



## Proper Use of Undistributed Budget

**Contact:** Johnnie Newson, EM-53, 202-586-8849, johnnie.newson@em.doe.gov**Date:** 6/4/2014**Statement:**

Based on recent EVMS reviews, a number of compliance issues surrounding the use of Undistributed Budget (UB) have been identified which require site contractors to develop Corrective Action Plans necessary to maintain Earned Value Management System Compliance Certifications as required by DOE O 413.3B, and contracts.

Requirements of Undistributed Budget (UB) in accordance with National Defense Industrial Association (NDIA) Program Management Systems Division (PMSD) American National Standards Institute/Electronic Industries Alliance (ANSI/EIA)-748 Intent Guide are as follows:

Undistributed Budget (UB) is defined as: "Budget that is applicable to specific project effort but has not yet been distributed below the project level either directly to Control Accounts (CA) or to Summary Level Planning Packages (SLPP). It is a transient amount because, once it is distributed to either CAs or to SLPPs, it ceases to be UB. Because UB is budget that is tied to work, it does form part of the Performance Measurement Baseline (PMB). Undistributed budget accounts are to be cleared in a reasonably timely manner as work scope is finalized and distributed to CAs or to SLPPs.

*In order to ensure that budget for newly authorized efforts remains tied to the associated scope during the initial planning process, UB has been designated as the short-term holding account. Once the responsible organization(s) has been identified, the budget will transfer from undistributed budget to the appropriate control account(s). This ensures budget and scope will not be transferred independently.*" (NDIA/PMSD ANSI/EIA-748 Guideline # 14, see reference 1)

Appropriate UB application is to, "Incorporate the work scope for authorized changes into the performance measurement baseline in a documented, disciplined, and timely manner. The timely and accurate incorporation of authorized and negotiated changes into the performance measurement baseline ensures that valid performance measurement information is generated for the new scope being executed. Adherence to this guideline helps to ensure that budget, schedule, and work remain coupled. For unpriced change orders, the contractor will develop its best estimate for planning and budgeting purposes for incorporation into the performance measurement baseline. Near term effort should be planned and have budget in control accounts. Far term effort that cannot be reasonably planned in the near term may be planned in summary level planning packages or maintained in Undistributed Budget (UB). Until contractual definitization, the near-term work is continually planned. After definitization, any budget remaining in undistributed budget will be planned and budgeted within control accounts, summary level planning package packages or management reserve as soon as practical. Incorporating changes must not arbitrarily eliminate existing cost and schedule variances. Rate changes and economic price adjustments may be made as appropriate." (NDIA/PMSD ANSI/EIA-748 Intent Guide, Guideline # 28, reference 1)

**Discussion:**

UB is best explained by understanding its relationship with the EVM concept of Total Allocated Budget (TAB). The TAB includes the budgets for all contractually authorized work (the estimated budget) and does not include profit / fee.

Contractors quantify a percentage of the TAB for MR to cover contractor risks through various analysis methods. The remaining budget becomes the PMB. The PMB consists of three elements: CAs, SLPPs, and UB. **UB is a temporary holding budget that should be allocated (distributed) as soon as practical to either SLPPs or to CAs.** A SLPP is traditionally established for far term work. For near term and well defined work, CAs are established.

The following excerpt from the Humphries & Associates EVMS Education Center (reference 2) defines the proper uses for UB:

**"Undistributed Budget provides the mechanism for a contractor to:**

**Set aside the [scope] and budget for a portion of Authorized Unpriced Work (AUW) to undertake newly authorized contract work quickly.** This allows a contractor to proceed with time phasing the scope and budget immediately after receiving an Authorization To Proceed (ATP) for work not yet negotiated (or not yet definitized which is the same as authorized unpriced work). The contractor is expected to distribute a portion of the AUW's [scope] and budget for the near term CA tasks, leaving the balance of the [scope] and budget in UB. This is done to avoid having to take back budget from the CAMs in the event of negotiation loss. Remember that budget and [scope] must always be authorized or de-scoped together. If a company begins to take back budget from CAMs without the associated [scope] to balance the UB log for a negotiation loss, the CAMs begin to distrust the process resulting in a serious undermining of the EVMS processes. After negotiations are complete, the negotiation loss is debited from the UB, noted in the UB log, and the balance of the [scope] and budget distributed to the CAMs. This should typically occur within two accounting periods after negotiations are completed.

