



## Surveillance Plan Execution



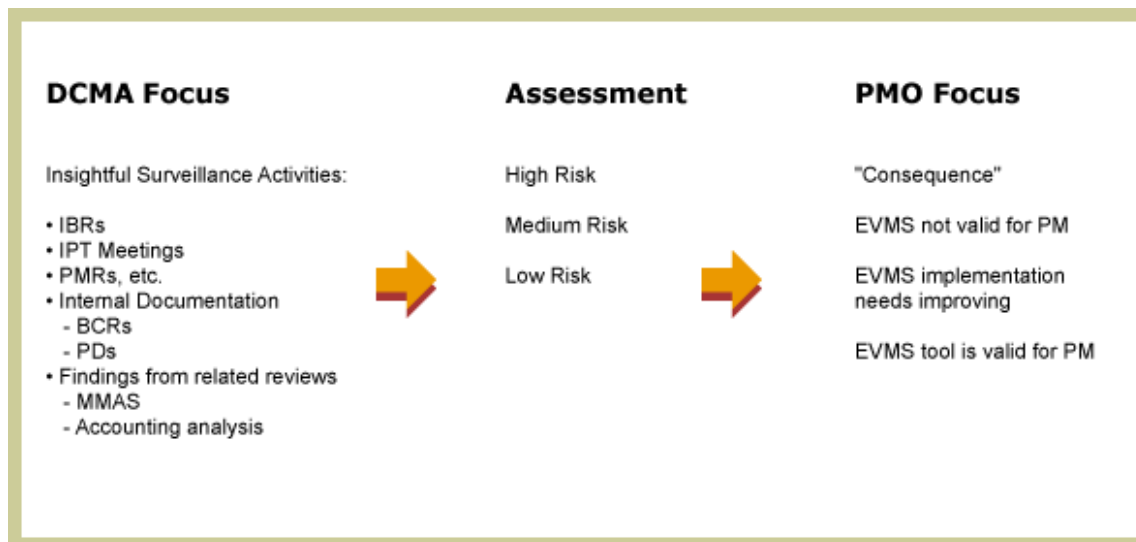
During the surveillance process, the **Federal Acquisition Regulation (FAR)** delegates the EVMS surveillance function to the **Defense Contract Management Agency (DCMA)** and the contractor must maintain an effective management system and must be able to change the system without significant government intervention.

As seen earlier, the government is changing its oversight practices from inspection to insight, given the level of risk in administering the contracts. However, no matter what level of oversight is used, a documented plan to conduct surveillance is a material part of the CMO day to day business for all its functions.

**At the conclusion of this lesson, you will be able to recall the key roles and responsibilities for surveillance plan execution.**



**Figure 19-1: DCMA Surveillance Responsibility**



[D](#)

[DCMA](#) responsibility is to make an explicit assessment of the level of risk inherent in the contractors implementation of its EVMS. The comparison of DCMA and Program Management Office (PMO) focus is graphically depicted in **Figure 19-1: DCMA Surveillance Responsibility**.

## **DCMA**

DCMC, as used in the Figure and animation narrative refers to the Defense Contract Management Command (DCMC) which has been renamed to the Defense Contract Management Agency (DCMA).



### **Why Do I Need a Surveillance Plan?**

In today's environment, the government policy for a written plan at all facilities is driven by acquisition reform initiatives. EVMS practices today resulted from such acquisition reform initiatives which changed our practices significantly from the old C/SCSC processes.

DCMA must transition to a surveillance strategy based on the classification of risk that affects cost, schedule and technical performance. In order to do that, the DCMA has to make considered decisions about what is important, where the relative risks lie, and how to use surveillance capabilities to mitigate the risks.

Of course, there are other benefits too, like having documentation available to guide permanent or temporary replacement personnel. It also provides a firm basis for articulating the risks at a facility when resources are under scrutiny.



## What Does It Look Like?

The surveillance plan is the focal point for CMO surveillance activities. The surveillance plan lays out the specialists' strategy and tactics for surveying contractor operations. The plan can be a comprehensive document representing an Integrated Product Team (IPT) approach addressing functions such as engineering, manufacturing and quality assurance.

