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PERFORMANCE MANAGEMENT CRITERIA

1.0 PURPOSE, OBJECTIVE, AND POLICIES

- 1.1 The purpose of this document is to provide the requirements that a \*subcontractor's (SC) cost/schedule performance system must meet in order to satisfy the Buyer's requirements. The objective of the criteria is to provide an adequate basis for responsible decision making through the provision of data which 1) indicate work progress, 2) properly relate cost, schedule, and technical work accomplishment, 3) are valid, timely, and auditable, and 4) provide the Buyer with a practicable level of summarization.
- 1.2 The criteria set forth herein will be used by the Buyer to determine the acceptability of the SC's program planning and control system. It is not intended that any new management requirements be imposed on the SC if current internal systems can insure proper management of the program in accordance with the criteria specified herein. Performance data provided to the Buyer shall be directly from the same system used for internal management.
- 1.3 Memorandum of Understanding

(1)The use of a Memorandum of Understanding contemplates the execution of a written instrument which (a) reflect an understanding between the subcontractor and the Buyer of the requirements of this criteria , and (b) identify the specific system(s) which the subcontractor intends to use in the performance of the contract.

(2)A system description outlining the method of performance management will be prepared and submitted for approval prior to an application review and acceptance of the SC System. The system description should be of sufficient detail to permit adequate surveillance by the Buyer.

2.0 DEFINITIONS

The following definitions are provided to form a base of understanding between the SC and the Buyer regarding cost system terminology:

Actual Cost or Work Performed (ACWP). The costs actually incurred and recorded in accomplishing the work performed within a given time period. This will not include open commitments.

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Authorized Work. That effort which has been definitized and is on contract, plus that for which definitized contract costs have not been agreed to but for which written authorization has been received.

\* Note that the use of the term subcontractor(s) is intended to mean performing division and the term Buyer means authorizing division when applicable to Interdivisional Transactions.

Budgeted Cost for Work Performed (BCWP). The sum of budgets for completed work packages and completed portions of open work packages, plus the appropriate portion of the budgets for level of effort and apportioned effort.

Budgeted Cost for Work Scheduled (BCWS). The sum of budgets for all work packages, planning packages, etc., scheduled to be accomplished (including in-process work packages), plus the amount of level of effort and apportioned effort scheduled to be accomplished within a given time period. This will not include open commitments.

Contract Budget Base. The negotiated contract cost plus the estimated cost of authorized unpriced work.

Cost Account. A management control point at which actual costs can be accumulated and compared to budgeted costs for work performed.

Direct Costs. Any costs which can be identified specifically with a particular final cost objective. This term is explained in ASPR 15-202.

Estimated Cost at Completion or Estimate at Completion (EAC). Actual direct costs, plus indirect costs allocable to the contract, plus the estimate of costs (direct and indirect) for authorized work remaining.

Indirect Costs. Costs, which because of their incurrence for common or joint objectives, are not readily subject to treatment as direct costs. This term is further defined in ASPR 3-701.3 and ASPR 15-203.

Level of Effort (LOE). Effort of a general or supportive nature which does not produce definite end products or results.

Management Reserve. (Synonymous with Management Reserve Budget). An amount of the total allocated budget withheld for management control purposes rather than designated for the accomplishment of a specific task or set of tasks. It is not a part of the Performance Measurement Baseline.

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Performance Measurement Baseline. The time-phased budget plan against which contract performance is measured. It is formed by the budgets assigned to scheduled cost accounts and the applicable indirect performance measurement baseline, also includes budgets assigned to higher level CWBS elements, and undistributed budgets. It equals the total allocated budget less management reserve.

Significant Variances. Those differences between planned and actual performance which require further review, analysis, or action. Appropriate thresholds should be established as to the magnitude of variances which will require variance analysis.

Total Allocated Budget. The sum of all budgets allocated to the subcontract. Total allocated budget consists of the performance measurement baseline and all management reserve. The total allocated budget will reconcile directly to the contract budget base.

Undistributed Budget. Budget applicable to contract effort which has not yet been identified to CWBS elements at or below the lowest level or reporting to the Buyer.

Work Breakdown Structure (WBS). A product-oriented family tree division of hardware, software, services, and other work tasks which organizes, defines, and graphically displays the product to be produced, as well as the work to be accomplished to achieve the specific product.

(1) Project Summary Work Breakdown Structure. A summary WBS tailored to a specific subcontractor by selecting applicable elements from one or more Summary WBS's.

(2) Contract Work Breakdown Structure (CWBS). The complete WBS for a subcontract as developed by the subcontractor represents the extension of the summary WBS to the lowest levels at which the subcontractor performs work.

