

The Growing Significance of Earned Value Management (EVM)

By Wayne Abba¹

SAIC companies that do business with federal government agencies can expect to hear much more about Earned Value Management (EVM) in the coming year. The stimulus for renewed interest in a management technique that originated in defense contracting in the 1960s is Office of Management and Budget (OMB) Circular A-11, Part 7, "Planning, Budgeting, Acquisition, and Management of Capital Assets." The circular applies to all government agencies and implements several laws that were passed in the 1990s to improve government management. These laws include:

- The Government Performance and Results Act of 1993, which establishes the foundation for budget decision-making to achieve strategic goals in order to meet agency mission objectives.
- The Clinger-Cohen Act of 1996, which requires agencies to use a disciplined capital planning and investment control process to acquire, use, maintain, and dispose of information technology.
- The Federal Acquisition Streamlining Act of 1994, Title V, which requires agencies to establish cost, schedule, and measurable performance goals for all major acquisition programs, and achieve on average 90 percent of those goals.²

The annually updated circular requires government agencies to submit for each proposed major investment a business case (Exhibit 300) with their budget submissions. OMB evaluates the business case against ten management categories including Privacy and Security, Performance Based Management Systems (EVM by definition), Project Management, and Risk Management.

OMB tightens the criteria for a passing score each year. Over time, this is intended to result in significantly improved management. At first, an investment needed a passing score of 31 (of a possible 50 – five points for each of the ten categories) to avoid being considered "at risk." For the fiscal year 2004 budget, security for IT investments was evaluated against a higher standard, requiring a score of at least four points regardless of other scores. For the FY 2005 budget, the passing score for EVM also was raised to four points. The final scores are considered along with capital asset plans to determine whether the investment warrants inclusion in the President's Budget.

The FY 2005 business cases are being evaluated as this issue of the *Project Management Quarterly Bulletin* goes to press and the word inside the "Beltway" is that agencies are feeling the heat. OMB has signaled its intent to raise the temperature even higher during next year's budget cycle by changing the scoring criterion for EVM to 'pass/fail.'

The FY 2005 criteria for Performance Based Management System scoring are as follows:

- 5 Agency will use, or uses an Earned Value Management System (EVMS) that meets ANSI/EIA Standard 748 and investment is earning the value as planned for costs, schedule, and performance goals.
- 4 Agency uses the required EVMS, is within the variance levels for two of the three criteria, and needs work on the third issue.
- 3 Agency uses required EVMS but the process within the agency is very new and not fully implemented or there are weaknesses for this investment's EVMS information.
- 2 Agency seems to re-baseline rather than report variances.
- 1 There is no evidence of PB [Performance Based Management].⁴

Scoring applies to agency contractor performance, as well as to portions of the program performed by government organizations; the latter requirement poses a significant challenge for those agencies that are not accustomed to oversight of their project management processes (or in some cases, to project management in any form).

What does this mean for contractors? Four things come to mind.

First, OMB has rejected the arbitrary high dollar amounts that Defense used for implementing EVM. Instead, agencies must classify their investments as "major" using such criteria as importance to the mission, high cost, high risk, high return, or significant role in the administration of an agency's mission. This means more contracts will require EVM management and reporting. And because OMB does not differentiate among contract types, EVM requirements

may appear on Firm Fixed Price (FFP) contracts as well as on those with cost sharing provisions.

Second, the circular refers not to government regulation, but to the American National Standards Institute/Electronic Industries Alliance (ANSI/EIA) Standard 748-98A, "Earned Value Management Systems." Companies must decide how the guidelines in the standard should be applied in their unique operating environment. As government officials continue to develop implementation policy, they will look to companies that embrace the guidelines for advice.

Third, companies that can demonstrate well-integrated management systems using EVM will enjoy a competitive advantage over those that cannot.

Fourth, time is of the essence. Agency budgets are being affected this year. There's nothing like a good budget crisis to stimulate action in government and the industrial base.

Broadwater's Space, Air & Information Group (SAIG) has current experience with the new world of EVM. The SAIG Integrated Project Management process was reviewed for conformance with ANSI/EIA 748-98A in 2003, earning accolades from the prime contractor as "the best integrated system we've seen." The process combines SAIG's Program Analysis and Control Environment™ (PACE™) and Dekker TRAKKER® to provide an integrated process for proposal planning and program execution in a secured collaborative web-based environment.

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2 Source: OMB Circular A-11, Part 7, July 2003

3 Comments by OMB Official at November 2003, 15th Annual International Integrated Program Management Conference, Tysons Corner, Virginia

4 Source: OMB Circular A-11, Part 7, July 2003