

# **Business Manager's Conference 2002**



## ***DCMA Insight and Perspectives on Achieving Programmatic Outcomes***

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***Colonel Steven R. Perry  
Steven M. Krivokopich  
William Hill***

***DCMA Website: <http://www.hq.dcma.mil>***

Three Part Briefing, Summarizing  
DCMA's Role, Insight and Perspectives  
in areas of:

- **Acquisition, Weapon System Life Cycle Support, Logistics, Readiness, and Supply Chain Management Business Systems**
- **Earned Value Management**
- **Program Cost Visibility**



***DCMA's Role in Acquisition, Weapon System Life Cycle Support, Logistics, Readiness, and Supply Chain Management Business Systems***

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***DCMA Insight and Perspectives on Achieving Programmatic Outcomes***

Presented By:  
***Colonel Steven R. Perry***

# Vision, Mission, Goals

## Vision:

**An Indispensable Partner, Providing Our Customers with Flexible and Responsive Contract Management and Acquisition Life Cycle Solutions.  
It Starts With Me!**



## Mission:

**Provide Customer Focused Acquisition Support and Contract Management Services to Ensure Warfighter Readiness, 24 x 7, Worldwide**

## Strategic Goals:

- 1. Deliver great customer service.**
- 2. Lead the way to efficient and effective business processes.**
- 3. Enable DCMA people to excel.**

*We Enable the Warfighter to Win*





# Combat Support Agency Missions



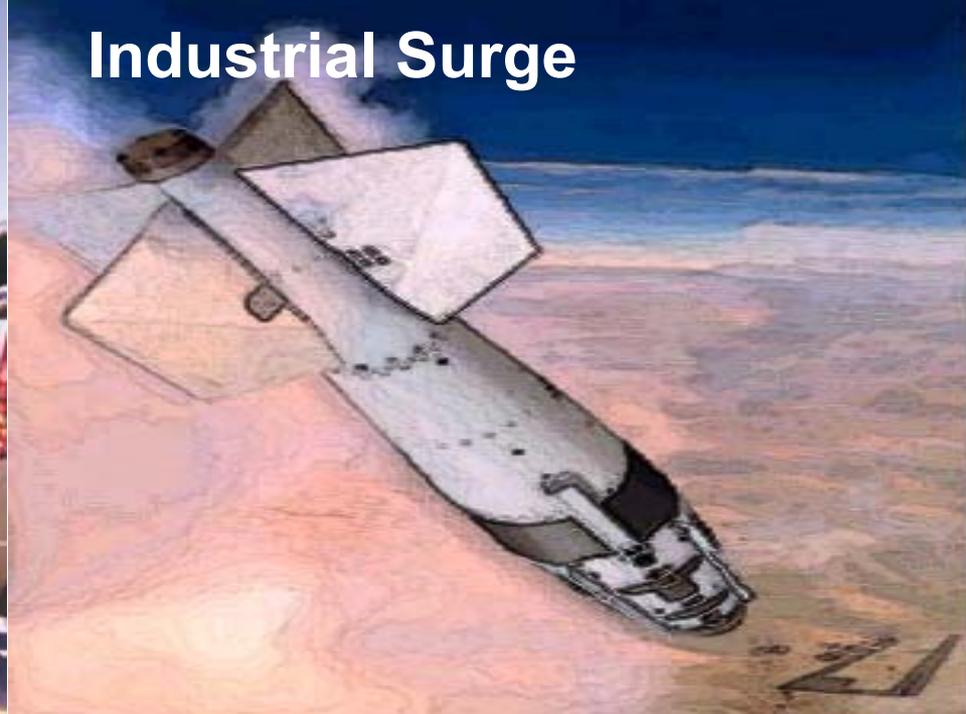
**Readiness**



**Modernization**



**Contractors in Theater**



**Industrial Surge**

## DoD 5000 Acquisition Model



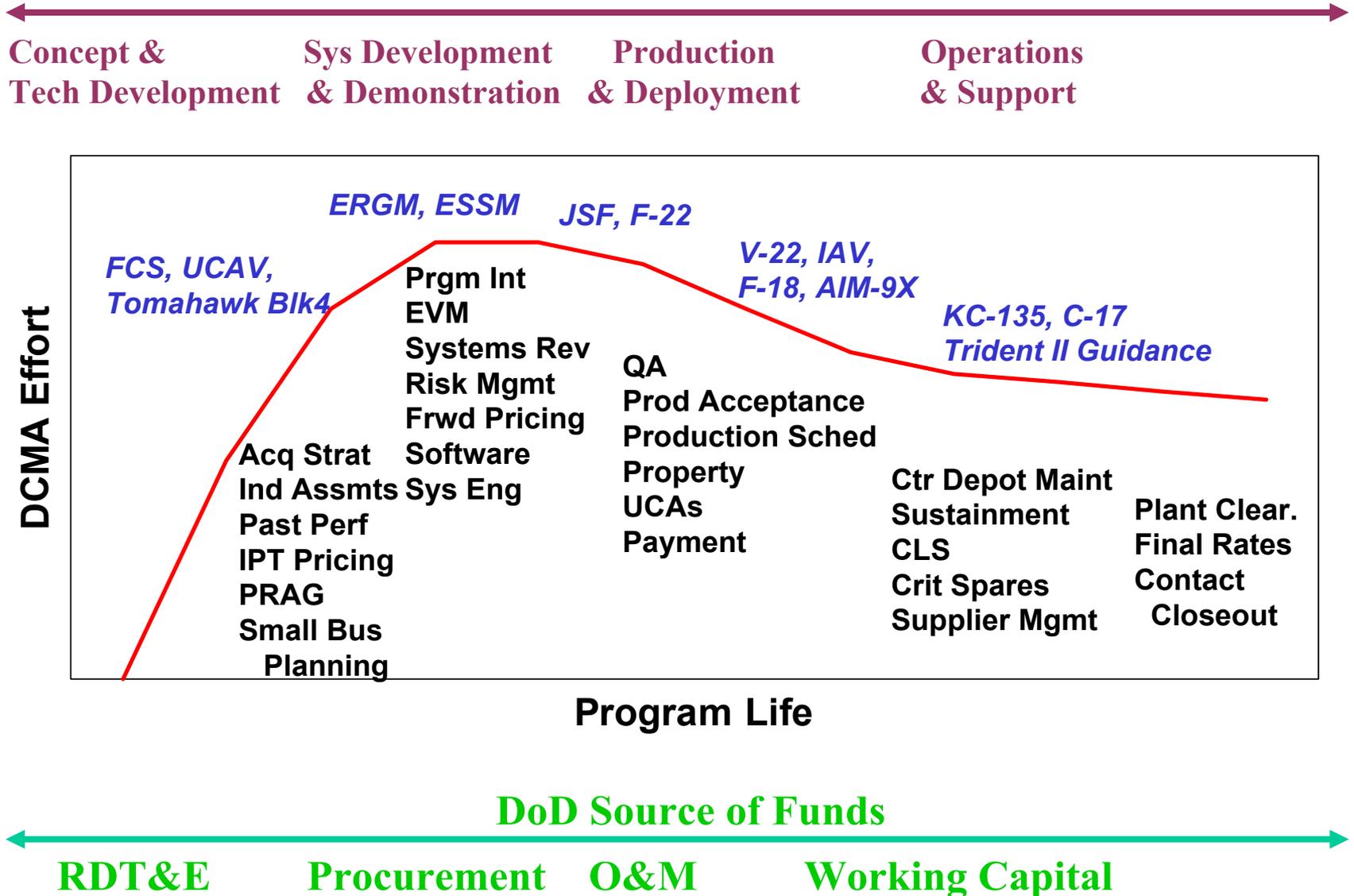
### DCMA Skills and Functions:

