

White Paper on the Use and Restrictions of Contractor Management Reserve

Introduction

The definition of Management Reserve's (MR) use has been firmly established as part of the Earned Value Management System (EVMS) since the original criteria was published in the 1960s. The most common understanding is that MR is the amount of contract budget, owned exclusively by the contractor, for future use only, and set aside for authorized in-contract work scope performance. Often this scope growth is associated with identified risks that are realized during the execution of the project.

Establishment of MR

The definitized contract and subsequent contract modifications are the basis for creating the MR. The Project Manager decides if, and how much, MR should be withheld from the PMB. Risk-informed discussions evaluate the size, duration, complexity, technical requirements, and other considerations that impact future work scope. When the Project Manager establishes MR, it is done in unison with the process of allocating budgets from the Contract Budget Base. MR may also be created as the result of resolving final scope of a Planning Package during rolling wave or an SLPP. The establishment of MR also has the benefit of creating a budget challenge for CAMs to perform the work at a lower cost.

Listing of Acceptable MR Uses

Use of MR should follow the rule that budget is always associated with scope. MR transactions should result in a baseline that is meaningful for performance measurement and align with project scope. While the definition of MR above covers most applications, below is a listing of other possible uses that arise on DOE contracts, such as:

- Omissions or Changes to planning assumptions. Work that was missed in the original planning process, or conversely, work that was originally planned and distributed to Control Accounts but is no longer necessary to accomplish the authorized contract scope. Note, this is not because of poor planning, rather it is a change to the planning assumptions.
- Unanticipated work on completed scope, redesign, or retest because of issues such as constructability or equipment failures (these may have been associated with identified risks). Note that rework typically considered a performance variance but may be

eligible for budget if the work package is complete or the scope is materially modified. In circumstances where it is impractical to reopening and de-perform a completed work package due to the overestimation of completed performance, a new work package may be established for rework efforts.

- Changes in make/buy decisions.
- Internal transfer of work scope (to/from MR).
- Adjustments in labor or overhead (direct or indirect) rates for work not yet started (future).
- Final subcontractor negotiations which change the budget associated with that subcontractor work.
- A significant change in project execution, such as a revised technical approach - Transfer of budget to MR for scope that has been cancelled (not started) or materially modified.
- Scope identified during conversion of a planning package to a work package. This is not an opportunity to budget a “better” estimate but does allow for estimate errors /omissions to be resolved prior to execution.
- Budget for the realization of risks (Risk Register)

For MR to be used for scope growth, the use of MR must add value to the management process by providing current, accurate, complete, repeatable, auditable and meaningful data, minimizes risk, or represents a different way of performing work that leads to improved performance or efficiency. MR for work scope growth should be limited to replanning of future work packages or new work packages whenever possible.

The list above is not exhaustive, and anyone who has worked on a government project can attest that new and creative proposals for the application of MR are frequent. To provide a better set of parameters on MR it is important to address the flip side.

Listing of Unacceptable MR Uses

The most frequently listed unacceptable use for MR is “covering” a cost overrun including eliminating any incurred or anticipated variances. MR transactions used for the sole purpose of eliminating cost variances inhibit early warning signals to identify and correct problems before they worsen. Budget allocations to/from MR through changes that offset cost overruns or underruns impacts the accuracy of performance indices such as the CPI as a measure of cost efficiency which is also used by contractors and its customers alike to forecast EACs.

While the above definition covers most ill-advised applications, below is a listing of other possible misuses that arise on DOE contracts:

- To cover overruns due to insufficient planning or poor productivity/performance.
- Changing the budget for work scope that is already completed.
- Budgeting unauthorized contract work in advance or in lieu of customer authorization.
- Rework experienced with ongoing active scope typically associated with issues such as faulty workmanship, poor quality materials, misunderstanding requirements, and errors.
- Adding to or subtracting from MR to “harvest” an overrun or underrun.
- For purposes of balancing the CBB to meet funding objectives.
- Assigning work scope to an MR budget or “fencing” MR for a specific use.
- Using a Negative MR in lieu of following the Over Target Baseline process.

