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The Honorable Carl Levin, Chairman
United States Senate Armed Services Committee
Room SR-228, Russell Senate Office Building
Washington, DC 20510-6050
Attn: Peter K. Levine

Subject: Request to Support Earned Value Management Reform in H.R. 5013, IMPROVE Acquisition Act

Dear Chairman Levin:

Today, the House passed H.R. 5013, IMPROVE Acquisition Act. One of its components is needed to improve the accuracy and validity of contractor earned value performance reports. I would appreciate your support of this component, Section 106(b)(4). It requires the Secretary of Defense to review DoD acquisition guidance, including DoDI 5000.02, to consider "*whether **measures of quality and technical performance** should be included in any earned value management system (EVMS).*"

I had written to you previously regarding loopholes in the FAR, DFARS, and ANSI/EAI-748, the required EVMS standard. The loopholes enable federal contractors to submit monthly earned value Contract Performance Reports (CPR) that contain inaccurate, misleading information. As reported in DoD's report to the House and Senate (required by WSARA), contractors often understate the true cost underruns and overstate schedule progress. This leads to understatement of the estimated costs at completion. The report stated that "Utility of EVM has declined to a level where it does not serve its intended purpose." A summary of the DoD report is provided at <http://pb-ev.com/DoDEVMIImplementationReport.aspx> .

One root cause of inaccurate reporting is a shortcoming in ANSI/EIA-748. Its guidance focuses on measuring and reporting only the *quantity* of work performed, not *quality* (Quality Gap). More information on the Quality Gap is provided at <http://pb-ev.com/EVMSQualityGap.aspx>

The DoD report states that the EV process is reliable and accurate only if technical performance measures are identified and associated with completion of appropriate work (earned value) packages and that the Quality of work must be verified. However, DoD has not yet revised acquisition guidance to require that contractors report technical performance/quality and link it to earned value in the CPRs. Likewise, the National Defense Industrial Association has taken no action to revise ANSI/EIA-748 and close the "Quality Gap." Consequently, legislative action is necessary to achieve needed acquisition reform and more accurate CPRs.

I am grateful to Chairman Skelton for marking up the Act to add the earned value clause cited above. He did this in response to my attached letter dated April 16, subject: *Proposed Markup to H.R. 5013 regarding Contractor Earned Value Management.*

Now, I request that you protect the taxpayer and the war fighter by ensuring that the cited section is retained in the final legislation without significant change. Actually, it would be preferable if the legislation *concluded* that "**measures of quality and technical performance should be included in any EVMS**" rather than direct DoD to *consider* the need for those measures. Executive branch policy already requires linkage of earned value to quality and technical performance, as discussed below.

OMB Circular No. A-11, Section 300, *Planning, Budgeting, Acquisition and Management of Capital Assets*, Section 300-5, requires *performance-based* acquisition management with measurement of progress towards milestones of

- Cost
- **Capability to meet specified requirements**
- Timeliness
- **Quality**

Inexplicably, both FAR and DFARs fail to implement this OMB policy because they are silent on measurement of progress towards meeting requirements (technical performance) and quality.

I had sent letters to you on this topic on March 5, 2010 and Dec. 11, 2009. Please send a copy of this letter to Sen. McCaskill. She was a co-sponsor of the EVM amendment in WSARA and, hopefully, will support this action. Also, contact me if I can provide further clarification or assistance.

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Attachment