UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

OCT 4 2007

PROCUREMENT MEMORANDUM 2007-05

ACTION

MEMORANDUM FOR: **HEADS OF CONTRACTING OFFICES**

FROM: Leslie A. Andrecs
Director, Commerce Acquisition Performance, Policy and Support
Office of Acquisition Management

SUBJECT: Implementation of FAR Subpart 34.2, Earned Value Management System

Background

On July 5, 2006, Subpart 34.2 was added to the Federal Acquisition Regulation (FAR) to require use of an Earned Value Management System (EVMS) in major acquisitions for development in accordance with Office of Management and Budget (OMB) Circular A-11 and agency procedures. A major acquisition is defined in OMB Circular A-11, Part 7, as "a system or project requiring special management attention because of its importance to the mission or function of the agency, a component of the agency or another organization; is for financial management and obligates more than $500,000 annually; has significant program or policy implications; has high executive visibility; has high development, operating, or maintenance costs; or is defined as major by the agency's capital planning and investment control process." Use of earned value management enables project managers and senior management to better track the progress of major investments and enhances the ability to make informed decisions.

The Department of Commerce (DOC) Office of the Chief Information Officer (OCIO) is responsible for the Department's capital planning and investment control (CPIC) process and EVMS policies. The OCIO oversees the Department's major information technology (IT) investments and, working with the Office of Budget, determines which projects are deemed "major acquisitions" for IT development consistent with FAR Subpart 34.2, Earned Value Management System and OMB-Circular A-11. The OCIO Program Management Office (PMO) is responsible for monitoring project performance and will assist project managers, contracting officers, and contracting officer representatives with earned value management questions, including whether an EVMS is required for a particular acquisition. A list of existing DOC acquisitions for which EVMS is required is available on the OCIO website.

Purpose

The purpose of this Procurement Memorandum is to provide guidance to the acquisition community on implementing EVMS requirements into applicable solicitations and contracts. This Procurement Memorandum supersedes the guidance of August 29, 2005, from the Chief Information Officer and Director for Acquisition Management and Procurement Executive to Chief Information Officers and Bureau Procurement Officials entitled Earned Value Requirements in IT Development Contracts.

Policy

In accordance with the Department's Information Technology Investment Performance Measurement and Performance Reporting Policy at http://ocio.os.doc.gov/ITPolicyandPrograms/Capital_Planning/PROD01_002091, the use of an EVMS per FAR 34.2 is required for major acquisitions for IT development in which the development/modernization/enhancement (D/M/E) *costs are anticipated to equal or exceed $25 million over the life of the acquisition.* However, the OCIO PMO may require an EVMS on other acquisitions if the project merits special attention due to sensitivity, mission criticality, or risk potential.

If a project manager considers the use of an EVMS to be necessary for a major acquisition that does not meet the $25 million D/M/E threshold, the project manager should conduct a cost/benefit analysis and consult with the OCIO PMO on the advisability of requiring an EVMS.

Project managers, contracting officers, and contracting officer representatives responsible for major acquisitions requiring an EVMS must successfully complete an Earned Value Management course that meets the requirements of the OCIO PMO. Information on acceptable Earned Value Management courses is available through the OCIO PMO.

Exceptions

The use of firm-fixed price type contracts, subcontracts and other agreements is generally not suited to developmental efforts and the use of an EVMS is of limited utility under such arrangements. In the rare case where a fixed-price type contract is contemplated for a developmental effort, the project manager and contracting officer must consult with the OCIO PMO for guidance to determine whether an EVMS will be required.

The use of an EVMS is generally discouraged for contracts, subcontracts, and other agreements where the period of performance is less than 12 months in duration. Additionally, application of an EVMS to work efforts that are not

discrete in nature (i.e., non-schedule based such as level-of-effort and time-and-materials) should be considered on a case-by-case basis.

In cases where the nature of the work does not lend itself to the meaningful use of an EVMS, it may be appropriate for the OCIO Program Management Office to waive the EVMS requirement.

Actions Required

- Contracting officers shall work closely with their project managers, contracting officer representatives, and the OCIO PMO to determine if an EVMS is required for their acquisitions.

- Contracting officers shall assist their project managers and the OCIO PMO to ensure that an EVMS strategy is addressed in the budget submission and that planned funding amounts in the acquisition plan are adequate to support EVMS requirements in solicitations and contracts.

- Contracting officers shall insert the applicable EVMS provisions and clauses in solicitations and contracts per FAR Subpart 34.203.

