Defense Acquisition University

Better Buying Power Initiative Brief for "Title"

Date

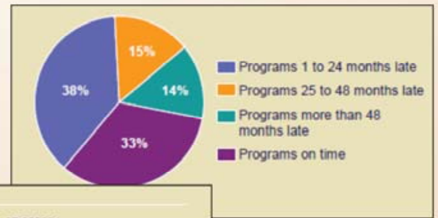
Team Members

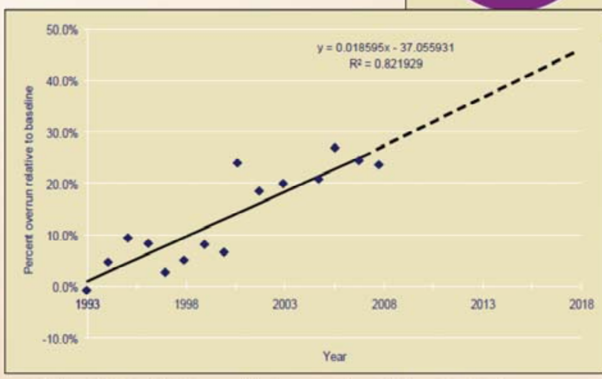
Better Buying Power Gateway: https://dap.dau.mil/bbp
Better Buying Power Community of Practice: https://acc.dau.mil/bbp

RDT Brief 03-16-12v20

Why are We Here?

- **Schedule Delays**
- **Decline of Economy**
- **Budget Overruns**





We are Just Paying Too Much

Source: Deloitte A&D Study, "Can we afford our own future?", December 2008

What OSD AT&L Found

- **Dr. Carter in his first year noticed limited productivity across DoD**
  - **Production Cost increasing for the same item over time**
  - **Over 51% of the DoD budget is Acquisition of Services**
  - **Examination of programs exposed large sole source activity (vendor lock) and poor examples of real competition**
  - **Small Business was not constructively engaged**
  - **Programs took a long time to get to Milestones and no one could clearly explain the value of many of the reports AT&L was asked to sign**
  - **Requirements were being implemented without consideration of cost or affordability**

The Results

Dr. Carter wanted to implement guidance within his span of control without it being 'reform' but rather the use of Best Practices that would achieve:

- **Delivering the warfighting capability we need for the dollars we have**
- **Getting better buying power for the warfighter and taxpayer**
- **Restoring Affordability to defense goods and services**
- **Improving defense industry productivity**
- **Removing government impediments to leanness**
- **Avoiding program turbulence**
- **Maintaining a vibrant and financially healthy defense industry**
- **Developing our Acquisition Workforce**

Actions

What has been done:

- Published the Better Buying Power Initiative white paper and implementing memorandums
- Established the Business Senior Integration Group to guide implementation
  - This is about continuous improvement – not a one time event
- Demonstrating long term commitment to the BBP goals
  - USD(AT&L) and PDUSD(AT&L) visits to major buying commands
  - Meeting with PEOs and Industry to obtain feedback
    - DAU RDT
  - Issuing updated guidance on specific elements of BBP
- Adjusting as feedback is obtained and learn from experience

Ongoing efforts:

- Track the Department's performance at the institutional element level so we can make adjustments – PARCA initiative
- OSD Leadership conduct training sessions to align the OSD staff fully with our intent
- Get the workforce and industry fully on board at all levels – change is hard

Guidance Roadmap

Target Affordability and Control Cost Growth

- Mandate affordability as a requirement
- Implement "should cost" based management
- * ARA memo 12 Dec 2011 – Should-Cost Templates
- * AT&L memo 24 Aug 2011 – Should-Cost and Affordability
  * AT&L memo 22 Apr 2011 – Will Cost/Should Cost
  * USA SAAL_ZR memo 10 June – Army Implementation of USD (AT&L Affordability Initiatives
  * USAF memo 15 June 2011 – Implementation of Will-Cost and Should Cost Management
  * SECNAV ASN-RDA memo 19 July2011 – Implementation of Should Cost Management
- Eliminate redundancy within warfighter portfolios
- Achieve Stable and economical production rates
- Manage program timelines

Incentivize Productivity & Innovation in Industry

- Reward contractors for successful supply chain and indirect expense management
- Increase Use of FPIF contract type
- Capitalize on progress payment structures
  * DPAP memo 27 April 2011 – Cash Flow Models
- Institute a superior supplier incentive program
- Reinvigorate industry's independent research and development

Reduce Non-Productive Processes and Bureaucracy

  * PDUSD AT&L memo 14 Sept 2011 – Document Streamlining-Life-cycle Sustainment Plan
  * PDUSD AT&L memo 18 July 2011 – Document Streamlining-Program Protection Plan
  * PDUSD AT&L memo 23 June 2011 – Improving Milestone Process Effectiveness
  * PDUSD AT&L memo 20 April 2011 – Document Streamlining-Program Strategies and SEP
- Reduce frequency of OSD level reviews
  * AT&L memo 11 May 2011 – Improving Technology Readiness Assessment Effectiveness
- Work with Congress to eliminate low value added statutory requirements
- Reduce the volume and cost of Congressional Reports
- Reduce non-value added requirements imposed on industry
- Align DCMA and DCAA processes to ensure work is complementary
  * DPAP memo 4 Jan 2010 – Align DCMA and DCAA
- Increase use of Forward Pricing Rate Recommendations (FPRRs) to reduce administrative costs
  * DPAP memo 4 Jan 2010 – Align DCMA and DCAA

Promote Real Competition

- Emphasize competitive strategy at each program milestone
- Remove obstacles to competition
  • Allow reasonable time to bid
  *DPAP memo 27 April 2011/24 Nov 2010 –Improving Competition
  • Require non-certified cost and pricing data on single offers
  • Enforce open system architectures and set rules for acquisition of technical data rights
- Increase small business role and opportunities
  *DPAP memo 14 Jul y 2011 Use Government –wide Acquisition Contracts Set Aside Exclusively for Small Business
  *DPAP memo 27 June 2011 Increase Dynamic Business Roles in the Defense Marketplace

Improve Tradecraft in Acquisition of Services

- Assign senior managers for acquisition of services
  *Senior Manager's appointed similar to AF PEO (Army Nov 2010/Navy Jun 2011)
- Adopt uniform services market segmentation (taxonomy)
  * DPAP memo 23 Nov 2010 – Taxonomy for Acquisition of Services
- Address causes of poor tradecraft
  • Define requirements and prevent creep
  • Conduct market research
- Increase small business participation
  * DPAP memo 14 Jul y 2011 Use Government –wide Acquisition Contracts Set Aside Exclusively for Small Business

Related Memos/DTMs:

* AT&L memo 6 Dec 2011– Value Engineering (VE) and Obtaining greater Efficiency & Productivity in Defense Spending
* PDUSD AT&L memo 19 July 2011– Roles & Responsibilities of the OSD OIPT Leaders, Teams and Team members
* AT&L memo 23 June2011– DTM 11-009 – Acquisition Policy for Defense Business Systems
* AT&L memo 21 March 2011– DTM 11-003 – Reliability Analysis, Planning, Tracking and Reporting
* PDUSD AT&L memo 24 Feb 2011– Expected Business Practice: Post Critical Design Review Reports and Assessments
* OMB memo 2 Feb 2011 – "Myth Busting"; Addressing Misconceptions to Improve Communications with Industry during the Acquisition Process

In his September 14, 2010, Memorandum for Acquisition Professionals, Dr. Carter outlined 23 initiatives to improve efficiency in defense spending. Although these initiatives span the entire acquisition process, they have one clear objective: to ensure our nation can afford the systems it acquires.

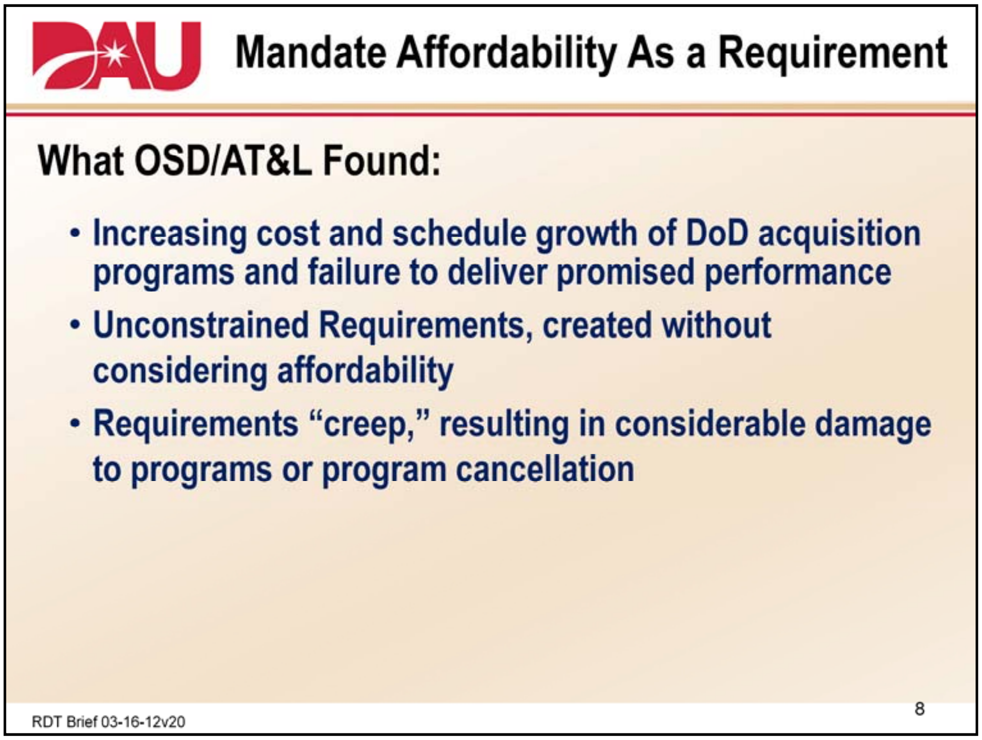
"Targeting Affordability is really about making the right trades and insuring that the program cost is considered throughout the process." Mr. Assad, DAU Acquisition Conference, 13 Oct 10, **attributable by permission.**

Targeting Affordability and Controlling Cost Growth

- ❑Mandate Affordability as a Requirement
- ❑Implement "Should Cost" Based Management
- ❑Eliminate Redundancy within Warfighter Portfolios
- ❑Achieve Stable and Economical Production Rates
- ❑Manage Program Timelines

RDT Brief 03-16-12v20

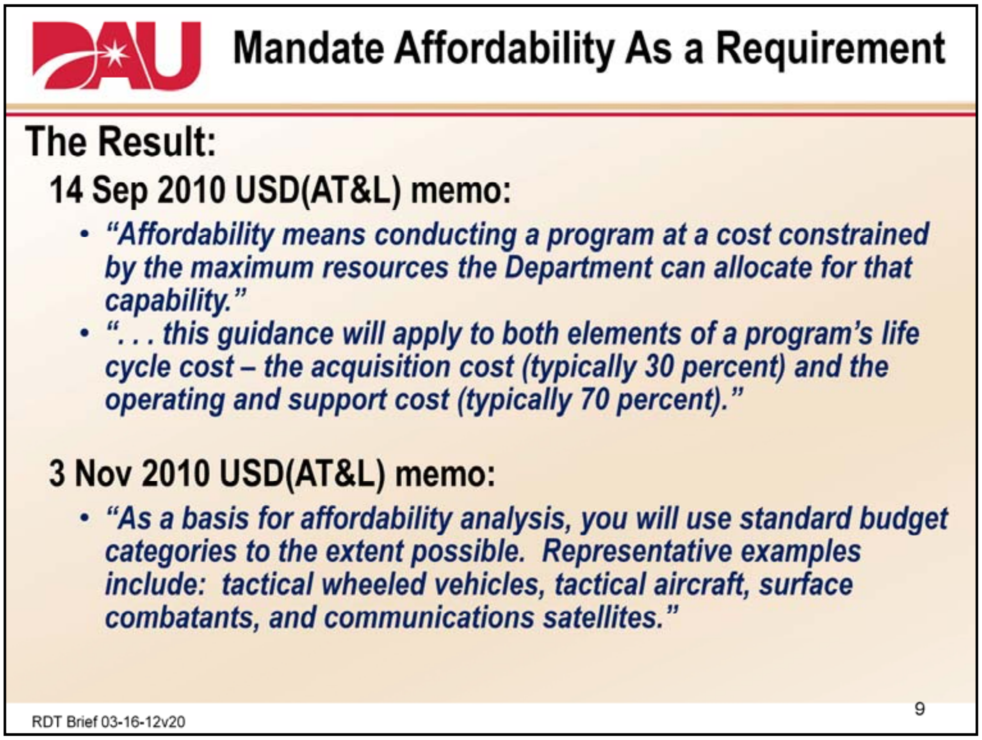
7



"Mandate affordability as a requirement" is the first initiative in the first area of the Better Buying Power initiatives "target affordability and control cost growth". Better Buying Power defines affordability as getting more warfighting capability without spending more money. The alternative is cancelled programs, budget turbulence, uncertainty for industry, loss of public confidence in DoD, and placing our warfighter's lives at risk because we've failed to provide them the weapons they need.

In the decade following 9/11, defense budgets have grown significantly. Along with this growth in funding, however, has come an increase in non-value-added costs. For example, the current defense budget supports a force with essentially the same size and force structure as in FY 2001, but at a 35 percent higher cost. Given the current US fiscal condition, defense budgets are unlikely to increase in the coming years. Yet, we still need to modernize our systems and restore our equipment. As a result, we need to "do more without more." Mandating affordability as a requirement sets constraints on spending commensurate with what the Department can afford to buy for a given capability.

Cost and Schedule Growth of DoD programs have become increasingly worse. Sources: IDA 2009 Study "Cost Growth in DoD's Major Defense Acquisition Programs Since 1970 (Update)"; Deloitte A&D Study, "Can we afford our own future?" Dec, 2008.



In his initial guidance to the acquisition workforce, Dr. Carter defined what he meant by affordability and what we can expect to happen if we can't achieve affordability goals. Basically, affordability means to manage programs for weapons or information systems without exceeding our available resources. Those resources include funding, schedule, and manpower.

Initial metrics for affordability include unit costs pertaining to both acquisition and operations & support (O&S):

- Average acquisition unit cost
- Average annual O&S unit cost

Benefits of Addressing Affordability

SSBN(X)

- Original cost estimate proved unaffordable
- Navy performed design tradeoffs at MS B and engineering solutions without compromising capability
- Reduced average procurement cost by 16%, with a goal of 27%

Advanced Hawkeye E-2D

- Business case analyses demonstrated how aggressive, but attainable, production profiles could reduce costs significantly and achieve operational capability more rapidly
- Revised production rates expected to save $575 million

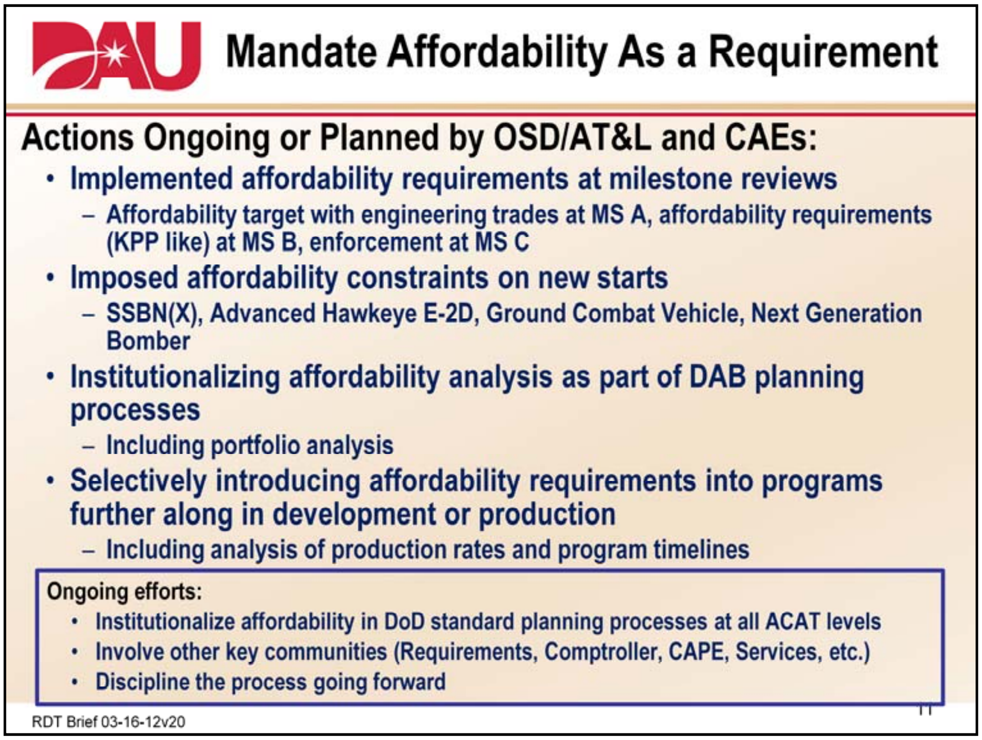
Ground Combat Vehicle (GCV)

- Army leveraged Future Combat Systems technology investment to shorten time to first production unit from 10 to 7 years
- Technology selected was chosen to meet the schedule

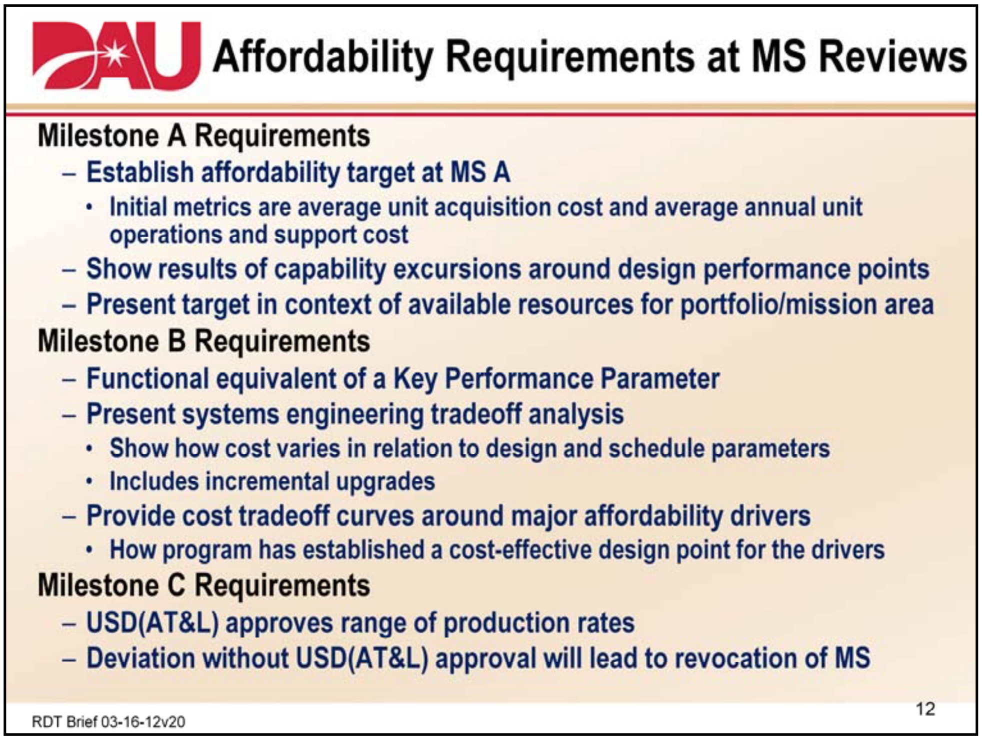
RDT Brief 03-16-12v20 10

Here are three examples of success achieved by imposing affordability constraints on new starts.

- **SSBN(X):** The Navy conducted affordability analysis in connection with the start of the Ohio-class submarine replacement. By conducting design tradeoffs at Milestone B, the Navy trimmed requirements without sacrificing capability. They reduced average procurement cost by 16%, with a goal of 27%.
- **Advanced Hawkeye E-2D**: The Navy ensured cost savings by implementing economical production rates for the Advanced Hawkeye E-2D program. Business case analyses demonstrated how aggressive, but attainable, production profiles could reduce costs significantly and achieve operational capability more rapidly. These revised production rates are expected to result in savings of $575 million.
- **Ground Combat Vehicle:** The Army demonstrated the importance of setting schedule as an independent variable with the GCV program. The Army leveraged investments they made in ground vehicle technology with the Future Combat Systems program to shorten the time to first unit production from 10 years to 7 years. By setting the production schedule as an independent variable, requirements and technical capability will have to fit the schedule and not the other way around.

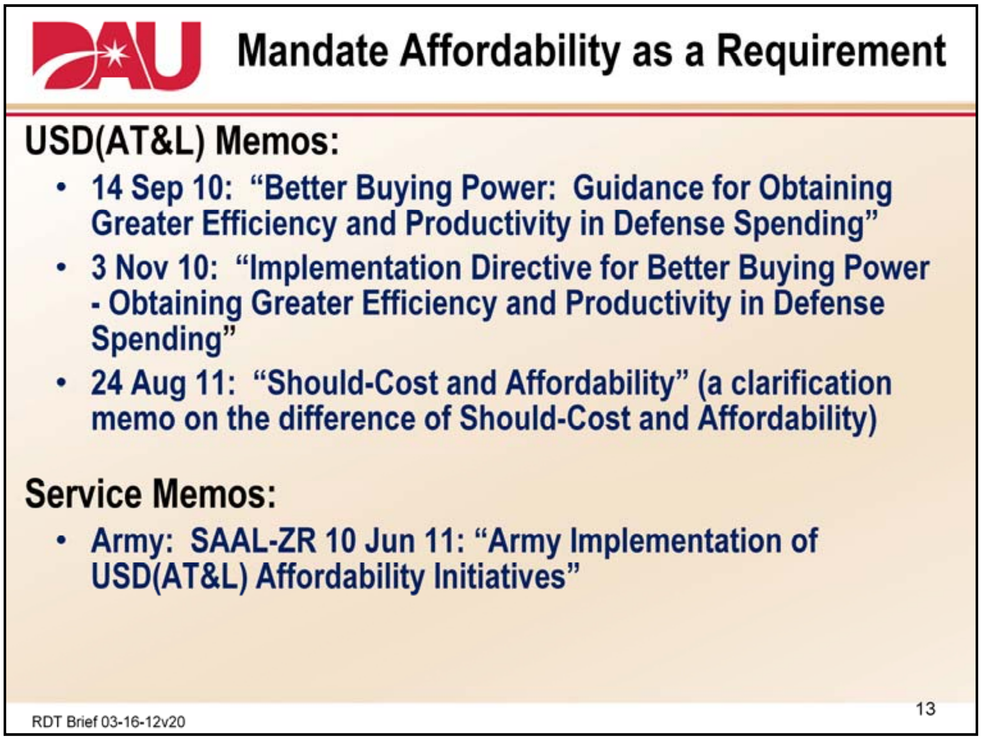


- "Previously, per DoDI 5000.02, Affordability was just an assessment of whether the budget matched the estimate (or APB). Dr. Carter's intent is that Affordability now be more than that and that it include the elements listed in his 14 Sep 10 memo. However, Affordability will not be a KPP. If the program can't meet it, the PM will have to come back to the USD(AT&L) and explain why it can't be met; you can't just wait until the next milestone. So Dr. Carter is placing more emphasis on it." Ms. Costello, DoDCAS, 17 Feb 11, **attributable by permission.**
- The Better Buying Power initiatives expand on the DoDI 5000.02 definition of affordability. Now affordability means not only to stay within budget, but also to be able to buy increasing levels of capability within an almost static budget. The five affordability initiatives seek to reduce non-value added overhead in programs and devote the savings to procuring increased capability for our warfighters. The affordability initiatives seek to do this by 1) implementing affordability requirements at milestone reviews, 2) imposing affordability constraints on new starts, 3) making affordability analysis a part of the DAB planning process, and 4) introducing these requirements into programs further along in development or production.
- Affordability is a journey which we've just begun and will require continuous improvement in our processes and in our thinking. Our immediate objectives are to 1) institutionalize affordability at all ACAT levels, 2) involve other key players, and 3) refine and discipline the processes going forward.



