



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
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FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.3.1

January 22, 2009  
09-PPD-002(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA  
HEADS OF PRINCIPAL STAFF ELEMENTS, DCAA

SUBJECT: Audit Guidance on Performance of Earned Value Management System (EVMS)  
Audits

This memorandum revises existing guidance relating to (1) participation in EVMS compliance and surveillance joint reviews and (2) providing results of compliance and surveillance audits to DCMA when supporting its reviews. This memorandum also provides EVM information that was transmitted by the Defense Procurement, Acquisition Policy and Strategic Sourcing (DPAP) in its August 27, 2008 memorandum on Earned Value Management (EVM) Requirements and Reporting.

Auditor participation in joint reviews performed by a Government-only team where DCAA provides an independent audit opinion generally does not result in an independence concern. Auditors should support DCMA EVMS reviews by performing an independent EVMS audit in accordance with the DCAA approved audit program and considering any risks identified by DCMA. Auditors should participate in EVMS reviews when (1) the contracting officer requests the audit services, (2) the audit covers a "management approved" EVM system, (3) the auditor sets the scope of audit, and (4) an audit report is issued covering all significant findings. In such cases, auditors should attend entrance conferences and other conferences where the contractor is presenting and explaining its EVMS. Auditors may participate in and/or conduct cost account manager (CAM) interviews as part of their audit. Auditors should participate in exit conferences to communicate the audit results when they have been finalized and approved by management. Auditors may also attend exit briefings conducted by DCMA to obtain an understanding of the deficiencies identified by DCMA.

Auditors should not participate in meetings or conferences with the contractor and DCMA where the purpose of the meeting is to discuss draft findings and draft corrections to the contractor's EVM system. Auditor participation in such meetings or conferences could be construed as assisting the contractor in developing or implementing the system that is the subject matter of the audit. This would at least give the appearance of a lack of independence.

When performing EVMS audits supporting DCMA, auditors may provide general status reports on the audits, but should not share draft audit results with the EVMS review team until the working papers are complete and the results of audit have been reviewed by DCAA management.

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Auditors should provide DCAA management approved draft statements of condition and recommendation to DCMA when the draft results are provided to the contractor for comments, but should not provide other checklists and forms, such as the Guideline Evaluation Forms and Discrepancy Reports. GAGAS requires DCAA to furnish its audit results in an audit report.

Auditors are reminded that they are required to report significant deficiencies/material weaknesses discovered during the audit even when the contractor corrects the deficiencies during the audit. Corrected deficiencies should be identified in the audit report and noted as corrected only if the auditor has done sufficient audit work to verify the deficiencies have been corrected, including testing the implementation. DCAA must issue an independent audit opinion reflecting all significant results of the audit (see MRD 08-PAS-026(R), dated August 11, 2008).

On August 27, 2008, the DPAP issued the enclosed memorandum to emphasize that program managers and contracting officers must ensure that EVM requirements are appropriately identified and incorporated into solicitations and contracts and that they were executed properly. To assist contracting officers and program managers, DoD has developed an EVM Contracts Requirements Checklist that is available on the OSD EVM website (<http://www.acq.osd.mil/pm/>). This website also contains links to all of the applicable EVM policy and guidance documents, such as USD(AT&L) memorandums, the Earned Value Management Implementation Guide, and the Defense Acquisition Guidebook. Auditors should be familiar with this information to the extent it will assist them in performing EVM audits.

If FAO personnel have any questions, they should contact regional personnel. Regional personnel with any questions should contact Policy Programs Division, at (703) 767-2270 or by email at [DCAA-PPD@dcaa.mil](mailto:DCAA-PPD@dcaa.mil).

/Signed/

Kenneth J. Saccoccia  
Assistant Director  
Policy and Plans

Enclosure:

Memorandum from DPAP on EVM Requirements and Reporting

DISTRIBUTION: C



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

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WASHINGTON, DC 20301-3000

AUG 27 2008

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY  
(ACQUISITION, LOGISTICS AND TECHNOLOGY)  
ASSISTANT SECRETARY OF THE NAVY  
(RESEARCH, DEVELOPMENT AND ACQUISITION)  
ASSISTANT SECRETARY OF THE AIR FORCE  
(ACQUISITION)  
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Earned Value Management Requirements and Reporting

Defense Federal Acquisition Regulation Supplement (DFARS) Subpart 234.2 and DoD Instruction 5000.2, Operation of the Defense Acquisition System, prescribe mandatory Earned Value Management (EVM) requirements and reporting for cost and incentive contracts valued at or greater than \$20 million. EVM is one of DoD's and industry's most useful program management tools, providing early warning of potential contract cost and schedule performance problems. To be effective, EVM must be implemented in a disciplined manner consistent with the EVM System (EVMS) guidelines in the American National Standards Institute/Electronic Industries Alliance Standard 748 (ANSI/EIA-748).

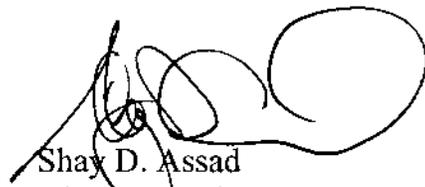
The Director, Acquisition Resources and Analysis (ARA), has primary responsibility for establishing and maintaining EVM policy. The Director, Defense Contract Management Agency (DCMA), has primary responsibility for ensuring consistent application and interpretation of the EVMS guidelines and conducting contractor EVMS reviews to verify initial and ongoing system compliance. Both ARA and DCMA have identified several EVM implementation issues on DoD contracts. These include: (1) failing to include the applicable EVM requirements in contracts and solicitations, (2) incorrectly tailoring the data item descriptions for the Contract Performance Report and the Integrated Master Schedule, (3) inappropriately modifying EVM contract requirements, (4) specifying contract requirements in special provisions and/or statements of work that are not consistent with the EVM policy and EVMS guidelines, and (5) using contract incentives that counter EVM's objectives.



It is imperative that all contracts use the appropriate solicitation provision and contract clause, as prescribed at DFARS 234.203. While program managers have ultimate responsibility for ensuring the EVM requirements are correctly included in statements of work and contract data requirements lists, contracting officers can help improve compliance by working more closely with program managers and EVM subject matter experts throughout the contracting process. Together they must ensure that the EVM requirements are appropriately identified and incorporated into solicitations and contracts, and that they are executed properly. Contracting officers also should consult with EVM subject matter experts during the source selection process and maximize cross-functional collaboration in pre- and post-award conferences. In addition, contracting officers must implement appropriate remedial actions in the event of contractor non-compliance.

To assist contracting officers and program managers, DoD has developed an EVM Contract Requirements Checklist, which is available on the OSD EVM web site (<http://www.acq.osd.mil/pm/>). The web site also contains links to all of the applicable EVM policy and guidance documents, to include the new DFARS clauses that were published in the *Federal Register* in April 2008.

Please refer any questions or comments to Mr. Michael Pelkey of my staff (703-614-1253, [michael.pelkey@osd.mil](mailto:michael.pelkey@osd.mil)) or Ms. Debbie Tomsic, ARA (703-695-0707, [deborah.tomsic@osd.mil](mailto:deborah.tomsic@osd.mil)).

A handwritten signature in black ink, appearing to read 'Shay D. Assad', written over a circular stamp or seal.

Shay D. Assad  
Director, Defense Procurement,  
Acquisition Policy and  
Strategic Sourcing