- Strategic Acq Planning
- Pre-Award Survey
- Pricing Support
- S/W capability
- Financial Anal
- Engineering
- Industrial Base Intelligence

- Contract Management
- Program Integration
- QA
- Engineering
- Property
- Closeout
- EVMS
- Transportation and Delivery Mgt
- Aircraft Ops

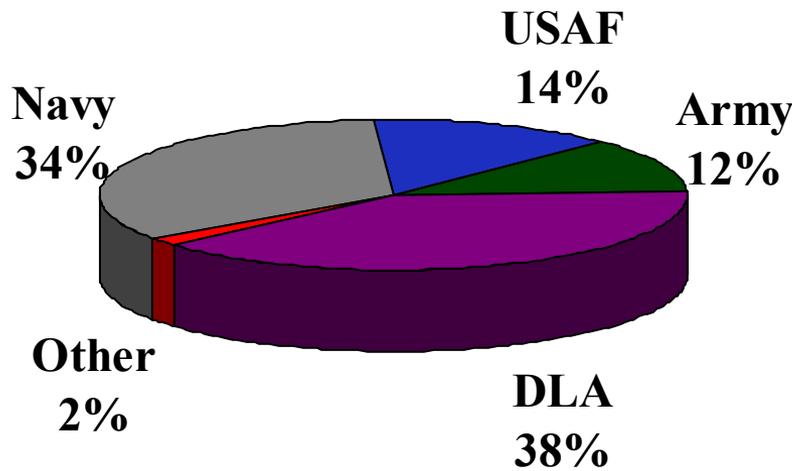
# Total Acq Life Cycle Involvement

## Typical Program Life



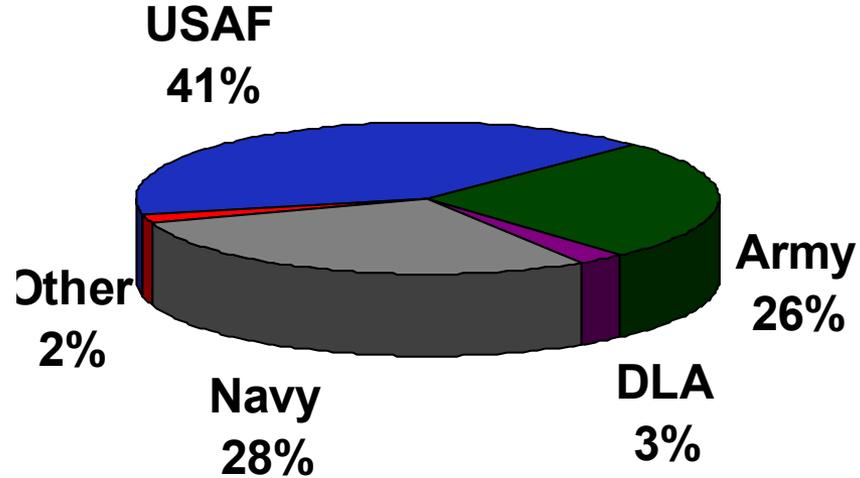
**Total Weapon Systems, Spares, and Support Contract Value = \$836**

