



**DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219**

IN REPLY REFER TO

PPS 730.5.15

July 22, 2011
11-PPS-011(R)

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

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

SUMMARY

This memorandum provides guidance on the audit services required in support of the Defense Contract Management Agency (DCMA) periodic compliance and annual surveillance reviews of contractor compliance with EVMS requirements. DCMA will provide a written request for audit support for both compliance and surveillance reviews; DCAA will no longer self initiate EVMS audits. Activity Code 17750, EVMS Compliance and Surveillance, will be used for all EVMS audits. A new audit program has been developed for auditing contractor compliance with the 8 EVMS Guidelines under DCAA cognizance. The DCAA surveillance audit will be based on a request from DCMA and its surveillance activity. The DCMA Contract Management Office (CMO) will conduct continuous surveillance and complete an independent risk assessment covering the 32 EVMS Guidelines for contracts at their location. Based on this risk assessment DCMA may request DCAA to audit contractor compliance with any of the eight EVMS Guidelines under DCAA cognizance or a portion of those guidelines. CAM 11-200 will be revised soon to reflect this new guidance.

This revised guidance is based on coordination with the DCMA. DCMA is designated as the DoD Executive Agent for EVMS. This coordination is documented in the Memorandum of Understanding (MOU) signed by both Agency Directors (Enclosure). The MOU defines the DCAA and DCMA roles and responsibilities covering the DCAA audit assistance provided to DCMA in its review of contractor compliance with EVMS.

BACKGROUND

DoDI 5000.02 contains the EVM Implementation Policy. The EVM Implementation Policy requires cost or incentive contracts, subcontracts, and agreements valued at or greater than \$20 million to comply with the American National Standards Institute/Electronic Industries Alliance EVMS standard (ANSI/EIA-748). If the contract is valued at \$50 million or more, the contractor's EVMS must be formally validated and accepted by the cognizant contracting officer through an initial compliance evaluation conducted by DCMA. If the contract value is between \$20 and \$50 million, formal validation of the contractor's EVMS is not required.

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DCMA Headquarters, EVM Center is responsible for the compliance/validation of the contractor's system. DCMA normally appoints a member of the Contract Management Office (CMO) as the surveillance monitor. The CMO monitor is assigned the overall responsibility for coordinating and accomplishing the EVMS surveillance.

EVMS surveillance begins with the award of the contract, continues through initial compliance and acceptance, and extends throughout the period of contract performance. In accordance with DoD policies and procedures, EVMS surveillance of the contractor's system and review of data emanating from that system, is to be accomplished by qualified individuals from the CMO and DCAA. The auditor's surveillance responsibilities, as identified in Section 2.3.3.3.5 of the Earned Value Management Implementation Guide (EVMIG), includes: (1) reviewing the contractor's accounting system, policies, and procedures for compliance with EVMS Guidelines assigned to DCAA and contract provisions and (2) performing periodic reviews of selective financial data contained in various reports submitted by the contractor to determine whether they accurately reflect the contractor's books and records. EVMS compliance and surveillance audits will be performed based on an audit request from either the DCMA EVM Center or the local CMO.

DCMA's process for completing a compliance/validation review may take up to 18 months and includes the following milestones:

- Initial Visit – DCMA will provide an EVMS overview and the validation review process schedule to the contractor. The contractor will provide a demonstration of its EVMS. DCAA should attend this meeting to gain an understanding of the EVMS.
- Readiness Assessment - DCMA will complete an independent analysis of the EVMS and issue Corrective Action Requests (CARs) for significant deficiencies which should result in a Corrective Action Plan (CAP) initiated by the contractor. If requested, DCAA audits may be completed at the readiness assessment phase when the contractor has a management approved EVMS and sufficient data is available to adequately test the system.
- Validation Review - DCMA will evaluate whether the contractor has corrected any prior reported deficiencies and whether the EVMS can be validated. DCAA involvement at the validation review may be the initial audit or follow-up to conditions reported at the readiness assessment phase.

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AUDIT GUIDANCE

Compliance Audits - Reviews will be conducted by the EVM Center for initial validation, expansion of EVMS to other contractor divisions or post acceptance reviews for cause. DCAA compliance audits will be based on the DCMA planned compliance review schedule which will be provided to DCAA annually. DCMA will provide a written request for audit support for compliance reviews. The audit scope will directly relate to the contractor's compliance with the eight EVMS Guidelines under DCAA cognizance (identified below) and also to the contractor's policies and procedures related to these guidelines. DCMA should request assistance prior to the readiness assessment review or the scheduled validation review.