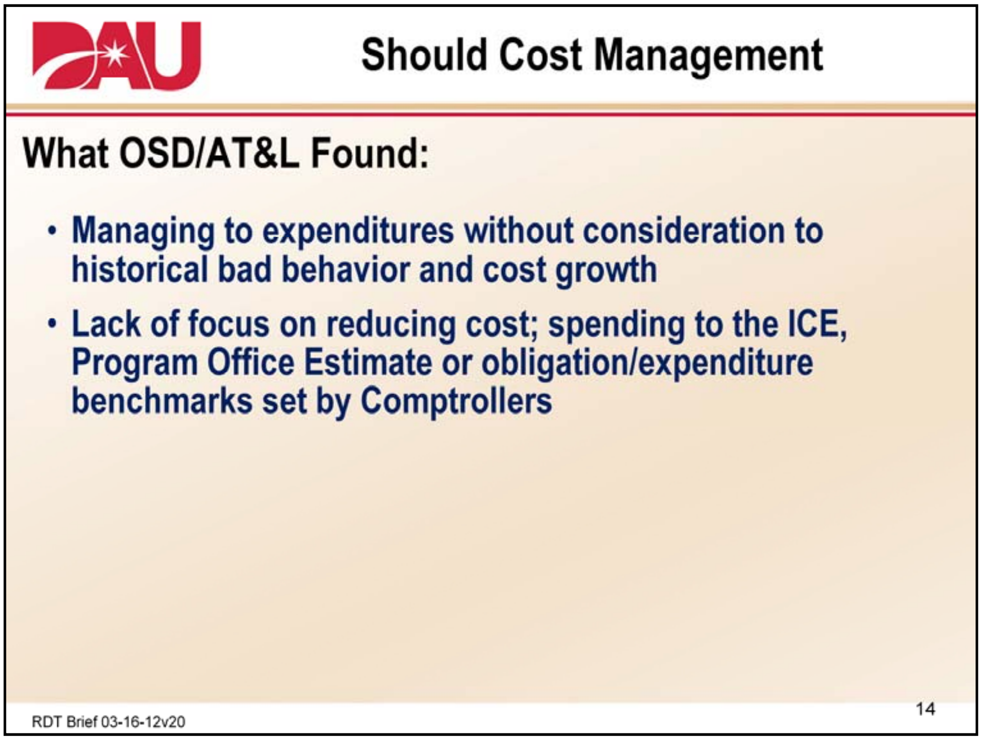
Here are the affordability requirements which DoD has implemented at milestone reviews.

- At Milestone A, programs must establish an affordability target, or program cost. This target will be the functional equivalent of a Key Performance Parameter, such as speed, power or data rate. That is, the affordability target is a design parameter not to be sacrificed with the specific authority of the USD(AT&L). The initial metrics for setting and tracking the target will be the average unit acquisition cost and the average annual unit operations and support cost. This target will serve as the basis for pre-milestone B decision making and tradeoff analysis. This analysis will show the results of capability excursions around expected design performance points to highlight elements suitable to establish the cost and schedule trade space. This analysis will also be in the context of the portfolio or mission area. In the case of new programs, the analysis must show the adjustments necessary to absorb the new program within the portfolio.
- At Milestone B, programs must present a systems engineering tradeoff analysis showing how cost varies in relation to design and schedule parameters. This analysis will pay due attention to incremental upgrades. As part of this analysis, programs must provide cost tradeoff curves, or trade space around major affordability drivers, to show how the program has established a cost-effective design point for these affordability drivers.
- At Milestone C, the USD(AT&L) will approve a schedule for production based on economical production rates. To enforce adherence to the schedule, the USD(AT&L) will revoke the program's milestone if the program deviates from the schedule without express approval.

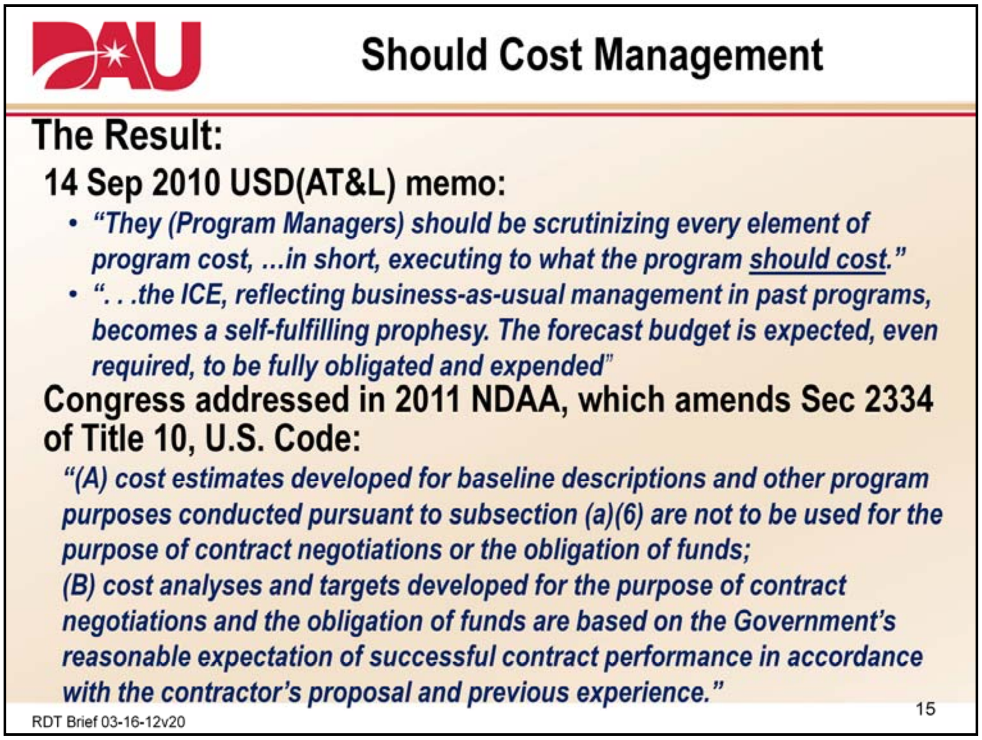


The following is the guidance to date, related specifically to affordability. We will cover guidance related specifically to the will cost / should cost initiative separately.

- In his initial guidance to the acquisition workforce (14 Sep 2010), Dr. Carter defined what he meant by affordability and what we can expect to happen if we can't achieve affordability goals.
- In his implementing guidance to the acquisition workforce (03 Nov 2010), Dr. Carter explains the BBP affordability requirements which DoD requires for milestone reviews.
- ASA(AL&T) issued an implementing directive to the Army acquisition workforce on 10 Jun 2011. This directive primarily addresses will cost / should cost, but it does contain limited guidance on the affordability initiative. In addition to Dr. Carter's directions, this memo requires Army program offices to use the Defense Acquisition Board (DAB) template for milestone reviews and other important decision points.
- On 24 Aug 2011, Dr. Carter released a memo to explain the differences between should-cost and affordability. The primary difference between the two relates to the product life cycle. Prior to Milestone B, the emphasis should be on defining and achieving the affordability target. Program offices need to set targets in terms of two metrics: the average unit acquisition cost and the average annual unit operations and support cost.



- “An ICE is based on historicals. It assumes we are going to repeat the stupidities we’ve done in the past. What can we do to improve efficiencies of how we do things in the future? Should Cost says to the PM: you are responsible for effective management and are responsible for looking at the content of your program and identifying discrete actions that will lead to a better program. That includes GFE, contractual support from the labs, better contracting strategies, etc.” Mrs. McFarland, DoDCAS, 16 Feb 11, **attributable by permission.**
- “Who is responsible for creating the Should Cost? The program mgt TEAM! Not a single individual, the budget person or cost person or PM or contracting, but the entire team. How do you manage that? You must budget to the Will-Cost; you can’t budget based on wishful thinking. We are talking about discrete actions that have a distinct timeline associated with them that inform your Should Cost, not just an arbitraty objective based on wishful thinking.” This is where the PMs should really earn their spurs in executing good program management.” Ms. McFarland, DoDCAS, 17 Feb 11, **attributable by permission.**
- “Will Cost: simplest way to look at it is it is what it will cost if we do business as usual. With Should Cost we’re looking for the PM to identify opportunities like break-out strategies, changes to the sustainment strategy, etc. and identify cost savings associated with them.” Mr. Ahern, PMT 402, 31 Jan 11, **attributable by permission.**
- “PM is responsible for the Should Cost Estimate or perhaps more appropriately the Should Cost Target. Dr. Carter wants the PM to attack every avenue of cost savings early and often.” Mr. Thompsen, DoDCAS, 17 Feb 11, **attributable by permission.**

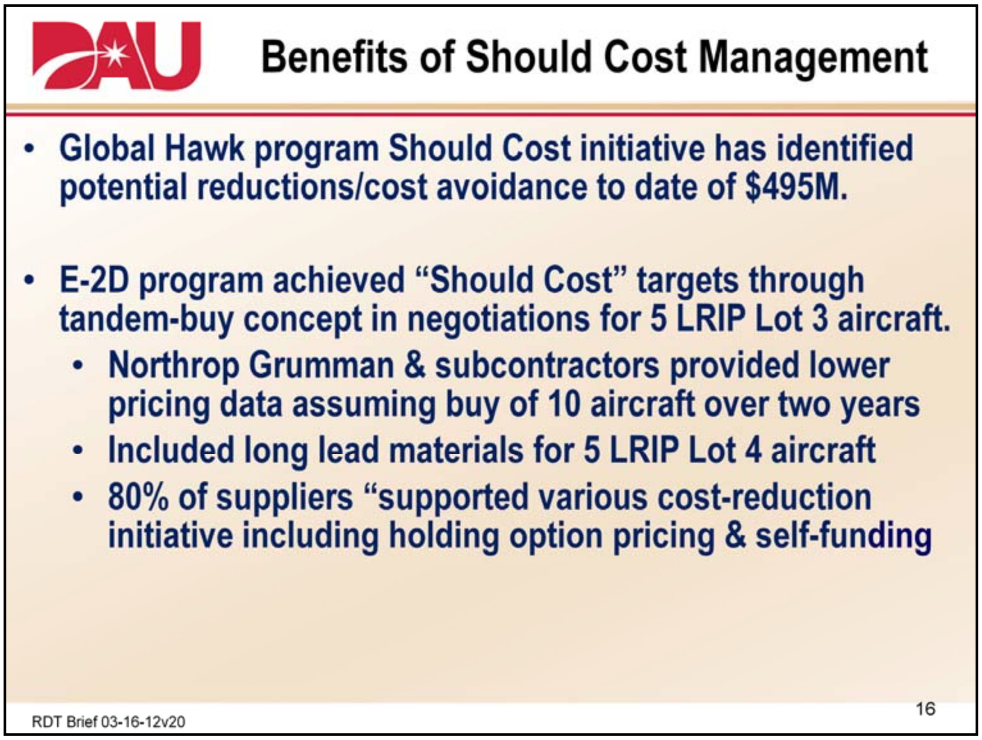


Points to discuss:

1. Self-Fulfilling Prophecy concept.
2. Awarding contracts and executing the program based on the amount in the budget.

"…ICEs are almost invariably higher than Service Estimates…the ICEs are always credible, based on what will happen *if* we continue doing what we've been doing." Dr. Carter, to PMT 402, 17 Nov 10, **attributable by permission.**

"Will cost is different than what we should pay. Budgeting to Will Cost leads to a self-fulfilling prophecy—it will cost that much if you budget that much." Dr. Carter, PEO/SYSCOM, 2 Nov 10, **attributable by permission.**



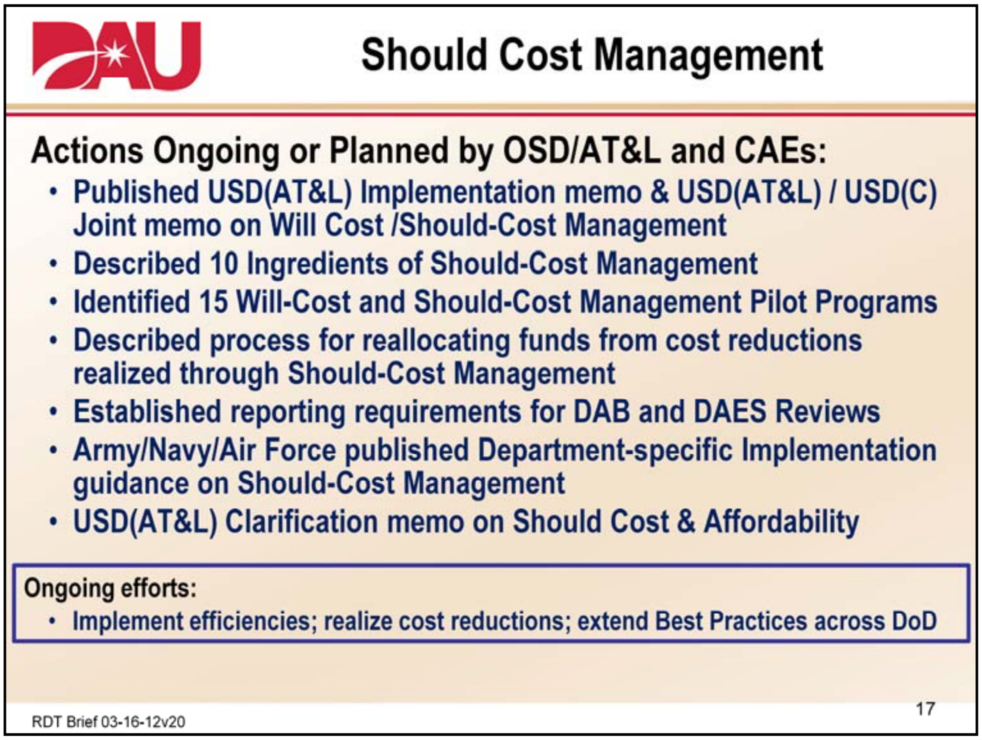
Air Force And Northrop To Hold Global Hawk Affordability Workshop Posted on InsideDefense.com-- Maggie Ybarra: August 11, 2011. A team of Air Force officials, Northrop Grumman representatives and suppliers will meet at Wright-Patterson Air Force Base in Dayton, OH, at the end of this month to discuss how to shave down the cost of the Global Hawk program.

The "Affordability Workshop" the officials are to participate in will pinpoint additional savings to the program, according to a Northrop Grumman representative. In an Aug. 11 statement issued to Inside the Air Force, the representative said the company is committed to reducing the cost of the program and is in the process of evaluating "nearly 200 initiatives for potential savings."

Inside the Pentagon - 08/04/2011 **E-2D Deal With Northrop 'Reduced Costs' Through Tandem-Buy Concept** -- Amanda Palleschi Posted on InsideDefense.com: August 3, 2011. The process used to award a multimillion-dollar contract for five E-2D Advanced Hawkeye aircraft helped generate nearly five percent in per-unit-cost savings, earning praise from top Pentagon brass for meeting "should cost" targets. The Navy last week awarded a $761 million contract to Northrop Grumman for five low-rate-initial-production (LRIP) lot 3 aircraft. Contract negotiations used a "tandem buy" concept to help meet the Pentagon's should-cost targets, said program manager Capt. Shane Gahagan. "I think the tandem concept reduced costs for the U.S. Navy per unit and also provided advantages for industry to go out and buy at a higher volume," Gahagan said. "I think it's a win-win strategy."

Pentagon director of pricing Shay Assad praised the negotiations between the Navy and Northrop at a recent breakfast with reporters in Washington, stating that "they did a nice job." And Assad previously cited the E-2D program as among programs successfully meeting "should-cost" targets as part of the Pentagon chief acquisition executive Ashton Carter's better buying power initiative. By using the "tandem buy" concept, Northrop and its subcontractors provided the Navy with lower pricing data for the five aircraft in fiscal year 2011, assuming a procurement quantity of 10 over two years, even though Congress has yet to approve an FY-12 budget. Using this concept, the $761 contract also included "long lead materials for five LRIP lot 4 aircraft," according to a Northrop Grumman spokeswoman. Gahagan said the program hoped to achieve a 6 percent reduction "from budget to tandem" in the process, but eventually purchased the five aircraft at 4.5 percent less than what it would have cost, per unit, under a single-year strategy. The deal requires Northrop and its subcontractors to assume some risk, Gahagan previously told Inside the Pentagon. "Anything above the annual buy is a risk from a corporation standpoint. We went back and forth. Some would take the risk, some wouldn't," he said, referring to talks with Northrop's subcontractors (ITP, June 15, p2).

"There was risk with this approach," the Northrop spokeswoman said. She added that the risk has been reduced as Congress approved the LRIP lot 3 full funding and advanced procurement funds for LRIP lot 4 in FY-11. "The program has and continues to perform very well and because of this has widespread support within the Navy, [DOD] and Congress," she said. More than 80 percent of 280 E-2D Advanced Hawkeye suppliers "supported various cost-reduction initiatives including holding option pricing and self-funding," she said. Inside the Pentagon - 06/16/2011 **'End-of-buy' concept eyed E-2D Program Targets 'Should-Cost' Goals** In Negotiations With Northrop Posted on InsideDefense.com: June 15, 2011. The Navy's E-2D Hawkeye program is poised to conclude contract negotiations with Northrop Grumman that will further implement a new Defense Department initiative that challenges programs to come in under budget, according to program manager Capt. Shane Gahagan. The program has been praised this year by Shay Assad, the Pentagon's new director of pricing, for doing a "marvelous" job meeting "should-cost" targets. In an interview this week, Gahagan said the program would conclude the negotiations "in the next week or two," noting the talks are one of several ways the program is implementing the should-cost approach.



<u>10 Ingredients of Should-Cost Mgt from 22 Apr USD(AT&L) Implementation Memo</u>

1. Scrutinize each contributing ingredient of program cost and justify it. Why is it as reported or negotiated? What reasonable measures might reduce it?
2. Particularly challenge the basis for indirect costs in contractor proposals.
3. Track recent program cost, schedule, and performance trends and identify ways to reverse negative trend(s).
4. Benchmark against similar DoD programs and commercial analogues (where possible), and against other programs performed by the same contractor or in the same facilities.
5. Promote Supply Chain Management to encourage competition and incentivize cost performance at lower tiers.
6. Reconstruct the program (government and contractor) team to be more streamlined and efficient.
7. Identify opportunities to breakout Government-Furnished Equipment versus prime contractor-provided items.
8. Identify items or services contracted through a second or third party vehicle. Eliminate unnecessary pass-through costs by considering other contracting options.
9. In the area of test:
    a. Take full advantage of integrated Developmental and Operational Testing to reduce overall cost of testing;
    b. Integrate modeling and simulation into the test construct to reduce overall costs and ensure optimal use of National test facilities and ranges.
10. Identify an alternative technology/material that can potentially reduce development or life cycle costs for a program. Ensure the prime product contract includes the development of this technology/material at the right time.