**% Contracts Per Service**



**Total # of Contracts = 322K**

**Unliquidated \$ Value By Service**

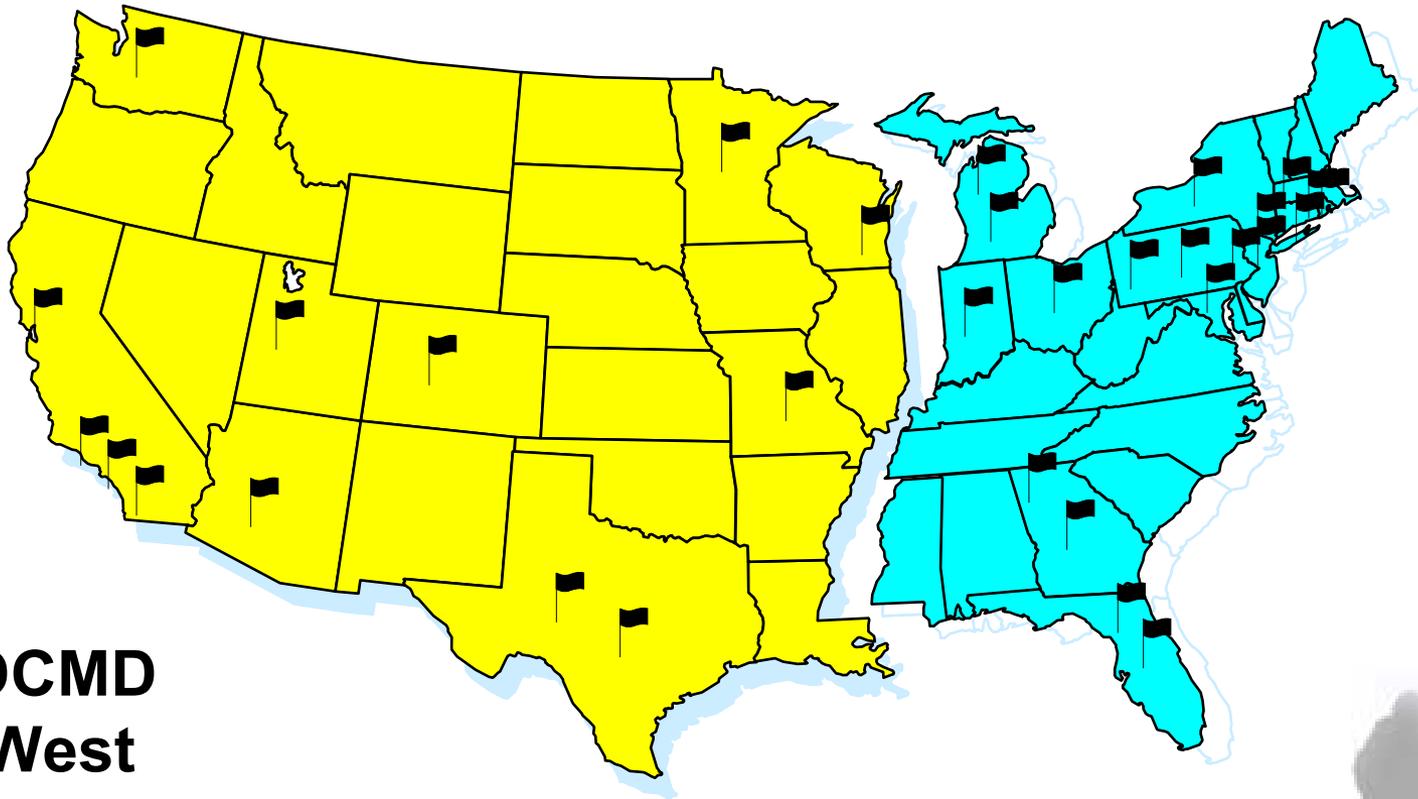


**Total ULO = \$111B**



# Current DCMA Operational Structure

**Three District Headquarters:**  
- 65 Subordinate Commands  
- Over 900 Operating Locations



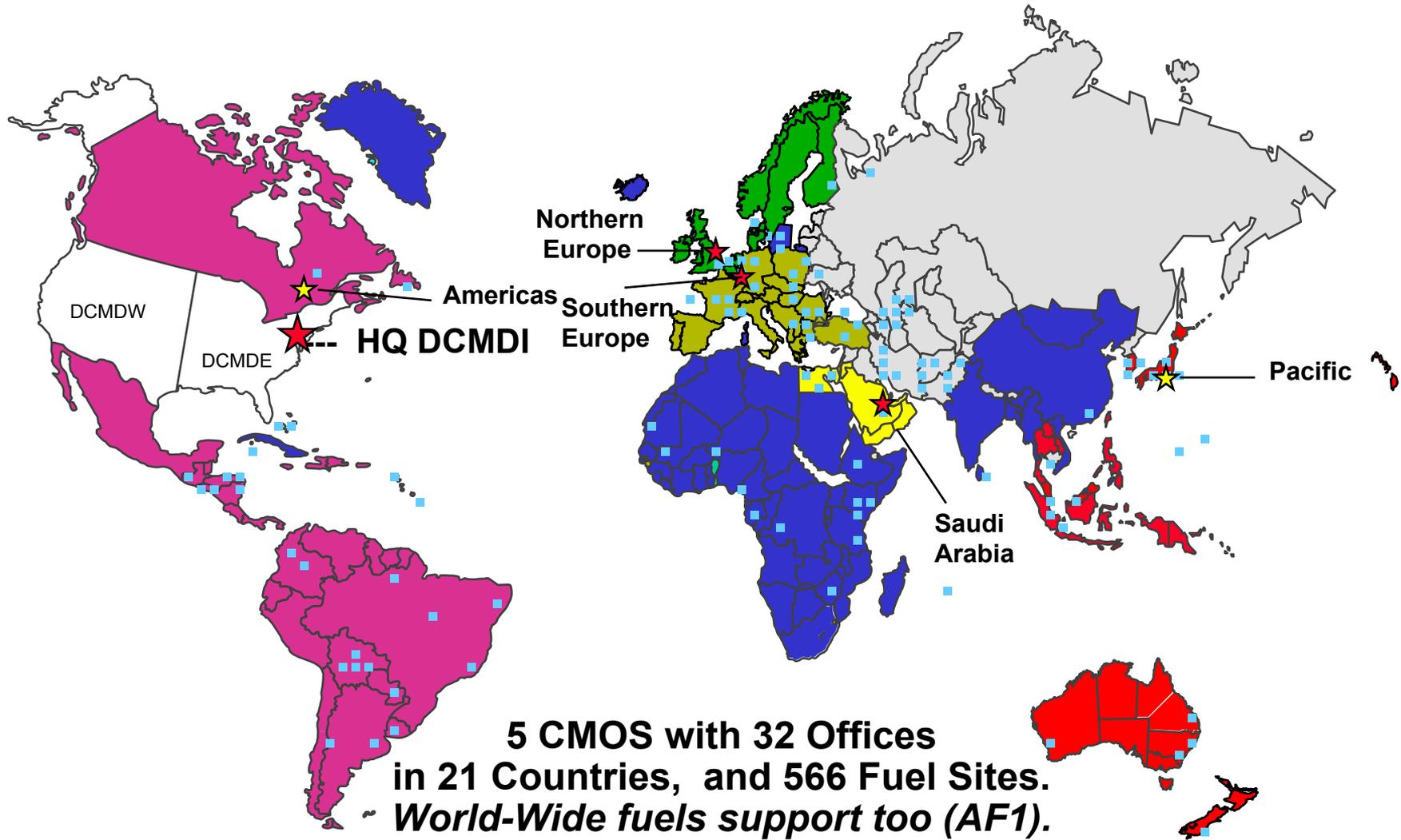
**DCMD  
West**

**DCMD  
East**



*We Enable the Warfighter to Win*

# DCMDI Worldwide Operations



**5 CMOS with 32 Offices  
in 21 Countries, and 566 Fuel Sites.  
~ World-Wide fuels support too (AF1).**

# Service Sets - What we do for our customers

## What we do

### DCMA Service Sets

Pre-Contractual Advice Services

Major Program Services

Risk Assessment Services

Product Performance Services *Right Item*

Delivery Services *Right Time*

Pricing/Modification Services *Right Price*

Bus & Fin Systems Services

Aircraft Acceptance & Delivery

Payment & Fin Mgmt Services

Contract Closeout Services

Combat Support Services

## How we manage

### *Integrated Management System*

Policy set in DCMA "One Book"