Again, the list above is not exhaustive and new and creative proposals for the misapplication of MR are frequent. Therefore, the process of MR application requires a responsible manager for the arbitration of these budget decisions.

Authority for MR Budget Decisions

Despite efforts to provide a well-defined set of limitations regarding the application and misapplication of the MR Budget, there are, in the course of managing a project, many challenging decisions which do not neatly fit into the expected categories. These challenges may come from both inside the contractor’s organization and from the DOE customer. Decision authority regarding the application of MR Budget is given solely to the Contractor Program Manager. While the application of MR budget (debit or credit) is the decision of the Contractor PM, this must be done using the change control process documented in the contractor’s Earned Value Management System Description. In addition, while the application of MR budget (debit or credit) does not require the approval of the DOE customer, it is incumbent upon the contractor to provide to the customer a full accounting and explanation of all MR transactions. The reporting of these transactions is often done in the contractor’s Integrated Program Management Report (IPMR) summary analysis describing changes reflected in Format 3.

Bibliography

Office of Project Management EVMS Compliance Review Standard Operating Procedure (ECRSOP) – Appendix A: Compliance Assessment Guide (CAG), November 28, 2018.

Humphreys & Associates Blog, “The Effective Use of Management Reserve”. EVMS Education Center.

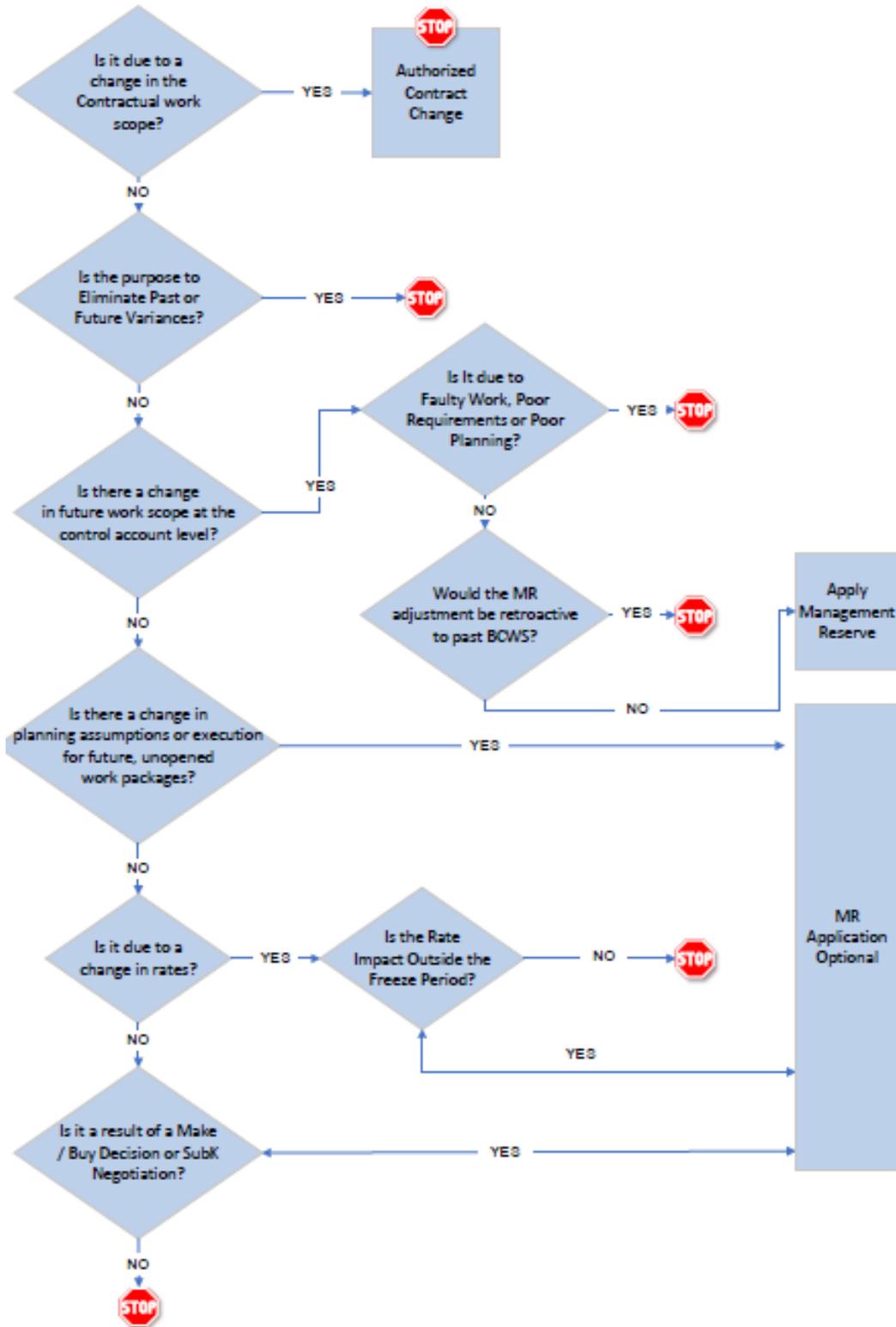
DOE G 413.3-10B (IPT Draft), 01-10-2019. Section 6.10 “Management Reserve”.

