



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010

MAR 7 2005

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Revision to DoD Earned Value Management Policy

Earned Value Management (EVM) has been an effective management control tool in the Department for the past 37 years. In order to streamline, improve, and increase consistency in EVM implementation and application, I am revising the policy to include the following changes, effective immediately.

1. Cost or incentive contracts, subcontracts, intra-government work agreements, and other agreements valued at or greater than \$20 million in then-year dollars shall implement the American National Standards Institute/Electronic Industries Alliance Standard 748, *Earned Value Management Systems* (ANSI/EIA-748). Cost or incentive contracts, subcontracts, and other agreements valued at or greater than \$50 million in then-year dollars shall have an EVM system that has been formally validated and accepted by the cognizant contracting officer. I intend to review these dollar thresholds, and revise them if necessary, at least every five years.
2. A Contract Performance Report (CPR) (Data Item Description (DID) number DI-MGMT-81466) (previously called the Cost Performance Report) and an Integrated Master Schedule (IMS) (DID number DI-MGMT-81650) shall be required whenever EVM (compliance with ANSI/EIA-748) is required, that is, for cost or incentive contracts, subcontracts, intra-government work agreements, and other agreements valued at or greater than \$20 million in then-year dollars. However, CPR and IMS reporting for cost or incentive contracts, subcontracts, intra-government work agreements, and other agreements valued at less than \$50 million in then-year dollars may be tailored (refer to the DoD Earned Value Management Implementation Guide (EVMIG) for guidance on tailoring reporting). A common work breakdown structure that follows the DoD Work Breakdown Structure Handbook (MIL-HDBK-881) shall be used for the CPR, IMS, and Contractor Cost Data Report (CCDR). The Cost/Schedule Status Report (C/SSR) is rescinded effective immediately (except to the extent that it is required under current contracts) and shall not be used to satisfy the EVM reporting requirement on future contract awards.



3. Integrated Baseline Reviews (IBRs) shall be required whenever EVM (compliance with ANSI/EIA-748) is required, that is, for cost or incentive contracts, subcontracts, intra-government work agreements, and other agreements valued at or greater than \$20 million in then-year dollars.
4. The responsibility and requirement for government surveillance of contracts remains unchanged and shall be based on the effectiveness of the contractor's implementation of internal management controls. Guidance on surveillance activity can be found in the DoD EVMIG.
5. EVM is discouraged on firm-fixed price, level of effort, and time and materials efforts, including contracts, subcontracts, intra-government work agreements, and other agreements, regardless of dollar value. If knowledge by both parties requires access to cost/schedule data, the first action is to re-examine the contract type (e.g., fixed price incentive). However, in extraordinary cases where cost/schedule visibility is required and cannot be obtained using the Truth in Negotiation Act, the program manager shall obtain a waiver for individual contracts from the Milestone Decision Authority. In these cases the program manager will conduct a business case that includes rationale for why a cost or fixed price incentive contract was not an appropriate contracting vehicle.
6. The application of EVM on cost or incentive efforts, including contracts, subcontracts, intra-government work agreements, and other agreements valued at less than \$20 million is optional and is a risk-based decision that is at the discretion of the program manager. A cost-benefit analysis shall be conducted before deciding to implement EVM in these situations. Considerations for determining the efficacy of applying EVM in these situations and guidance for tailoring reporting can be found in the DoD EVMIG.

These changes to EVM policy are not retroactive but shall be implemented on all applicable future contracts that are awarded based on solicitations or requests for proposal issued on or after 30 days from the date of this memorandum. These changes will be included in the next revision of the DoD 5000 series and other acquisition-related documents. While there is no prohibition on negotiating the revised policy into current contracts, the costs associated with changing the EVM requirements on existing contracts shall be borne by the government.

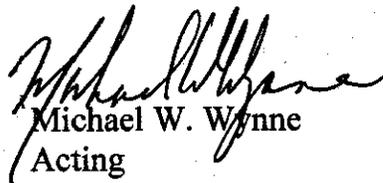
In support of the above policy changes, the Director, Acquisition Resources and Analysis, shall update all pertinent documents, to include DoD Instruction 5000.2, the Defense Acquisition Guidebook, and the CPR and IMS DIDs. The Director, Acquisition Resources and Analysis, shall work with the Director, Defense Procurement and Acquisition Policy, to update the Defense Federal Acquisition Regulation Supplement (DFARS) clauses. The Defense Contract Management Agency shall lead the efforts to

update the DoD EVMIG. The Defense Acquisition University shall update its EVM curriculum.

Until the updated DFARS clauses are coordinated and approved, the existing clauses (252.234-7000 for solicitations and 252.234-7001 for contracts) shall be used. For contracts valued at or greater than \$50 million, these clauses shall be applied directly. For contracts valued at or greater than \$20 million but less than \$50 million, the following paragraph shall be included in the statement of work: *"In regard to DFARS 252.234-7000 and 252.234-7001, the contractor is required to have an Earned Value Management System that complies with ANSI/EIA-748; however, the government will not formally validate/accept the contractor's management system (no formal review)."* While not required, if a risk-based decision is made to require EVM on cost or incentive contracts valued at less than \$20 million, the above paragraph shall also be included in the statement of work.

While it is preferred that Project Management/Earned Value Management costs be charged direct to the contract, the contractor shall follow their accounting policies and procedures.

Questions regarding the revised EVM policy should be directed to Ms. Debbie Tomsic (deborah.tomsic@osd.mil) or Mr. Larry Axtell (larry.axtell@osd.mil) at (703) 695-0707.


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