The plan could be a singular functional approach developed by the EVM monitor, an engineering team, Quality Assurance Representatives (QARs) or Industrial Specialists. Whatever approach is followed, the CMO is responsible for having surveillance plans.

The Surveillance plan describes the activities and identifies who (individual or group) will perform each surveillance task. EVMS surveillance requirements are a subset of a larger surveillance responsibility of the CMO. A few keys points regarding the Surveillance Plan are:

- [Formality](#)
- [General Content](#)
- [Length](#)
- [What It Is Not](#)

## **Formality**

The plan should describe the rules or practices to be followed at a specific contractor's facility. Formality is not essential, but the plan should be a dynamic, working document that gets continuously updated as conditions change.

## **General Content**

A good surveillance plan ties together the specialists' essential surveillance activities in a coherent, RISK FOCUSED approach. Material beyond the minimum requirements may be included at the discretion of the CMO.

## **Length**

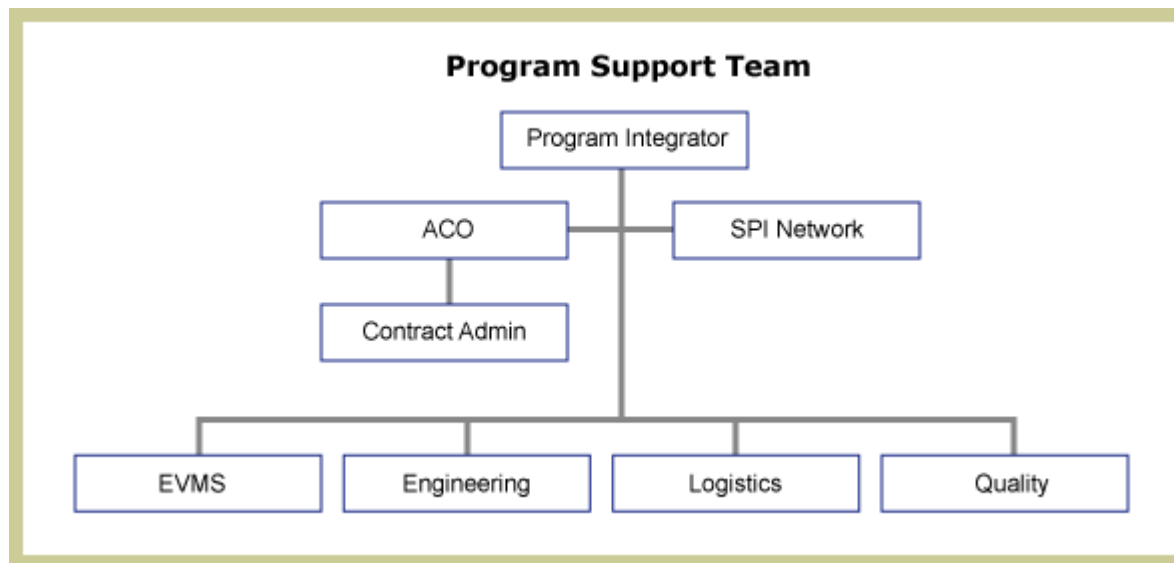
The length and complexity of surveillance plans will vary widely, depending on the size, complexity, and criticality of the contracts. A couple of pages might be adequate for a small, non-resident facility, while quite voluminous plans may be necessary for extremely large, complex operations.

## **What It Is Not**

A surveillance plan is not a Standard Operating Procedure (SOP) or facility plan, although a surveillance plan could be combined with a SOP/facility plan.



Figure 19-2: Program Support Team



D

Recall the Program Integration function performed by the Program Support Team in the previous "Surveillance Process" lesson? It is a team effort where EVMS plays a significant role. The IPT structure is illustrated in **Figure 19-2: Program Support Team**.



## **Major Activities**

A good surveillance plan is one that integrates various CMO functions including EVMS. It explains the day to day activities and how those activities ensure the surveillance is effective. What are some of the major EVMS activities associated with the execution of a surveillance plan?

The EVM Monitor should review the contractor's practices to ensure they correspond to the accepted system description. During the original system compliance evaluation for certification, the contractor submits a formal description of its integrated EVMS along with detailed operating procedures. The EVM Monitor uses this data and in-plant observations to ensure that the contractor's practices comply with the stated procedures and that management use of the system and data is appropriate by interviewing contractor personnel for compliance.

