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The Honorable Ike Skelton, Chairman
House Armed Services Committee
2120 Rayburn House Office Building
Washington, DC 20515

Subject: Defense Acquisition Reform Recommendations Regarding Earned Value Management

Dear Chairman Skelton:

This letter supplements the previous recommendation for weapons system acquisition reform regarding Earned Value Management (EVM). It includes a second recommendation and a discussion of the F-35 Joint Strike Fighter (JSF) program. I believe that the PEOs/buying activities and the Congressional oversight committees would have had knowledge of the true state of the program as early as 1996 if the recommended reforms had been implemented by the DoD and by the program.

JSF

Issues with the JSF program were first disclosed by DCMA and me in an EVMS joint surveillance report in December 2006. The press reported similar issues in 2007. As you know, it was not until 2010 that the program was significantly restructured.

The surveillance report included Finding No. 06-48a regarding use of management reserve. A similar condition was classified as a significant deficiency in DoD's 2009 report, *DoD Earned Value Management: Performance, Oversight, and Governance*. The DoD report stated that Contractors "keep EVM metrics favorable and problems hidden" and cited Contractors' use of management reserve to alter internal and subcontract performance levels and overruns.

In August 2007, Bloomberg News reported that "Lockheed Martin, which is running over budget on the first phase of the Joint Strike Fighter program...is seeking Defense Department approval to cut the number of test aircraft and personnel plus hundreds of flight tests to gain savings and replenish a reserve fund that has dwindled to \$392 million from about \$2 billion."

Implementation of the recommendations would deter the misuse of management reserve, improve the reliability of performance reporting, and provide an early warning of real program problems, as will be discussed later.

Specific Acquisition Reform Recommendations

The specific acquisition reform recommendations follow:

1. Add coverage of **quality** or **technical performance measures (TPM)** during **Integrated Baseline Reviews (IBR)**.

2. Convert excellent **guidance** on **performance measures**, already in DoD guides, to **policies** and contractual **mandates**.

Rationale and Enabling DoD Implementation Actions

The rationale for these recommendations and possible DoD actions to implement these acquisition reforms follow.

1. Recommendation: Quality/TPMs in IBRs

Rationale:

The Defense Federal Acquisition Regulation Supplement (DFARS) is silent on coverage of quality/TPMs during IBRs. The IBR covers only “the statement of work, logical scheduling of the work activities, adequate resourcing, and identification of inherent risks.” This silence on quality/TPMs is consistent with the broader deficiency in DFARS and ANSI/EIA 748, the contractually-required EVMS standard. Neither document requires that quality/TPMs be used as a basis for measuring earned value.

Neither the acquisition managers nor the new PARCA office can be assured that a Contractor’s performance metrics are valid or accurate. To my knowledge, neither the GAO nor any other agency ever validated that the use of EVMS ensures integration of cost, schedule and quality/technical performance or that it provides accurate status and Estimate at Completion. There is a need to transform EVMS into a more valuable acquisition management tool that will provide early warning of performance problems on a consistent basis.

DoD implementation actions:

Revise DFARS EVMS clause 252.234-7002(e) to require that, during IBRs, “the Government and the Contractor will jointly assess the Contractor’s baseline to be used for performance measurement to ensure complete coverage of **quality or technical performance measures in addition to** (revision in Italics) the statement of work, logical scheduling of the work activities, adequate resourcing, and identification of inherent risks.”

2. Recommendation: Convert Guidance on Performance Measures to Mandates

Rationale:

GAO report GAO-10-388SP, *Defense Acquisitions: Assessments of Selected Weapon Programs*, discloses common deficiencies regarding performance requirements and metrics. It found that:

1. Few programs are demonstrating that the design is capable of meeting performance requirements by testing an integrated prototype.
2. Few programs are demonstrating that the design is capable of meeting performance requirements.

3. Some programs are taking steps to bring critical manufacturing processes into control; however, many programs still rely on “after the fact” metrics.

Per current DoD guidance, performance measures should be related to the success criteria in major technical reviews, TPMs, and meeting the requirements in the technical baselines. Also, the *Defense Acquisition Guidebook* (DAG) provides guidance for making negative adjustments to reported earned value when there is rework to the design to correct deficiencies. Adjusting reported earned value for rework provides more accurate performance measurement than the common practice of using management reserve to provide additional budget and schedule for rework.

Specific guidance for performance measures is provided in the *Defense Acquisition Program Support Methodology* (DAPS), V2.0, DAG, and other guides. Summaries of these guides are provided at the following tabs within the website, [www.pb-ev.com](http://pb-ev.com) : <http://pb-ev.com/TPM.aspx> , <http://pb-ev.com/techbaseline.aspx> and <http://pb-ev.com/DODtable.aspx> . Unfortunately, these guides are not mandatory. Consequently, buying activities are not required to utilize the guidance or to impose enabling contractual requirements on Contractors.

DoD implementation actions:

DoD should revise *DOD Instruction, DODI 5000.02, Operation of the Defense Acquisition System*, to convert the guidance to instructions. Subsequently, buying activities should issue appropriate contractual direction.

Legislative Action

As stated in earlier letters, legislative action is necessary to encourage DoD to revise its acquisition regulations and policies. Implementation of the two recommendations described above will improve the validity and accuracy of the Contractors' monthly Contract Performance Reports (CPR). Despite WSARA, neither the Contractors nor DoD have taken sufficient action to preclude the reporting of flawed data.

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