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The Honorable USD (R&E) Emil Michael
Office of the Under Secretary of Defense, Research and Engineering (USD(R&E))
1010 Defense Pentagon
Washington, DC 20301-1010

Subj: Shortcomings of Draft SAE/EIA-748E Earned Value Management System Standard, Part 4

Dear Hon. USD (R&E) Michael:

This letter augments the Part 3 letter with excerpts from the *NDIA EVMS EIA-748-D Intent Guide*, dated August 28, 2018. The following excerpts have nothing to do with engineering practices or even widely accepted business practices or GAAP.

Guideline 13. Provide that the program target cost goal is reconciled with the sum of all internal program budgets and management reserve. (Guideline 15 in EIA-748-D)

Management Value

A project baseline that reflects the common agreement between the two parties, for example a customer and contractor, provides a common reference point for progress assessment. It provides recognition of contractual requirements and precludes unauthorized changes to the performance measurement baseline. The project **target cost** must be reconciled with the performance measurement baseline and management reserve.

Intent

Reconcile the project value (**target cost** plus authorized, unpriced work) with the sum of all control account budgets, indirect budgets, management reserves, and undistributed budgets. This is illustrated in guideline 8 Figure 3.

Typical Attributes:

- Project control logs including:
 - Management reserve (showing month end values; monthly sources and applications to control accounts; current value).
 - Undistributed budget (showing month end values; monthly sources and applications to control accounts; current value).
 - Performance measurement baseline (showing month end values; monthly changes from/to management reserve and undistributed budget; current value).
 - Contract budget base (showing month end values; monthly changes identifying contract modifications; current value) reconciled to project **target cost**.
 - Total allocated budget reconciled to the contract budget base and any recognized over-target baseline.
- Contract and modification control logs identifying authorized **target cost**.

Objective evidence may be found in these typical outputs:

- Project control logs (management reserve, undistributed budget, performance measurement baseline, and contract budget base) reconciled to project **target cost**.
- Management performance reports.
- Internal report showing the summarization from cost account to the performance

Guideline 26. Control retroactive changes to records pertaining to work performed that would change previously reported amounts for actual costs, earned value, or budgets. Adjustments are made only for correction of errors, routine accounting adjustments, or effects of customer or management directed changes, including implementation of a single point adjustment. (Guideline 30 in EIA-748-D)

Guideline 30 – Control Retroactive Changes

- c) Control retroactive changes to records pertaining to work performed that would change previously reported amounts for actual costs, earned value, or budgets. Adjustments should be made only for correction of errors, routine accounting adjustments, effects of customer or management directed changes, or to improve the baseline integrity and accuracy of performance measurement data.

Management Value

Retroactive changes to the baseline may mask variance trends and prevent use of the performance data to project estimates of cost and schedule at completion.

Intent

Control retroactive adjustments (including those in the current period), making only routine accounting adjustments, definitization of contract actions, rate changes, and economic price adjustments, customer-approved changes, or error corrections. Adjustments resulting from definitization of contract actions should be limited to affected work scope budgets. Changes that would arbitrarily eliminate existing cost and schedule variance should not be made. Rate changes and economic price adjustments are normal exceptions.

The cumulative values for the budgeted cost for work scheduled and budgeted cost for work performed are not adjusted for routine direct or indirect cost rate increases or decreases. This is necessary to ensure baseline integrity and accuracy of performance measurement data. Retroactive budget and/or performance adjustments may delay visibility of overall project variance from plan, thus reducing the alternatives available to managers for project redirection or termination.

Typical Attributes:

- Change control process defines policy regarding retroactive changes that include conditions for use; prohibitions, approvals, and justifications; and evidence of discipline and control.
- Change control logs record change activity.
- Current and previous period dollarized, time-phased baseline plan. Compare the plans to identify any differences and to verify that all changes have been identified.
- Scheduling system reflects schedule inputs concerning times, dates, durations, percentage complete, and other schedule related details.
- Negative journal entries. When not a result of error corrections or routine accounting
 - Earned value input source documents. Negative or inappropriate amounts have appropriate explanations.
 - Management performance reports or other management reports. Current period data on the performance reports reflect any retroactive changes with related explanations.

Objective evidence may be found in these typical outputs:

- Change control logs.
- Baseline change documents.
- Management reports.
- Retroactive change control process including approval.

Questions Repeated from Previous Letter

1. Why do we even waste appropriated funds on compliance reviews for these guidelines?
2. Why do program managers have to be held accountable to implement them?
3. Even if the contractor complies with these guidelines, does compliance “provide a sound basis for problem identification, corrective actions, and management replanning as may be required.”

New Questions:

1. Should the program managers (contractor and government) and their teams waste time (training, execution, compliance reviews) on these guidelines instead of bringing a needed capability to the warfighter on time and within budget?
2. Should contractors receive award fees based on subjective assessments of the following criteria in the *DOD EVM Implementation Guide* or would you prefer incentives based on timely delivery of capabilities?

DISCIPLINE EXAMPLE: Baseline discipline and system compliance.	
SATISFACTORY	The contractor develops a reliable PMB that includes work scope, schedule, and cost. The contractor or government may discover system deficiencies or baseline planning errors through either routine surveillance or data inaccuracies in the IPMRs. The contractor incorporates contract changes and UB into the baseline in a timely manner. The contractor tracks and uses MR properly. Elimination of performance variances is limited to correction of errors.
GOOD	Contractor meets all SATISFACTORY requirements plus the following: <ul style="list-style-type: none"> • Contractor addresses requirements up front to minimize changes and future cost and schedule growth. Contractor always incorporates contract changes and UB into the baseline in a timely manner. Contractor

	quickly assesses and corrects system deficiencies or baseline planning errors, resulting in minor impacts to data accuracy. Contractor provides for the continuous review of the baseline to ensure that it is current and accurate, thereby maintaining its usefulness to management. Cost and schedule baselines are fully integrated.
VERY GOOD	Contractor meets all GOOD requirements plus the following: <ul style="list-style-type: none"> • Contractor builds proper baseline in a timely manner. Contractor provides realistic performance baseline. Contractor ensures WPs are detailed and consistent with scope of contract and planned consistently with the schedule. Contractor conducts routine surveillance that reveals minor system deficiencies or minor baseline planning errors, quickly assessed and corrected, resulting in minimal impact to data accuracy. Contractor EVMS is effectively integrated with other management processes.
EXCELLENT	Contractor meets all VERY GOOD requirements plus the following: <ul style="list-style-type: none"> • Contractor proactively manages baseline. Contractor maintains timely detail planning as far in advance as practical and implements proper baseline controls. Contractor controls and minimizes changes to the baseline, particularly in the near term. System deficiencies or planning errors are few and infrequent. Contractor takes the initiative to streamline internal processes and maintains a high level of EVMS competency and training across the organization.

3. Do you know how much time is spent on documenting and agreeing on the criteria for an average six-month award fee period, preparing documentation to justify Excellent, and conducting the Powerpoint meeting?
4. Would you prefer that the team work on corrective actions?

Yours truly,



Paul Solomon

CC:

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