Labor hrs reported by process

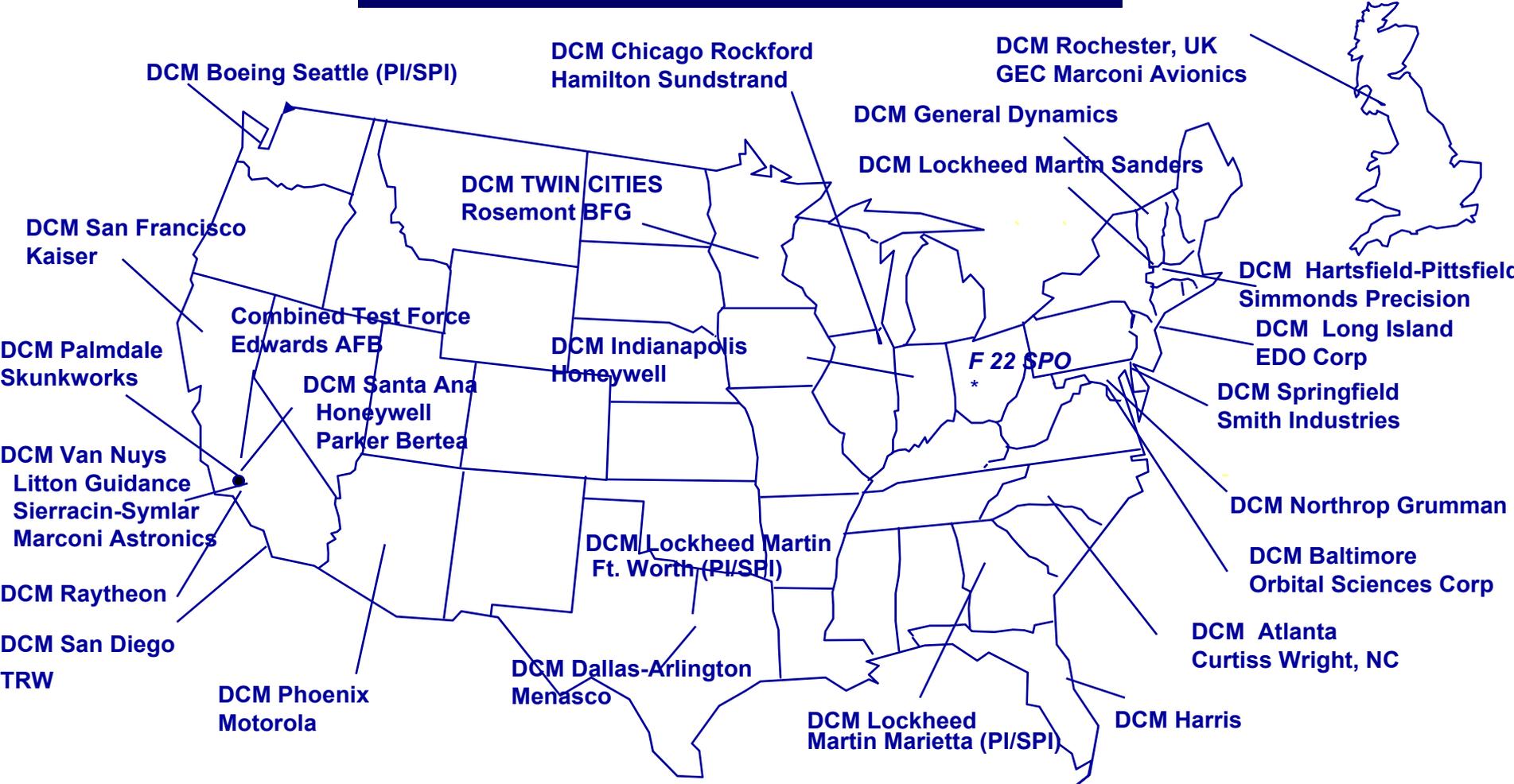
Activity Based Management

Agency-wide Performance  
Contracts

Accountability for results

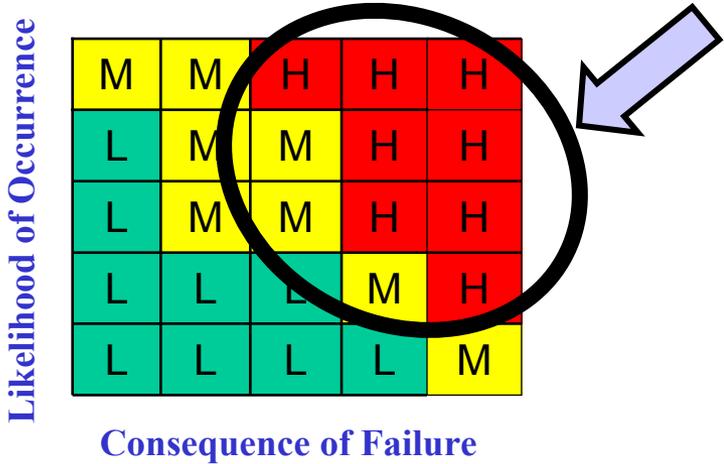
# F-22 Program Support Network

**“Boots on the Floor – Hands on the System”**



- Integrates & automates DCMA's Supplier Risk Management effort
- Provides DCMA management visibility on "where" to focus efforts

DoD Risk Management Model



Teaming & Real-Time Communication  
PMs-DCMA-Suppliers



Integrated Product Teams  
Corporate/Management Councils  
Program Integrator Reports

• Supports customer-focused outcomes by providing supplier information in risk-based terms:

- *Performance—Right Item—Quality*
- *Schedule—Right Time—On-Time Delivery*
- *Cost—Right Price—Value for Money*

**RAMP Output: Integrated Risk Management Plan**



## The Apparent

Big Items - Big \$ - High Attention

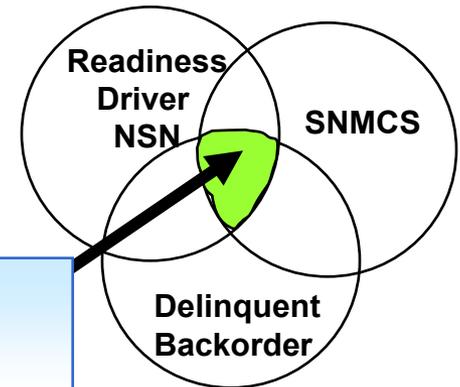


*Depot Maintenance  
Timely Return to Mission  
Capable Status*



## The Less Apparent

Small Items - Small \$ - High Importance



*Informed  
Engagement  
on Spares*

- Weapon System Life Cycle Support
- Visibility and Influence within DoD Supply Chain
- Knowledge of Industrial Capability and Capacity

# *Better Knowledge - Better Focus*

**Strategic Acquisition Planning and System Life Cycle Management**

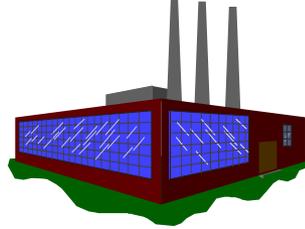
**Raw Mat Sup**

**Subcontractors**

**Prime Contractor**

**Depot/Supply Sys**

**Warfighter**



Pre-Award  
Delivery Mgt  
Fuels QA

IPT Pricing  
Pre-Award  
Small Bus  
EVMS  
Engineering  
CPSR

Pre-Award  
Pricing Support  
Production QA  
Program Integration  
EVMS  
GFM  
Engineering  
S/W Capabilities  
Property  
Industrial Intel  
S/W capability  
Financial Anal  
Transportation  
Delivery Mgt  
Aircraft Ops  
Closeout

Transportation  
CLRs  
Product Assurance  
Readiness  
Item Delivery  
Prime Vendor

CINC J-4 CLR  
CCAS  
Prime Vendor  
Fuels QAR  
Readiness

**Reverse Logistics**

**Reverse Logistics**

## ➤ Liaison Officers (LNOs) with Warfighters

- Joint Staff
- EUCOM
- JFCOM
- CENTCOM
- DLA

**Contingency Contracting Operations**

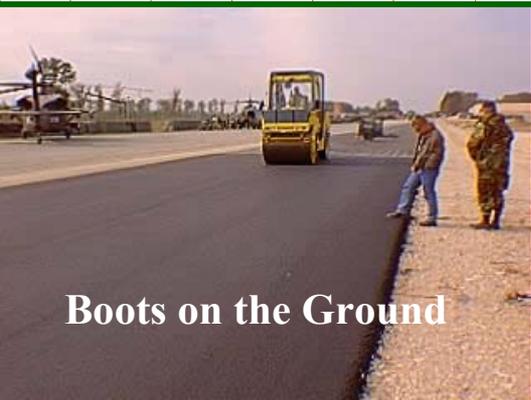
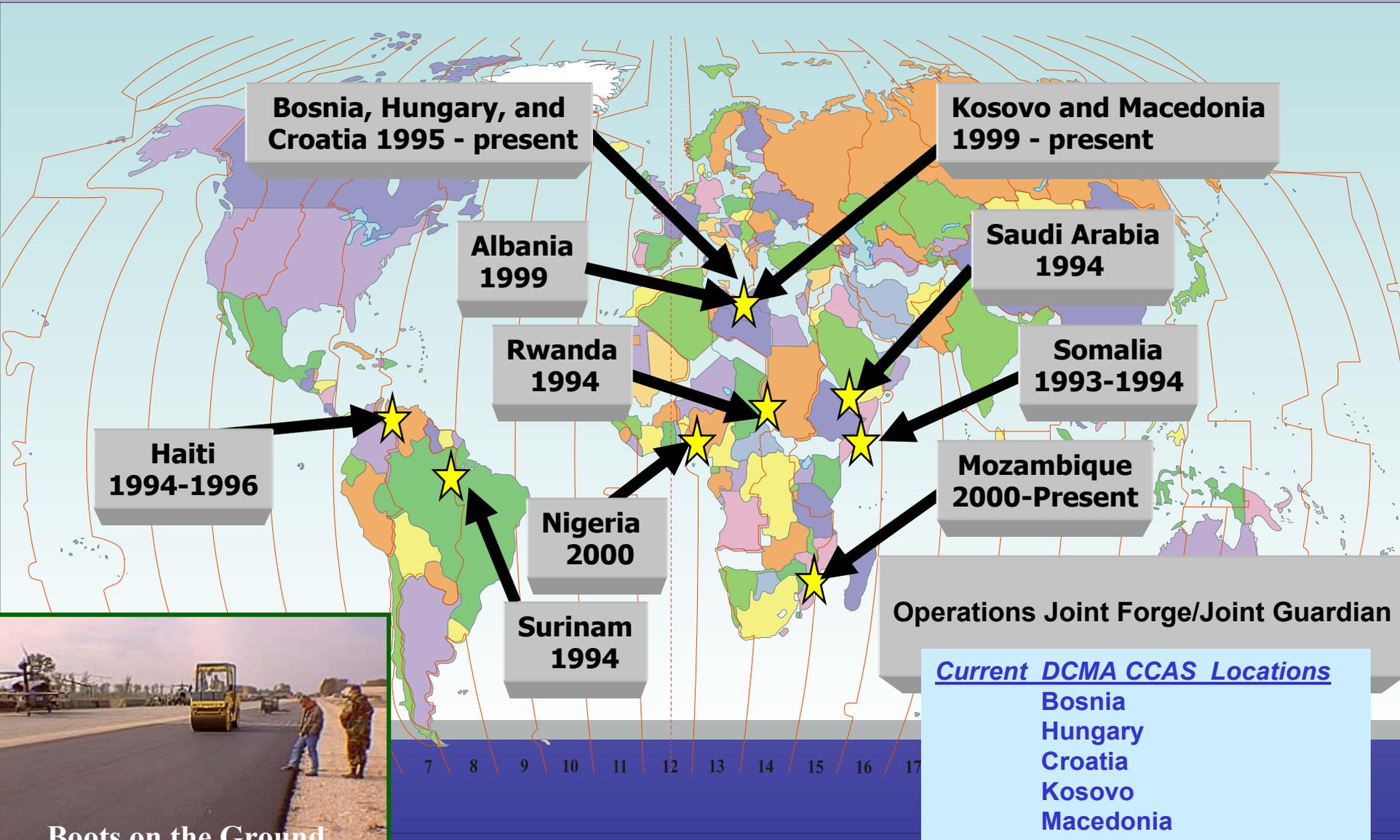
## ➤ Major Buying Command and Inventory Control Point Liaisons

