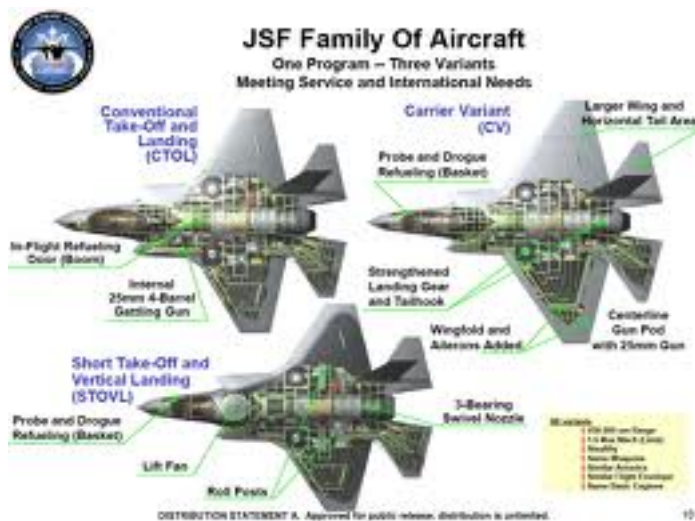


Written by Nick Sanders
Friday, 29 June 2012 00:00



Poor LockMart. It's almost like the company's Fort Worth, Texas, plant is cursed or something.

It's not enough that the company has been in a [prolonged strike](#) with about 3,600 employees who are members of Machinists' Union. It's not enough that DoD is playing [protracted games](#) with its analysis of how much the next production order of F-35 Joint Strike Fighters "should cost." It's not enough that the plant's largest program is [suffering](#) from operational challenges and delayed/withdrawn orders from its customers. Nope, those aren't enough pain points for the largest defense contractor. No sirree.

Now, to add on to the contractor's pile of pain, DCMA [has decided](#) to increase the amount of payment withholds on the F-35 program, from 2 percent to 5 percent. As we have [previously reported](#) to our readers, the Pentagon has had long-standing concerns about LockMart's implementation of its Earned Value Management System (EVMS) at the Fort Worth plant. Let's be clear: this has been an on-going problem for LockMart since 2007. In October, 2010, DCMA found that LockMart had made inadequate progress on its corrective action plan and "decertified" the Fort Worth EVMS. (We think "withdrew approval" or "found to be inadequate" would be more accurate descriptors, but we can only quote our sources.) DCMA was quoted as stating that the "decertification" would "help ensure that Lockheed Martin devotes the needed attention to complete the corrective action plan in a timely manner. It also reinforces the responsibility the company has to deliver to the government what it agreed to."

Business System Deficiencies Continue to Distract Lockheed Martin

Written by Nick Sanders
Friday, 29 June 2012 00:00

But that strategy didn't lead to the results that DCMA wanted, and in March, 2012, payment withholds of 2 percent were implemented (as authorized by the new DFARS "business system" clause that was included in LockMart's latest F-35 contract award.) Now, a bare three months later, the payment withhold has been increased to the maximum amount of 5 percent. What happened during those three months?

As Aviation Week & Space Technology reported (link above)—

Between January and May, officials from DCMA, the Defense Contract Audit Agency and the F-35 joint program office visited Lockheed Martin's Fort Worth facility to check on Lockheed's plan to fix the cost-tracking system, not just for the F-35 but also for the F-22 and the F-16. And while DCMA noted that Lockheed has made progress, 'EVMS implementation for F-35 System Development and Demonstration and production contracts remains a major concern,' according to a Pentagon summary statement.

The corrections were expected to be complete by June, but the DCMA suspended the review because it was unlikely that the problems could be corrected by the deadline.

Bloomberg Business week [reported](#) some more details on LockMart's EVMS problems. It said—

The review that began in March had been delayed by a year 'to allow sufficient time for Lockheed to fully execute' the [corrective action] plan, the agency said. Lockheed, the world's largest defense contractor, said it was 99 percent finished implementing improvements before the review began, according to the contract agency.

Even so, the agency said in its letter that it found recurring concerns about 'data discrepancies.'

Among the deficiencies were 'poor quality,' unreliable estimates about how much contracts will cost on completion, 'inadequate recording' of direct costs and 'data inconsistencies,' according to the letter.

Okay, we have two thoughts about LockMart's latest payment predicament.

First, we are concerned about the use of the term "discrepancy" when the DFARS clause clearly uses the phrase "significant deficiency." We don't want to be nitpickingly pedantic, but not all discrepancies are system deficiencies, and not all system deficiencies are "significant". This is important stuff. Cash flow is involved. We need DCMA and its functional specialists to adhere to the letter of the law here, and not play petty power games that seem suspiciously

Business System Deficiencies Continue to Distract Lockheed Martin

Written by Nick Sanders
Friday, 29 June 2012 00:00

timed to impact LockMart during protracted and potentially contentious price negotiations. The language used indicates that somebody doesn't understand how the business system clause(s) are to be implemented; the government may be leaving itself vulnerable to a successful LockMart claim.