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, and (3) the EVMS contains sufficient data for testing. The auditor should set the scope of audit based on the risk assessment. The auditor will select the contracts for review based on the entire universe of EVMS contracts taking into consideration DCMA's assessment of at-risk contracts. 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.

Surveillance Audits – Surveillance by the CMO is performed to ensure that the contractor's system continues to comply with the EVMS Guidelines and produces valid and timely data. Surveillance is performed to ensure that any proposed or actual changes to the EVMS comply with the guidelines and are reflected in the contractor's system description. Surveillance includes verifying, tracing, and evaluating the information contained in the reports submitted to DoD procuring components. The CMO will provide a written request for audit support for the surveillance reviews based on their continuous surveillance and independent risk assessment. They may request either a detailed evaluation encompassing the eight EVMS Guidelines assigned to DCAA or limit the request to the guidelines related to the specific risk factor identified. The auditor will select the contracts for review based on the entire universe of EVMS contracts taking into consideration DCMA's assessment of at-risk contracts.

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EVMS Guidelines Under DCAA Cognizance - Based on coordination with the DCMA EVM Center and to eliminate duplication of effort, DCAA audits will cover the following guidelines:

- Guideline 13 – Establish overhead budgets.
- Guideline 16 – Record direct costs.
- Guideline 17 – No allocation of single control account into two or more work breakdown structure (WBS) elements.
- Guideline 18 – No allocation of single control account into two or more organizational breakdown structure (BS) elements.
- Guideline 19 – Record and allocate indirect costs.
- Guideline 20 – Identify unit or lot costs.
- Guideline 21 – Material accounting (pertaining to actual costs only; earned value attributes reviewed by DCMA).
- Guideline 30 – Control retroactive changes (pertaining to actual costs only; earned value attributes reviewed by DCMA).

Audit Reports - Audit reports will describe any significant deficiencies disclosed during the audit. These deficiencies should be reported in sufficient detail to allow DCMA to understand the deficiencies and the potential adverse impact to EVM performance measurement and to the Government. DCMA will make a final determination on the contractor's compliance with the guidelines. If no significant deficiencies are identified, DCAA's audit report will state that the contractor is compliant with the guidelines that were included in the scope of the audit.

DCAA COORDINATION WITH DCMA

Business System Discussions - At the commencement of both the compliance and surveillance audits, the audit team should brief the local DCMA regarding any outstanding business system deficiencies. This should involve an open discussion between DCMA and DCAA to determine how business system deficiencies may affect any EVMS Guidelines.

Audit Report Due Dates - The audit team will coordinate audit report due dates with DCMA. The due dates will be established to allow adequate time for audit findings to be incorporated into the DCMA EVMS compliance review reports or the DCMA standard surveillance. Any deviations to the coordinated due date will be discussed in advance between the cognizant DCAA and DCMA offices.

Prior Reported EVMS Deficiencies/Non-Compliances – DCMA will request audit support to address prior reported deficiencies after the contractor has completed their Corrective Action Plan (CAP) which is usually in conjunction with the validation review or surveillance review. The DCMA audit request will identify the outstanding deficiencies/non-compliances for the guidelines under DCAA cognizance. The audit team will include audit steps to determine if these deficiencies have been corrected. If there are deficiencies/non-compliances that were previously identified by DCAA related to standards now covered by DCMA, DCMA will be responsible for following up on these deficiencies.

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AUDIT PROGRAMS

Activity Code 17750 - This audit program will be used in performing all EVMS reviews. The audit program is aligned to the eight EVMS Guidelines under DCAA cognizance and includes audit steps to gain an understanding of the contractor's EVMS (which includes a review of the contractor's system description) and test contractor compliance with the EVMS guidelines.

Activity Code 17760 - This audit program has been deactivated. Surveillance audits will no longer focus on "reports only".

Activity Code 17770 - This audit program has been deactivated. The audit program was limited to a review of the contractor's system description as it related to an initial compliance or post acceptance review. DCMA requires significant contractor data be available to test prior to validating the system; therefore, limiting our review to the contractor's system description is no longer applicable.

REFERENCES

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.

CLOSING REMARKS

FAO personnel should direct questions regarding this memorandum to their regional offices, and regional personnel should direct any questions to Policy, Publications & Systems Division, at (703) 767-3274 or e-mail at DCAA-PPS@dcaa.mil.