Should Cost Management

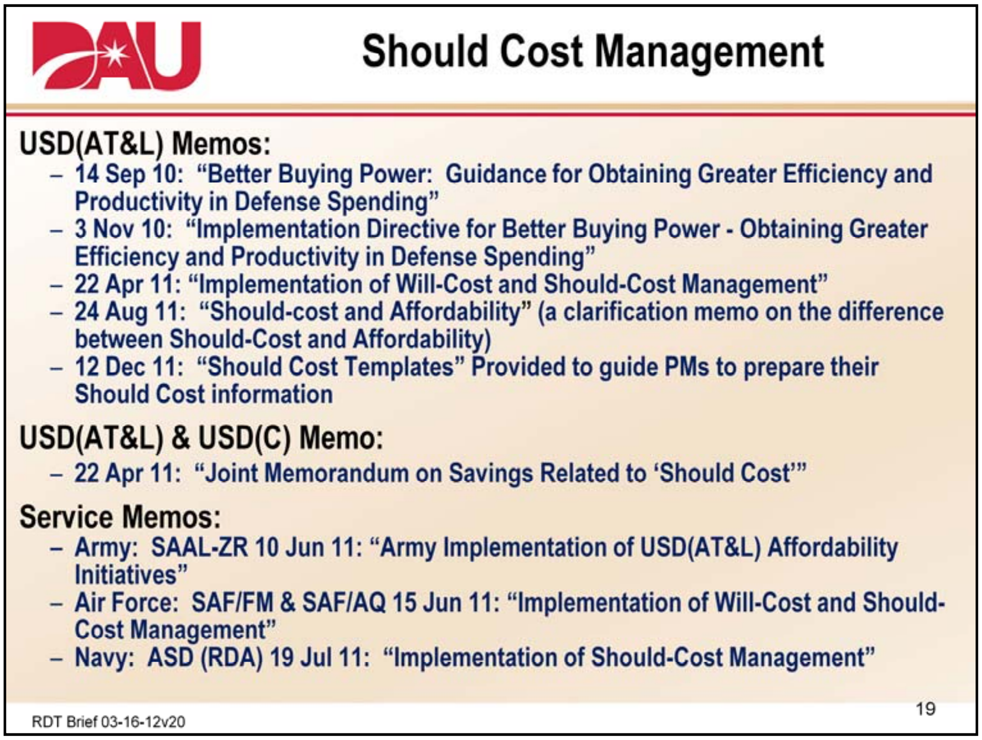
Implementation Tools

- Scrutinize every element of program cost
- Look for cost reductions in respective activities
- Leverage Learning Curves
- Examine overhead and indirect costs
- Incentivize contractors to identify and create cost reductions
- Tie savings to specific discrete and measurable items and initiatives that can be quantified and tracked

From *Defense AT&L*, "Should Cost Management: Why? How?," Carter and Mueller, Sep/Oct 2011

RDT Brief 03-16-12v20 18

"Don't confuse the current "should cost" initiative with the older DFAR-defined "should cost" review. The DFAR review is typically undertaken when a program is entering production. This review was a manpower-intensive, in-depth review of contractor production processes and costs. A large team of engineers, production specialists, logisticians, and program managers performed the in-depth analysis. A BBP "should cost" management approach should be used throughout the program life cycle. It is particularly focused on up-front planning and exploring engineering trades to ensure successful outcomes at every milestone. By creating cost-conscious technical and schedule baselines, identifying cost saving engineering trade-offs, and then aggressively managing areas identified for cost savings, efficiencies can be gained through-out the program. Productivity improvements might include investing in new technologies that reduce out-year costs, finding alternative sources or technologies for high-cost components, combining developmental and operational testing, and maximizing modeling and simulation. There are no silver bullets; each PM must find solutions that fit his or her specific program. In the final analysis, embracing the "should cost" management paradigm represents a cultural change, not just a one-time event." Carter and Mueller, "Should Cost Management: Why? How?" in Sep/Oct 11 AT&L magazine



<u>Will-Cost and Should-Cost Management Example Programs</u>

Air Force

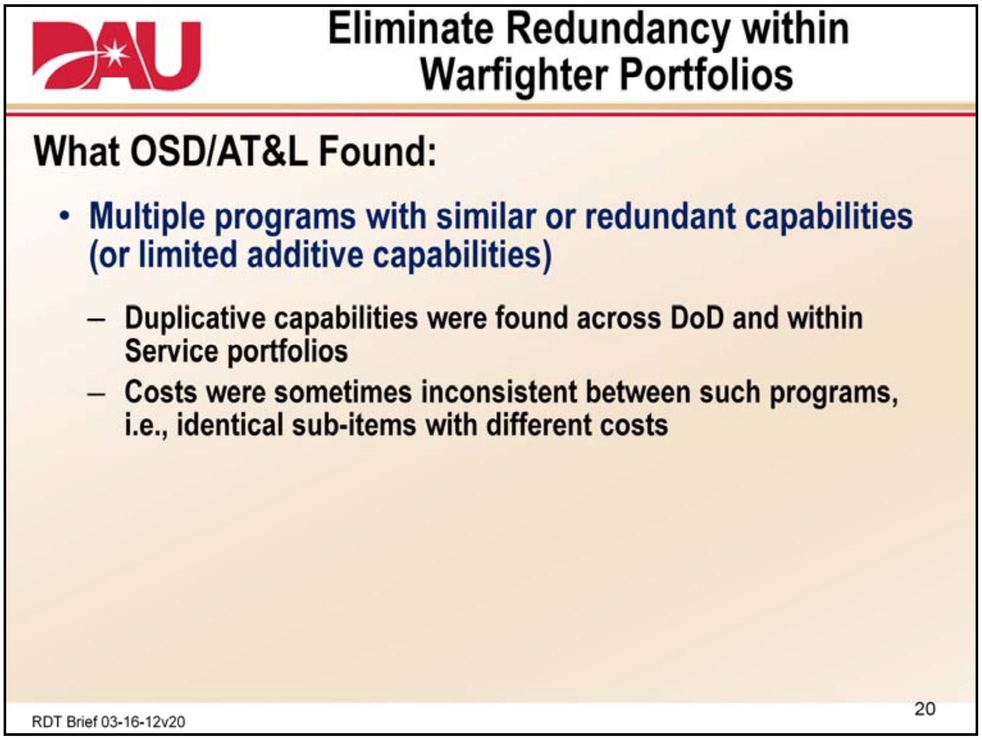
Joint Strike Fighter (F-35); Global Hawk Blocks 30 & 40 (GH BLK 30 & 40);Space Based Infrared System (SBIRS); Evolved Expendable Launch Vehicle (EELV); Advanced Extremely High Frequency (AEHF) Satellite System

Army

Joint Air Ground Missile (JAGM); Black Hawk (UH-60M); Ground Combat Vehicle (GCV); Paladin Product Improvement (PIM); NETT Warrior

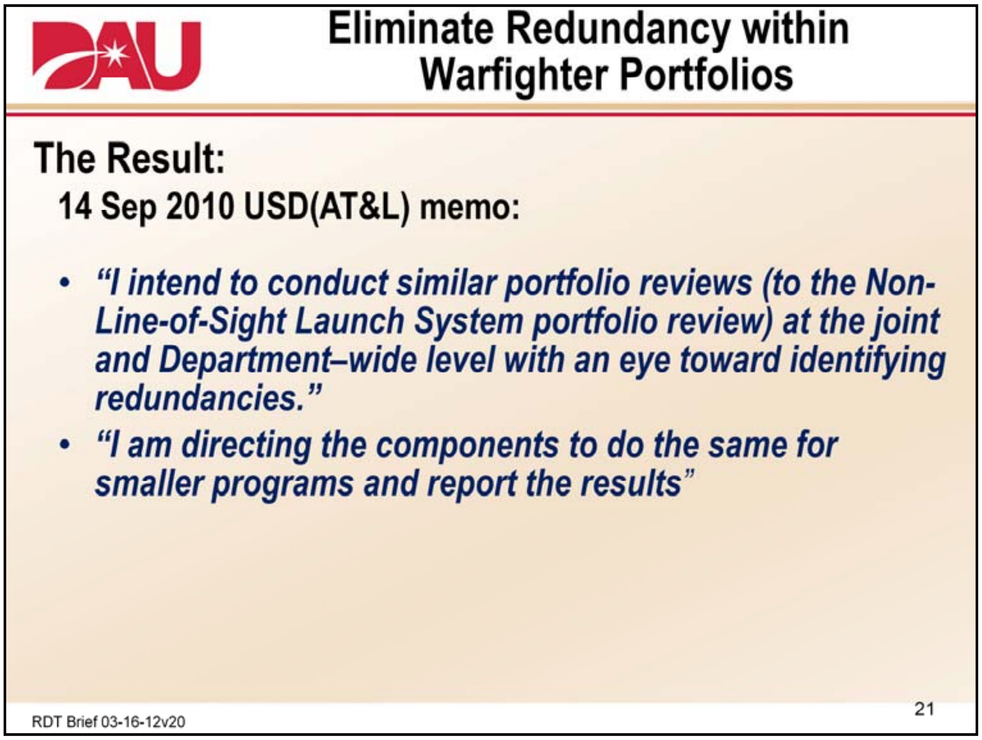
Navy

Joint Strike Fighter (F-35); Hawkeye (E-2D); Presidential Helo (VXX); Littoral Combat Ship (LCS); Ohio Replacement Program



"In May 2010, the Secretary of Defense announced the Defense Efficiencies Initiative to increase efficiencies, reduce overhead costs, and eliminate redundant functions in order to improve the effectiveness of the DOD enterprise. The goal is to apply savings from this initiative to force structure and modernization."

Page 24 GAO-11-590T

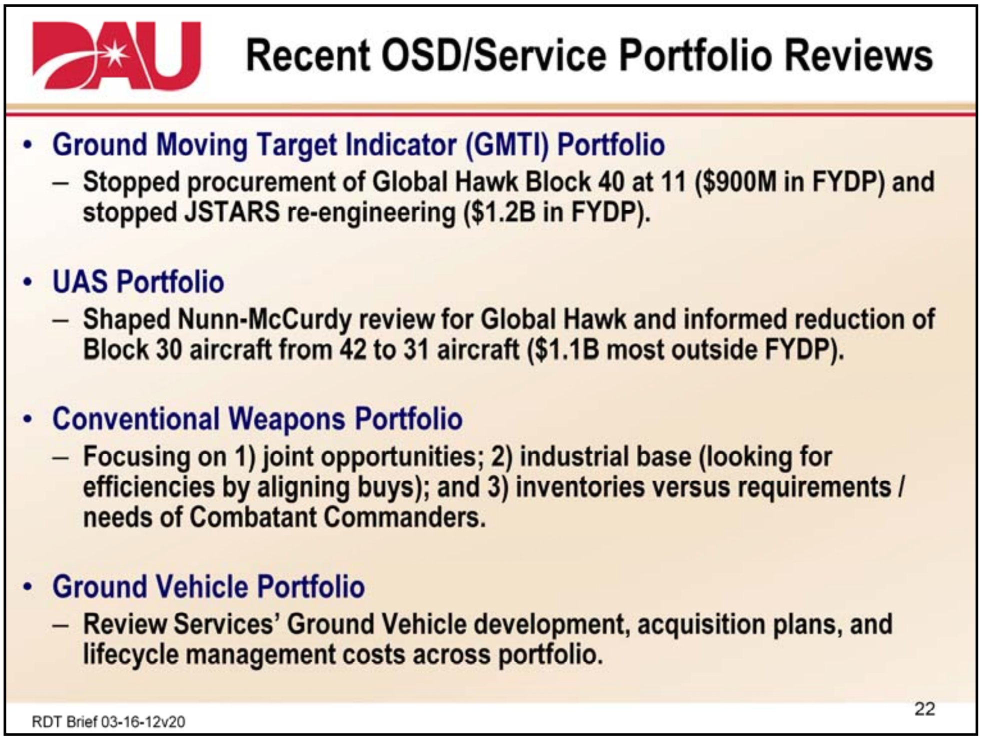


Integrating into the entire lifecycle of a program

Early – during requirement(s) development; include focused look at existing system(s) to meet emerging threats vs. exquisite/unique solutions

During development and production – integrate "eliminate redundancy" into existing Systems Engineering Risk/Opportunity processes

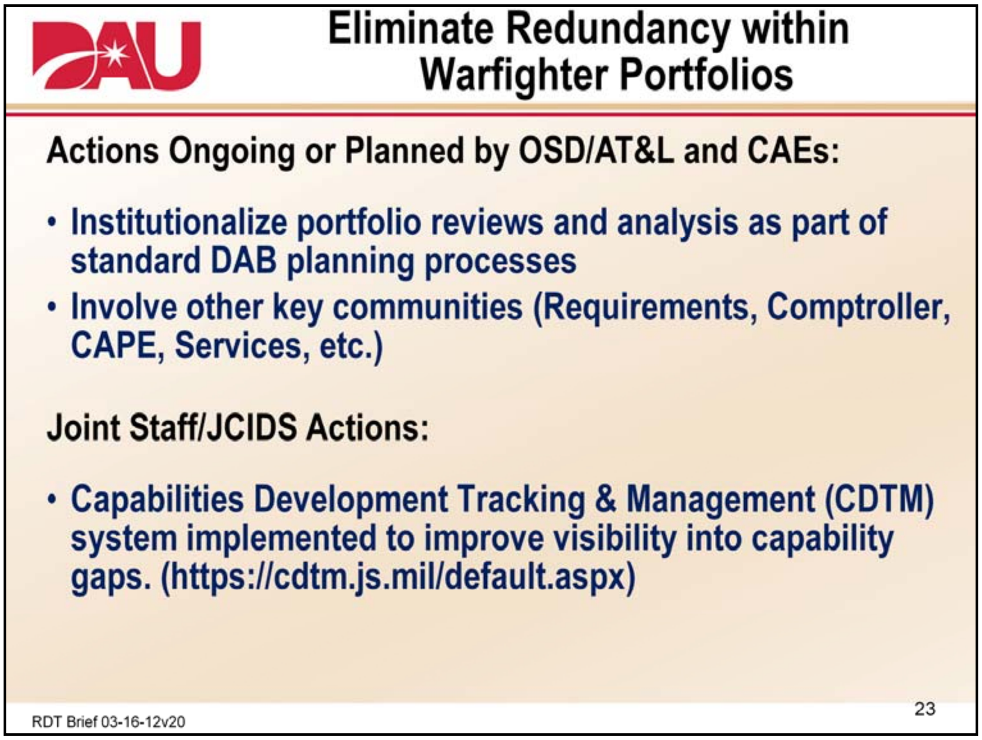
In sustainment – Continue to assess portfolios with a look at cross-over/redundancy



- **Ground Moving Target Indicator (GMTI) Portfolio review:** Completed and savings resulted.
- **Conventional Weapons Review:** This review will look across the Department to identify capability areas that have the need/potential to be significantly impacted within the POM process.
- **Ground Vehicle Review:** The review will result in a unified, long term strategy describing how DoD plans to acquire and sustain an operationally relevant fleet through affordable and executable acquisition program plans.

<u>Original examples cited in Dr. Carter's 14 Sep 10 memo:</u>

- Army – Non-Line-of-Sight Launch System (NLOS-LS) short-range guided missile
- Additional OSD-led reviews anticipated: GMTI and Integrated Air and Missile Defense

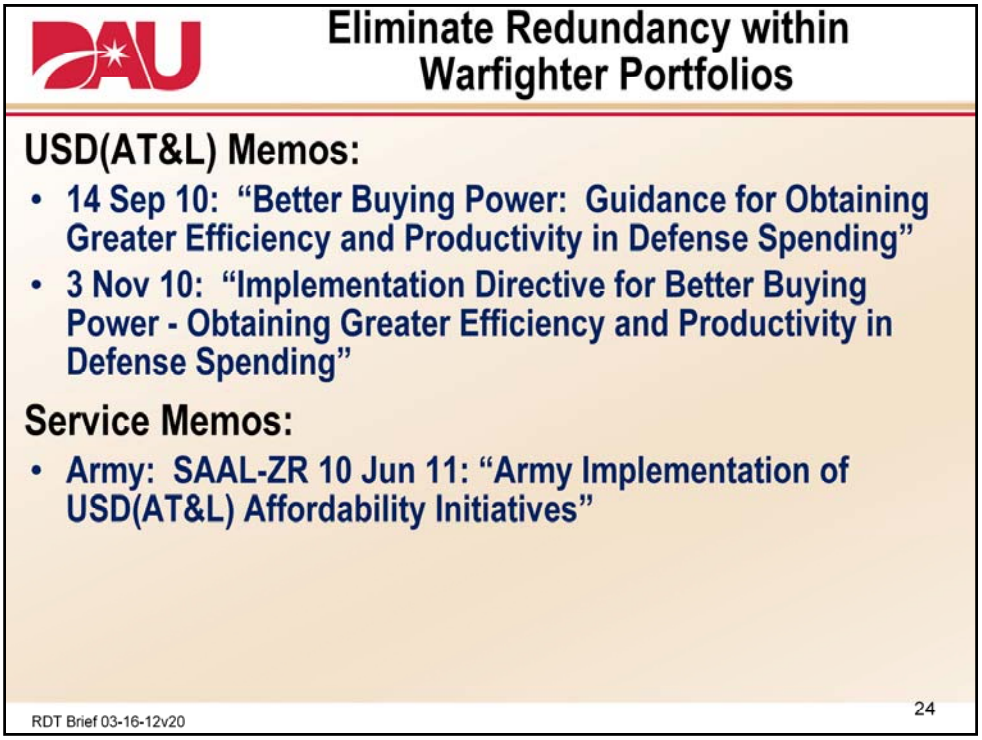


"The Joint Staff partially concurred with our recommendation that the Vice Chairman of the Joint Chiefs of Staff modify the JCIDS operations manual to require that CDDs discuss potential redundancies across proposed and existing programs, and address these redundancies when validating requirements. The Joint Staff stated that its ongoing review of JCIDS will address this issue by establishing unique requirements as a higher priority than unnecessarily redundant requirements, and by establishing a post-AOA review, which could also be used to identify unnecessary redundancies."

Page 26 GAO-11-502 Missed Trade-off Opportunities

CDTM is a tool used by authors and reviewers of capabilities documents. Users can create, read and edit Initial Capabilities Documents (ICDs), Capability Development Documents (CDDs) and Capability Production Documents (CPDs). The system presents a series of "wizard" windows that guide the user through data entry and complete document creation. Once data is entered, the system handles workflow within customized workgroups. When a capabilities document is ready for vetting in the Joint Staff, CDTM handles "pushing" the document to external systems like Knowledge Management/Decision Support (KM/DS) for further processing.

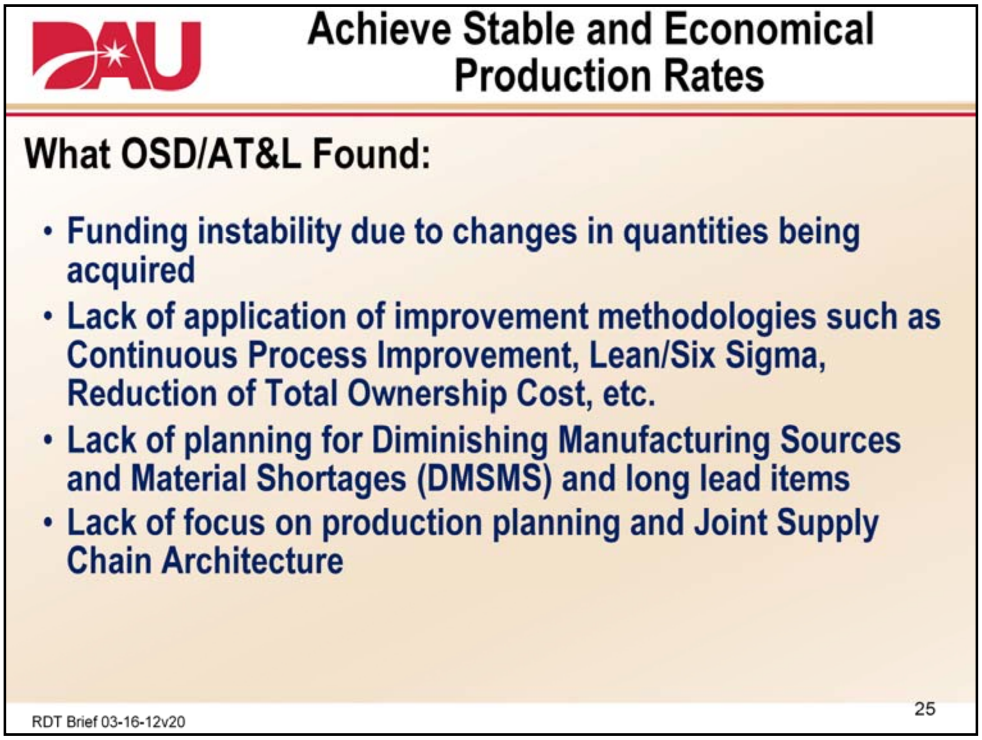
As of 30 June 2011, CDTM format will be required for all capability documents (lCD, CDD, CPD, and DCR) entering into the Knowledge Management/Decision Support (KM/DS) database.



- 14 Sep 2010 memo referenced the Army's effort and success in eliminating redundancy from the "warfighter portfolio" of precision weapons by determining "that it could forego the Non-Line-of-Sight Launch System (NLOS-LS) short-range guided missile."
- The memo directed components to conduct similar reviews for smaller programs.

Department of Defense Efficiency Initiatives Fiscal Year 2012 Budget Estimates

- "The Army efficiency initiatives included terminating or reducing weapons systems with declining relevance or unnecessary redundancy through comprehensive capability portfolio reviews.
- The Army terminated a long-range cannon (Non-Line-of-Sight Launch System (NLOS-LS)) due to its unaffordable redundant capability in the air-ground munitions portfolio.
- Based on reprioritization of air and missile defense capabilities, the surface-to-air missile system (SLAMRAAM) was terminated.
- The Army also terminated a mines weapon system (Scorpion) by reprioritizing its mine-counter mine portfolio and purchasing a more affordable solution (Spider)."