The Contract Management Office (CMO) and Defense Contract Audit Agency (DCAA) should also be alert to contractor practices, procedures and systems that do not meet EVM criteria.

Proposed changes will be evaluated for compliance with the EVMS Guidelines, impact on the contractor's integrated EVMS, and effect on contractual provisions. These changes should be promptly and thoroughly evaluated to determine acceptability and to allow for rapid implementation, if approved.





## **Reporting and Evaluating Changes**

Changes to an integrated management system may affect many areas. For example, format changes, modification of methods and standards, computer program changes or changes in the budget process, could affect the reliability of data inputs and outputs. In addition, changes in BCWP calculation methods, variance analysis thresholds, and EAC updates, could affect the results of contractor variance analysis.

These types of changes could directly impact the data upon which management decisions are made. In addition, surveillance personnel should always be concerned that the system description accurately describes the accepted integrated EVMS and look for unauthorized contractor departures from the accepted system. Deviations should be brought to the immediate attention of the contractor.

The CMO evaluates changes based on the following:

- Compliance with EVMS guidelines (see DCMA's EVM Implementation Guide ([EVMIG](#)))
- Effect on contractual provisions
- Impact on the integrity of the EVMS
- Contractor proposed additional contract cost, if any

The acceptability of proposed changes should be determined by an immediate test or evaluation of the system so that the changes can be implemented quickly.



## **Evaluating Change Requests**

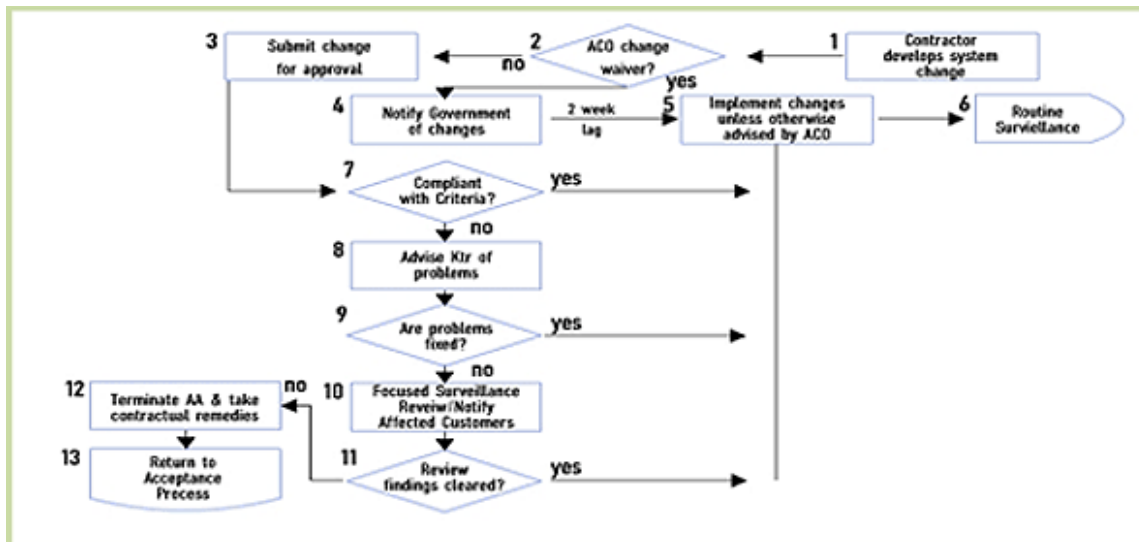
The EVM monitor will facilitate changes and improvements that the contractor may wish to make to the accepted system. Such requests for changes should be promptly evaluated for compliance with the EVMS Guidelines. The proposed changes will be submitted by the contractor, through the EVM monitor, to the cognizant ACO for approval in accordance with the contract terms and delegation of authority.

The EVM monitor should discuss the proposed changes with the DCAA Field Activity Office (FAO) and the PM who will most likely solicit the advice from the component EVMS staff specialist. Changes requiring interpretation of the criteria should be referred by the EVM monitor and the CMO Commander, through the PM, to the appropriate HQ DCMA EVMS Process Owner prior to reaching a decision on acceptability.