**Process a customer stop work order (SWO).** Anytime the customer issues a SWO to a contractor, the value of the budgeted cost of work remaining (BCWR) and its associated [scope] is removed from the respective CAMs involved (and the PMB) and credited in the UB log until the customer redirects the contractor. The BCWR is the difference between the CAM's Budget at Complete (BAC) and Cumulative Performance (BCWP) to date or  $BCWR = BAC - cumBCWP$ .

**Process an internal work transfer or stop work order (SWO).** The UB log becomes the transaction record for traceability. This logging is necessary for possible new make/buy decisions, CAM to CAM transfers, as well as for internal SWOs. Note this is not done in the management reserve log as MR never has [scope] identified."

**Analysis:****Improper Usage of Undistributed Budget are as Follows:**

- (1) **UB was improperly used to offset variances:** Work was identified which was no longer planned to be accomplished within the contract period of performance, and the budget and scope were moved into UB to accurately represent the near term schedule. While it is required for the schedule to represent the work as it is planned to be accomplished, a BCP to remove the scope from the contractor's baseline should have been processed.
- (2) **Improper use of UB to replenish MR:** In the event the effort associated with UB was no longer planned to occur, a baseline change was processed to remove UB and replenish MR.
- (3) **UB was improperly tracked:** After a baseline change was implemented, there was no traceability from the UB values found in the Baseline Change Control Log to the Contract Performance Reports and CCB Log.
- (4) **UB was not allocated in a timely manner:** UB was held for almost a year with no explanation in the Contract Budget Base Log to indicate the amount was to be removed from the contract.

**Summary:** The above items represent common misuses of UB. Identification, tracking, and management of UB is integral to baseline management, and aids in accurate project reporting. Baseline changes must be consistent and reconcilable at all times between the modifications, the Contract Budget Base Log (CBBL), and the Baseline Change Requests (BCR). Failure to reconcile current budgets to prior budgets indicates a lack of baseline control and invalidates project management information gathered from the EVMS. Acceptable use of UB during work reprioritization includes the modification of near term work into far term work as a result of annual budget adjustments (pushing planned near term scheduled work off into the future). In this instance, the far term work is typically moved into Summary Level Planning Packages (SLPP) for the year the work is re-scheduled to be performed. For near term work that will not be performed during the contract period, the work is typically moved temporarily to UB until a modification removes the work scope from the contract. The DOE site offices should issue direction (unilateral contract change) to the contractor when it becomes clear that resulting budget reductions could impact the current approved contract scope. The work reprioritization effort should be promptly processed and approved at the appropriate levels.

UB must be documented properly within all program logs and baseline change forms for complete traceability from the original (or current) baseline to post-baseline change with detailed justification.