Contributing Factors to Achieving Stable and Economical Production Rates:

- Focus on production planning with an emphasis on Joint Supply Chain Architecture
- Funding stability
- Contracting approach (e.g. Multi-year, advance procurement, options, dual sourcing)
- Operational Requirements
- Contractor capacity (e.g. Personnel, tooling, shifts…)
- Accurate estimating
- Requirements stability
- Use of process improvement methodologies, such as Continuous Process Improvement, Lean/Six Sigma, and Total Ownership Cost
- Support and sustainment requirements

Achieve Stable and Economical Production Rates

The Result:

14 Sep 2010 USD(AT&L) memo:

- *"Government and industry both benefit from economic order quantity (EOQ) rates of Production and from stability in production year after year."*
- *"Unfortunately quantity cutting and turbulence to meet budget targets is widespread."*

3 Nov 2010 USD(AT&L) memo:

- *"…you will provide me, for each of your ACAT programs, a one-page description of how the procurement rate and schedule were set…deviations from these limits…will require my review and approval…"*

Benefits of Stable and Economic Production Rates

Ohio Replacement Program:

At MS A in Dec 2010, USD(AT&L) established affordability targets that included an average unit end cost target of $4.9B (for subs 2-12) and an average annual Operations and Sustainment cost target of $110M. To achieve this "should cost" objective, key efforts include:

- **reducing unique design features so there is an increased use of VIRGINIA-Class and SEAWOLF-Class components, and**
- **acquisition strategy that incentivizes affordability and sustainability targets through multi-year procurement contracts, reduced change orders and early delivery of key foundation documents like ship specifications.**

Achieve Stable and Economical Production Rates

Actions ongoing or planned by OSD/AT&L and CAEs:

- Introducing affordability requirements into programs further into development or production selectively
  - Include analysis of economic order quantities and economical production rates
  - Define production rate change limits based on affordability assessments
- Present Affordability Analysis at Milestones A and B
- Production Rate Range approved at Milestone C
- Deviations from limits require USD(AT&L) approval prior to implementation or submission with component POM
- Expanded Requirements Management training
  - Requirements "creep" in capabilities or quantities can disrupt production rates

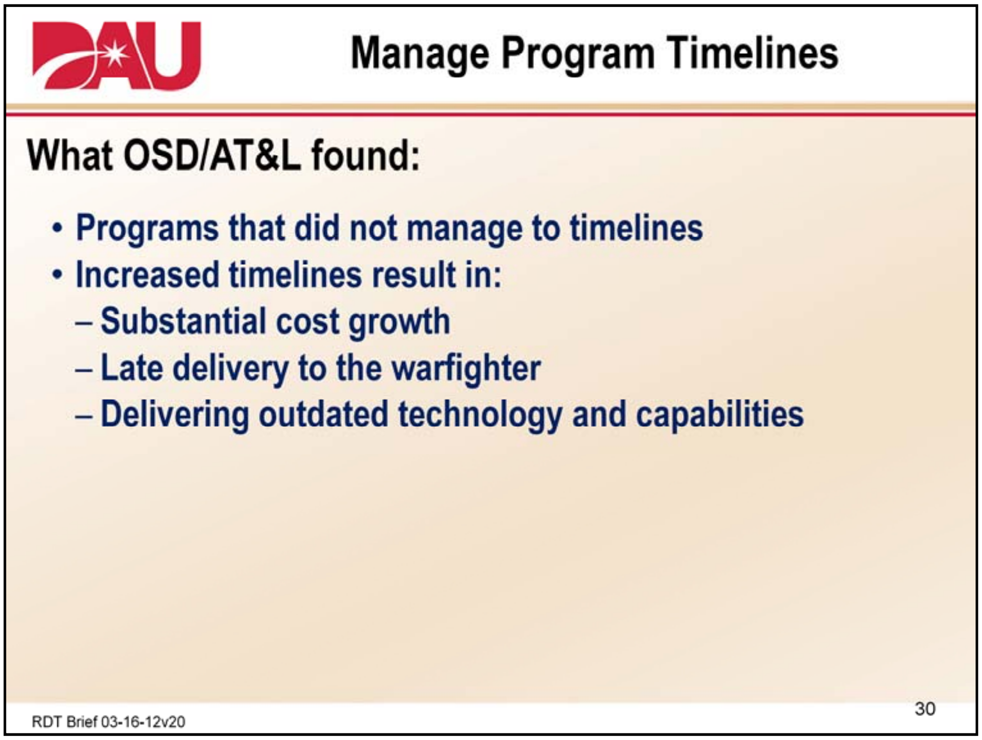
Achieve Stable and Economical Production Rates

USD(AT&L) Memos:

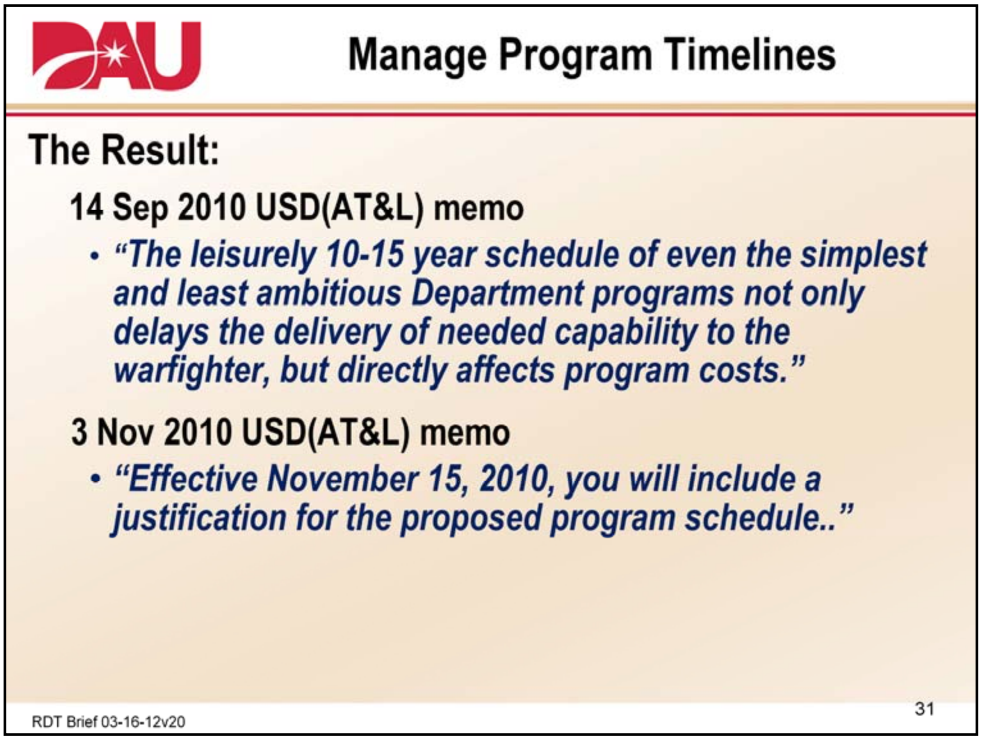
– 20 Apr 11: "Document Streamlining – Program Strategies and System Engineering Plan"
– Technology Development Strategy [or] Acquisition Strategy for [Program Name] Sample Outline:
  "8.2.2 Acquisition strategies for ACAT I programs will specify…how the procurement rate and schedule were set at Milestone A, as adjusted at Milestone B."

Section 812 of the FY11 NDAA:

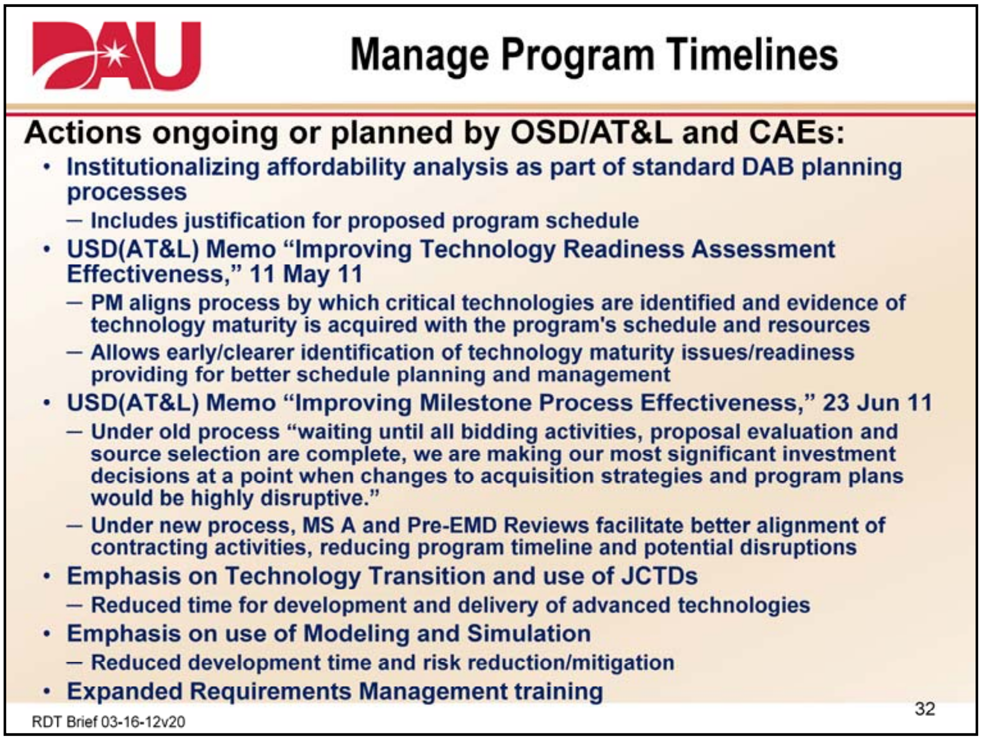
– Requires use of Manufacturing Readiness Levels (best practices not yet codified in law; implementation guidance in work)



- “On program schedules, think of it like a NASA program planetary probe that has to rendezvous with the planet in 2017; if you don’t make that date you have to wait another 50,000 years.” Dr. Carter to PMT 402, 17 Nov 10, **attributable by permission.**
- “For the GCV, the Army has taken the approach that they want a vehicle produced in 7 years and you get whatever can be produced by that time.” Dr. Carter to PMT 402, 17 Nov 10, **attributable by permission.**
- “I’d like to live in a world where you come forward for a MS decision, get the decision and come back in four years for your next MS.” Mr. Kendall to PMT 402, 11 Feb 11, **attributable by permission.**



- **Industry speaker** at PEO/SYSCOM Conference, Nov 2010: "If you take care of schedule, you won't have to worry about cost. <u>Everyone</u> needs to worry about their own schedule variances."
- **Gov't PM** speaking to PMT 402 students at PM Panel: "It's all about schedule. If you can't manage your schedule, you can't manage your costs….If you go over by one month in schedule, it is millions of dollars… Understand your CDD, understand your spec, understand your tradespace and engage with senior leadership at the earliest opportunities to make decisions on trades, because everytime you have to wait for a decision, it costs your program money."



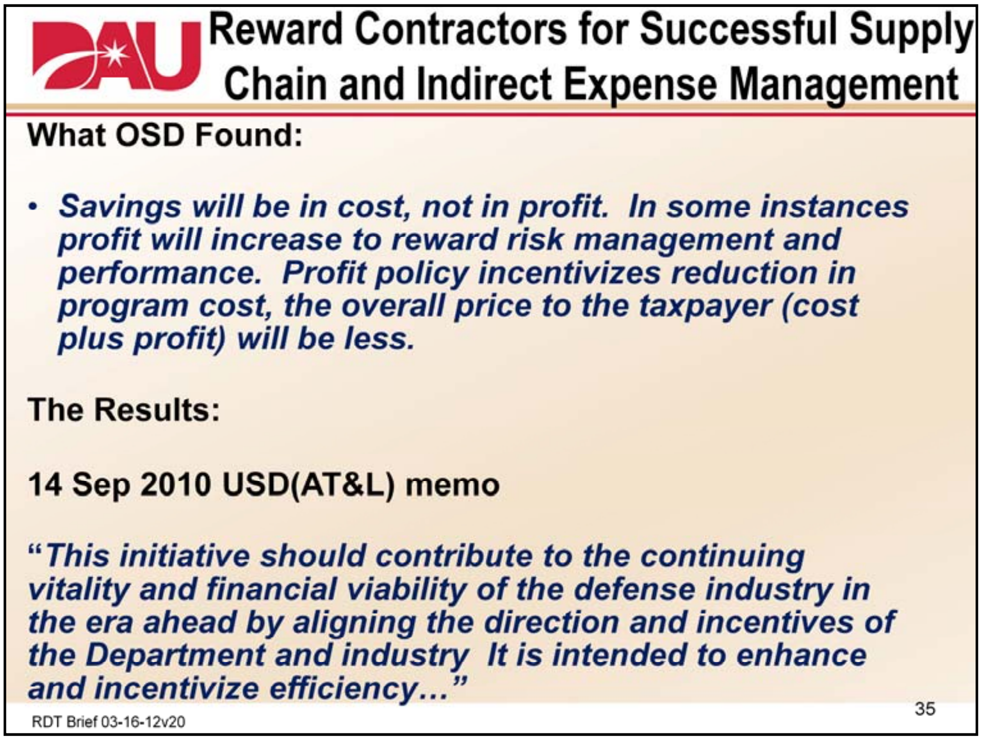
- Continue to need greater alignment between the Requirements Community and the Acquisition Community to reduce changes/creep which result in schedule disruptions and extensions.
- Discipline in the use of M&S, Technology Insertion, Technology Readiness Assessments, and Manufacturing Readiness Assessments will reduce schedule risks and identify opportunities for schedule compression. Implementation and application of the new Sustainment Maturity Levels will do the same relative to readiness for supportability.
- Discipline in the use of process improvement practices will also allow for mitigation of schedule risks and identification of schedule compression opportunities. This includes CMMI, AIRSpeed, Lean/Six Sigma, CPI, TOC and other methodologies. Particularly those methodologies that look to reduce cycle time (i.e. Lean) will benefit the PM when it comes to reducing and managing program timelines.

Good Afternoon. We’ll start off by discussing the first Thrust Area for the Better Buying Power Initiative RDT - **“Incentivize Productivity & Innovation in Industry”**

Our Thrust Team is responsible for five initiatives. Today we will present three of them:

- Reward contractors for successful supply chain and indirect expense management
- Increase Use of FPIF contract type when appropriate
- Capitalize on progress payment structures
  - DPAP memo 27 April 2011 – Cash Flow Models

The remaining two initiatives are still being fleshed out and will be addressed in future briefings.

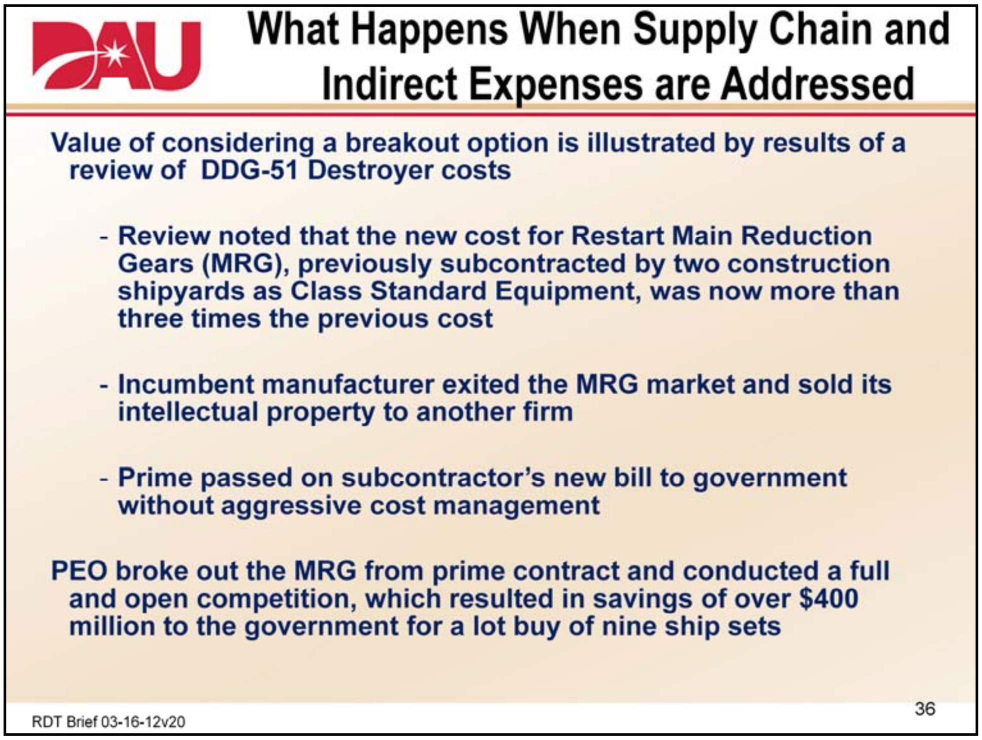


Important note is that the focus is on lowering cost, not on lowering profit. **It is OK to pay more in profit in parallel with reducing overall cost!**

- Cost reductions are not mandated in profit per se since in most instances profit should be used to incentivize /reward risk management and performance that reduces overall cost
- If profit policy is effectively used to incentivize reduction in program cost, the overall price to the taxpayer (cost plus profit) should be less
- Example:
  - (before cost reduction): 90 (C) + 10 (P) = 100 (TPC)
  - (after cost reduction): 81 (C) + 11 (P) = 92 (TPC)
    - Profit increases even with a total cost reduction

(C) – cost; (P) – profit; (TPC) – total program cost

- Need to identify ways to remove costs from programs – challenge the status quo
- Focus your use of incentives in schedule, technical and cost areas, tailored to your specific program, to achieve cost reduction
  - Review the full spectrum of available techniques - don't stick to what's been routinely done in the past



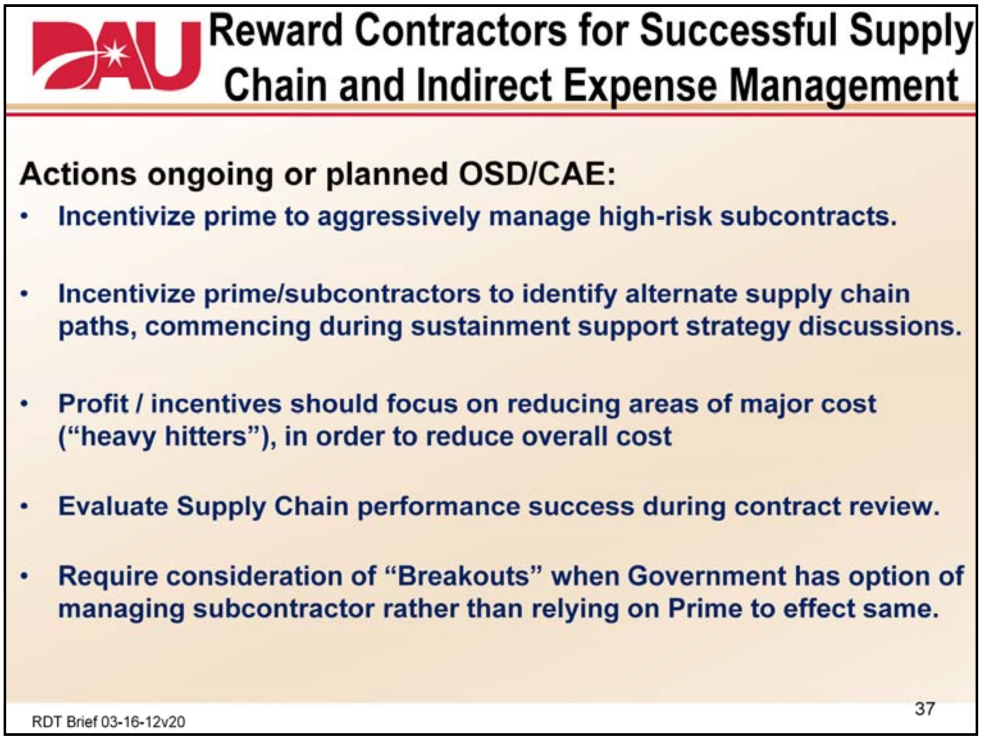
Profit on subcontracted work is meant to compensate the prime for taking on the burden of managing subcontractor risk and delivering subcontractor value. If this is not happening, then "breaking out" the "body of work" for direct government management should be strongly considered

Breakout Example from *Dr. Carter's 14 Sept Memorandum for Acquisition Professionals*

The value of considering a breakout option is illustrated by results of a review of DDG-51 Destroyer costs

- During this Review it was noted that the new cost for Restart Main Reduction Gears (MRG), previously subcontracted by two construction shipyards as Class Standard Equipment, was now more than three times the previous cost
- The Incumbent manufacturer had exited the market for MRGs and sold its intellectual property to another firm
- The Prime passed on this subcontractor's new bill to government without aggressive cost management

However, PEO broke out the MRG from prime contract and conducted a full and open competition, which resulted in savings of over $400 million to the government for a lot buy of nine ship sets



Our First Area is <u>Reward contractors for successful supply chain and indirect expense management</u>

- Incentivize prime to aggressively manage high-risk subcontract, and higher profit will be given when prime succeeds in driving down subcontractor costs every year
- Profit levels should be reexamined each time a procurement is planned (including follow on procurements).
- Overhead: Included in this category are indirect labor costs (such as management, quality control, material handling), facility rent and utilities, depreciation, training not directly billable to a specific contract, travel for non-contract activities, morale and welfare. These costs are reflected in the overhead rate.
- Take the time to investigate and understand what cost elements are contained in overhead, and are they reasonable? If not., challenge their continuation in the contract
- Smaller overhead does not always equate to higher efficiency. Evaluate each situation on its specific merits/demerits
    - You should be able to calculate an accurate overhead rate for any of your contracts…if you cannot, you need to learn how to do so

• Although certain expenses may be chargeable to overhead, most companies constantly work to minimize these costs to keep their rates competitive in the marketplace

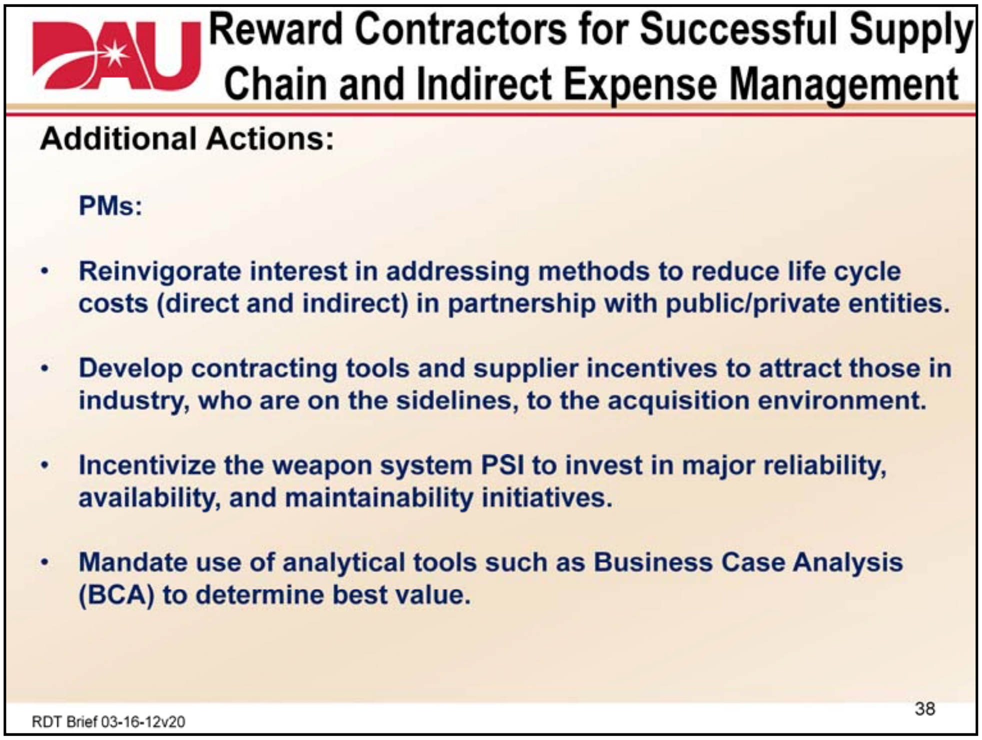
• Additionally, the components of overhead and the way costs are collected and grouped can vary by company. For example, in one company, contracting officers and supply chain personnel may be handled as indirect labor (overhead), while in another the same people are direct (base labor). This may be a way to find savings.

• Buying <u>outcomes</u> <u>instead of parts or man hours</u> means reducing costs, decreasing cycle times, improving performance and accurately predicting demand.

• Properly structured, Matl Availability increases, Logistics Response Time decreases, depot efficiency increases. Repair Turn Around Time, Awaiting Parts, Work in Process, Mean Time Between failures all improve.

• All managers of ACAT ID programs are now required to provide USD/ATL, as part of their acquisition strategy, the reward and incentive strategy behind their profit policy, including consideration of breakout alternatives where appropriate

• CAEs have been directed to do the same in programs for which they have acquisition authority



- “Pay for performance” contracts motivate vendors to reduce failures/consumption.

Reward Contractors for Successful Supply Chain and Indirect Expense Management

Additional Actions Continued:

Milestone Decision Authority:

- Require PMs to comment on non-use of performance based strategies and address /discuss at Milestone Reviews
- Encourage multiple award contracts that allow future competitions at the task level among qualified suppliers.
  - Objective is to robustly compete among a large group of qualified providers, to reduce costs and maximize other competitive benefit

- There is substantial documentation guiding our acquisition workforce in this regarding Supply Chain Management, and Overhead Rates .

Our Second Topic is The Increased use of Fixed Price Incentive Firm (FPIF) Contract Types, when appropriate.