/s/

Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosure:

a/s

DISTRIBUTION: C

MEMORANDUM OF UNDERSTANDING
BETWEEN
THE DEFENSE CONTRACT AUDIT AGENCY
AND
THE DEFENSE CONTRACT MANAGEMENT AGENCY
FOR
EARNED VALUE MANAGEMENT OVERSIGHT SERVICES

1. PURPOSE:

This Memorandum of Understanding (MOU) between the Defense Contract Audit Agency (DCAA) and the Defense Contract Management Agency (DCMA) sets forth the DCAA services to be provided to DCMA for compliance reviews and surveillance of contractor Earned Value Management Systems (EVMS) processes and reports, and coordination and advisory support. DCMA and DCAA will establish separate EVMS MOA's with the Navy for their respective roles in supporting annual surveillance of the Supervisor of Shipbuilding (SUPSHIP) contracts.

This MOU does not apply to existing Host Nation agreements in which the US Government requests the Host Nations Audit Office perform the Cost and Price audits or reviews. This includes the EVMS Compliance Reviews in Host Nations contractor facilities.

2. AUTHORITY:

- a. Memorandum for Service Acquisition Executives, "Performance Measurement Joint Executive Group," dated December 4, 1995
- b. Department of Defense (DoD) Directive 5105.64, "Defense Contract Management Agency," September 27, 2000
- c. DoD Instruction 5000.02, "Operation of the Defense Acquisition System," Section 11.3.1.5, "Earned Value Management System (EVMS) Compliance, Validation, and Surveillance"
- d. DoD Federal Acquisition Regulation (DFARS) 242.302 (S-71), Contract Administration Function
- e. Under Secretary of Defense for Acquisition, Technology and Logistics memorandum, Subject: Defense Contract Management Agency's Earned Value Management (EVM) Roles and Responsibilities, dated April 23, 2007.
- f. DoD Directive 5105.36, "Defense Contract Audit Agency," January 4, 2010, Section 3.1.
- g. Under Secretary of Defense for Acquisition, Technology and Logistics memorandum, Subject: Use of Earned Value Management (EVM) in the Department of Defense, dated July 3, 2007
- h. DoD Instruction 7640.02, Policy for Follow-up on Contract Audit Reports, dated August 22, 2008

- i. Director Defense Procurement and Acquisition Policy memorandum on Resolving Contract Audit Recommendations, dated December 4, 2009
- j. DCMA Instruction Contract Audit Follow Up (CAFU), dated December 2010
- k. DCMA Instruction Contract Management Boards of Review (BOR), dated March, 2010

3. BACKGROUND:

- a. DCAA performs contract auditing for the Department of Defense (DoD) and provides accounting and financial advisory audit services in connection with the negotiation, administration and settlement of contracts and subcontracts to all DoD procurement and contract administration activities. DCAA also furnishes contract audit services to other Government agencies, as appropriate.
- b. DCMA is designated as the Department's Executive Agency for EVMS as delineated in Memorandum for Service Acquisition Executives "Performance Measurement Joint Executive Group" dated December 4, 1995, and is responsible for determining EVMS compliance of supplier management systems with the American National Standards Institute/Electronic Industries Alliance EVMS (ANSI/EIA-748) Guidelines, conducting EVMS review and surveillance to verify initial and ongoing EVMS compliance, determining compliance for applicable contracts and agreements in accordance with the DoD EVM policy and guidance, and ensuring consistent application and interpretation of the Guidelines.

4. SERVICES:

- a. DCAA audit services to advise DCMA in EVMS compliance and system surveillance reviews include the following:
 - (1) Compliance Reviews: DCAA will use a risk-based approach to scope and execute the current audit program in support of the scheduled compliance review. DCAA will select the contracts for review based on all the applicable contracts with EVMS requirements at the site(s) under review taking into consideration DCMA's assessment of at-risk contracts. The DCAA portion of the compliance reviews will generally cover the Guidelines identified in (4) below, and will be performed as examination level attestation engagements. DCAA's audit reports will describe the deficiencies in sufficient detail to allow DCMA to understand the deficiencies and the potential adverse impact to EVM performance measurement and to the Government. DCAA will coordinate reasonable audit report due dates with the DCMA to allow adequate time for audit findings to be incorporated into the DCMA EVMS compliance review reports or the DCMA standard surveillance. Any deviations to the requested due date will be coordinated in advance between the cognizant DCAA and DCMA offices. If disagreements concerning audit due dates cannot be resolved at the local/site level, significant disagreements should be elevated through DCMA and DCAA chains of command. These audits will generally be based on a DCMA request.