Integrated Program Management Report (IPMR), DOE Version, October 2018. Section 3.2.4.6 “Management Reserve” and Section 3.6.6 “Management Reserve Analysis”.

NDIA IPMD Earned Value Management Systems EIA-748-D Intent Guide, July 19, 2018. Guideline 14 – Identify Management Reserve and Undistributed Budget.

Systems Management Standard – Earned Value Management Systems, EIA-748, Rev. D. Section 3.5.4 “Management Reserve”.

Management Reserve Decision Tree



Management Reserve Use Scenarios Submitted by EFCOG Members

Appropriate MR Use, Scenario #1: Event Outside PM Control

Appropriate MR Use, Scenario #2: Definitized Value Different than Distributed AUW

Appropriate MR Use, Scenario #3: Adding Budget to Correct an Error

Appropriate MR Use, Scenario #4: Change in High Dollar Value Subcontractor Designation

Appropriate MR Use, Scenario #5: Realization of a Risk Item

Appropriate MR Use, Scenario #6: Additional Budget for Delay in Scope Start

Appropriate MR Use, Scenario #7: Change in Control Account Work Scope

Appropriate MR Use, Scenario #8: Change in Resource Requirements for Unopened Work Packages

Appropriate MR Use, Scenario #9: Updating Baseline for Negotiated Subcontractor

Appropriate MR Use, Scenario #10: A Change in Make vs. Buy

Appropriate MR Use, Scenario #11: Adjustments in Future Budgets Driven by Rates

Inappropriate MR Use, Scenario #1: Using MR to Change Contract Scope

Inappropriate MR Use, Scenario #2: Leaving Budget for Subcontractor as Originally Planned

Inappropriate MR Use, Scenario #3: Budgeting for Rework Driven by Not Meeting Objectives

Inappropriate MR Use, Scenario #4: Re-purposing Budget resulting from Deleting Scope

Inappropriate MR Use, Scenario #5: Using MR to Offset Variances

Inappropriate MR Use, Scenario #6: Using MR to Adjust Budgets for Open Work Packages

Inappropriate MR Use, Scenario #7: Establishing a Reserve within the PMB

Inappropriate MR Use, Scenario #8: Harvesting an Underrun to create Management Reserve

Inappropriate MR Use, Scenario #9: Changing Budgets Retroactively Due to Rates

Appropriate MR Use, Scenario #1: Event Outside PM Control

<i>Event Outside PM Control</i>	
Scenario	The contractor planned for three site shutdown periods in the baseline for movement of nuclear material for the Decontamination & Decommissioning project. However, thirteen months into the project and after the three periods had occurred, additional nuclear material was uncovered, necessitating an additional shutdown period of three weeks.
What the Contractor Proposed to Do	Replan the baseline schedule and insert a three week shutdown period. Replan all affected control accounts and extend control account schedule as necessary. Use management reserve to budget for three additional weeks in affected control accounts.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	This was an unplanned event outside the PM's control, that results in additional work for multiple control accounts. This is allowable.