The HQ DCMA EVMS Process Owner in conjunction with expertise from the DCMA EVMS Center will formally issue a determination to the CMO Commander. A copy of the accepted change to the system will be forwarded to the PM and the appropriate component EVMS focal point.



Figure 19-3: System Change Process



D

The system change process depicted in **Figure 19-3** is directly out of the [EVMIG](#).

### Long Description

Figure 19-3: System Change Process is a flow-chart that originates when (1) the contractor develops a system change, if there is an ACO change waiver (2), then the government is notified (4); and after a 2 week lag, the change is implemented (5), and is submitted to routine surveillance.

If there is no ACO change waiver (2), then the change is submitted for approval (3); if it is compliant with criteria (7), then the process continues to (5) and (6). If it is not compliant with criteria (7), than advise the Ktr of problems (8), if problems are not fixed (9), notify affected customers of the focused surveillance review (10); if review findings are not cleared (11), then terminate AA and take contractual remedies (12), and return to the acceptance process (13).



## **Corrective Actions**

During surveillance, if the contractor's practices are found to differ from the accepted system description, the contractor should be required to correct the deficiency. When deficiencies are discovered in the contractor's compliance with EVMS Guidelines, they will be identified as system deficiencies to differentiate them from program specific problems. The contractor shall be advised of any significant system deficiencies through the ACO.

A description of EVM system deficiencies and any deficiencies that could affect the validity or reliability of integrated management system data should be reported immediately to the PM in accordance with the designated CMO reporting/support agreement with the PMO such as a periodic surveillance report. The EVM monitor, working with the PST and DCAA FAO, will follow up to determine if effective action has been taken to resolve the discrepancy. System deficiencies that cannot be resolved at a local level will be elevated through the ACO, to the PM, to the HQ DCMA Process Owner, and, if necessary, the Service Component focal point for resolution.

When it is determined that the contractor's accepted EVM system no longer meets the EVMS Guidelines, the contractor should be promptly notified, through the ACO. The information provided should detail the specific areas of deviation. The PM, procuring activity, and component focal point should be notified of the discrepancies. The contractor may refer questions involving interpretations of EVMS requirements, which cannot be resolved by the ACO, to the DCMA Headquarters with a notice to the PM.



## **Reconciling Contractor Data**

Surveillance personnel should periodically evaluate the validity and traceability of the contractor's cost and schedule data. By performing selected tests of the cost and schedule data, and by comparing these results with other internal and external data, surveillance personnel can determine the accuracy of the contractor's data, and the adherence to system discipline of the contractor's management personnel and the EVMS. For example, one could compare vendor and subcontractor invoices to the Actual Cost of Work Performed (ACWP) value reported on internal performance measurement reports and verify that it can be reconciled to the ACWP reported on the Contract Performance Report (CPR). In addition, by tracing the cost and schedule data flow, the EVM Monitor can determine that all applicable subsystems related to cost and schedule are integrated and use the same data source.

The Contractor publishes financial reports that contain reconciliation of certain financial data. These reconciliations should be periodically verified to ensure the data is valid and can be traced to other external financial reports, and to cost and schedule data bases in the contractor's EVMS. This reconciliation is particularly important early in the contract. Once the EVM Monitor determines that the contractor uses reliable and verifiable procedures for reconciliation, such verifications should be required less frequently.



### **Reconciling Contractor Data, Cont.**

Since the control account level is where variance analysis is conducted and is also the level where EVMSC requires internal performance measurement, validation of data reconciliation must begin at this level and extend vertically through the Work Breakdown Structure (WBS) and horizontally through the functional organization. Surveillance in this area should focus on ensuring the accurate summarization of information from the control account level to the total contract level.

The depth, intensity and frequency of reconciliation will be influenced by such factors as the relative importance of the data, past reliability of contractor's data, the degree of stability or change in the contractor's organization, the number of subsystems and operations, contract requirements and the number of contracts. The frequency and depth of reconciliation and the actual techniques to be used will be determined specifically for each contract.



## The Basic Technique

The basic technique for performing surveillance is to review the defined surveillance areas in the plan with heavy reliance on in-plant observation techniques. The old C/SCSC Surveillance Guide contained a checklist technique for each EVMSC area and is still used as a guide today to structure and not limit observations (Note: the old C/SCSC surveillance guide is not authorized for official use and is no longer distributed or maintained). A joint DCMA / Industry team is working on a "Joint Surveillance Guide". You can learn more by visiting the [DCMA web site](#).