On the other hand, we would be concerned—*very concerned*—if a government official told our client that it was having difficulties recording direct costs. Proper recording of direct costs (such as labor, materials, subcontractor billings, and travel) is the blocking and tackling of government contract cost accounting, and LockMart should have that down pat, as should all serious government contractors. We don't have any details regarding the (alleged) issue, but it may hint that the government has an ace up its sleeve with respect to LockMart—a hidden trump card that it can play if the company chooses to pick a fight in court.

Second, we remain unconvinced that LockMart is receiving fair treatment by the Pentagon. We noted the suspicious timing of the cash flow hit, and we noted the improper use of the term “discrepancy” instead of the correct phrase “significant deficiency”. In addition (as we told readers in a previous article on this subject), there is a question in our minds as to whether DCMA's EVMS functional specialists were being independent and objective in the performance of their reviews of LockMart's EVMS. We [noted](#) a GAO review of 14 Missile Defense Agency programs where seven of the programs were being performed by contractors whose EVM systems had been assessed by DCMA as being “noncompliant.” Despite the inadequate EVM systems, GAO reported that, “We reviewed the basis for the noncompliance and unassessed ratings and determined that [the EVM data was reliable enough] “for our purposes.”

GAO reported problematic EVM assessments by DCMA. It said—

For example, the EVM system of the STSS contractor Northrop Grumman was deemed noncompliant because of two low-level corrective action requests related to issues with other contracts that did not materially affect the performance baseline for the STSS contract we assessed. Also, the C2BMC's contractor Lockheed Martin Information Systems & Global Services received a rating of noncompliant during 2009 because of a corrective action request that stated that major subcontractor efforts were not specifically identified, assigned, or tracked in the organizational breakdown structure. However, after the noncompliant rating was given, DCMA reversed its decision and decided to close the corrective action without requiring the contractor to change its methods.

That approach to evaluating a contractor's EVM system seems problematic to us. When we think that the same reviewers might be the ones evaluating LockMart's EVM system—and recommending payment withholdings based on “discrepancies”—it makes our blood pressure

Business System Deficiencies Continue to Distract Lockheed Martin

Written by Nick Sanders
Friday, 29 June 2012 00:00

shoot up a bit.

We also noted an article published in National Defense Magazine in which DCMA's EVMS competencies were questioned. We quoted the article as follows—

'There is enough blame to go around in industry and government,' said one industry source. ... Contractors for years have complained to the Defense Department that the government's in-house EVMS skills base has degraded. Over the past several decades, the popularity of EVMS has ebbed and flowed, and so has the level of top management attention it has received both in the public and private sectors, experts said. The Defense Department's newly created 'PARCA' office (Performance Assessments and Root Cause Analyses) within the office of the undersecretary of defense for acquisition is supposed to have an EVMS 'policy czar' on the staff, but that position remains unfilled. ... The 'executive agent' in charge of overseeing EVMS since 1996 has been the Defense Contract Management Agency. Several senior jobs in that shop also remain vacant, sources said. ... Well planned out, EVMS tells you 'where your problems are going to be. ... But if you let the skills deteriorate, you get surprises.'

We [also reported](#) to our readers GAO's concerns with a deterioration of skill sets at DCMA. We quoted from the GAO report as follows—

Loss of this skill set, according to DCMA, meant that many of its pricing-related contract administration responsibilities, such as negotiating forward pricing rate agreements and establishing final indirect cost rates and billing rates, were no longer performed to the same level of discipline and consistency as in prior years. As a result, DCMA reported that DOD's acquisitions were subjected to unacceptable levels of cost risks.

So what does all this mean? In our view, it means that DCMA needs to work very hard to show taxpayers that LockMart's EVM system does, in fact, have significant deficiencies that compel it to implement payment withholds in order to protect taxpayer funds. It means that DCMA needs to be more transparent in its administration of the new DFARS business system clause(s) and ensure that the public knows it is acting reasonably and not capriciously—or to gain leverage in negotiations.

In the meantime, Lockheed Martin needs to evaluate why it cannot, *after five freaking years*, satisfy its DCMA reviewers. Is the company doing something wrong? Or has DCMA set the bar so high that the company will never, ever, meet it? If the latter is the case, then is the company willing to take the matter to court?

Business System Deficiencies Continue to Distract Lockheed Martin

Written by Nick Sanders

Friday, 29 June 2012 00:00

Readers, Lockheed Martin is first in line. But the line of contractors who will feel the pain of the DFARS business system clauses will be very long. You need to watch what LockMart does very closely, and tailor your strategy accordingly.

Lockheed Martin, we feel your pain.