Appropriate MR Use, Scenario #2: Definitized Value Different than Distributed AUW

<i>Negotiation Loss after AUW has been Distributed</i>	
Scenario	An Authorized Unpriced Work (AUW) change was added to the CBB. It took an unusually long time to definitize the change, and by that time all the AUW budget was distributed to the Control Accounts. The negotiations settled on a negotiation price less than the AUW value because of an underrun.
What the Contractor Proposed to Do	Leave the distributed budgets alone so that the underrun remains in the history of the control accounts. Use a decrease in MR to account for the reduction in the CBB associated with the negotiaion reduction.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	The distributed value of the AUW represented the contractor's best estimate to complete the work scope. The only other option at this point would be to reset the BCWS and BCWP values for the impacted control accounts to ACWP. Using MR to offset the change in CBB is a more compliant process.

<i>AUW Scope Definitized After Work was Completed</i>	
Scenario	Authorized Unpriced Work (AUW) was implemented at the full ROM value of the initial estimate. The scope was definitized after the work had been completed. The definitized value was more than the original AUW estimate distributed to the Control Accounts, and all the scope associated with the contract change had been distributed.
What the Contractor Proposed to Do	Apply the value that was above the AUW scope as a return to MR, since the scope was complete.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	

Appropriate MR Use, Scenario #3: Adding Budget to Correct an Error

<i>Scope without Budget</i>	
Scenario	During planning package to work package rolling wave planning, the contractor identified a significant piece of scope that was identified in the engineering requirements and in the proposal estimate, however it was left out of the budget. An investigation was done to determine if the budget was loaded in another work package, but it was determined that the budget was missing due to an error.
What the Contractor Proposed to Do	The contractor processed an internal BCP to add budget and schedule activities for the missing scope at the original estimated value.
What the Government Proposed to Do	The government questioned the action because the System Description (SD) specifically prohibits adding budget for estimating errors.
Correct or Incorrect?	Correct
Explanation	An agreement was reached with the government to allow budget to be added in cases where there is scope but no budget, as there cannot be any meaningful EVMS data for an unbudgeted work package. All scope must have budget.

Appropriate MR Use, Scenario #4: Change in High Dollar Value Subcontractor Designation

<i>Changing High Dollar Value Designation</i>	
Scenario	The System Description (SD) defines a High Dollar Value (HDV) list for those subcontracts that are higher value with significant potential to impact the project schedule. The HDV subcontracts utilize additional supplier controls including aligning the baseline to the supplier's cost and schedule. Subcontracts not on the HDV list are not aligned resulting in cost variances based upon the award value. During the review and award process, a subcontract was identified as having significant schedule risk and was awarded at a value higher than the budget.
What the Contractor Proposed to Do	The contractor added this subcontract to the HDV list because of the newly identified schedule risk and processed a BCP to align the PMB with the awarded cost and schedule.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	The procedural requirement for the PM to define HDV procurements did not specify when designation could be changed. The intent of the PM was to redefine the procurement to meet the intent of HDV per the SD. This approach was deemed acceptable because revising the HDV list and "aligning" at time of award was not specifically prohibited.

Appropriate MR Use, Scenario #5: Realization of a Risk Item

<i>Risk Realized</i>	
Scenario	A subcontractor discovered an energized wire while excavating. Facility drawings indicated no underground wires or utilities. Work was halted and fact-finding commenced.
What the Contractor Proposed to Do	Realized risk XX-XX-XX associated with encountering underground obstructions/artifacts. This was discussed during the monthly risk meeting as the excavation was scheduled to begin. New activities were budgeted with Management Reserve to mitigate the realized risk.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	The request for MR associated with the risk should be realized before the work is performed, not after the work is performed.

<i>Planning for Realized Risk Events</i>	
Scenario	A CAM is made aware of underground interferences that will require a delay to the CAMs workscope execution for three months. Underground interferences were identified a potential risks in the project risk register, but mitigating actions did not identify this interference.
What the Contractor Proposed to Do	The CAM will process a BCP to provide budget for the actions required to resolve the underground interference issues and schedule delay associated with the underground interferences.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	Management Reserve may be used to resolve unforeseen tasks to the PMB scope to plan or re-plan future effort for risk events (Known/Unknowns). MR use is allowed for handling of threats, but may not be used to arbitrarily eliminate cost of schedule variances.