- **Our goal is to increase the use of these contracts vehicles <u>where appropriate (FPIF use is NOT an across the board mandate!!)</u>**
- **Through the development of creative incentives contained within this contract type, we want to focus the contractor to meet our expectations**

Over the next 5 to 10 years, production of product will significantly outstrip development

When we have progressed in maturing a product, we should have a good enough sense of program costs to allow us to operate under an FPIF or FPIS basis, rather than a cost-type vehicle

Transition to manufacturing is the time to drive out costs (based on application of our reasonable understanding of the same); FPI arrangements are a proven means for doing so (whether it be Firm, multiple or successive targets).

When deciding between Fixed Price incentive schemes (for example, successive targets vice Firm Targets), we must always consider the return on investment (refer to 1969 NASA DoD Guide to Incentives for more information)

Increase Use of FPIF Contract Type When Appropriate

The Results:

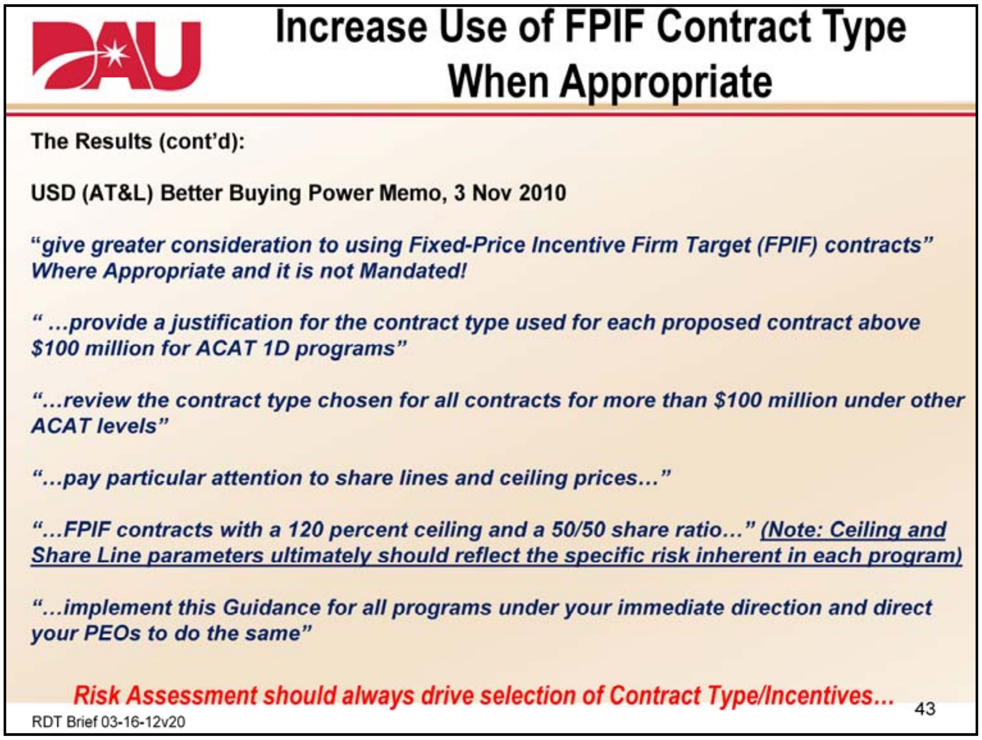
USD (AT&L) Better Buying Power Memo, 14 Sep 2010

"Choosing contract type is one important way of aligning the incentives of the government and the contractor. One size does not fit all"

"'Incentive' is important, since it shares the costs of overruns and rewards of underruns between government and industry"

" The metric for success of this measure would be fewer programs that overrun their cost targets"

Key:
Identify What is Important in your effort, and weight incentives in Cost , Schedule and Technical as necessary to efficiently achieve it



The 50/50 share and 120% ceiling was meant as a starting point. ***(Note: Ceiling and Share Line parameters should reflect the specific risk inherent in each program considering this strategy)***

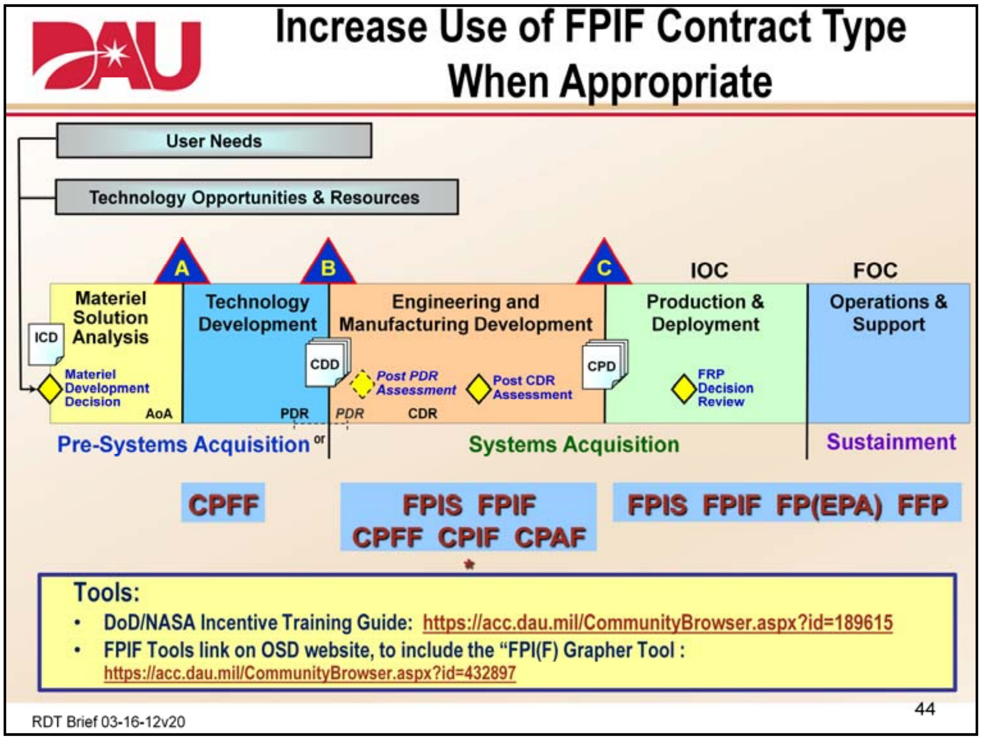
The slope of your share line should represent a fair balance of risk assumptions by both sides

The value of your ceiling line should represent the limit of total risk exposure you're willing to tolerate

PMs, Contracts and IPT need to understand the basis of cost. Allow for risk and base the contract structure on that. Advocate for selecting the "right" contract type, not a commonly used fallback like IDIQ or T/M. During negotiations look at actuals from prior contracts. Know the proposals, and use that knowledge to shape the contract details.

It also should be noted that ultimately the type of contract, and in the case of FPI(F) the associated Target Price, Share-line, and Ceiling, are products of reasonable negotiation, but informed by your knowledge of your programmatic risk.

- Negotiation of a ceiling greater than 120% is acceptable when justified, although ceilings higher than 140% may indicate too much program risk to warrant proceeding beyond risk reduction.
- Likewise, negotiation of a ceiling less than 120% is also acceptable but must be justified – generally speaking, justification for anything less than a 120% may indicate that a FFP contract may be more appropriate.



Generally speaking Fixed-Price Incentive contracts provide a means of objectively sharing proposal risk with a contractor.

More specifically, although additional administrative burden is taken on by the government in an incentive arrangement, Fixed-Price Incentive (Firm Target) contracts allow for the least impact in this regard, within the incentive type of contracts.

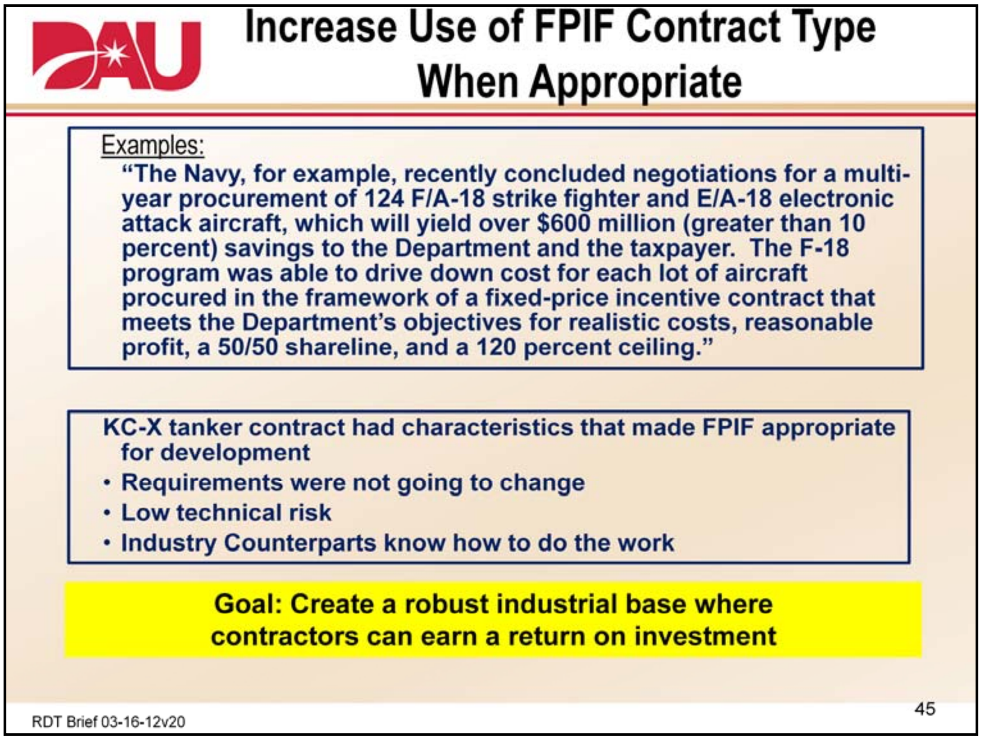
If you don't have the program stability required to use FFP, consider FPI.

The basic guidance is clear in the FAR and in subsequent DoD guidance: If meaningful and objective incentives can be formulated then FPI(F) should be utilized (especially in lieu of a "Cost Family" or FPAF arrangement).

Type of contract is not a one size fits all. It is a manifestation of risk relating to a multitude of variables, such as:

- What Acquisition Lifecycle Phase is the program entering?
  - What is the maturity of the technology?
  - What is the schedule?
  - Are there any extraordinary performance requirements?
  - What is the contractor's confidence in their proposed most probable cost (as illustrated on the following slide)

FPI(F) contracts are valuable tools given the appropriate circumstances. They not only allow for increased productivity, but also may contribute to improved affordability and cost control, as discussed in the previous Better Buying Power Initiative.



- TWO examples of successful FPIF Contracts:
  - F/A 18: FPIF use lead to a $600M savings
  - The tanker (KC-X) is a great example of a program that is appropriate for FPIF Development. It possessed important characteristics allowing FPIF use:
    - Requirements were stable
    - Low technical risk
    - Industry counterparts know how to do the work

The FPI(F) contract is a flexibly-priced, fixed-price contract with a pre-determined, formula-type incentive arrangement. The "contract" values described below, such as those depicted in the chart, are agreed to before a definitive contract is awarded. Upon final acceptance of supplies or services, the parties negotiate the total final cost incurred and then apply the contract incentive sharing formula to determine the profit earned and the resulting final contract price. If the final negotiated cost is greater than or equal to PTA cost, the cost incurred, plus remaining profit, adds up to ceiling price, therefore the contractor is 100% responsible for any remaining cost. [Ref.: FAR 52.216-16 (d)].

Explanation of Key Terms in FPI(F) Contracting

Target Cost. The contract value against which to measure final actual costs in order to determine the final contract price. It should represent that point in the range of probable cost outcomes, from the most optimistic cost estimate to the most pessimistic cost estimate, that is considered to be the "most likely" cost outcome and at which there is an equal probability of either a cost underrun or a cost overrun (Ref. #1, pp. 7, 68, & 87).

Target Profit. A reasonable profit for target cost at target performance (Ref. #1, p.68), determined by using a structured approach pursuant to DFARS 215.404-4(b) on any negotiated contract action that was competed ,and/or where cost and pricing data was obtained when cost or pricing data is obtained.

Target Price. Target cost plus target profit. Provides the initial basis for funding the contract (i.e. to cover the target price per FAR 32.703-1(a)) and for contractor billing (Ref. FAR 52.316-16(f)).

Ceiling Price. The maximum dollar liability of the Government under the contract (Ref. FAR 52.216-16(a)); and also represents the maximum price that the Government is willing to pay for the contract (Ref. #1, p.78).

Share Ratio. The price revision formula that is used to adjust earned profit based on the variance of the final allowable cost (i.e., either increase or decrease) from the target cost to determine the final price. A single contract can have a single share ratio or more than one (e.g., one above target cost and one below target cost). It represents the allocation of cost risk between the Government and the contractor. It is normally expressed as a numerical value representing "Government cost risk %" / "contractor cost risk %" that must always total 100% of the cost risk (e.g., 70/30). A 70/30 share ratio means that the Government shares 70% of the cost savings if work is completed under target cost and shares 70% of cost overruns up to PTA cost with the contractor sharing in 30% of cost savings or cost overrun, up to the point of total assumption. (Ref. #2)

Point of Total Assumption. As stated in this chart (Ref. #1, p.69). Also, PTA cost is equivalent to the most "pessimistic" (i.e., high) cost estimate for completing the work based on quantitative analysis of the range of probable cost outcomes. At PTA cost, the contract converts from FPI(F) to FFP (Ref. #1, pp.7, 69, 82-84).

#1 DoD and NASA Incentive Contracting Guide (1969)

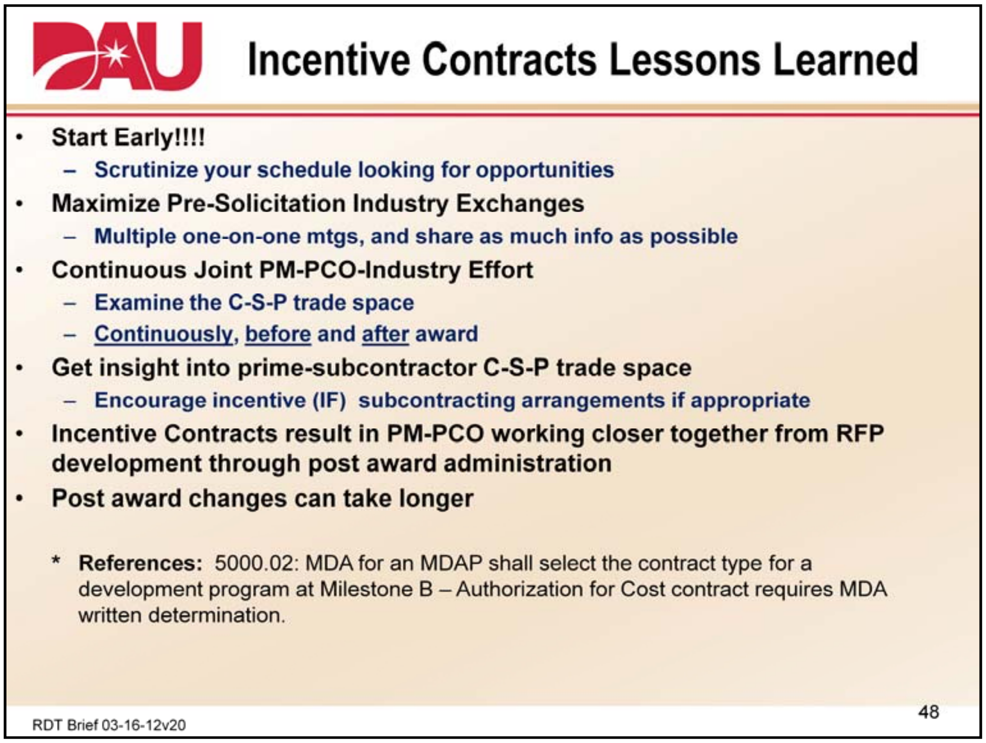
#2 Contract Pricing Reference Guides, Vol.4,Ch.1 Sec.1.3.1

Increase Use of FPIF Contract Type When Appropriate

- Increase the use of FPIF contract vehicles (where appropriate: it is NOT a "blanket mandate")
- Contract type should be commensurate with program risks
- "One size does not fit all"– Look for other incentives
- Incentives are powerful tools
  - PM should identify what is important, then work with the PCO to structure incentives around those areas
  - Incentivize common-sense, pragmatic execution improvement

Ongoing efforts:

- Develop creative incentives to motivate industry to provide higher productivity
- Link strong contract incentives to the required performance
  - For programs this should usually be lower cost in production and sustainment
  - For services this should be acceptable or improved services at lower cost



C-S-P: Cost, Schedule, Performance

T&C= Terms and Conditions

Adjust Progress Payments to Incentivize Performance

What OSD Found:

The Program Manager and Contracting Officer should assess the value (consideration) due the Government for the benefits of approving contractor customary or unusual Progress Payments.

RDT Brief 03-16-12v20

49

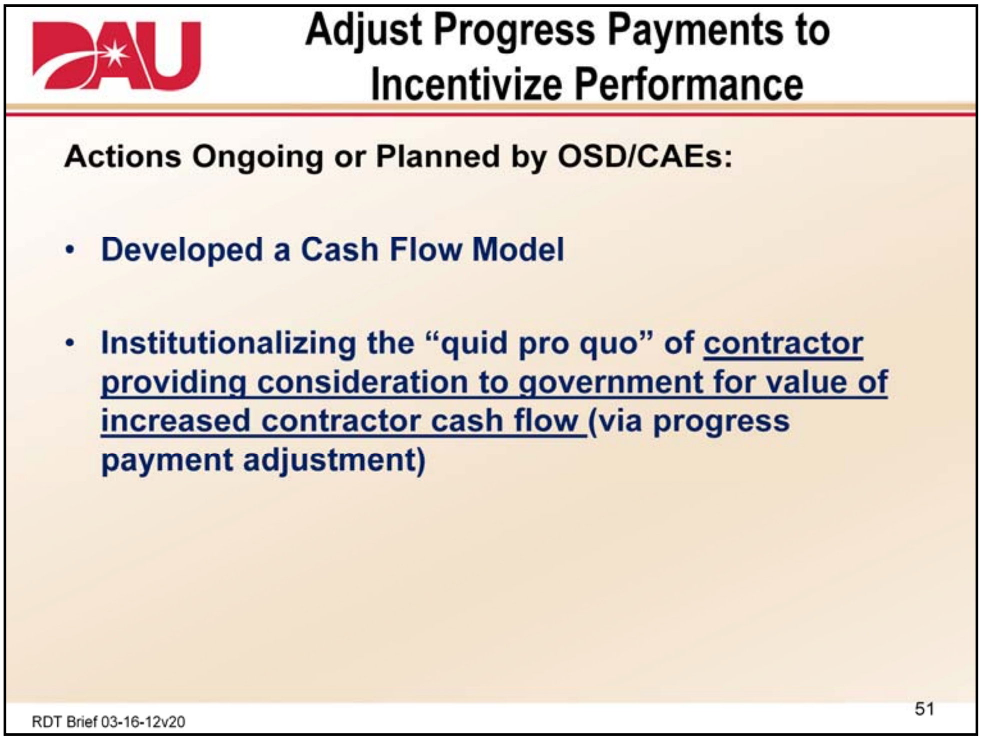
Adjust Progress Payments to Incentivize Performance

The Result:

14 Sep 2010 USD(AT&L) memo

- ***"The government is an exceptionally reliable customer in terms of financing. The department pays up front and regularly, sometimes before products are delivered."***

- ***I will direct the Director of DPAP to develop for my review a cash flow model to be used by all contracting officers….."***



Our third area is Capitalizing on Progress Payment Structures

Direction to develop a Cash Flow Model tool was issued and the CFM tool is available at the website presented below.

Policy: USD MEMO Cash Flow Tool for Evaluating Financing Arrangements dated 27 April 2011

PBP Tool HTTP://www.acq.osd.mil/dpap/cpf/Perfromance_based_payments.html

Adjust Progress Payments to Incentivize Performance

Memos:

Policy: USD MEMO Cash Flow Tool for Evaluating Financing Arrangements dated 27 April 2011

Resources:

PBP Tool:

HTTP://www.acq.osd.mil/dpap/cpf/Performance_based_payments.html (Note: "underscores" used between the PBP words)

DAU:

Understanding Performance Based Payments and the Value of Cash Flow Continuous Learning Modules (CLC 057) completed

RDT Brief 03-16-12v20

52

Institute a Superior Supplier Incentive Program

What OSD found:

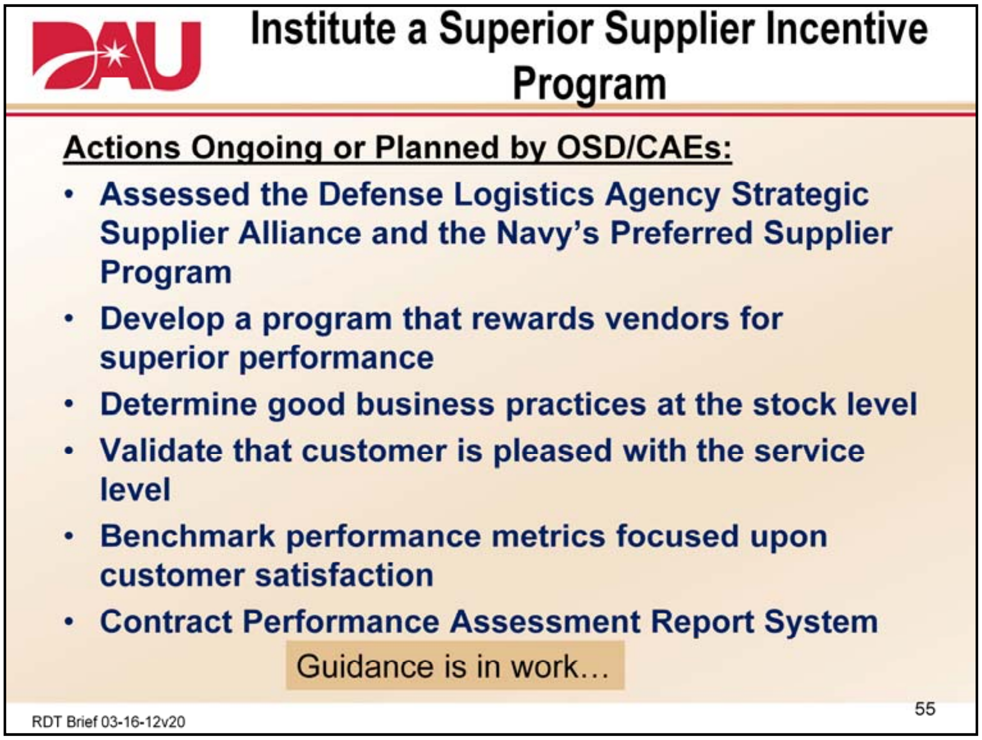
Recognize, reward, and publicize consistent exemplary corporate industry performance to capture the attention of Share Holders.