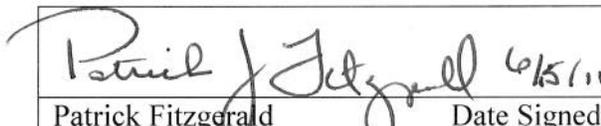
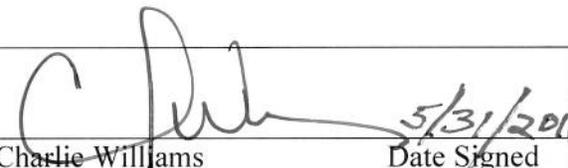
- (2) Standard Surveillance: DCAA will provide advisory audit support to surveillance activities performed by the DCMA Contract Management Offices (CMO) in accordance with the DCMA's Standard Surveillance Instruction (SSI) and the DCAA's current audit program. These audits will generally be based on a DCMA request which will identify the specific Guideline(s) for review. DCAA will select the contracts for review based on all the applicable EVMS contracts at the site(s) under review taking into consideration DCMA's assessment of at-risk contracts. The surveillance reviews will generally be performed as examination level attestation engagements. DCAA's audit report will describe the deficiencies in sufficient detail to allow the DCMA to understand the deficiencies and the potential adverse impact to the EVM performance measurement and to the Government. DCAA will coordinate reasonable audit report due dates with the DCMA to allow adequate time for audit findings to be incorporated into the DCMA standard surveillance. Any deviations to the requested due date will be coordinated in advance between the cognizant DCAA and DCMA offices. If disagreements concerning audit due dates cannot be resolved at the local/site level, significant disagreements should be elevated through DCMA and DCAA chains of command.
- (3) In the event the DCAA reported deficiencies are not accepted by the DCMA Administrative Contracting Officer, the DCMA Board of Review procedures should be followed. These procedures are in accordance with the Director Defense Procurement and Acquisition Policy memorandum on Resolving Contract Audit Recommendations, dated December 4, 2009.
- (4) In order to maximize efficiencies and eliminate duplication of effort, DCAA EVMS advisory audits will be limited to the Guidelines listed below and as identified for review by DCMA. DCAA will incorporate instructions from DoDI 5000.02 which requires compliance with ANSI/EIA-748 Guidelines.
 - i. Guideline 13 – Establish overhead budgets
 - ii. Guideline 16 – Record direct costs
 - iii. Guideline 17 – No allocation of single control account into two or more work breakdown structure (WBS) elements
 - iv. Guideline 18 – No allocation of single control account into two or more organizational breakdown structure (OBS) elements
 - v. Guideline 19 – Record and allocate indirect costs
 - vi. Guideline 20 – Identify unit or lot costs
 - vii. Guideline 21 – Material accounting (pertaining to actual costs and not earned value)
 - viii. Guideline 30 – Control retroactive changes (pertaining to actual costs and not earned value)
- (5) Prior to commencement of the DCMA compliance or surveillance reviews, the cognizant DCAA personnel will be available to brief the local DCMA regarding outstanding business system deficiencies and any potential impact the deficiencies may have on the Guidelines.

b. DCMA services to be provided include the following:

- (1) The EVM Center will:
 - i. Provide the planned compliance review schedule to the DCAA for the next calendar year.
 - ii. DCMA will provide a written request for audit assistance to the local DCAA Field Audit Office (FAO) at least 90 days prior to compliance reviews that require DCAA support.
- (2) The CMO will provide annually to the local DCAA FAO the Standard Surveillance Plan (SSP) with the planned surveillance schedule for the fiscal year. DCMA will provide a written request for audit services based on the SSP and coordinate reasonable audit report due dates with DCAA as set forth above.
- (3) Provide advice and assistance on interpreting and implementing the DoD EVMS policy and guidance.
- (4) Disposition of DCAA EVMS findings in accordance with DCMA CAFU policy and DoD Instruction 7640.02, Policy for Follow-Up on Contract Audit Reports.
- (5) DCMA and DCAA shall perform these services at their own cost without contribution or funding from the other agency.

5. EFFECTIVE DATE:

This agreement becomes effective upon the date of the last approving signature. It is a working document without an established time period and, as such, can be amended at any time with the consent of both parties or unilaterally canceled by either party with 120 days notice. The agreement may be reviewed at the request of either party, but should be reviewed at least once every three years to determine the need for confirmation, modification, or termination. Any resource issues will be discussed at the headquarters level as soon as the issue arises.

 Patrick Fitzgerald Director Defense Contract Audit Agency Fort Belvoir, Virginia	6/15/11 Date Signed	 Charlie Williams Director Defense Contract Management Agency Alexandria, Virginia	5/31/2011 Date Signed
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