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The Honorable Adam Smith
Chairman, HASC
2216 Rayburn House Office Building
Washington, D.C. 20515

Subject: "We reward...process, not results" and Earned Value Management

Dear Chairman Smith:

This is a follow-up to my letter dated March 9, subj: Comments on Your Brooking Institution Online Conversation. It includes more discussion of your "second big thing, process over results." You observed that "We reward **people** for process, not for results. Your example was "We're going to check all these boxes...I must do this, this, this, and this before I do that."

The larger problem is that we also reward **contractors** for *process*, not for results, on cost plus award fee (CPAF) contracts that require the use of Earned Value Management (EVM). The DoD *Guidance on Using Incentive and Other Contract Types* states that the award fee should motivate "excellence in the areas of cost, schedule, and technical **performance**." However, DoD uses *subjective* award fee criteria that have nothing to do with excellent cost, schedule, or technical performance or with making real progress towards completing "a freaking product at the end of the day."

For example, when the EVM process is contractually required for Program/Project Management (P/PM), the sample award fee criteria (in *DoD EVM Implementation Guide or EVMIG*) include the following regarding integration, use, and variance analysis.

APPENDIX D: SAMPLE AWARD FEE CRITERIA

MANAGEMENT EXAMPLE: EVM is effectively integrated and used for program management.	
UNSATISFACTORY	Contractor does not meet the criteria for satisfactory performance.
SATISFACTORY	Contractor uses EVM performance data to make program decisions as appropriate.
GOOD	Contractor meets all SATISFACTORY requirements plus the following: <ul style="list-style-type: none">• Contractor effectively integrates EVM performance into program management reviews and utilizes EVM as a primary tool for program control and decision-making.
VERY GOOD	Contractor meets all GOOD requirements plus the following: <ul style="list-style-type: none">• Contractor develops and sustains effective communication of performance status on a continual basis with the government.
EXCELLENT	Contractor meets all VERY GOOD requirements plus the following: <ul style="list-style-type: none">• Contractor proactively and innovatively uses EVM. Contractor plans and implements continuous performance improvement in using EVM.

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MANAGEMENT EXAMPLE: Variance analysis in performance reports.	
UNSATISFACTORY	Contractor does not meet the criteria for satisfactory performance.
SATISFACTORY	Contractor provides sufficient variance analysis. Contractor usually keeps the government informed of problem areas, the causes, and corrective actions. When insufficient detail exists, the contractor provides it to the government promptly upon request.
GOOD	Contractor meets all SATISFACTORY requirements plus the following: <ul style="list-style-type: none"> Contractor routinely keeps the government informed of problem areas, the causes, and corrective actions. Contractor updates explanations on a monthly basis. Contractor takes actions to analyze potential risks for cost and schedule impacts.
VERY GOOD	Contractor meets all GOOD requirements plus the following: <ul style="list-style-type: none"> Contractor always keeps the government informed of problem areas, the causes, and corrective actions. Contractor performs thorough variance analysis and uses said analysis for internal management to control cost and schedule. Contractor provides detailed explanations and insight for schedule slips or technical performance that could result in cost growth. The government rarely requires further clarification of the analysis.
EXCELLENT	Contractor meets all VERY GOOD requirements plus the following: <ul style="list-style-type: none"> Contractor provides extremely thorough variance analysis. Contractor proactively keeps the government informed of all problem areas, the causes, emerging variances, impacts, and corrective action. Contractor keeps the government informed on progress made in implementing the corrective action plans. Analysis is fully integrated with risk management plans and processes.

It is ironic that the DoD report to Congress, *DOD EVM: Performance, Oversight & Governance Report*, which was required by WSARA, stated that the "utility of EVM has declined to a level where it *does not serve its intended purpose*" and contractors "keep *EVM metrics favorable and problems hidden*." Yet, a contractor can profit from being "Excellent" in its use of the flawed, discredited EVM *process* (as prescribed by the EIA-748 standard) regardless of actual cost, schedule, or technical **performance**.

How do you even assess how well **effective communication** of performance status is sustained on a continual basis? What is "continuous performance improvement?" How can the contractor demonstrate that it implements **continuous performance improvement**?

What is **extremely** thorough variance (required to be Excellent) as compared with *thorough* variance analysis (required to be Very Good)?

By the way, the EVMIG is 103 pages. Do contractors need such a detailed, prescriptive Guide for using EVM? Is this not a barrier to entry for prospective Silicon Valley bidders?

Back to your point, the above EVM process criteria have nothing to do with **results as measured by** technical performance. The Section 809 Panel reported that "another substantial shortcoming of EVM is that it does not measure product quality. A program could perform ahead of schedule and under cost according to EVM metrics but deliver a *capability* that is unusable by the customer."

Furthermore, there is no assurance that the contractor's EVM reports even provide the Program Manager with valid *cost* and *schedule* performance status.

Had your NDAA bill (Sec. 1745, Requirements Relating to P/PM) not been receded in Conference, then OMB would have to "Adopt governmentwide standards, policies, and guidelines for P/PM for executive agencies that are "in accordance with standards accredited by the American National Standards Institute (ANSI)." The Project Management Institute (PMI) standards meet that accreditation criterion. EIA-748, accredited by the SAE, does not. The PMI standards focus on the product scope. EIA-748 focuses on the statement of work and is silent on the product scope or technical baseline. Please see my letter to you dated Dec.12, 2020 for a complete discussion of the differences between EIA-748 and the PMI standards.

Please revive your bill and consider the other legislative and oversight recommendations included in my previous letters.

"Buy Products that Work, not Statements of Work."

This letter is also posted at www.pb-ev.com at the "Acquisition Reform" tab.



Paul J. Solomon

CC:

Sen. Joni Ernst, SASC

Mr. Andrew Hunter, Biden-Harris Transition Team

Kathleen Hicks, Dep. Sec. of Defense