Appropriate MR Use, Scenario #6: Additional Budget for Delay in Scope Start

<i>Change in CAM Work Scope</i>	
Scenario	A construction control account manager (CAM) had developed scoping work authorization documents defining the labor, materials, and equipment needed to complete the work scope. The document clearly referenced the authorized basis of estimate (BOE) and associated approved design drawings and specifications. During the course of the work execution the CAM noted design and specification errors which necessitated mitigation from the engineering team. The engineering team reviewed the issue, and then required revisions to the design drawings and specifications resulting in additional materials and labor effort to the construction team.
What the Contractor Proposed to Do	The CAM submitted a baseline change proposal requesting additional budget and schedule for the time and materials needed to correct the design error in the field.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	The CAM had a clearly defined work scope which documented the design drawings, and specification numbers associated with the field installation requirements. Similarly, the construction CAM documented a risk associated with differing field conditions and design error. Deviation from his scoping basis was clear, concise, and resulted in the appropriate application of both schedule and budge MR.

Appropriate MR Use, Scenario #7: Change in Control Account Work Scope

<i>Additional Authorized Scope with Delay in Obtaining Authorization</i>	
Scenario	Additional scope was identified and negotiated with an REA. However, due to delays in the negotiation process, by the time the contract modification was received, the work had to be incorporated with a later start date than originally planned, therefore an additional escalation cost was reflected in the baseline.
What the Contractor Proposed to Do	Apply MR to off-set the additional budget requirements due to the delayed start date of the work.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	This was an unplanned event outside the PM's control, that results in additional escalation costs applicable to the planned scope. This is allowable.

Appropriate MR Use, Scenario #8: Change in Resource Requirements for Unopened Work Packages

<i>Event Outside PM Control</i>	
Scenario	The contractor completed a comprehensive deliverable based staffing plan for the remain work effort to more precisely align resources. The evaluation determined a significant reduction labor resource requirements.
What the Contractor Proposed to Do	Replan the baseline schedule and adjust the labor resource mix and hours for future activities to align to the new staffing plan.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	It may be necessary to perform internal replanning actions within scope of the authorized contract to compensate for cost, schedule, and technical issues which require a reorganization of work or people to increase efficiency of operations. Internal replanning is intended to maintain an executable baseline for the remaining in-scope work on the contract. These changes are permissible to unopened WPs beyond the freeze period.

Appropriate MR Use, Scenario #9: Updating Baseline for Negotiated Subcontractor

<i>Updating the Budget Value for Negotiated Subcontractor</i>	
Scenario	Prior to awarding a FFP subcontract for a portion of the PMB work scope, the contractor established a budget for the FFP subcontractors work scope based on the contractors estimate of the cost to do the work effort, \$12M. The FFP subcontractor was awarded the exact work effort for \$11.4M.
What the Contractor Proposed to Do	A BCP was developed to move \$600K from the subcontract CA to MR to align budget (BAC) with subcontract the award value. Initially the budget was moved to UB, so that the subcontractor could begin mobilization and work effort with the correct budget value for EV purposes.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	Management Reserve may be used to reconcile awarded Firm Fixed Price subcontracts with the original estimate and for changes to the future budget of work not yet started (e.g., subcontractor activities that are negotiated post award).

Appropriate MR Use, Scenario #10: A Change in Make vs. Buy

<i>Budgeting a Change in Make vs. Buy</i>	
Scenario	The contractor has planned to fabricate a large pump in-house with a budget of \$500,000, however capacity issues require the effort to be subcontracted in order to hold schedule. The lowest and most qualified bidder for the work was chosen, and definitized for \$600,000.
What the Contractor Proposed to Do	The original "make" control account was closed and the \$500,000 moved to Undistributed Budget. A new Control Account for the subcontracted effort was authorized for \$600,000, with \$500,000 of that coming from UB and the remaining \$100,000 from Management Reserve.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	The budget for any authorized subcontractor should be based to reflect the final negotiated value. The alternative would be to maintain a baseline budget of \$500,000, however this would not only start the effort with an At Completion cost variance, but also require a factoring of BCWP from the subcontractor's reporting to the prime contractor's reporting.