### 3.0 CRITERIA

The SC cost/schedule performance system will include policies, procedures, and methods which are designed to ensure that they will accomplish the following:

#### 3.1 Organization

3.1.1 Define all authorized work and related resources to meet the requirements of the subcontract, using the framework of the CWBS.

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3.1.2 Provide for the integration of the SC's planning, scheduling, budgeting, work authorization and cost accumulation systems with each other, the CWBS, and the organizational structure.

3.1.3 Identify the managerial positions responsible for controlling internal organizational elements and indirect costs.

### 3.2 Planning and Budgeting

3.2.1 Schedule the authorized work in a manner which describes the sequence of work and identifies the significant task interdependencies required to meet the development, production, and delivery requirements.

3.2.2 Identify physical products, milestones, technical performance goals, or other indicators that will be used to measure output.

3.2.3 Establish and maintain a time-phased budget baseline at the cost account level against which contract performance can be measured. This will not include open commitments.

3.2.4 Identify and control Level of Effort (LOE) activity by time-phased budgets established for this purpose.

3.2.5 Identify management reserves and undistributed budget.

3.2.6 Provide that the target cost, plus the estimated cost of authorized but unpriced work, is reconciled with the sum of all internal budgets and management reserves.

### 3.3. Accounting

3.3.1 Record direct costs consistent with the budgets in a formal system that is controlled by the general books of account.

3.3.2 Summarize direct costs from cost accounts into the WBS without allocation of a single cost account to two or more WBS elements.

3.3.3 Record all indirect costs which will be allocated to the contract.

3.3.4 Identify unit costs, equivalent unit costs, or lot costs as applicable.

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### 3.4 Analysis and Internal Reporting

3.4.1 Identify at the cost account level on a monthly basis, using data from or reconciled with, the accounting system.

3.4.1.1 Budgeted cost for work scheduled (BCWS) and budgeted cost for work performed (BCWP).

3.4.1.2 Budgeted cost for work performed (BCWP) and actual cost of work performed (ACWP).

3.4.1.3 Variances resulting from the above comparisons classified in terms of appropriate elements together with the reasons for significant variances.

3.4.2 Identify on a monthly basis, in the detail needed by management for effective control, budgeted indirect costs, actual indirect costs, and variances along with the reasons.

3.4.3 Summarize the data elements and associated variances listed in 3.4.1 and 3.4.2 above through the SC's WBS to the reporting level specified in the statement of work.

3.4.4 Identify significant differences on a monthly basis between planned and actual schedule accomplishment and the reasons.

3.4.5 Identify managerial actions taken as a result of criteria items above.

3.4.6 Based on performance to date and on estimates of future conditions, develop revised estimates of cost at completion for WBS elements identified in the contract and compare these with the budget baseline.

### 3.5 Revisions

3.5.1 Incorporate contractual changes in a timely manner recording the effects of such changes in budgets and schedules.

3.5.2 Prohibit retroactive changes to records pertaining to work performed that will change previously reported amounts for direct costs, indirect costs, or budgets, except for correction of errors and routine accounting adjustments.

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3.5.3 Document, internally, changes to the performance measurement baseline and on a timely basis, notify the Buyer through prescribed procedures.

3.6 Access to Data

3.6.1 Recurring evaluations of the effectiveness of the subcontractor's policies and procedures will be performed to ensure that the subcontractor's system continues to meet and provides valid data consistent with the intent of this criteria. Surveillance reviews will be based on selective tests of reported data and periodic evaluations of internal practices during the life of the contract.

4.0 SPECIFIC GUIDANCE

4.1 Data Reporting

The SC's requirement to provide the Cost Performance Report will be as described and negotiated in the contract Data Requirements (DRD). It is the intent to utilize the output of the SC's management information system for internal control, i.e., status and problem analysis reports, directly from that system in the content/format described by data items.

No data is to be delivered as a result of this criteria being made a part of this contract. Data resulting from system implementation in the form of deliverable reports will be specifically listed in the data requirements document.

4.2 Budgeted Cost or Work Performed (BWCP)

The Buyer views the BCWP and % complete as the indicators of actual progress and key data elements of the reporting process. It is important that the SC percent complete reflect a conscientious and consistent method of assessment. The BCWP shall be a reflection of reported program schedule progress and be explainable and traceable to the lowest level. The degree of subjectivity/objectivity involved and the base mathematical formulations utilized are to be mutually understood in sufficient detail so as to provide confidence in the reliability of the reported data.