- Air Force
- Navy
- Army
- NASA
- DLA
- DFAS
- DSMC

**More “Boots on the Ground”**



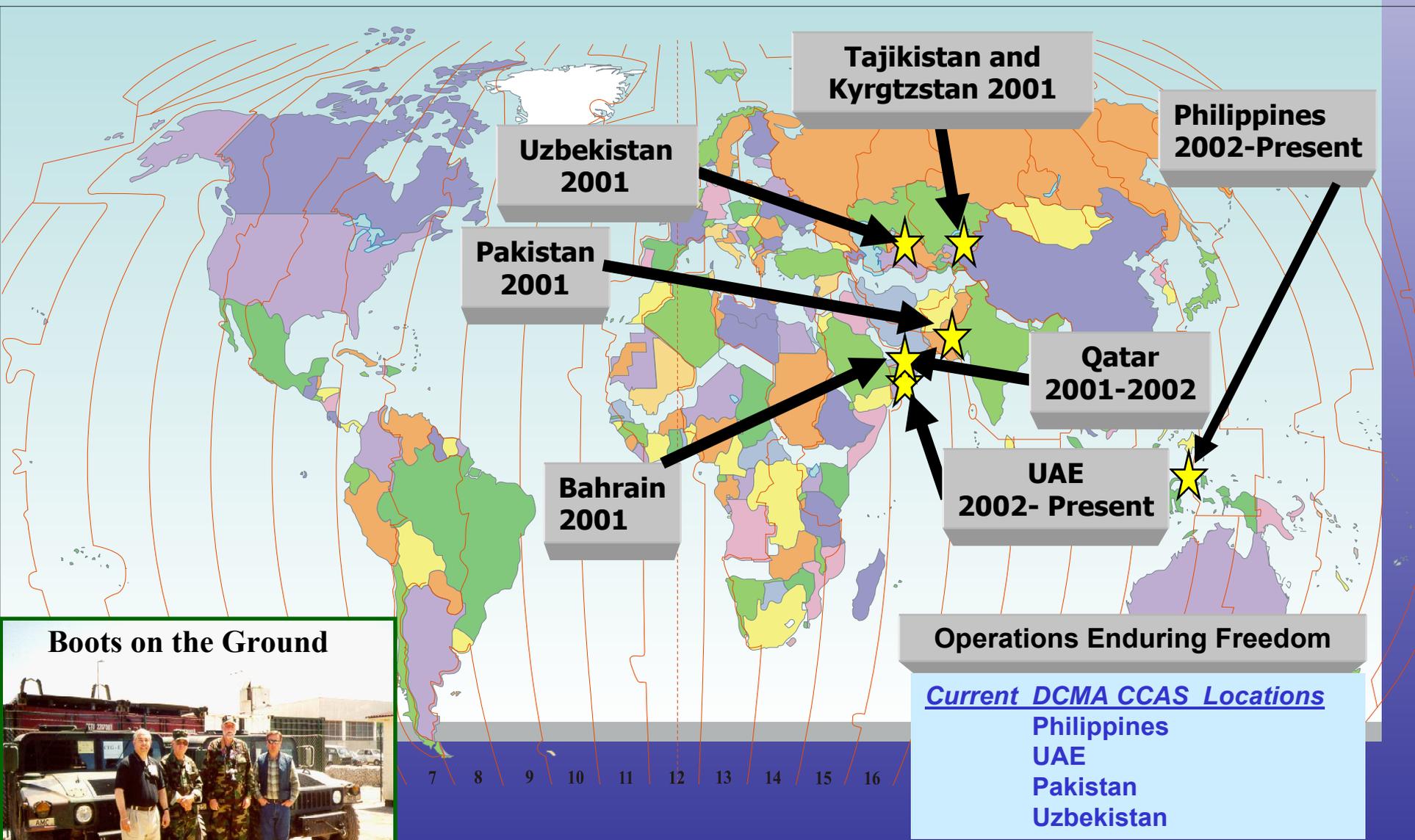
# Supporting the Warfighter Pre-9/11



Boots on the Ground

Since 1993, DCMA has deployed more than 500 personnel.

# Supporting the Warfighter Post 9/11



Since 1993, DCMA has deployed more than 500 personnel.

- **Increased Mil Service spending in Procurement and RDT&E investment accounts – future readiness**
- **Increased O&M spending for current readiness**
  - Critical spares
  - Smart munitions
  - Ops Tempo
  - Contractor-provided Depot Maintenance
- **Changing mix of systems in response to changing threat**
- **Increased spending on Service Contracts**
- **Increased emphasis/funding on interoperability**

**All have fundamental impacts on both  
Military Service Readiness and DCMA workload**



## Industry Outreach

- **Management Councils**
  - Government and Industry Teams
  - Three levels: Corporate, Sector, Plant
  - Acquisition Process Improvement Focus
- **Business Alliances**
  - Formalizes Government/Industry - Partnering
- **Industry Forums**
  - Industry Cross-Talk
- **Industrial Capability Analyses**

*We Enable the Warfighter to Win*



- **More Responsiveness**
- **Greater Efficiency**
- **Greater Effectiveness**
- **New Product Development**
- **Primary Provider**

*DCMA takes care of its customers...*

*...in a timely manner...*

*...cheaper than the customers could do it themselves...*

*...and does the right thing right the first time...*

*...while anticipating future needs and creating demand...*

*...and, where practical, does the whole job (not just a “helper”)...*

*...with the ultimate goal of...*

*Enabling the Warfighter to Win*



# ?? Questions ??



**Colonel Steven R. Perry**  
**Defense Contract Management Agency**  
**“Combat Support Agency”**

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# ***Earned Value Management: DCMA Insight and Perspectives on Achieving Programmatic Outcomes***

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Presented By:

**Steven M. Krivokopich**  
**Director, EVM Center**



- **System Acceptance**
- **EVM System Problems**
- **Final Thoughts**



- **What is an EVM System validation?**
  - **DoD's formal recognition of supplier's capability to meet the Industry Standard for an EVM System**
  - **How do suppliers get validated?**
    - **The Center does a Risk-based analysis, and if warranted:**
      - **Makes recommendation to CACO/DACO/ACO:**
        - » **accept system**
        - » **enter into Advance Agreement**
    - **Most suppliers were validated under Tri-Service agreement (still valid)**

However, a validation does not assure successful program/project performance, or that the system will be:

- Maintained
- Applied on all programs consistently
- And Most Importantly ... embraced by senior management as tool for program/project management!!!