Appropriate MR Use, Scenario #11: Adjustments in Future Budgets Driven by Rates

<i>Adjustments to Future Budgets Driven by Rates</i>	
Scenario	When submitting the Forward Pricing Rate Proposal, the contractor proposed a 15% reduction in the G&A rate for the contract. This impact does not take effect until the beginning of the next calendar year.
What the Contractor Proposed to Do	The contractor proposed to re-price the control accounts' budgets starting in the next calendar year to reflect the reduction in G&A. The difference, would be balanced in Management Reserve with an across-the-board return of budget.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Correct
Explanation	This is an appropriate use of Management Reserve, however it is not a requirement. The contractor could have chosen to leave the control account budgets alone and explain the future variances. However, this provided a more logical solution than requiring each CAM to include a variance explanation associated with the G&A rate for the remainder of the project.

Inappropriate MR Use, Scenario #1: Using MR to Change Contract Scope

<i>Change in Contract Work Scope</i>	
Scenario	A well project was executing according to the baseline schedule and achieving a +4% cost underrun to date. Additionally, the contractor PM projected a \$8M underrun at the end of the cost reimbursable contract. There is approximately \$9M remaining in management reserve, and all remaining risks appear to have a low probability of occurrence.
What the Contractor Proposed to Do	N/A
What the Government Proposed to Do	The government contracting officer sent a letter directing the contractor to use part of the remaining MR to increase the output of the well by 5% above the contractually specified requirement.
Correct or Incorrect?	Incorrect
Explanation	The government is prohibited by FAR from requiring the contractor to perform additional work scope without a corresponding increase in contract cost. Additionally, the government may not direct the contractor in specific uses of MR, as the MR budget is within the contractor's control.

<i>New Scope not included in current contract</i>	
Scenario	After an Independent Cost Estimate (ICE) Review from DOE additional equipment is requested to be added to the project. The new scope is not part of the current scope of the project nor part of the contract. This need to be performed as an emergent process so that the project remains on track for CD-4. SRR CO agreed to use Contingency to cover the cost of the new scope.
What the Contractor Proposed to Do	Suggest to buy it using MR until the approved MOD with the additional scope and use of contingency is received.
What the Government Proposed to Do	
Correct or Incorrect?	Incorrect
Explanation	MR should not be used, in this case it was agreed to use Contingency.

Inappropriate MR Use, Scenario #2: Leaving Budget for Subcontractor as Originally Planned

<i>Budget for Subcontracted Work Scope</i>	
Scenario	A contract began with several large subcontractors not yet negotiated, The BCWS for the subcontracted scope was established based on the BOEs included in the prime proposal. The subcontractors are subsequently negotiated before they start their work effort.
What the Contractor Proposed to Do	The contractor left the budget associated with the subcontractor scope as initially planned, and will report variances to that baseline.
What the Government Proposed to Do	
Correct or Incorrect?	Incorrect
Explanation	Per the Compliance Assessment Guide "Budget for authorized subcontractor work is based initially on the prime contractor's estimated value and must be updated to reflect final negotiations."

Inappropriate MR Use, Scenario #3: Budgeting for Rework Driven by Not Meeting Objectives

<i>Budget for Not Meeting Project Objectives</i>	
Scenario	A scheduled pressure test for a new tank and ventilation system had a pre-stated objective for the test which was not achieved.
What the Contractor Proposed to Do	Because the test was completed, the contractor claimed full BCWP for the work scheduled, and requested MR budget to “rework” activities needed for the retest.
What the Government Proposed to Do	
Correct or Incorrect?	Incorrect
Explanation	The contractor should have not assumed the BCWP as the test objective was not achieved. A schedule variance and cost variance should be reported until which time the objectives of the test are successfully completed. If the work performance was inappropriately assumed, the contractor should de-perform in order to reflect the true performance of the test effort.