Institute a Superior Supplier Incentive Program

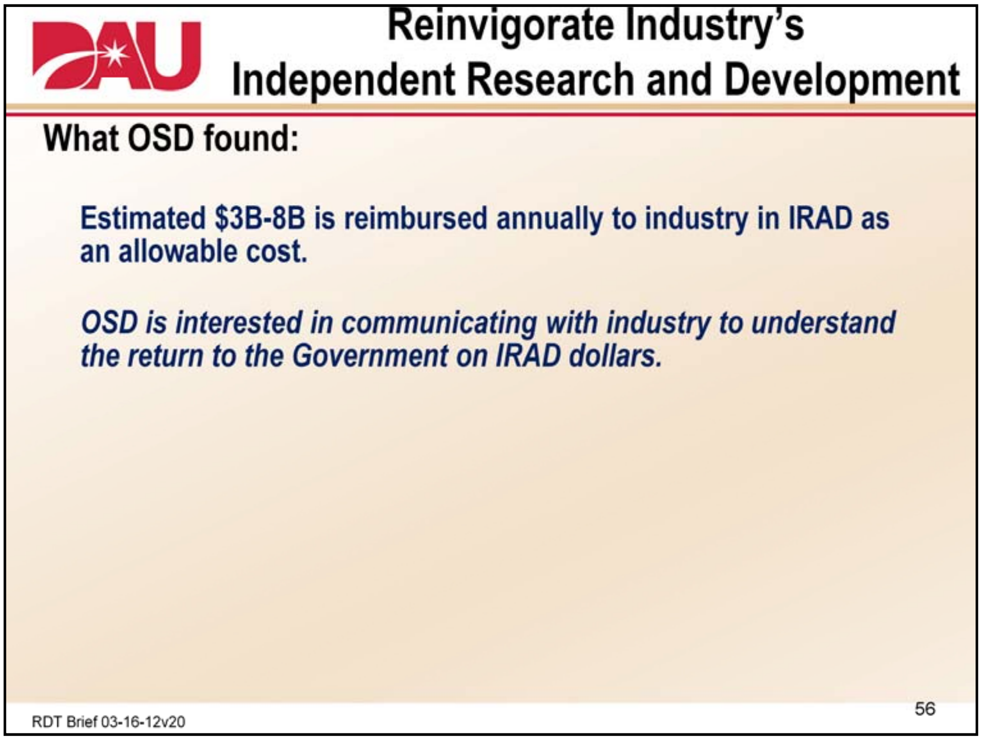
The Result:

14 Sep 2010 USD(AT&L) memo

– ***"The Department should recognize and reward businesses and corporations that consistently demonstrate exemplary performance.."***



- Assessed the Defense Logistics Agency Strategic Supplier Alliance and the Navy's Preferred Supplier Program
- Develop a program that rewards vendors for superior performance
- Determine good business practices at the stock level
- Validate that customer is pleased with the service level
- Benchmark performance metrics focused upon customer satisfaction
- Contract Performance Assessment Report System matters. Use this as a tool to achieve a level of performance through the Prime.



We need to be sure that the IR&D funds which are reimbursed to industry by the government through overhead are aligned with our Objectives and future planning guidance.


DAU
Reinvigorate Industry's
Independent Research and Development
The Result:
14 Sep 2010 USD(AT&L) memo
– "This is one of the Department's principal investments in technology innovation ….."
– " I intend to take action to align the purpose of IRAD to actual practice."
RDT Brief 03-16-12v20
57

We need to Reinvigorate IRAD

- We are interested in getting access to communication with industry on what they are doing in IR&D
- Large spend goes to IR&D
- We have no real knowledge on where the spend goes ($8B?)
- Is it providing value to Gov't?

Better Buying Power Initiative Brief for Promote Real Competition

Sal Cianci, WST
Dave Hofstadter, DSMC
Paul Horst, MAT
David Kennedy, STH
Sam King, STH
Mike Kotzian, MAT
Vishnu Nevrekar, MW
Lisa Schneider, CNE
Wally Tubell, STH

Better Buying Power Gateway: https://dap.dau.mil/bbp
Better Buying Power Community of Practice: https://acc.dau.mil/bbp

RDT Brief 03-16-12v20

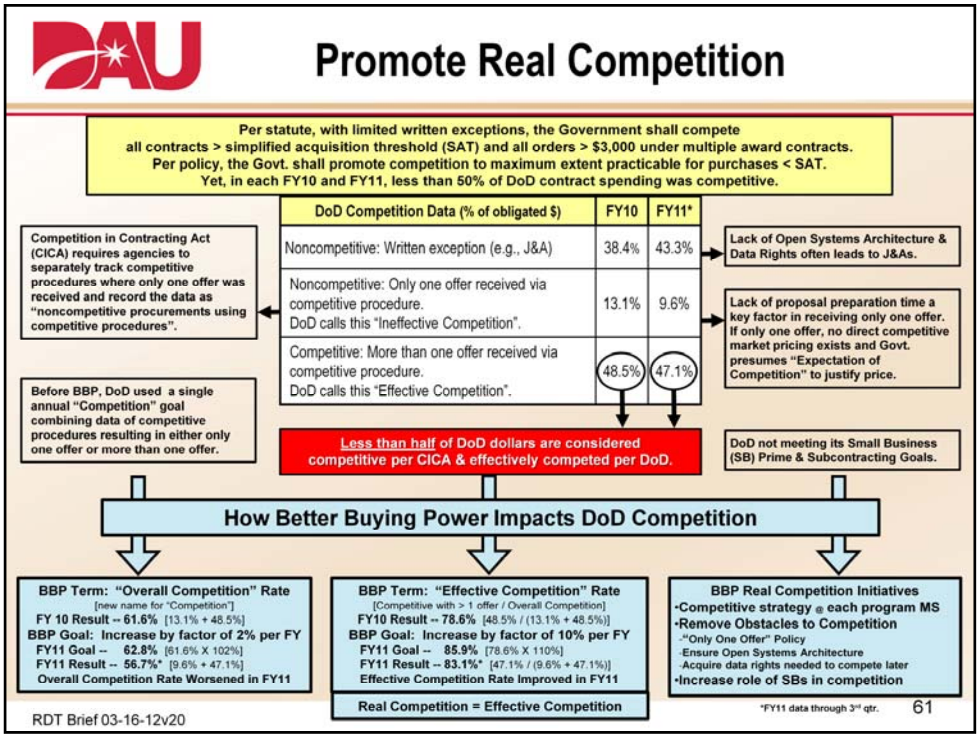
59

Promote Real Competition

- ❑Emphasize Competition at Each Program Milestone
- ❑Remove Obstacles to Competition
  - ❑Allow Reasonable Time to Bid
  - ❑Require Non-certified Cost and Pricing Data on Single Offers
  - ❑Enforce Open System Architectures and Set Rules for Acquisition of Technical Data Rights
- ❑Increase Small Business Role and Opportunities

RDT Brief 03-16-12v20

60



Overview Slide on:

1. How Competition is measured from perspectives of statutory language and DoD.
2. How BBP has replaced one term (former "competition" is now "overall competition"), introduced a new term ("effective competition"), introduced initiatives to promote real competition (synonym for "effective competition")

- The Simplified Acquisition Threshold (SAT) is $150K (with exceptions for increased amounts for certain environments or services/commodities).
- Source of DoD Competition Data is the Federal Procurement Data System – Next Generation (FPDS-NG). Every contract action above the micropurchase threshold ($3K with exceptions for increased amounts for certain environments or services/commodities) requires data input into FPDS-NG. So if contracting officer/specialist is required to put it into FPDS-NG, it is put into one of the 3 buckets in white table above (noncompetitive per written exception, noncompetitive if only one offer using competitive procedure, and competitive if > 1 offer using competitive procedure). Govt. credit card transactions are micropurchases and thus not counted in competition statistics.
- All orders are inputted into FPDS-NG so that means all orders are part of the data. Common question & misperception is that orders are exempt from BBP Real Competition calculations and initiatives.
- In January, will update slide with the entire FY11 data vice current data only through 3rd quarter.
- Important to note that the white table calculates "competitive" as a percentage of all procurement spending. DoD call that same "competitive" box "effective competition" and measures effective competition as a percentage of all procurement spending using competitive procedures regardless of 1 vs. >1 offer.
- In the event of only one offer received via competitive procedure, FAR 15.403-1(c)(1)(ii) allows the contracting officer to justify the price based on adequate price competition based on an "expectation of competition". DoD policy (and soon regulation) has eliminated the FAR "expectation of competition" rule from the contracting officer's toolbox for justifying the price when only one offer received. Doesn't mean contracting officers were doing anything illegal, just that it was being magnanimously used (or abused).
- Small Business Prime and Subcontracting Goals is mentioned to ensure that folks don't categorically avoid small business sole source awards or set-asides (i.e. competitions set-aside strictly for small business program) and do full & open competitions to ensure greater chance of more than one offer. Even when doing full & open competition, small business subcontracting goals are important so the small business evaluation factor should not be marginalized to ensure greater chance of more than one offer.
- Real Competition and Effective Competition are synonyms. AT&L memos refer to Real Competition vs. Ineffective Competition. DPAP memos refer to Effective Competition.

Straightforward slide.

Some source material that lead to these conclusions:

- FY09 DoD Competition Report
- DoD IG Report on Navy's SeaPort-e Multiple Award Task Order Contracts
- Anecdote in 14 SEP 11 AT&L Memo re: USAF DESP Multiple Award Task Order Contracts
- GAO-10-833 Report: Opportunities Exist to Increase Competition & Assess Reasons When Only 1 Offer Received

The rest of the paragraph quoted includes:

This may take the form of—

--a related program that could serve as a partial substitute for the program in question

--a plan to re-gain competition in an unproductive sole source situation

--breakout of subcontracted work

--adapting commercial products

--or other strategies

Bottom-line is that Program Managers will need to start addressing this matter at each Program Milestone.

What Happens When Competition is Addressed

- **Family of Medium Tactical Vehicles Competition: The Army awarded a competitive 5 year multiple year requirements contract to Oshkosh that resulted in an average cost savings of 28% over the previous sole source contract. The end result is a cost savings of an estimated $578M over the contract period of performance.**
- **The JTRS Enterprise Business Model (EBM) is predicated upon fostering and leveraging competition in production. For the Multifunctional Information Distribution System – Low Volume Terminal (MIDS-LVT) radio program initial radios started at $426K per unit. Since then, competition between the two approved vendor production sources, the radios have decreased steadily to a cost of only $181K per unit, a savings of nearly 60% on each radio. With over 2600 MIDS units purchased, the total savings is approximately $500 million.**

RDT Brief 03-16-12v20 64

Background for JTRS Enterprise Business Model (EBM) reference to MIDS-LVT.

MIDS-LVT was sole source for EMD.

Another industry supplier was development via Other Transaction Agreements and the sharing of tech data package obtained as EMD was occurring.

LRIP was established as multiple-award indefinite quantity/indefinite delivery (IDIQ) contracts with continuous competition at the delivery order level. Offerors had to propose pricing via a learning curve model that was incorporated into the contract.

This continued through FRP and is still on-going.

Note: At the time of LRIP, the requirements for FRP MIDS-LVT initially was a few hundred radios with potential to several thousand (including FMS and direct commercial sales). Today, several thousand MIDS-LVT have been purchased!!!!

Sidenote re: misperception– MIDS-LVT was in FRP prior to being “incorporated” into the JTRS family of radios. The JTRS variant of MIDS is in late stage of development and early stage of production and is not part of the thousands purchased to date.

Emphasize Competitive Strategy at each Program Milestone

Actions ongoing or Planned by OSD/CAEs:

- **Require PEOs & PMs to present their strategy to create and maintain a competitive environment for their contractors at DAB and DAES reviews**
- **OSD finalizing DAB template for Milestone A & B review**

RDT Brief 03-16-12v20 65

Straightforward. Familiarize yourself with the templates.

Emphasize Competitive Strategy at each Program Milestone

Policy Memo:

20 APR 2011 PUSD(AT&L) memo

- **Technology Development Strategy/Acquisition Strategy (TDS/AS) template**

  "Competition Strategy. Explain how a competitive environment will be sought, promoted and sustained throughout all program phases."

  https://dap.dau.mil/leadership/pages/bbppolicy.aspx

Tools:

- **Program Managers should have a competitive strategy even if classic head-to-head competition does not exist**
- **What a Competitive Strategy should emphasize**
  - **Related program serve as partial substitute for program**
  - **A plan to regain competition in an unproductive sole source situation**
  - **Breakout of subcontract work**
  - **Adapting commercial products**
  - **Data Rights**

RDT Brief 03-16-12v20 66

Straightforward.

Straightforward.

"Established barriers to communication with industry partners" really means not Government not utilizing existing communication tools (draft RFPs, industry days including one-on-one meetings, establishing a competitive range and having discussions, robust debriefings to unsuccessful offerors, etc.).

Remove Obstacles to Competition

The result:

14 Sep 2010 USD(AT&L) memo

"…contracting officers to conduct negotiations with all single bid offerors and that the basis of that negotiation shall be cost or price analysis, as the case may be, using non-certified data."

" I am directing each competition advocate to develop a plan to improve both the overall rate of competition and the rate of effective competition. Those plans should establish an improvement rate of at least 10 percent per year for effective competition. Those plans are to be approved by the CAEs."

RDT Brief 03-16-12v20 68

Note the beginning of the first quote was "Henceforth I expect contracting officers to….". This was not a "shall". However, DPAP put out explicit policy in 24 NOV 10 and 27 APR 11 memos that contracting officers are to no longer use the FAR exception of "expectation of competition" and use other FAR-identified means to justify the price. A proposed DFARS case 2011-D013 is posted for public comment, closing 23 SEP 11. Will be several months for comments to be adjudicated and final DFARS rule to be published.

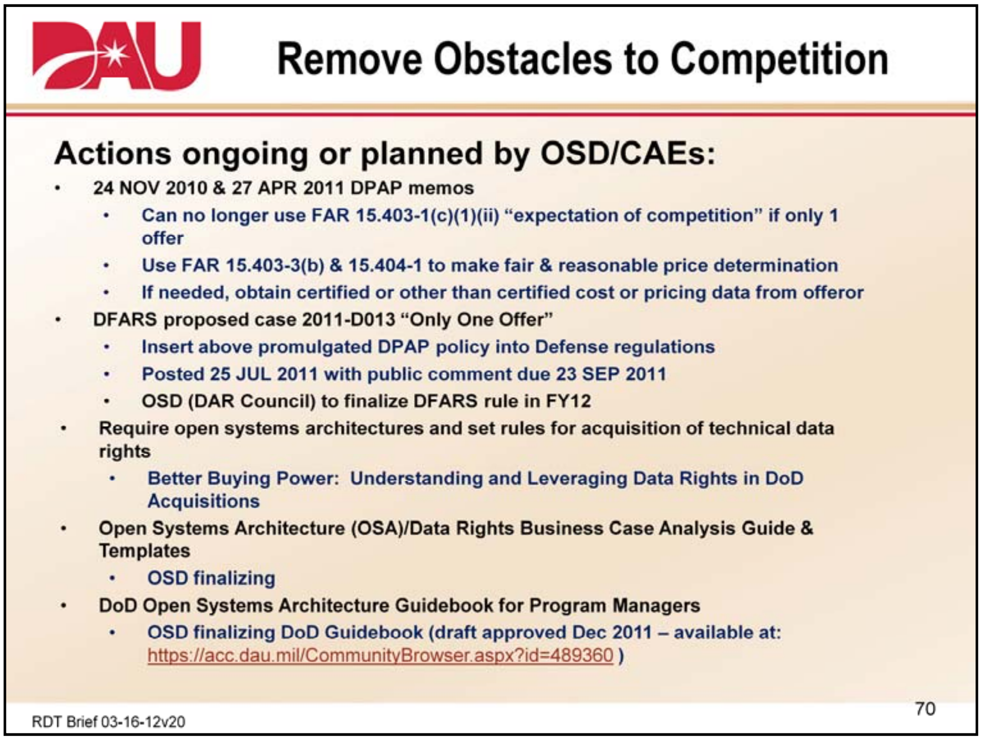
The 2nd quote is straightforward. The percent is applied as a factor (i.e. not an addition) to the previous year's effective competition rate. For example, if last year's effective competition rate was 50%, then this year's would be 55% (50% X 1.1), not 60% (50% + 10%).

What Happens When Competition Obstacles are Addressed

- USAF PEO-Services action: Cut by 50% the number of competed task orders receiving only one offer
  - Weight technical, cost, and past performance evaluation factors more evenly [each factor > 25% but < 50%]
  - Provide monthly report of known requirements & bid due dates to potential offerors

RDT Brief 03-16-12v20 69

Straightforward. Data from 14 SEP 10 AT&L Memo.



Remove Obstacles to Competition

Actions ongoing or planned by OSD/CAEs:

- 24 NOV 2010 & 27 APR 2011 DPAP memos
  - Can no longer use FAR 15.403-1(c)(1)(ii) "expectation of competition" if only 1 offer
  - Use FAR 15.403-3(b) & 15.404-1 to make fair & reasonable price determination
  - If needed, obtain certified or other than certified cost or pricing data from offeror
- DFARS proposed case 2011-D013 "Only One Offer"
  - Insert above promulgated DPAP policy into Defense regulations
  - Posted 25 JUL 2011 with public comment due 23 SEP 2011
  - OSD (DAR Council) to finalize DFARS rule in FY12
- Require open systems architectures and set rules for acquisition of technical data rights
  - Better Buying Power: Understanding and Leveraging Data Rights in DoD Acquisitions
- Open Systems Architecture (OSA)/Data Rights Business Case Analysis Guide & Templates
  - OSD finalizing
- DoD Open Systems Architecture Guidebook for Program Managers
  - OSD finalizing DoD Guidebook (draft approved Dec 2011 – available at: https://acc.dau.mil/CommunityBrowser.aspx?id=489360)

RDT Brief 03-16-12v20 70

Straightforward. Included reference language below for FAR 15.403-1(c)(1)(ii) and 15.403-3(b):

(language in FAR 15.404-1 is too voluminous to insert here, familiarize yourself with language by "googling" the reference)

FAR 15.403-1(c)(1) *Adequate price competition. A price is based on adequate price competition if* --

(ii) There was a reasonable expectation, based on market research or other assessment, that two or more responsible offerors, competing independently, would submit priced offers in response to the solicitation's expressed requirement, even though only one offer is received from a responsible offeror and if --

(A) Based on the offer received, the contracting officer can reasonably conclude that the offer was submitted with the expectation of competition, *e.g*., circumstances indicate that --

(1) The offeror believed that at least one other offeror was capable of submitting a meaningful offer; and

(2) The offeror had no reason to believe that other potential offerors did not intend to submit an offer; and

(B) The determination that the proposed price is based on adequate price competition, is reasonable, and is approved at a level above the contracting officer;

15.403-3(b) *Adequate price competition.* When adequate price competition exists (see 15.403-1(c)(1)), generally no additional data are necessary to determine the reasonableness of price. However, if there are unusual circumstances where it is concluded that additional data are necessary to determine the reasonableness of price, ***the contracting officer shall, to the maximum extent practicable, obtain the additional data from sources other than the offeror***. In addition, the contracting officer should request data to determine the cost realism of competing offers or to evaluate competing approaches. (bold, italicized, underlined emphasis added)

Regarding 30-day proposal response time:

- This applies only to those contracts using FAR Part 12 (Commercial Item contract) using combined synopsis-solicitation approach.
- All other contracts are already subject to a minimum 30-day proposal response time period.
- Does not apply to micro purchases (Govt. Credit Card buys)
- Applies to ALL orders, except those in support of emergency acquisitions for contingency operations, humanitarian assistance, disaster relief, peacekeeping operations, or recovery from nuclear, biological, chemical, or radiological attacks against the United States

The real focus of the 30-day rule is on ORDERS. For orders, FAR has allowed a "reasonable response time" that can be < 30 days but this discretion has been taken to the extreme resulting in lower effective competition statistics for orders than for stand-alone contracts. Thus, DoD is imposing an ***additional*** 30-day rule in the event only one offer received and original response time was < 30 days. A waiver can be granted by HCA with authority to delegate waiver no lower than one level above the contracting officer.

Regardless of whether original response time was $\geq$ 30 days, an additional 30 days was solicited, or a waiver was obtained, contracting officer no longer to use "expectation of competition" to justify the price.

Increase Dynamic Small Business Role in Defense Marketplace Competition

What OSD found:

- **Small businesses have repeatedly demonstrated their contribution to leading the nation in innovation and driving the economy by their example of hiring over 65 percent of all new jobs and holding more patents than all the nation's universities and large corporations combined**
- **Our defense industry must leverage that innovation and opportunity into our competitions, as small business representation on programs has demonstrated lower costs to the government**

RDT Brief 03-16-12v20

72

Straightforward.

Increase Dynamic Small Business Role in Defense Marketplace Competition

The result:

14 Sep 2010 USD(AT&L) memo

" I direct the CAEs to institute in all competitive and non-competitive procurement actions emphasis on small business utilization through weighting factors in past performance and in fee construct."

RDT Brief 03-16-12v20

73

Straightforward. No more specific info has been promulgated re: weighting factors in past performance and in fee construct efforts are on hold.

Note: 'DoD only' data website required CAC to access. Go to the 'DoD only' website and you will find a link after the statement "A PowerPoint presentation has been developed to provide an introductory tutorial for using MaxPrac."

Small Business Maximum Practicable (MaxPrac) Opportunity Analysis Model

MaxPrac is an analytic methodology which uses Federal Procurement Data System (FPDS) acquisition data to identify potential opportunities for increased small business participation in ***unclassified*** contract awards.

There are two separate versions of MaxPrac: One is based on 'DoD only' data and the other is based on the federal civilian agencies as a collective whole.

The result sets produced by MaxPrac are listings of organization/NAICS combinations which significantly underperformed in small business (SB) participation in the prior fiscal year compared to either DoD or to the federal civilian agencies as a collective whole in the same NAICS.

The results produced by MaxPrac make a statistically compelling argument for increased SB participation. However, there are valid reasons why increased SB performance within some organization/NAICS combinations, as identified by MaxPrac, may not be realized. MaxPrac is simply a way to identify NAICS within an organization in which SB performance is subpar in comparison to a higher level in the organization's hierarchical chain in the same NAICS. Additional investigation and market research will be required for each organization/NAICS combination identified by MaxPrac to determine whether or not increased SB participation is possible.

Please contact this office if you have any questions regarding the model.