- There are common EVM issues arising:
  - **Estimate at Completion**
    - **Not timely and/ or Not thorough**
    - **Low confidence levels in Supplier EAC**
  - **Baseline control and maintenance problems**
  - **Inappropriate EV Techniques**



## – Where Do We Begin?

- Do we believe the data? If so, ...  
Focus on the programmatic (usually a technical issue) driving the cost/schedule variance(s).
- But when the data isn't credible ...  
Application of the EVM System on the program is the problem!



## – Influence

- **Corrective Action Requests from System Surveillance**
- **Agenda Item at Management Councils  
(Continue to elevate to Corporate Councils  
if necessary)**
- **Publicize in Program Integrator Reports**



## – Contractual Remedies

- **Contractual Notification (CACO/DACA/ACO) that system does not meet contract requirements**
- **Pursue “due-process” vigorously**
  - **If not acceptable on one contract what about general system acceptance status?**  
**Tough question for supplier!**



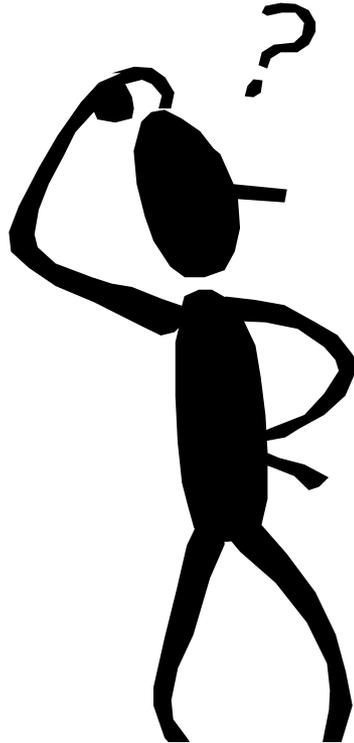
## – Integrated Baseline Review (IBR)

- We have information to help your planning process and review
- We can identify Management Systems Health and Risk



- **Use the Supplier's EVM System to your advantage**
  - EV Data visible to all (PEO/MDA/SAE/OSD)
  - Leverage DCMA when data integrity is questioned
  
- **Estimate at Completion (EAC)**
  - Understand differences – Your's, the Supplier's & DCMA's
  - Challenge Assumptions
  
- **A Validated EVM System does not assure program success!**





*We Enable the Warfighter to Win*

DCMA

Defense Contract Management Agency

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Defense Contract Management Agency

DCMA

Defense Contract Management Agency



# ***Program Cost Visibility: DCMA Insight and Perspectives on Achieving Programmatic Outcomes***

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***Presented By:***

***William Hill***

***Date***

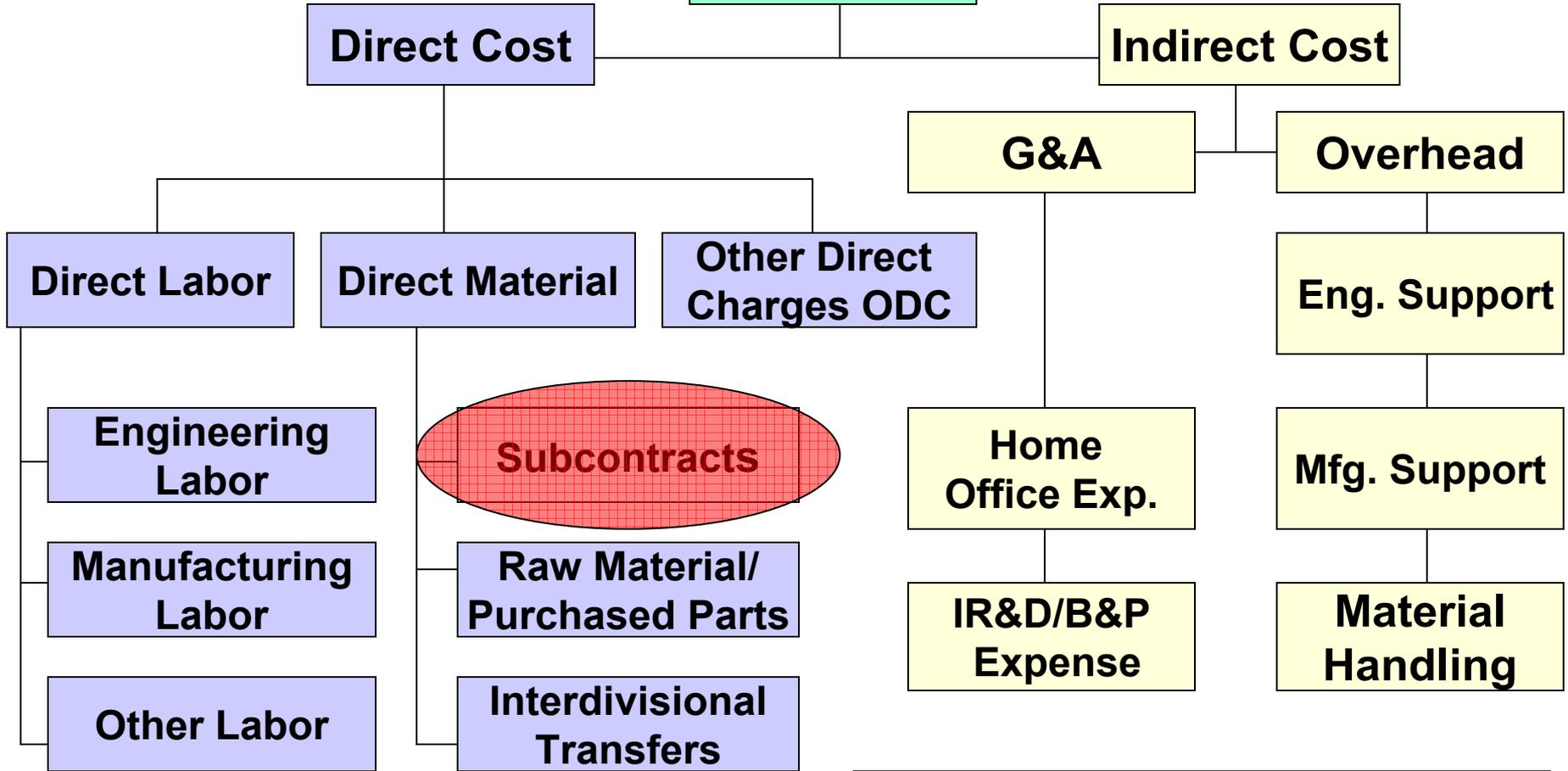
***June 12, 2002***

## Discussion Topics

- Overview -- Contractor Overhead
- Key Drivers of Rate Changes
- Monitoring Rates & Impacts
- Communicating Changes
- Open Discussion

