

Paul Solomon
3307 Meadow Oak Drive
Westlake Village, CA 91361
Paul.solomon@pb-ev.com

June 20, 2026

The Honorable Michael Duffey
Under Secretary of Defense for Acquisition and Sustainment
1010 Defense Pentagon
Washington, DC 20301-1010

Subj: High Inherent Risk of Earned Value Management per AICPA GAAS

Dear Hon. USD (A&S) Michael Duffey:

This letter augments my letter to you, Subj: Insufficient Evidence for DCMA Earned Value Management Surveillance Opinions, dated June 11, 2026. It cites additional criteria in the AICPA Generally Accepted Auditing Standard (GAAS) applicable to the DFARS Earned Value Management System (EVMS) Standard, EIA-748. Per GAAS criteria, there is a high risk that contractor performance reports contain material misstatements because of the following inherent risk factors:

- Subjectivity
- Uncertainty
- Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk.

As discussed previously, the DCMA standard and guides for surveillance are silent on “reliable, verifiable” information about technical performance and relating schedule performance to technical performance. Subjective, management assessments of the quantity of work completed are permitted.

Management bias or other fraud risk factors were discussed in my white paper, *DOD Acquisition Reform: EVMS-lite and Integrated Program Management*. Excerpts follow:

Industry Warnings of Poor Contractor Behavior and EVM Metrics

NDIA Letter to DOD, May 11, 2007, with its attached position paper, “Award Fee Incentive Provisions Using EVM Reporting,” admitted that: “in recent years, some defense contracts have misused these incentives (to achieve program contractual outcomes) by tying achievement of certain EVM cost and schedule metrics to award and incentive fees and thereby sacrificing objective program status reporting in favor of “making the number.”

...A greater risk...is that they can provide the wrong focus (i.e., management of data and reports). Managing a program using these data outcomes could cause contractors to ...taking other actions that might be less than optimal in order to maintain high ratios between budgeted cost and schedule and actuals...EVM will reveal the truth about a program but meanwhile at-completion projections become constrained and project managers will not receive reliable information on contract status throughout most of the Program.”

Council of Defense and Space Industry Associations letter to DOD, Ref: DOD Report to Congress on Implementation of EVM: Request for Industry Input, July 2, 2009, warned that incentivizing contractors based on performance data could promote “poor behavior.” “In addition, inappropriate contractual incentives, such as focus on incentivizing or penalizing contractors based on performance data, promote poor behavior in the establishment of program baselines and EVMS implementations. An example would be

the continuing use of incentives based on reported performance metrics, such as the cost performance index (CPI) and/or schedule performance index (SPI).”

Per GAAS, the auditor should evaluate whether the entity’s accounting policies are appropriate and consistent with the applicable financial reporting framework. Per GAAS criteria, there is a high risk that contractor performance reports contain material misstatements because of inherent risk factors in EIA-748.

As documented in the white paper and previous letters, all independent assessments concluded that the last century’s policies regarding EIA-748 have failed to support DoW past needs. Those policies also fail to support today’s need for outcome-based metrics in a digital engineering ecosystem.

Yours truly,



Paul Solomon

CC:

-
- | | |
|---|--|
| Hon. Dep. Sec. Stephen Feinberg | Hon. Vice Chair HASC Wittman |
| Hon. Adam Smith, HASC | Shelby Oakley, GAO |
| Hon. Mike Rogers, HASC | Hon. David Norquist NDIA |
| Hon. Roger Wicker, SASC | Hon. Troy Meink, Sec. of the AF |
| Hon. Russell Vought, Director, OMB | Hon. Hung Cao, Acting Sec. of the Navy |
| Hon. Gen. Saltzman, U.S. Space Force | Hon. Pete Hegseth, Sec. of War |
| Hon. Dan Driscoll, Sec. of the Army | Hon. DoW CIO Kirsten Davies |
| Anthony Capaccio, Bloomberg News | Hon. USW(R&E) Emil Michael |
| Michael Cadenazzi, Asst. Sec. of War for Industrial Base Policy | |