

Title: Continuous Improvement Opportunity (CIO)	Page # 1 of 2	Encode: C3	Rev #: 0
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1. Subject: Contingency / Management Reserve	2. Guideline Ref (if applicable): 14	3. Control Number: 3
4. CA#, WBS#, or Functional Area: Planning, Scheduling, and Budgeting		

5. Description:

REQUIREMENT: ANSI/EIA-748 GL#14 states: “Identify and control management reserve and undistributed budget.

DISCUSSION: DOE Order 413.3A defines management reserve and contingency as follows: “Management Reserve: “An amount of the total contract budget withheld for management control purposes by the contractor. Management Reserve is not part of the Performance Measurement Baseline. Contingency: Contingency is the portion of the project budget that is available for risk uncertainty within the project scope, but outside the scope of the contract. Contingency is budget that is not placed on the contract, and is included in the Total Project Cost.”

The DOE 413 series of directives, consistent with applicable Office of Management and Budget circulars such as ANSI/EIA-748 identifies the term “management reserve” as a project management tool. Similarly, these DOE 413 series of directives defines “contingency” as a Federal budgetary construct and addresses another category of uncertain, potential project performance cost to facilitate DOE budgetary management purposes but is outside the costed scope of the contract. Therefore, contingency is developed for budget purposes only.

DOE Guide 413.3A-10, Section V differentiates Project Manager held Management Reserve from DOE held Contingency. Appendix B of the DOE Guide 413.3A-10, DOE EVMS Gold Card, clearly identifies a contingency account as being managed by DOE, and management reserve as being managed by the contractor.

OBSERVATION / FINDING: The Fermi Research Alliance, LLC (FRA) Earned Value Management System (LBNL-EVMS) Description (Updated February 2009) states: “As a DOE Laboratory, projects performed at Fermilab adhere to the requirements in DOE Order 413.3A, **Program and Project Management for the Acquisition of Capital Assets**, and its accompanying guidance manual, DOE Manual 413.3-1. DOE Order 413.3A mandates the use of EVMS for projects with Total Project Costs (TPC) of \$20M or more. For the purposes of this document, we will refer to these projects as "major projects" or "the project." Additionally, DOE Order 413.3A specifies that the EVMS must comply with the industry standard for project control systems described in American National Standards Institute (ANSI) EIA-748, **Earned Value Management Systems**.

Section 3.6.1 Contingency/ Management Reserve of the FRA EVMS states:

“Contingency/management reserve is an amount of the approved Total Project Cost (TPC) that is identified at the start of the project. The contingency/management reserve is established to provide budget coverage for future uncertainties (risks) that are within the scope of the project but are not part of the control account budgets. The contingency/management reserve is developed at the work package level, but is not assigned to specific segments of work. Contingency/management reserve is under the control of the customer (on DOE projects, the Federal Project Director). The Project Manager, in accordance with thresholds identified in the PEP and PMP, may use contingency management reserve, at his discretion. Projects are not to create a separate management reserve pool solely under the control of the Project Manager.

Appendix “B” of the FRA EVMS Description describes Contingency/ Management Reserve as “The amount of the total budget used by the customer and the project, according to established approval thresholds, for management control purposes. The release of these funds is managed through the change control process and determined by approval thresholds defined in the PEP and PMP. Contingency/management reserve is not part of the Performance Measurement Baseline”

“DOE Order 413.3A Terms “Management Reserve” as an amount of the total allocated budget withheld by the contractor for management control purposes, where as “Contingency” is held and controlled by DOE for management control purposes”

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Title: Continuous Improvement Opportunity (CIO)	Page # 2 of 2	Encode: C3	Rev #: 0
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The review team found the use of both terms confusing and belies the fact that management reserve and contingency does not exist as separate entities. Further the notation of what does and does not correspond to DOE and ANSI or NDIA guidance belies the fact of a conflict in terms and lack of compatibility for processes across FRA and DOE, its client.

RECOMMENDATION:

The team recommends that the FRA Office of Project Management Oversight establish correct terminology and usage of budget tools as follows:

- 1) Modify the FRA-EVMS to reflect a single DOE-compliant use of the terms Management Reserve and Contingency
- 2) Incorporate the proper definitions for both Management Reserve across all project documentation
- 3) Remove any references to MR/Contingency that are outside compliance with DOE, ANSI or NDIA terminology or processes relating to MR and Contingency

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