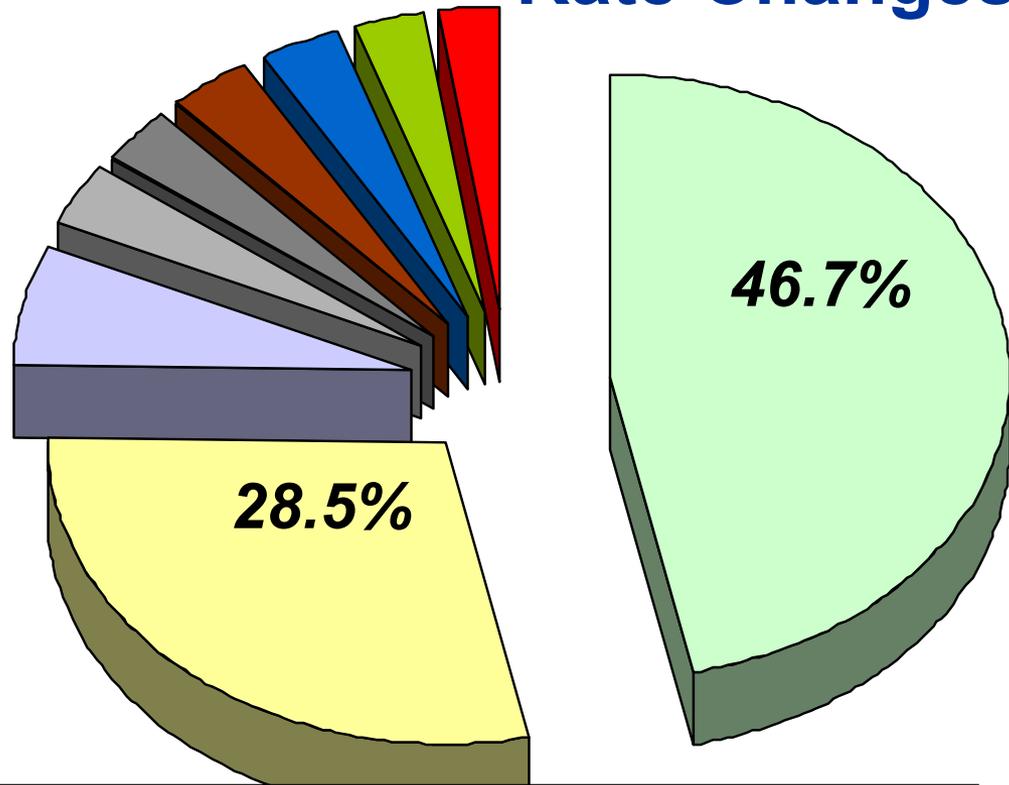
# Program Cost Visibility

**Contract Price = Cost + Profit**



**Indirect Cost Comprises Between 33% and 50% of Contract Price**

## Major Drivers for Overhead Rate Changes



- Payroll Fringes
- Indirect Salaries
- Depreciation
- Utilities
- Maintenance
- Data Processing
- Dept. Expense
- Property Tax
- Perishable Tools

*Fringes include: medical insurance; vacation & sick pay; F.I.C.A; stock plan; workers comp; lump sum bonuses; unemployment tax.*

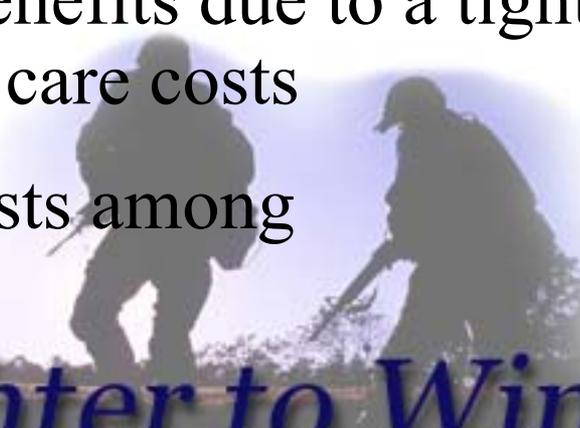
# Program Cost Visibility

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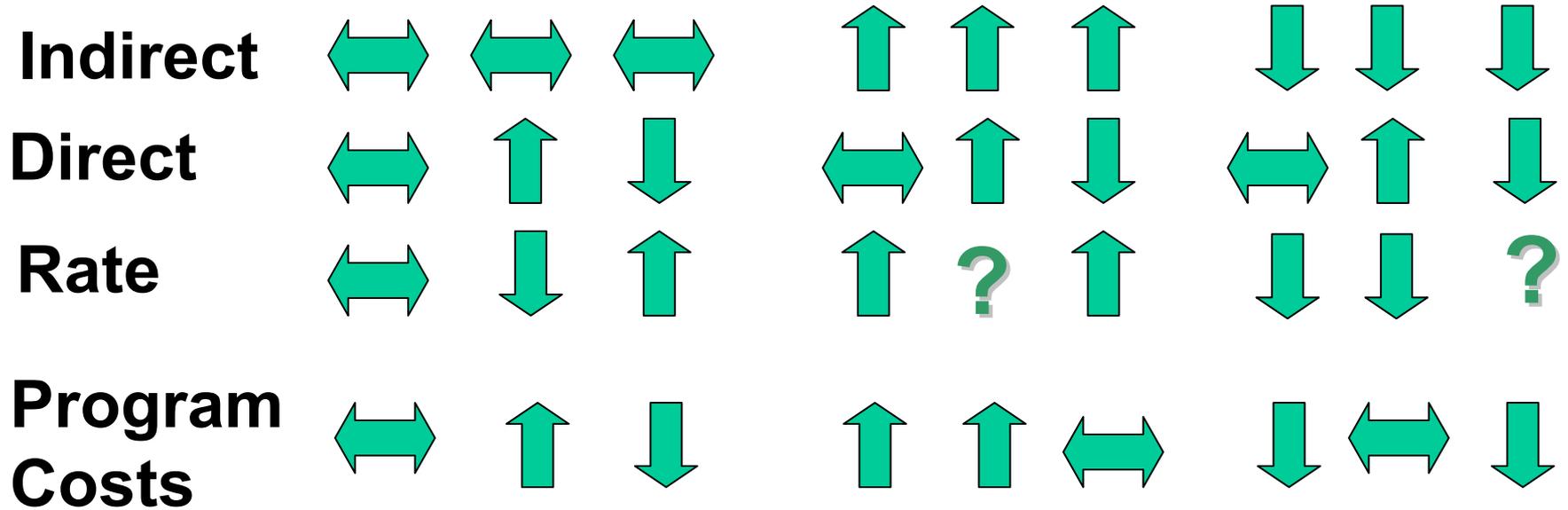
*DCMA analyzes overhead rate changes & cost impacts*

- **Generally, overhead rates decrease as contractors cut costs and increase efficiency**
- **However, rates may rise despite cost cutting**
  - ✓ Declines in the business sales base – both Government and commercial, program cancellations
  - ✓ Increases in wages and fringe benefits due to a tight labor market and escalating health care costs
  - ✓ Accounting changes can shift costs among programs

*Enabling the Warfighter to Win*

The background of the bottom section of the slide features a faint, blue-tinted image of two soldiers in silhouette, walking through a field. One soldier is in the foreground, slightly to the right, and the other is further back and to the left. They appear to be carrying equipment, possibly rifles or gear. The overall tone is somber and focused.

## Indirect-Direct Cost Relationship



*A lot of focus is on overhead rates...however, need to focus on overall program costs*

*There are many rates-- some go up, some down. And multiple segments. And lots of subcontractors*

## ***Restructuring Anomaly***

- Must look at total contract/program costs
- Must consider contract/program type

## ***Savings are both Indirect and Direct***

- Notional example:

Restructuring Costs - \$20M \*

Restructuring Savings - \$100M \*

(\$40M Indirect/\$60M Direct)

Savings/Cost Ratio - 5/1

*\* Amortized over a five year period*

# Program Cost Visibility

	<u>Pre-Merger</u>	<u>Costs</u>	<u>Savings</u>	<u>Post-Merger</u>
<b>O/H Base</b>	<b>1,000</b>		<b>(60)</b>	<b>940</b>
<b>Expense Pool</b>	<b>1,200</b>	<b>20</b>	<b>(40)</b>	<b>1,180</b>
<b>Total Costs</b>	<b>2,200</b>	<b>20</b>	<b>(100)</b>	<b>2,120</b>
<b>Overhead Rate</b>	<b>120.0%</b>			<b>125.5%</b>

