

From:pbev [paul.solomon@pb-ev.com]  
Sent:Sunday, December 04, 2011 8:15 PM  
To:Fraud  
Subject:Additional information, F-35 Control number 58551: Layman's explanation.

I prepared a "layman's" explanation of the F-35 allegations for Sen. McCain's office. I thought that this might be easier to understand than all the technical explanations and exhibits that were submitted.

I hope this same information is helpful to the GAO and IG. Please add it to case 58551.

- \*Lockheed Martin (LM) must report cost and schedule progress, and an estimate of final costs, to the DoD program manager monthly in a contractually required Contract Performance Report (CPR).
- \*The contract includes provisions from DFARS (acquisition regulation) that require LM to use Earned Value Management (EVM) guidelines in preparing the monthly report. This is a set of accounting rules that is similar in purpose to GAAP for publicly-owned corporations.
- \*The DFARS guidelines are in an industry standard called ANSI/EIA-748 that is maintained by the NDIA.
- \*As early as 2006, LM and the DoD program office knew that the program was getting further and further behind schedule and that there were significant cost overruns.
- \*LM started cooking the books by overstating true earned value and understating the Estimate at Completion (EAC). It submitted monthly CPRs that masked the truth. They intentionally ignored the DFARS/ANSI-748 guidelines. They managed the numbers, not the program.
- \*LM had a teaming agreement with its 2 major subcontractors, Northrop Grumman and BAE. NGC also submitted CPRs to LM that were incorporated into LM's CPRs. NGC also ignored the DFARS/ANSI-748 guidelines. BAE probably did the same but I have no evidence for BAE. In my opinion, LM's objectives were to keep funds and award fees (profit) flowing and to defer a Nunn- McCurdy review.
- \*Award fees are earned every 6 months. Part of the award fees are based on the improvement in cost and schedule performance as reported in the CPRs.
- \*LM earned \$55 M in award fees for Periods 11 and 12, some of which went to NGC and BAE. I don't have data for Period 10. In my opinion, award fees would have been zero if the books had not been cooked.
- \*I also believe that the DoD program managers were also cognizant of the true program status. Gen. Heinz finally got fired in 2010 when Sec. Gates finally uncovered the truth.

\*I had been reporting these problems starting in 2006 when I was the NGC internal auditor on the program performing joint audits of EVM, called EVM surveillance, with DCMA. No one acted to correct pervasive, systemic problems.

Why am I reporting this to GAO and Sen. McCain?

\*I retired from NGC in Aug. 2008 and am now a concerned taxpayer. I want less waste and abuse in our defense acquisition spending.

\*Sen. McCain has been very vocal in criticizing cost overruns in DoD acquisitions , especially F-35, and was a WSARA author.

oMy previous legislative contact, Ike Skelton, lost re-election last year. He marked up the

2011 NDAA to include my recommendation that would lead to acquisition reform of EVM guidelines.

oI am seeking a new sponsor for legislation that will lead to changes in DFARS/FAR that will hold contractors accountable to submit valid, not false, CPRs. There is a need to link reported earned value to technical performance and to eliminate the contractor's abuse of a slush fund called "Management Reserve."

\*I have been advocating needed reform to industry (NDIA). They refuse to change the status quo (in ANSI-748) because its ambiguities and loopholes allow contractors to submit CPRs that have flawed data, thus preserving cash flow and profits.

\*I have advocated specific reforms in many articles in DoD journals and spoken at DoD and industry conferences but DoD has no interest in changing DFARS, which applies to contractors, or its own policy guidance for DoD acquisition officials (DoDI 5000.02).

Please acknowledge receipt of this email.

Paul Solomon, PMP

[www.pb-ev.com](http://www.pb-ev.com)