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**Actions:**

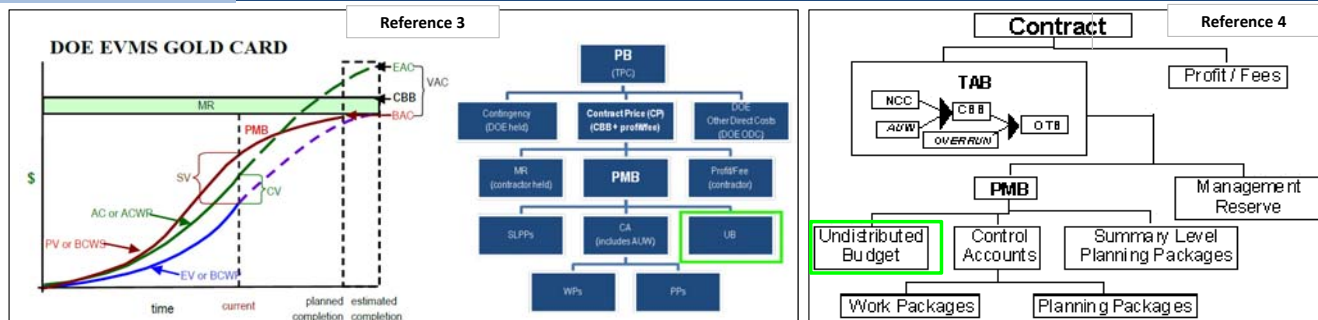
1. Site Offices (Including FPD, and Project Controls) should review the UB accounts monthly to ensure that contractor EVM systems are allocating UB properly and reporting accurate and reliable data in compliance with the NDIA PMSD ANSI/EIA-748 Earned Value Management System Standard as required by the Deputy Secretary's June 19, 2012 memorandum on data quality.
2. Contractors will ensure detailed tracking of UB within the Program Control Logs including both the Contract Budget Base Log (CBBL), Change Control Log, and UB Tracking Log.
3. Contractors will confirm all UB transactions are justified with a detail explanation within the Baseline Change Requests (including original and post-baseline change values for UB, the performance measurement baseline, and the contract budget base total)
4. Contractors will ensure proper traceability while managing UB changes in the performance baseline, incorporate a reconciliation process that will confirm the Baseline Change Control log traces to the baseline change form to the schedule and cost baseline as well as the Contract Performance Report Format 1, Contract Performance Report Format 3, and the Contract Budget Base Log (CBBL) (including other program logs if applicable).
5. Sites should ensure EVMS surveillances are conducted in accordance with DOE Order 413.3B, at periods not less than annually.
6. Noted incidences of system non-compliance with the ANSI/EIA-748 EVMS Standard should be analyzed immediately with corrective actions developed and implemented to resolve issues.
7. Site Offices should issue proper and timely direction to the contractor to ensure work prioritization efforts are processed promptly.

**Critical Decision(s):** CD-2, CD-3

**Facility Type(s):** All

**Work Function(s):** Project Management / Project Controls

**Technical Discipline(s):** Earned Value Management



The PMB is comprised of Undistributed Budget, Summary Level Planning Packages, and Control Accounts which contain both Work Packages and Planning Packages. The Performance Measurement Baseline (including Undistributed Budget) equals the Budget at Completion (BAC). The BAC plus Management Reserve plus Contractor Profit/Fee equals the Contract Budget Base (CBB).

Per Defense Acquisition University (DAU), "The Contract Budget Base, or CBB, is the sum of the Negotiated Contract Cost (NCC) and the Authorized Unpriced Work (AUW) budgets. If there is no Over Target Baseline (OTB) or Authorized Unpriced Work (AUW), the Contract Budget Base (CBB), Negotiated Contract Cost (NCC) and Total Authorized Budget (TAB) will all be equal."

$CBB = PMB + OTB$  (if an Over Target Baseline Exists).

**REFERENCES:**

1. National Defense Industrial Association (NDIA) Program Management Systems Committee (PMSC) Earned Value Management Systems Intent Guide. August 2012. (<https://acc.dau.mil/CommunityBrowser.aspx?id=19533&lang=en-US>)
2. Humphries & Associates. EVMS Education Center: The Difference between Undistributed Budget and Management Reserve. Irvine CA. 2011. (<http://www.humphreys-assoc.com/uploads/commerce/images/pdf/HumphreysTheDifferenceBetweenUBandMR20120611.pdf>)
3. U.S. Department of Energy. Office of Management. September 2011. ([http://energy.gov/sites/prod/files/DOE\\_EVMS\\_Gold\\_Card\\_Sep\\_2011.pdf](http://energy.gov/sites/prod/files/DOE_EVMS_Gold_Card_Sep_2011.pdf))
4. Defense Acquisition University (DAU). ACQuipedia. (<https://dap.dau.mil/acquipedia/Pages/ArticleDetails.aspx?aid=cbb58d51-c988-4f97-b5a1-b1c59c076887>)

Questions About the EM Lessons Learned Program? Contact Johnnie Newson at johnnie.newson@em.doe.gov.