Increase Dynamic Small Business Role in Defense Marketplace Competition

Actions ongoing or planned by OSD/CAEs:

- **27 JUN 2011 Joint memo by DPAP & OSD Director of Small Business Programs**
  - **Emphasis on acquisition planning with small business specialists & review of subcontracting plans**
- **14 JUL 2011 DPAP memorandum**
  - **Emphasis on use of small business Govt.-Wide Acquisition Contracts (GWACs)**
- **03 Nov 2010 AT&L memorandum**
  - **Increase Small Business participation in Competitive/non-competitive procurements***

RDT Brief 03-16-12v20 75

27 JUN 2011 memo emphasizes existing FAR language regarding acquisition planning and review of subcontracting plans.

14 JUL 2011 memo emphasizes use of particular GWACs that were set-aside for small businesses.

GWACs: "Governmentwide acquisition contract (GWAC)" means a task-order or delivery-order contract for information technology established by one agency for Governmentwide use that is operated—

(1) By an executive agent designated by the Office of Management and Budget pursuant to 40 U.S.C. 11302(e);or

(2) Under a delegation of procurement authority issued by the general Services Administration (GSA) prior to August 7, 1996, under authority granted GSA by former section 40 U.S.C. 759, repealed by Pub. L. 104-106. The Economy Act does not apply to orders under a Governmentwide acquisition contract. FAR 2.101

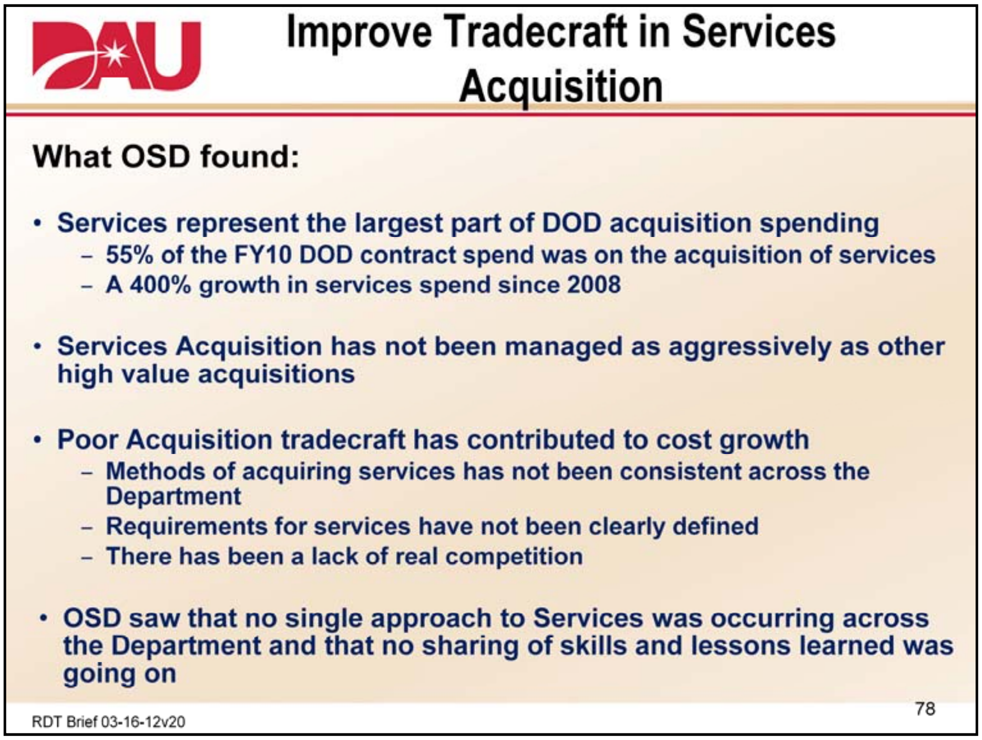
Websites contained in the 14 JUL 2011 memo--

- GSA Alliant Small Business - http://www.gsa.gov/portal/content/104964
- GSA 8(a) Streamlined Technology Acquisition Resources for Services (STARS) http://www.gsa.gov/portal/content/104853 (expires Nov 2011)
- GSA 8(a) Streamlined Technology Acquisition Resources for Services II (STARS II) - http://www.gsa.gov/portal/content/105243 (expected to be awarded this summer)
- GSA Veterans Technology Services (VETS) - http://www.gsa.gov/portal/content/104996
- HHS Chief information Officer-Solutions and Partners 3 Innovations (CIO SP3) Small Business (expected to be awarded this year) - www.nitaac.nih.gov

Good Afternoon, I am David Kennedy from DAU South. I have been blessed to work with a very talented team of acquisition professionals from across DAU on the BBPi thrust area titled "Improve Tradecraft in Services Acquisition". For the next hour or so, we will discuss why this is an area of concern for OSD, what memos were published, what OSD and the services have done to date and what tools DAU has to help.

Improve Tradecraft in Services Acquisition

- ❑Assign Senior Manager for Acquisition of Services
- ❑Adopt Uniform Services Market Segmentation (Taxonomy)
- ❑Address Causes of Poor Tradecraft
  - ❑Define Requirements and Prevent Creep
  - ❑Conduct Market Research
- ❑Increase Small Business Participation



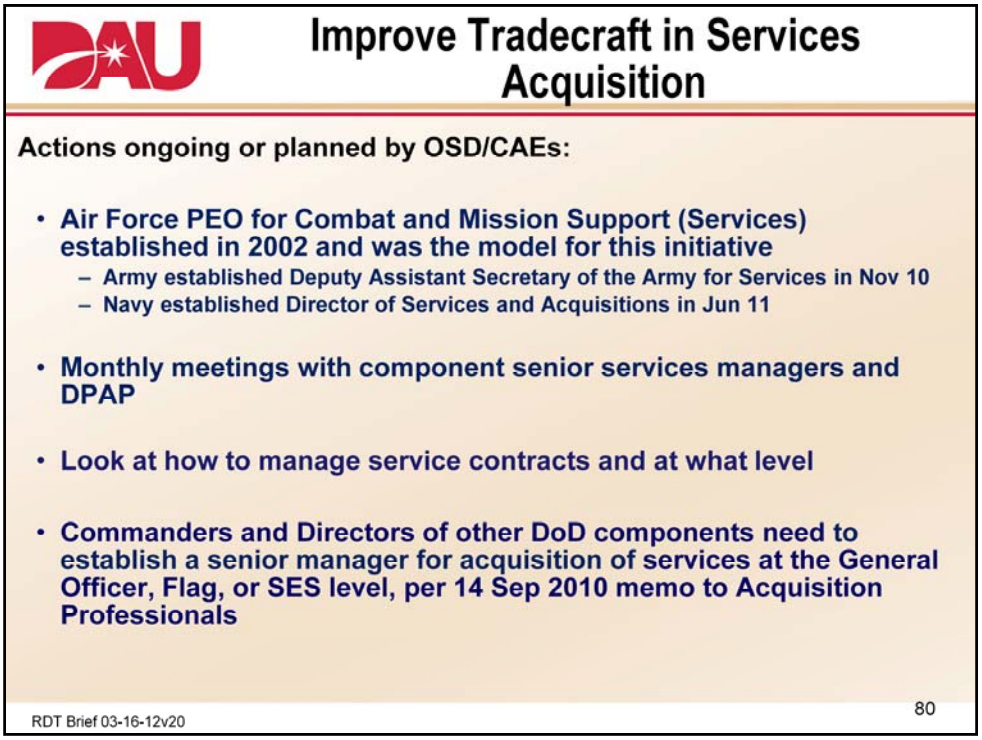
Over the past several years, spending on services contracts has increased significantly. The dollars contracted for services has outpaced the dollars contracted for major weapons programs for the last six consecutive years. (need to verify how many consecutive years)

While major weapons systems programs have senior level management involvement and oversight, services generally do not.

Additionally, acquisition methods for acquiring services have been inconsistent across DoD, many requirements have been poorly defined, and there has too often been a lack of true competition in the acquisition process. All of these issues contribute to government needs not being fulfilled in the most effective and efficient manner.

Finally, without the documentation and sharing of lessons learned, we are bound to repeat past failures and fail to capitalize on successes and best practices.

With the percentage of acquisition dollars being spent on services, this is an area we must focus more on and become better at as a community. As you will see during this briefing, there are many tools available to help you and more on the way.



Senior level involvement is necessary for real improvement to occur.

Air Force Acting PEO – Randall Culpepper

Deputy Assistant Secretary of the Army for Services – Mr. Jim Sutton

Navy Director of Services and Acquisitions – Mr Bruce Sharp

The 4th estate needs to establish senior managers for acquisition of services too.

As we get more established leadership and policies in place, DoD’s tradecraft in services should improve significantly.

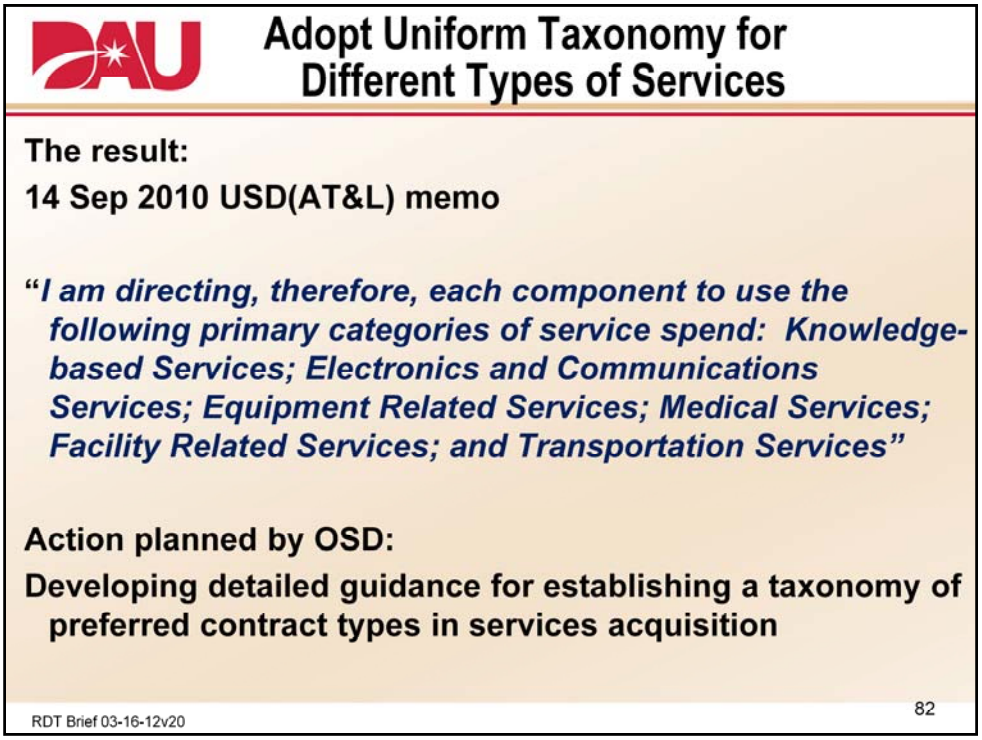
Adopt Uniform Taxonomy for Different Types of Services

What OSD found:

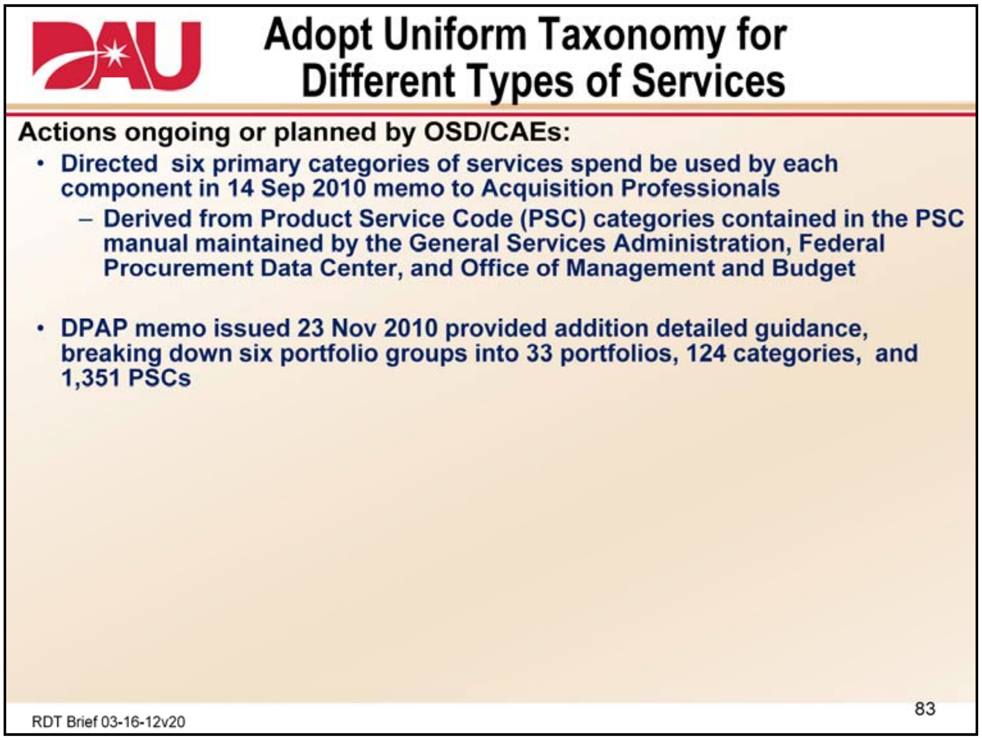
- **OSD found thousands of Product Service Codes (PSC), had no common approach to using them, and no consistent visibility into the spend on services because of the lack of a common "PSC taxonomy" designation in the Department**

RDT Brief 03-16-12v20 81

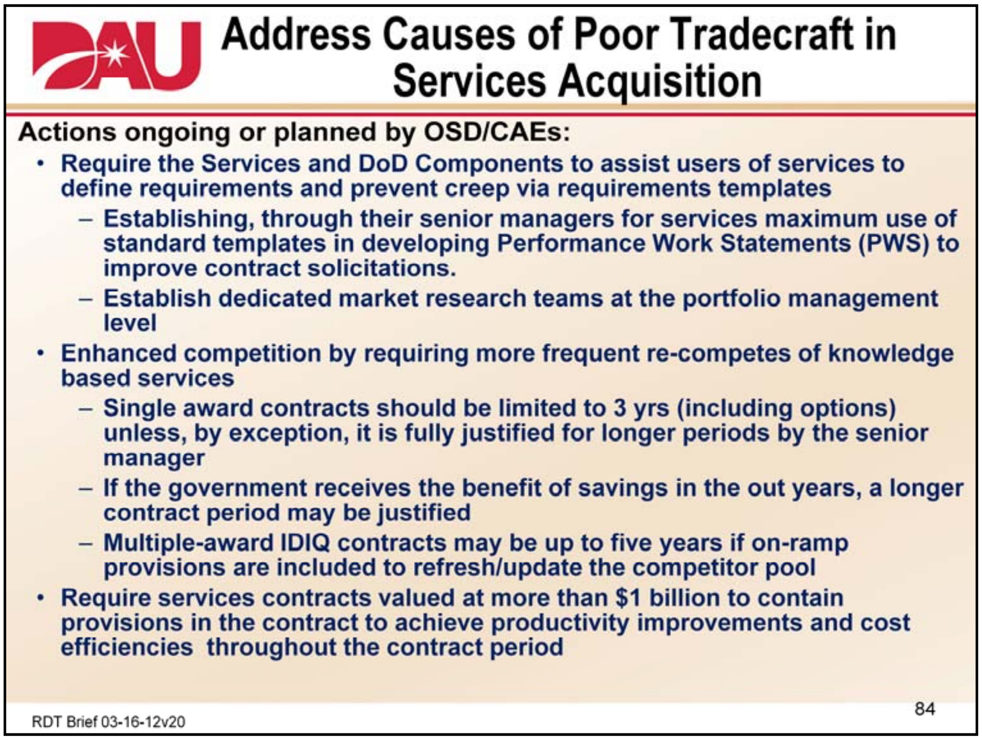
The Army recently hired portfolio managers. The AF and Navy are in the process of doing the same.



The services and DoD components were all over the map categorizing the types of services being acquired. This made it impossible to gather data regarding specific categories of services spending.



Detailed guidance on the uniform taxonomy was provided in the 23 Nov memo.

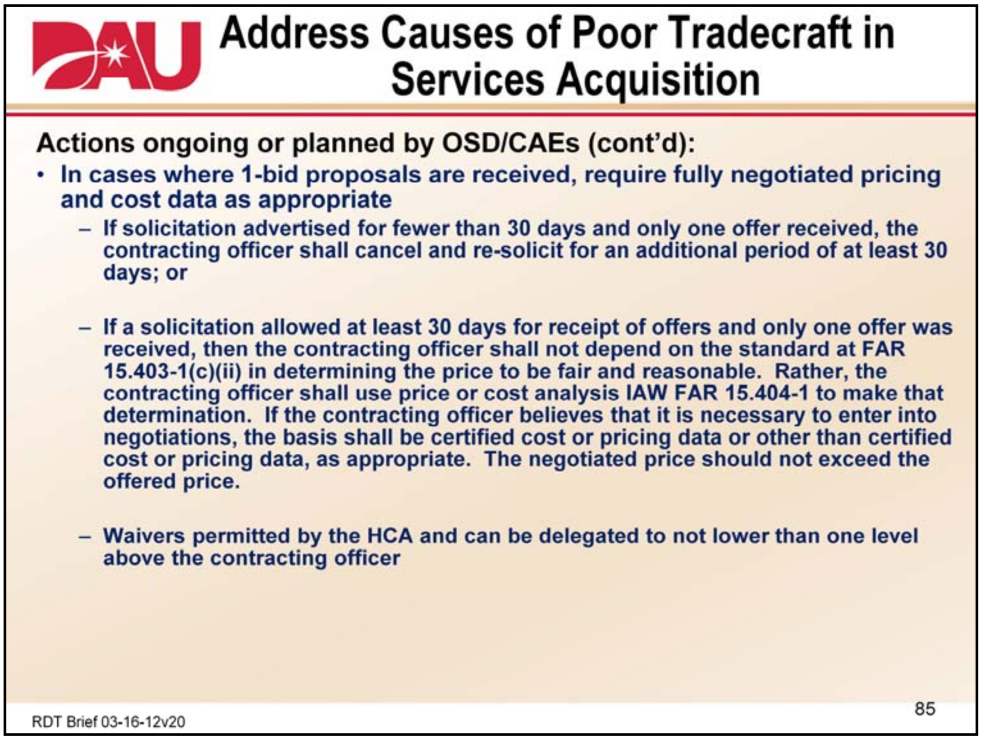


Good examples of templates are the Navy's SEAPORT acquisitions and DLA's Headquarters support services.

We need to do a much better job at market research. Issuing a sources sought synopsis does not cut it. Need to talk to industry and see how they are doing services, commercially and non-comercially. This involves the entire acquisition team.

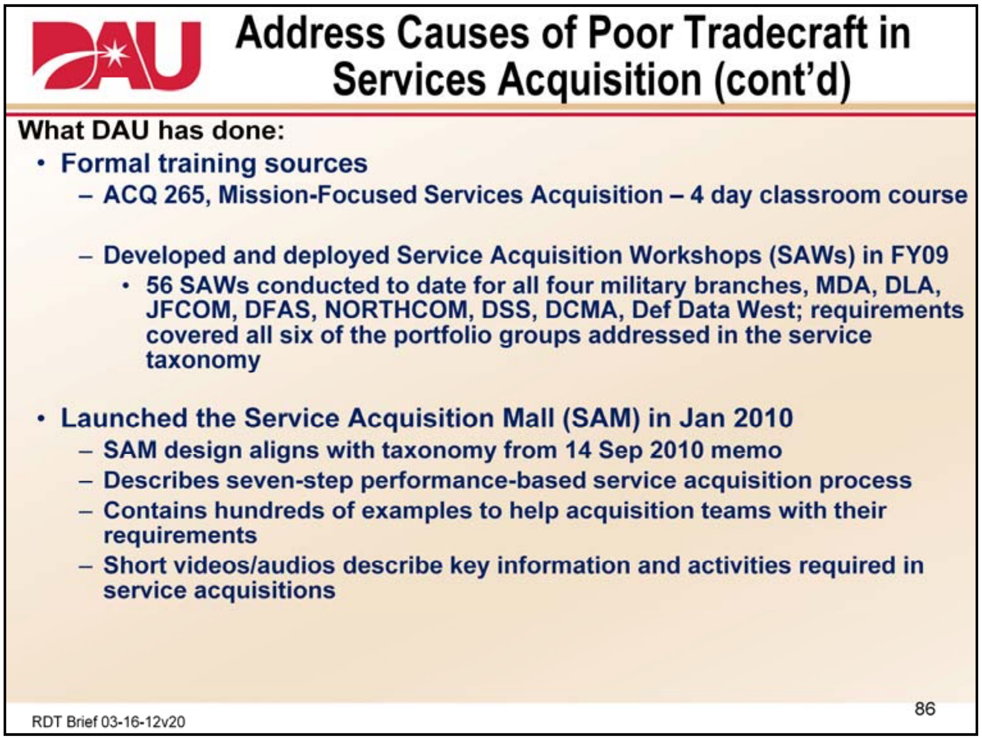
We need to really try to get more competition for our requirements. More frequent recompetes is one way, but writing better requirements and doing better market research is another way.

It is important that DoD incentivize, achieve, and share in cost improvements over the period of performance for support services acquisitions, including knowledge management services. We should incentivize and expect similar cost improvement on high-value services contracts.



Apr 27 2011 amplifying guidance specifies 30 day solicitation requirement applies to all competitive procurements of supplies and services above the SAT, including commercial and construction. Further, it covers procurements accomplished under the procedures in FAR and DFARS parts/subparts 8.4, 12, 13.5, 14, 14 and 16.5.