When contract problems occur, management control is achieved by a feedback control process. Various performance indicators are used to determine if the actual progress of the program deviates significantly from the performance baseline. These indicators have been discussed in the previous lessons. If problems are in fact determined to exist, the Program Integrator (PI) should initiate an analysis of the cause by asking the following questions:

1. What is the problem and its impact?
2. Where is the problem?
3. Will the contractor's corrective action recover and adequately meet the original objectives, taking into account all constraints such as cost, schedule and technical scope?



## **Subcontract and Overhead Performance**

Subcontractors may also be required to comply with EVMS Guidelines. The prime contractor is responsible for surveillance of subcontractors. The CMO and DCAA usually just monitor the contractor's management of the subcontract surveillance. However, if the contractor does not perform this surveillance effectively, the CMO can provide surveillance assistance. The contractor can also request surveillance assistance from the CMO. The CMO should assist the contractor only if the CMO decides that it is in the best interest of the government to do so.

Two specific situations warrant CMO providing surveillance assistance to the contractor. When the prime contractor cannot perform surveillance because it would jeopardize the subcontractor's competitive position or because proprietary data is involved. When a business relationship exists between the prime contractor and the subcontractor that interferes with the contractor performing surveillance in an objective and independent manner.

Overhead costs must be managed and controlled just as direct costs must be. However, overhead management is more difficult than direct cost management. Direct cost managers must control costs only for a single contract, while overhead cost managers must establish cost goals based on the contractor's total business base. Contractors may vary greatly in their methods used to manage overhead and indirect costs, which hinders effective surveillance of these costs. Nevertheless, surveillance personnel must rigorously examine overhead costs because such costs can make up a substantial part of total contract costs.





## **Overhead Cost Surveillance**

Three types of overhead costs can occur. Costs for services that benefit several contracts, such as maintenance costs on shared machinery and facilities. Support resources such as utilities, employee fringe benefits, taxes, office supplies, etc. General and Administrative (G&A) expenses, which are the expenses of the contractor's corporate officers and staff, and general operating expenses.

The overhead budgets used by the contractor must comply with government Cost Accounting Standards (CAS) or with generally accepted business practices. It is important that overhead costs are shared equally by all contracts and customers of the contractor. The contractor must also be able to demonstrate a logical relationship between anticipated direct business and the associated overhead budgets. Basically, overhead cost surveillance takes place in three parts. Identify which managerial positions the contractor has designed to control overhead costs. Determine exactly what responsibility has been assigned to each, and make sure that this responsibility is clearly and specifically defined. Report actual or anticipated negative overhead variances.

In summary, the surveillance process and surveillance plan execution lessons should have provided you with an appreciation and fundamental understanding of the Contract Management Office (CMO) functions supporting the procuring agency's program management function. You are ready to proceed to the next lesson on "Program Execution". From that perspective, you will see why it is important to have the CMO part of the PMO IPT in the program management function and how effective use of the EVMS concept impacts the PMO, Service Component, DOD, and Congressional level decisions.



## Surveillance Plan Execution Knowledge Review

Select the statement that does not describe the key roles and responsibilities for surveillance plan execution.

- DCMA will, if system deficiencies are discovered, require the contractor to correct the deficiencies, and report any deficiencies that could affect the validity or reliability of management system data to the PM.
- DCMA EVMS Monitor will follow up on any discrepancies to determine if effective action has been taken to resolve the discrepancy.
- If DCMA discovers system deficiencies that cannot be resolved, the issue will be elevated to the ACO, PM, HQ DCMA Process Owner, and if necessary, to the Service Component focal point for resolution.
- DCMA has the full responsibility for discovering any system deficiencies and will take the necessary corrective action that may involve direct supervision of contractor employees and other resources to resolve the issue to the CMO's satisfaction.

**Correct.** DCMA has the full responsibility for discovering any system deficiencies and will take the necessary corrective action that may involve direct supervision of contractor employees and other resources to resolve the issue to the CMO's satisfaction.



### **End of Lesson**

You must click the **Next** button in order to receive credit for this lesson.