<i>Budget for Rework</i>	
Scenario	Engineering scope was completed, and the associated control account and work packages were closed. At a later date, errors were discovered that required rework of the previously completed scope.
What the Contractor Proposed to Do	Since the original Work Package was closed and by procedure could not be reopened, a new work package with additional budgeted activities were added for the rework with a BCP.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Incorrect
Explanation	This example identified a procedural inconsistency as well as a planning challenge. Per the System Description (SD), the original activities should be de-earned. This would be impractical and non-compliant if attempted as the original logic is no longer valid and would have required retroactive planning changes. Another option of using ETC only activities would have also required re-opening of a closed work package (not allowed) to reflect the additional effort. Charging it to an existing open work package that did not include the scope would have been non-compliant as well. Utilizing MR for this rework was probably the best option, but technically non-compliant.

Inappropriate MR Use, Scenario #4: Re-purposing Budget resulting from Deleting Scope

<i>Descoping</i>	
Scenario	A planned procurement of \$150K to support trailer complex setup was determined not to be needed to accomplish the contract work scope.
What the Contractor Proposed to Do	It was proposed to re-purposing the budget to procure golf carts\UTVs within the same control account.
What the Government Proposed to Do	
Correct or Incorrect?	Incorrect
Explanation	Per the Compliance Assessment Guide Scope and budget must always be aligned. Work scope that is removed from a control account should be placed into Undistributed Budget. If it is determined that the removed work is a change to the contract work scope, then it will be removed from contract. If the Government agrees that it is not a contract change but is still no longer needed in the distributed budget, it will be moved to Management Reserve.

Inappropriate MR Use, Scenario #5: Using MR to Offset Variances

<i>Changing budget to offset variance</i>	
Scenario	During the project baselining process, the engineering CAM had developed an "Engineering Design during Construction" control account which was planned as LOE and was represented as such in the approved baseline IMS. Further, the defined scope contained in the CAMs work authorization documentation correctly stated, in part, "...provide engineering support during construction...". It should be noted that the CAM had a developed and approved basis of estimate which defined and costed 270 individual design issue resolutions (RFI, NCR, DCN, etc.) over the period of performance which spanned the entire construction effort (approximately 3.5 years).
What the Contractor Proposed to Do	Early during the execution of the CA the CAM noted that he was exceeding his LOE budgeted by approximately 3x. At this point the CAM developed a baseline change proposal requesting additional budget in the form of MR to compensate for the additional effort his team was expending. The rationale was that his original basis of estimate was exceeded, though no mention of that basis was in his scoping documentation. Further, the CAM did not mention that his effort was planned as LOE.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Incorrect
Explanation	The application of MR to this scenario was incorrect. The CAM had planned this effort as LOE, clearly indicating the effort was in support of the construction effort. No mention of his planning basis, or quantity of reviews contained in the BOE, was mentioned in his WAD. Therefore the application of budget from MR was incorrect. The proposal was denied during the change control board review.

Inappropriate MR Use, Scenario #5, Cont'd: Using MR to Offset Variances

<i>Customer Direction to Remove Variance</i>	
Scenario	A contractor had been performing work per a customer approved baseline for approximately 1.5 years. The contractor had been reporting a positive cost variance for nominally 5 months due to increased efficiencies gained throughout the execution period. The customer, noting the trend of positive cost variance, directed the contractor to reduce the budget of all control accounts with no associated reduction in scope.
What the Contractor Proposed to Do	N/A
What the Government Proposed to Do	The customer's contracting officer issued a direction notice to the contractor requiring the reduction of the contractor's CA budget commensurate with the value of the cost variance. The net value was then placed into the customer's contingency.
Correct or Incorrect?	Incorrect
Explanation	The customer verbally stated that the budget was needed to fund other project initiatives. The contractor explained that reduction in funding rather than budget would be more appropriate, the request was denied.

