontal flourish extending to the right.

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