- Contracting officers shall ensure that contracting officer representative appointment letters highlight EVMS duties, responsibilities and training requirements.

- Contracting officers working closely with the project manager and the OCIO PMO shall ensure that the government and the contractor meet all requirements specified in the contract such as: conducting integrated baseline reviews; validating contractor earned value management systems; and ensuring compliance with earned value reporting requirements.

Information relating to the use of earned value management, the requirements for an EVMS, and references to guidance regarding integrated baseline reviews and validation of an EVMS can be found on the OCIO website at http://ocio.os.doc.gov/ITPolicyandPrograms/Project_Management/PROD01_002421.

Questions about this Procurement Memorandum may be directed to Nancy Barrere at Nbarrere@doc.gov or (202-482-5519) in the Office of Acquisition Management or Jerry Harper at JHarper@doc.gov or (202-482-0222) in the OCIO's Program Management Office.

ATTACHMENTS

cc: Acquisition Community

Acquisition Council
Chief Information Officers' Council
Chief Financial Officers' Council
Barry West, OCIO
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LIST OF EARNED VALUE MANAGEMENT (EVM) RESOURCES:

Policy and Regulation

- OMB Capital Planning Guide (Supplement to OMB Circular A-11, Part 7: Planning, Budgeting and Acquisition of Capital Assets at http://www.whitehouse.gov/omb/circulars/a11/current_year/part7.pdf (Requires EVM on capital asset acquisitions)

- Federal Acquisition Regulation at http://www.acquisition.gov/far/index.html (See Subpart 34.2, Earned Value Management System; definition of EVMS at 2.101; Acquisition Plans at 7.105(b)(3) and (10); and EVMS clauses at 52.234-2, 52.234-3, and 52.234-4)

DOC Resources/Links

- Office of Chief Information Officer's Project Management website at http://ocio.os.doc.gov/ITPolicyandPrograms/Project_Management/PROD01_002421

DOD Resources/Links

- DOD Earned Value Management Implementation Guide (EVMIG), October 2006 at https://acc.dau.mil/CommunityBrowser.aspx?id=19557

- A List of Suppliers With Reviewed EVM Systems on Defense Contract Management Agency (DCMA) site at http://guidebook.dcma.mil/79/index.htm

Other EVM Resources/Links

- The National Defense Industrial Association (NDIA) ANSI EIA 748 Intent Guide, September 2006, at https://acc.dau.mil/CommunityBrowser.aspx?id=19533

EVMS QUESTIONS AND ANSWERS

1. What Is an EVMS?

The FAR (2.101) defines an earned value management system (EVMS) as a "project management tool that effectively integrates the project scope of work with cost, schedule and performance elements for optimum project planning and control. The qualities and operating characteristics of an earned value management system are described in American National Standards Institute /Electronics Industries Alliance (ANSI/EIA) Standard-748, Earned Value Management Systems. (See OMB Circular A-11, Part 7.)" The ANSI/EIA standard is available from Global Engineering Documents and may be purchased either on line at http://global.ihs.com/ or by phone at 1-800-854-7179.

2. Who Has the EVMS Lead?

The project manager is primarily responsible for ensuring EVMS requirements are budgeted, planned for, and used during the acquisition. The contracting officer, working closely with the project manager and contracting officer's representative, is responsible for ensuring that the government and the contractor meet all requirements specified in the contract. OCIO PMO establishes Departmental policy and reporting requirements for EVMS and is the central resource for EVMS guidance and assistance.

3. What Are the General Requirements for EVMS?

Major acquisitions for IT development must use earned value management in the program's project management and the contractor and applicable subcontractor(s) must have an Earned Value Management System (EVMS) determined to be compliant with ANSI-EIA Standard 748 or have taken the necessary steps to meet milestones in the contractor's EVMS plan for providing EVMS data that complies with ANSI-EIA Standard 748. The implementation of EVMS also requires an Integrated Baseline Review (IBR) be completed before or after award and that the contractor submit monthly reports of its earned value management data to the Government. Acquisition plans must describe how EVMS and IBR requirements will be addressed and funded.