<i>Budget for Subcontracted Work Scope</i>	
Scenario	A Work Package within a particular Control Account was completed for \$350K but was only budgeted for \$150K. The original scope of work for that WP remained valid and no scope growth was identified during the execution of this work effort.
What the Contractor Proposed to Do	The contractor proposed using Management Reserve to cover the overrun on the WP, and avoid taking the effect of this overrun on EVMS metrics upon which fee was based on the contract.
What the Government Proposed to Do	
Correct or Incorrect?	Incorrect
Explanation	MR may not be used to arbitrarily eliminate or reduce cost of schedule variances, or for EAC growth, except for a formal re-baseline, which must be approved by DOE.

Inappropriate MR Use, Scenario #6: Using MR to Adjust Budgets for Open Work Packages

<i>Changing Open Work Packages to Replan When Underrunning</i>	
Scenario	Control account analysis indicates a favorable labor rate on a year long LOE work package that is 60% complete. The CAM identified the labor mix was planned with more senior resources and is being executed with mid to junior resources.
What the Contractor Proposed to Do	Proposed to close the existing open WP by setting cumulative BCWS and BAC equal to the value planned just beyond the freeze period and planning a new WP with the different resource mix.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Incorrect
Explanation	The only permissible change to open WPs is a change in the time phasing of the existing budget by EOC beyond the freeze period without DOE approval/direction. This is to ensure baseline stability and a continuing valid measurement of reported BCWP. When new scope-related changes drive a change to an open WP, the preferred method is the WP must be closed by setting cumulative BCWS equal to cumulative BCWP. A new WP would then be planned with the revised scope and budget. ACWP is not changed when the existing WP is closed, and any CV will remain with the closed WP.

Inappropriate MR Use, Scenario #7: Establishing a Reserve within the PMB

<i>Creating MR within the PMB</i>	
Scenario	Contractor has established a baseline with a PMB and MR, but due to a lack of coherent baseline discipline, has also established a "hidden MR Pool" inside the PMB resulting from having done a single point adjustment (SPA), transferring budget from work scope into a SPA Element fo Cost for undisclosed future work effort not identified in the WBS Dictionary.
What the Contractor Proposed to Do	The contractor eliminated the SPA Element of Cost and moved the budget associated with this EOC to MR.
What the Government Proposed to Do	
Correct or Incorrect?	Incorrect
Explanation	MR has no defined scope and therefore is not included in the PMB. Because management reserve is budget that is not yet tied to work, it does not form part of the performance measurement baseline. The MR is established based on an evaluation of the risks inherent in the authorized scope of work. These risks are documented in the cost and schedule uncertainty analysis and may include defined technical and programmatic risk assessment events determined to be within the contractor’s control. MR budget transactions are recorded in the CBB Log.”

Inappropriate MR Use, Scenario #8: Harvesting an Underrun to create Management Reserve

<i>Creating MR from an Underrun</i>	
Scenario	The contractor has recently closed several LOE work packages with an underrun. At the same time, there are several discrete accounts which need additional budget for control account level changes, however the Management Reserve budget was very low.
What the Contractor Proposed to Do	N/A
What the Government Proposed to Do	The customer verbally indicated that the contractor should perform a Single Point Adjustment on the underrunning accounts, and return the underrun as budget to Management Reserve. This additional MR could then be used to budget the distribution to control accounts.
Correct or Incorrect?	Incorrect
Explanation	The scenario of "harvesting" underruns in order to generate budget is not allowed per the contractor's System Description. The contractor informed their local customer that they would pursue other options such as reporting variances where MR would normally have been used and potentially declaring an Over Target Baseline.

Inappropriate MR Use, Scenario #9: Changing Budgets Retroactively Due to Rates

<i>Changing Budgets Because of Rates</i>	
Scenario	The contractor recently experienced a significant mid-year increase in the G&A rate. This was driven primarily by decreased base costs associated with DOE funding reductions.
What the Contractor Proposed to Do	Because the increase in the G&A rate was driven by a DOE reduction in funding, the contractor proposed to apply a current period adjustment to the BCWS. This was to be done by using Management Reserve to eliminate cumulative variances in the impacted control accounts.
What the Government Proposed to Do	N/A
Correct or Incorrect?	Incorrect
Explanation	Mid-year rate adjustments are for ACWP only. If the contractor believes that the Government is significantly responsible for increased costs, they should either prepare a proposal or a Request for Equitable Adjustment.