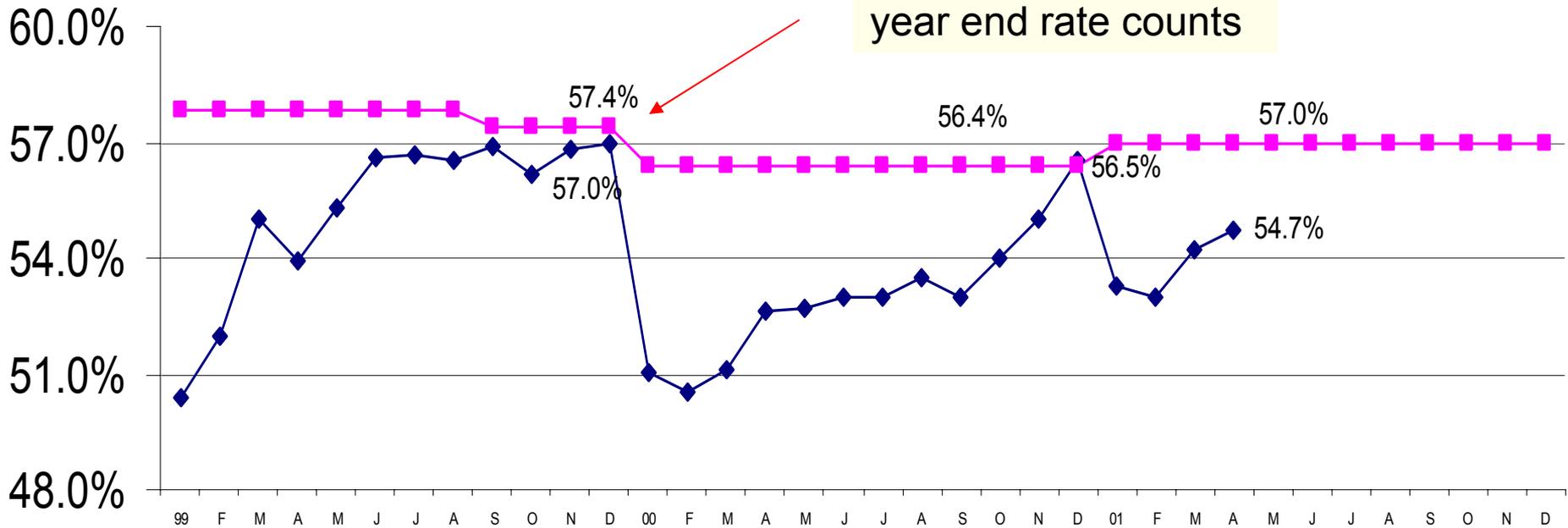
**Bottom Line** - Even though the Overhead Rate has increased, the total costs have decreased.

$$\$1,200/\$1,000 = 120\%$$

$$\$1,180/\$940 = 125\%$$

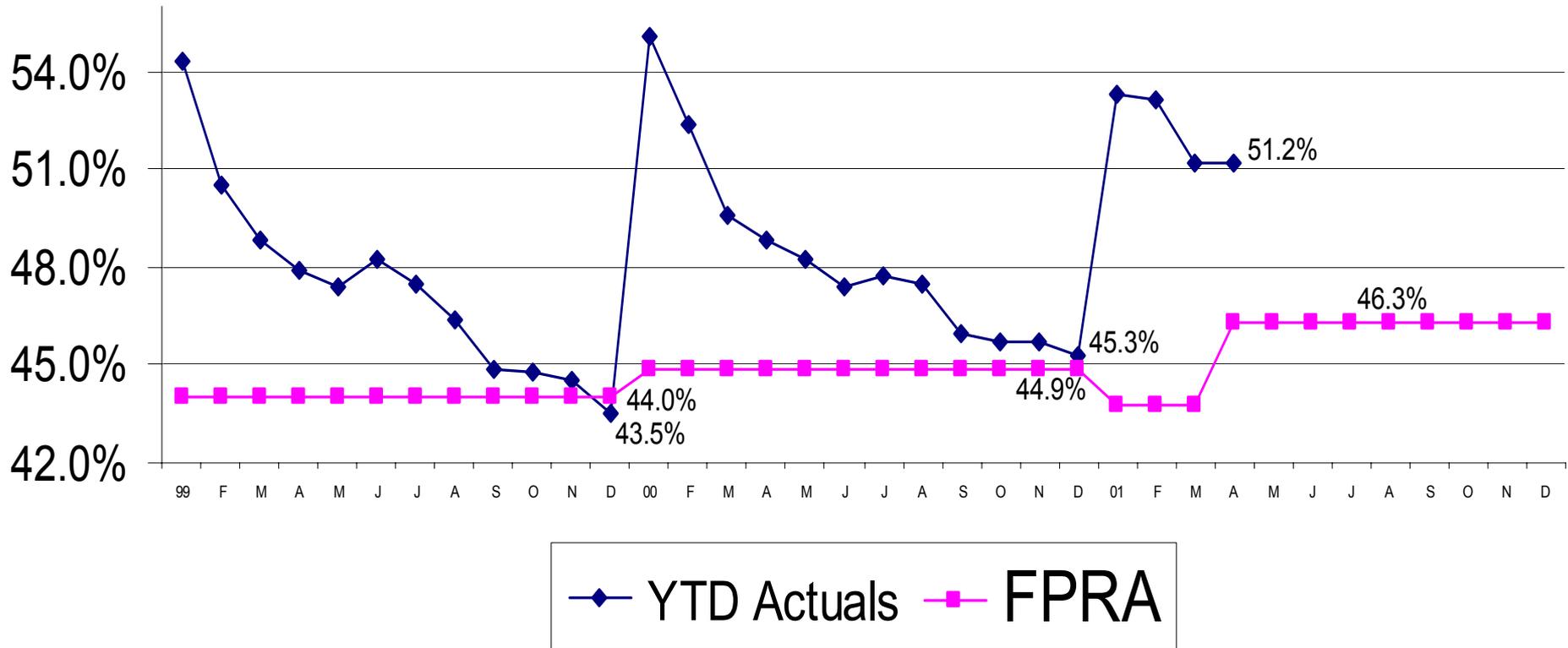
## Engineering Overhead 1999 - 2001

Trends are important,  
year end rate counts



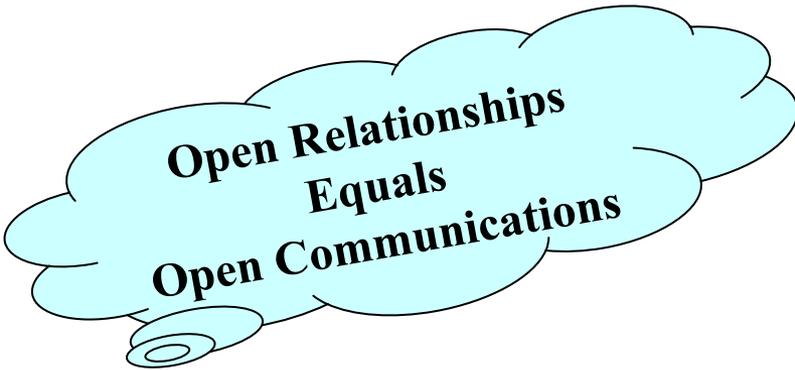
◆ YTD Actuals    ■ FPRA

## Manufacturing Overhead 1999 - 2001



# Program Cost Visibility

## Information Flow:



**PCO/  
Program Office**

**DCE/CACO**

**Corp Rep**

**DACO**

**Next Level  
(Group/Segment)**

**DACO/ACO**

**Contactor Plant**

**PI/PST**

**(Impact on Programs)**

How DCMA informs Program Managers and their staffs of changes in program costs.

*Enabling the Warfighter to Win*

## **BACKGROUND SLIDES**

# Agency Organization

Defense Contract Management Agency  
 6350 Walker Lane  
 Alexandria, VA 22310-3226  
 Commercial: 703-428-1700  
 DSN: 328-1700  
 March 15, 2002