4. What Does the FAR Specifically Require?

In accordance with FAR 34.2:

a) An EVMS is required for major acquisitions for development in accordance with OMB Circular A-11. The Government may also require an EVMS for other acquisitions, in accordance with agency procedures.

b) If the offeror proposes to use a system that has not been determined to be in compliance with the American National Standards Institute /Electronics Industries Alliance (ANSI/EIA) Standard-748, Earned Value Management Systems, the offeror shall submit a comprehensive plan for compliance with these EVMS standards. Offerors shall not be eliminated from consideration for contract award because they do not have an EVMS that complies with these standards.

c) As a minimum, contracting officers shall require contractors to submit EVMS monthly reports for those contracts for which an EVMS applies.

d) EVMS requirements will be applied to subcontractors using the same rules as applied to the prime contractor.

e) When an offeror is required to provide an EVMS plan as part of its proposal, the contracting officer (consulting with the project manager and OCIO PMO) will determine the adequacy of the proposed EVMS plan prior to contract award.

5. How Should EVMS Be Incorporated into Acquisition Planning?

When an EVMS is required and a pre-award IBR is contemplated, the acquisition plan must discuss (i) how the pre-award IBR will be considered in the source selection decision; (ii) how it will be conducted in the source selection process, and (iii) whether offerors will be directly compensated for the costs of participating in a pre-award IBR.

When an EVMS is required, the acquisition plan must also discuss the methodology the Government will employ to analyze and use the earned value data to assess and monitor contract performance. It must also discuss how the offeror's/contractor's EVMS will be verified for compliance with the American National Standards Institute/Electronics Industries Alliance (ANSI/EIA) Standard-748, Earned Value Management Systems, and the timing and conduct of integrated baseline reviews (whether prior to or post award).

6. What Are Integrated Baseline Reviews (IBR)?

In accordance with FAR 34.202, when an EVMS is required, the Government will conduct an Integrated Baseline Review (IBR). The purpose of the IBR is to verify the technical content and the realism of the related performance budgets, resources, and schedules. It should provide a mutual understanding of the inherent risks in offerors'/ contractors' performance plans and the underlying management control systems, and it should formulate a plan to handle these risks.

The IBR is a joint assessment by the offeror or contractor, and the Government, of the: (a) ability of the project's technical plan to achieve the objectives of the scope of work; (b) adequacy of the time allocated for performing the defined tasks to successfully achieve the project schedule objectives; (c) ability of the Performance Measurement Baseline (PMB) to successfully execute the project and attain cost objectives, recognizing the relationship between budget resources, funding, schedule, and scope of work; (d) availability of personnel, facilities, and equipment when required, to perform the defined tasks needed to execute the program successfully; and (e) the degree to which the management process provides effective and integrated technical/schedule/cost planning and baseline control.

The timing and conduct of the IBR shall be in accordance with agency procedures. If a pre-award IBR will be conducted, the solicitation must include the procedures for conducting the IBR and address whether offerors will be reimbursed for the associated costs. If permitted, reimbursement of offerors' pre-award IBR costs is governed by the provisions of FAR Part 31.

The OCIO PMO anticipates that pre-award IBRs will rarely be used.

7. What Are the EVMS Contract Requirements?

The project manager, contracting officer, and contracting officer's representative, shall read and understand the EVMS requirements specified in the solicitation and resulting contract.

The contractor shall be required to submit an EVMS report at least monthly, with content and form to be specified by the project manager and included in the contract. At present, there are no specific formats required for EVM reporting under DOC contracts. The project manager is encouraged to coordinate with the OCIO PMO in developing suitable reporting requirements.

When EVMS is required:

(a) The contracting officer shall insert a provision that is substantially **the same as the provision at FAR 52.234-2, Notice of Earned Value Management System-Pre-Award IBR,** in solicitations for contracts that require the contractor to use an EVMS and for which the Government requires an Integrated Baseline Review (IBR) prior to award.

(b) The contracting officer shall insert a provision that is substantially **the same as the provision at 52.234-3, Notice of Earned Value Management System-Post Award IBR**, in solicitations for contracts that require the contractor to use an EVMS and for which the Government requires an Integrated Baseline Review (IBR) after contract award.

(c) The contracting officer shall insert a clause that is substantially **the same as the clause at FAR 52.234-4, Earned Value Management System**, in solicitations and contracts that require a contractor to use an EVMS. The list of applicable subcontractors subject to the clause shall be inserted in paragraph (g) of the clause.

8. What Is the Cognizant Federal Agency?

No one "Cognizant Federal Agency" (CFA) for EVMS purposes has been established. For purposes of FAR clauses 52.234-2, 52.234-3, and 52.234-4, the OCIO PMO will serve as the Department's CFA for EVMS purposes. Project managers and contracting officers shall coordinate well in advance with the OCIO PMO on obtaining EVMS system compliance determinations and assistance with review and approval of offeror/contractor EVMS plans.