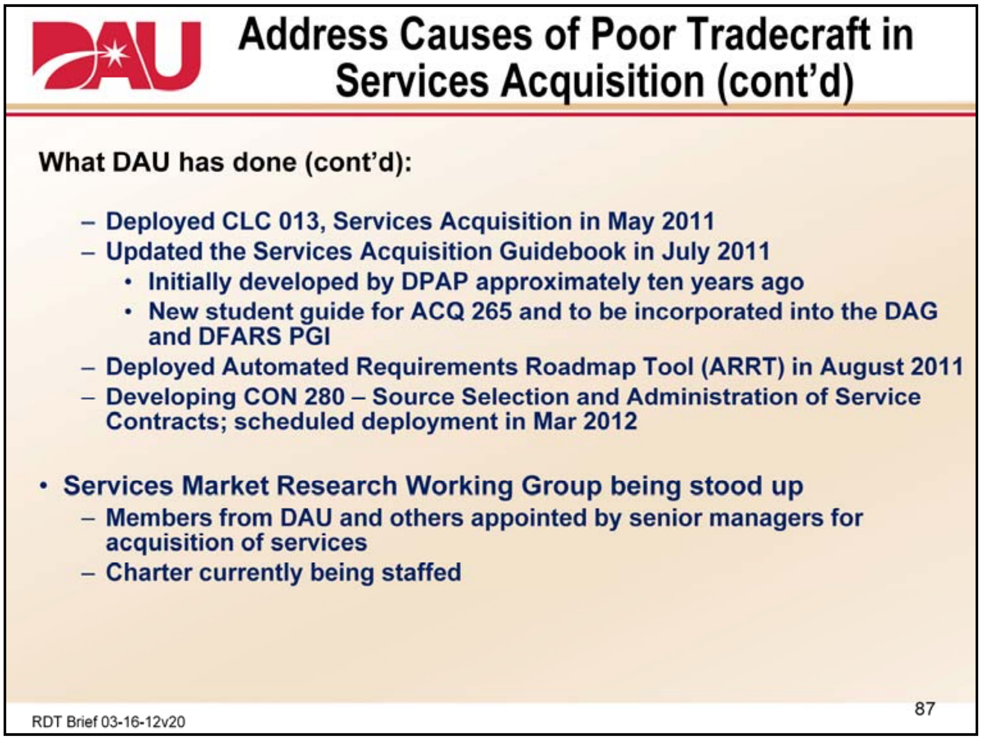
Exceptions to this policy are procurements in support of emergency acquisitions for contingency operations, humanitarian assistance, disaster relief, peacekeeping operations, or recovery from nuclear, biological, chemical, or radiological attacks against the United States. However, the use of these exceptions does not mitigate the need for competition nor the requirement for a determination that the price is fair and reasonable.



ACQ 265 is geared for all acquisition functional areas and is based on the seven-step performance-based acquisition process taught in all DAU services classes and workshops.

SAWs are for acquisitions getting ready to go through the RFP process. They are targeted for the entire acquisition team and are provided free of charge as of this time, while funding lasts.

The SAM is a great reference site and is constantly being updated with more samples and examples.



The ARRT is a great tool to help develop your requirement (PWS), quality assurance surveillance plan (QASP), and more. We demonstrate how to use it in both ACQ 265 and SAW workshops.

Small businesses are the backbone of America and we need to capitalize on their involvement as much as possible in the service arena.

Increase Small Business Participation in Providing Services

The result:

14 Sep 2010 USD(AT&L) memo

"***I am directing the OSD Office Of Small Business to review acquisition plans for service acquisitions exceeding $1 billion and to be a member of the OSD peer reviews of services acquisitions.*** "

What Happens When Small Business is Addressed

- MAXPRAC: The single largest barrier in identifying opportunities for small businesses is having the ability to perform market research. The Maximum Practicable Opportunity (MAXPRAC) tool allows DoD to conduct market research.
- Our small business directors are working close with their head of contracts and senior acquisition executives to perform deeper analysis of opportunities in areas where MAXPRAC has identified areas for us to look deeper.
  - Specifically, the Department of Navy is using MAXPRAC to gain insight in several areas where they were under performing. MAXPRAC has allowed them the opportunity to identify areas not seen in prior years resulting with a potential of increasing small business opportunities up to 2%.
  - The Department of Army has also identified areas in micro-purchases (contract actions of less than $3,000) that traditionally has high small business participation and noticed an opportunity to make it higher. This particular area identified by the Department of Army was shared with the Department of Navy and is now a place where both services are looking to increase small business participation for small businesses.
- For the first time, MAXPRAC has allowed DoD to perform analytical market research on federal procurement data and leverage the data to identify tangible and meaningful opportunities.

RDT Brief 03-16-12v20 90

Not sure about this slide – TV and I discussed

Increase Small Business Participation in Providing Services

Actions ongoing or planned by OSD/CAEs:

- **Required OSD Office of Small Business Programs to review acquisition plans for services acquisitions exceeding $1B and to be members of the OSD peer reviews of services acquisitions**
- **Encouraging the use of Multiple Award/IDIQ contracts among small businesses, where suitable**
- **Issued 14 Jul 2011 memo listing Government-wide acquisition contracts for information technology-related products and services set aside exclusively for small businesses**

RDT Brief 03-16-12v20

91

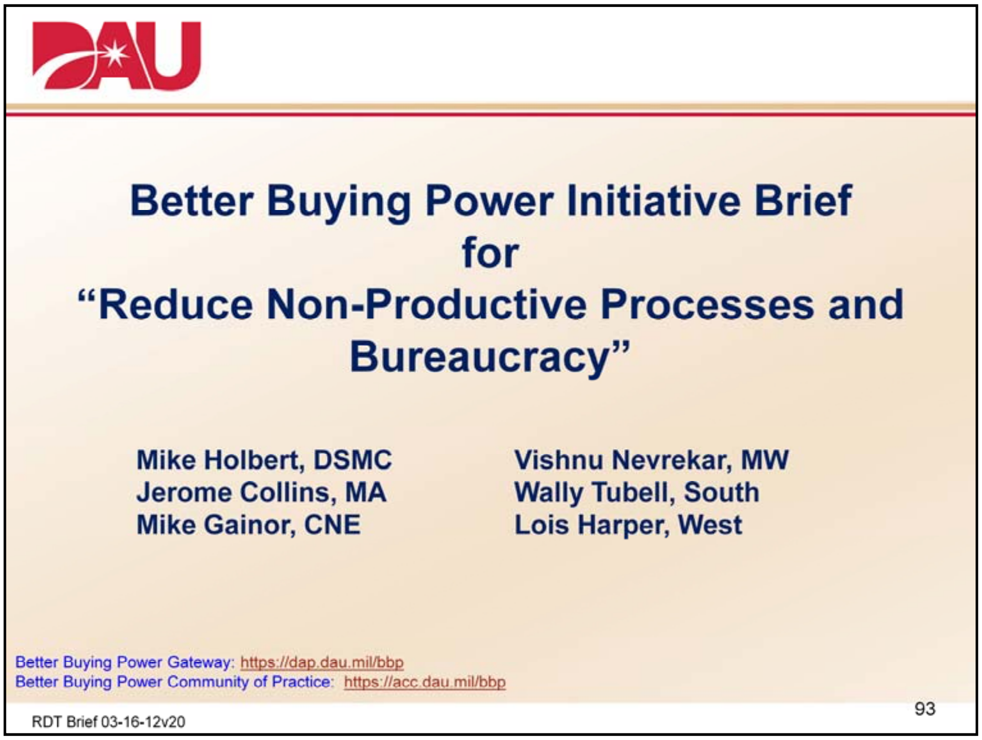
Increase Small Business Participation in Providing Services

Tools:

- **Developed Maximum Practicable Process website**;

https://extranet.acq.osd.mil/osbp/

  - Establishes an approach to aid Small Business Specialists in identifying contract award target zones where awards have been awarded to Other Than Small Business in the past but might have the potential to be awarded to Small Business



Good Afternoon, I am ______________ from DAU. I have been afforded the opportunity to work with a very talented team of acquisition professionals from across DAU on the BBPi thrust area "Reduce Non-Productive Processes and Bureaucracy."

Take-a-ways:

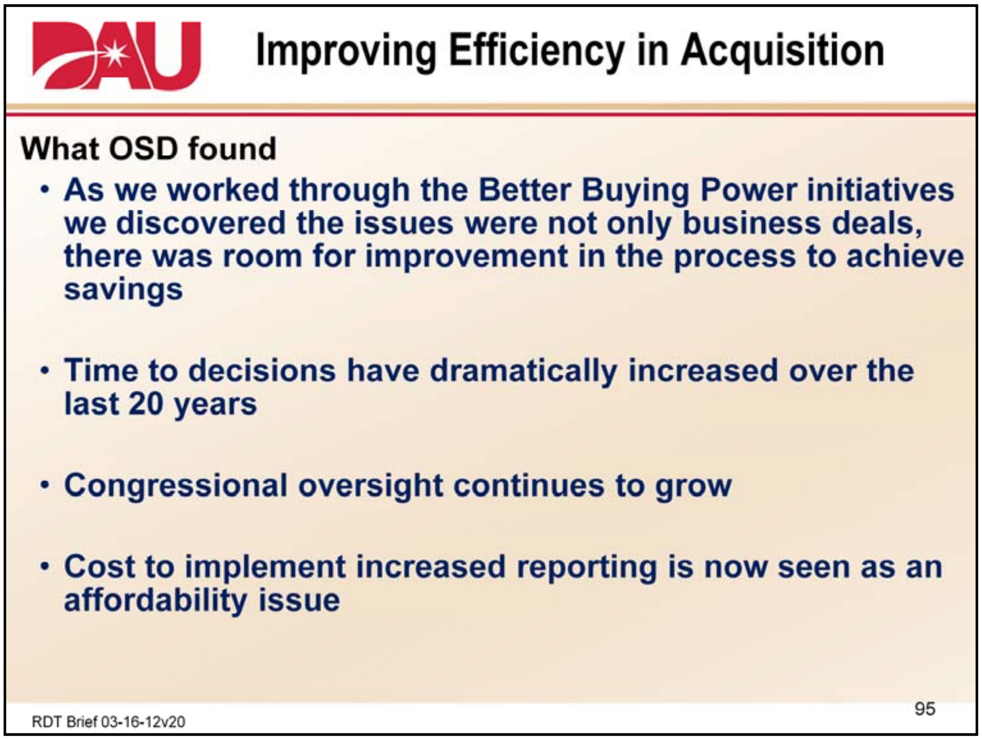
- While this thrust area is very easy to say, it is likely the most difficult to affect—
- it is a culture shift and
- frankly of the five initiatives we will discuss only one and maybe two can the program office or perhaps the PEO directly affect.
- The others you are simply subject to information demands.
- (the two are Reduce non-value added requirements imposed on industry and increase use of Forward pricing Rate Recommendations (FPRRs) to reduce administrative costs)

References of note: none

Example: none

Reduce Non-Productive Processes and Bureaucracy

- ❑Reduce Frequency of OSD level Reviews
- ❑Work with Congress to Eliminate Low Value Added Statutory Requirements
- ❑Reduce the Volume and Cost of Congressional Reports
- ❑Reduce Non-value Added Requirements Imposed on Industry
- ❑Align DCMA and DCAA Processes to Ensure Work is Complementary
- ❑Increase use of Forward Pricing Rate Recommendations (FPRRs) to Reduce Administrative Costs

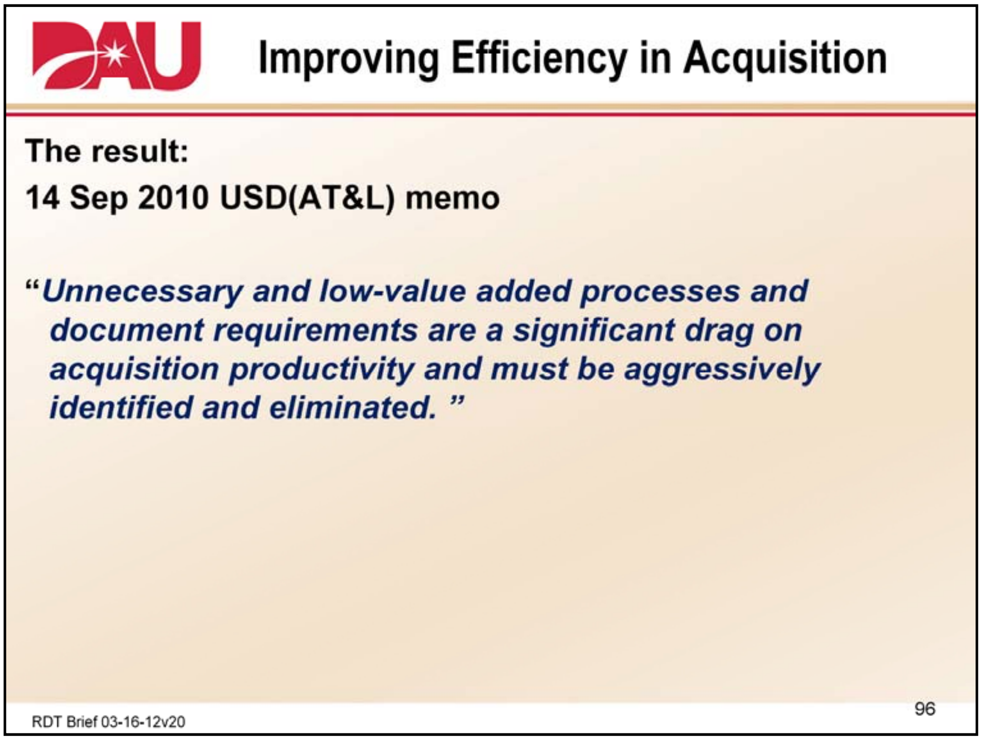


Take-a-ways:

- Understand how we (from the program office to OSD) collectively must align all resources to:
- Critically address significant investment decisions
- Critically plan for and execute affordable programs
- As necessary, address execution issues early

References of note: none

Examples: none



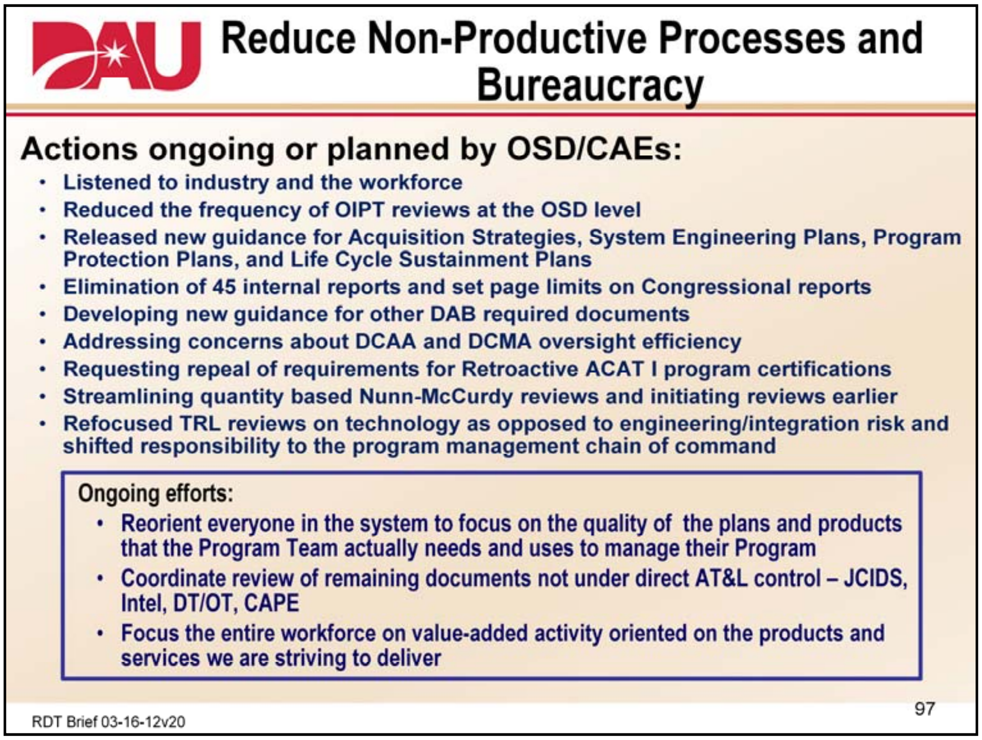
Take-a-ways: The 14 Sept 2010 memo to Acquisition Professionals provides the rationale for the thrust area and the basic guidance via the five initiatives.

References of note:

Quote from 14 Sept Memo:

> "Unnecessary and low value added processes and document requirements are a significant drag on acquisition productivity and must be aggressively identified and eliminated. We can not achieve Should Cost goals solely by providing incentives to industry to reduce overhead and increase productivity; the government must also eliminate unnecessary and often counterproductive overhead."

Examples: none



Take-a-ways:

- Focus the entire workforce on value-added activity oriented on the products and services we are striving to deliver
- As a quick snap shot this chart provides you with a view into the progress made to seriously reduce non-productive processes and bureaucracy. Yet, at the same time help programs consider how to put together and execute an affordable program and still allow an appropriate amount of oversight.

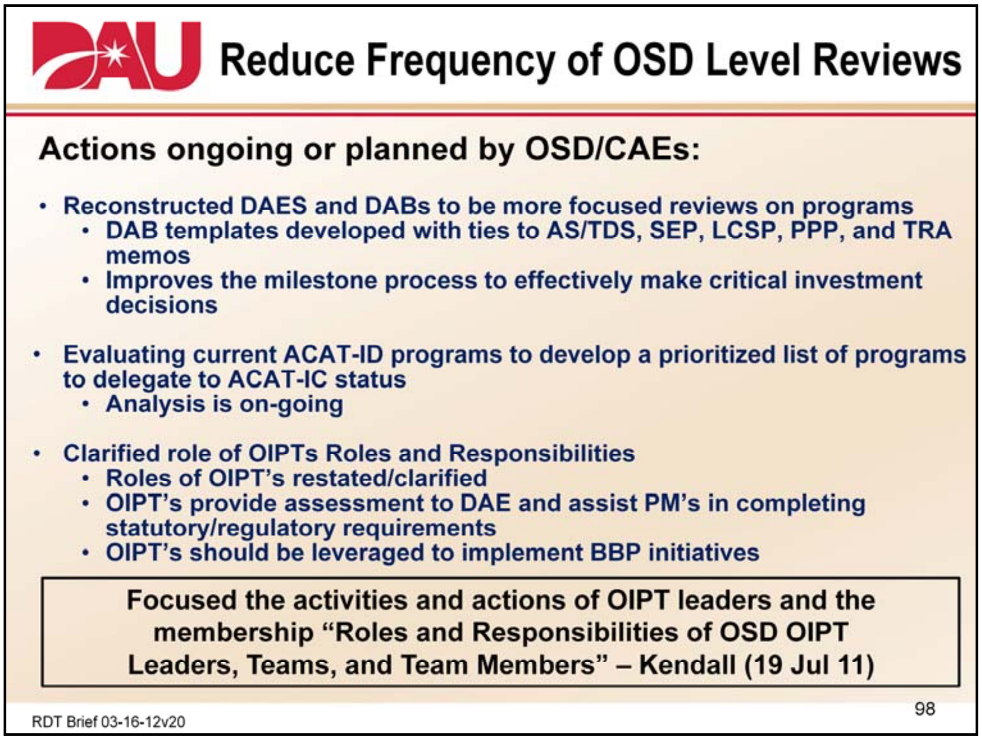
References of note:

- Developed templates for Acquisition Strategy and System Engineering Plan "Document Streamlining - Program Strategies and Systems Engineering Plan – Kendall (20 Apr 2011)"
- Developed template for Life Cycle Sustainment Plan "Document Streamlining – Life-Cycle Sustainment Plan (LCSP)" – Kendall (14 Sep 2011)
- Developed template for Program Protection Plan "Document Streamlining - Program Protection Plan (PPP)" – Kendall (18 Jul 2011)
- Issued guidance to improve Milestone Effectiveness by allowing MDA to review program plans prior to RFP release "Improving Milestone Process Effectiveness" –Kendall (23 Jun 2011)
- Eliminated PM responsibility for Post-CDR report "Expected Business Practice: Post-Critical Design Review reports and Assessments – Kendall (24 Feb 2011)
- Issued new streamlined Technology Readiness Assessment Guidance to refocus the TRL certification process to be consistent with its original intent of assessing technology maturity and risk "Improving Technology Readiness Assessment Effectiveness' – Carter (11 May 2011)
- Focused the activities and actions of OIPT leaders and the membership "Roles and Responsibilities of OSD OIPT Leaders, Teams, and Team Members" – Kendall (19 Jul 11)
- Improved DCMA and DCAA alignment and reduced overlap "DCMA and DCAA Process Alignment" – Assad (4 Jan 11)

Examples: none

Gap: Is OSD keeping any metrics on reducing OIPT reviews?

We will discuss these in more detail on later slides



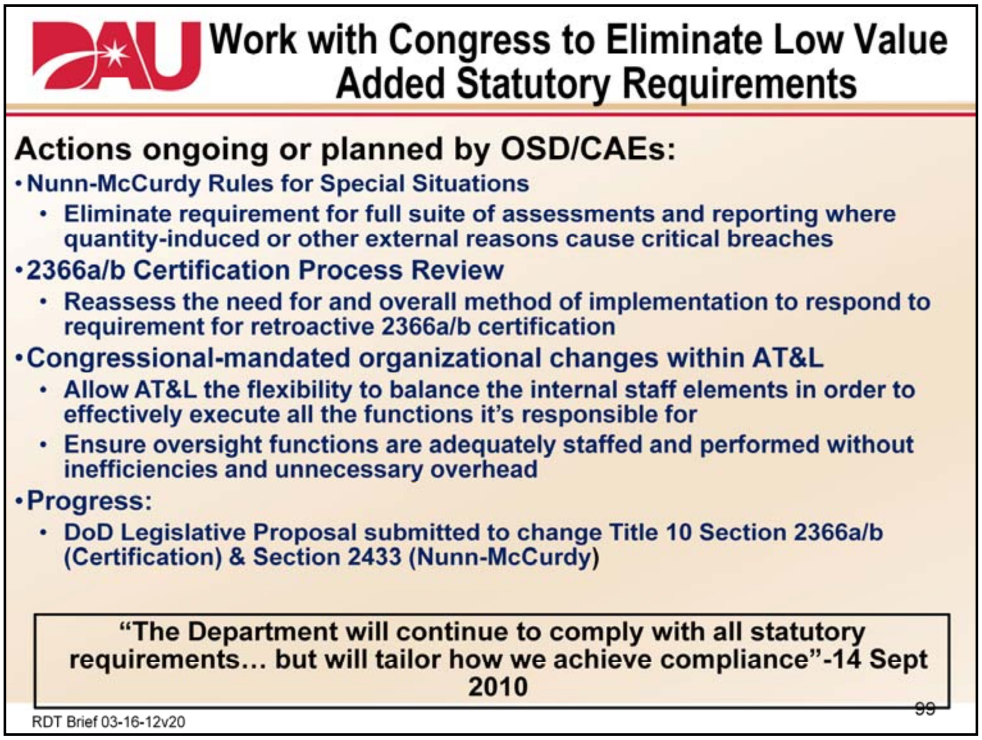
Take-a-ways: The initiative goes on to say is "…to those necessary to support major investment decisions or to uncover and respond to significant execution issues."

References of note:

- Sept 2009 to Aug 2010 --240 major reviews conducted, required 100,000 hours of AT&L staff work
- 14 Sept 2010 memo--"This practice has tended to relieve SAEs, PEOS and PMs form responsibility and accountability for programs they are executing."
- 19 Jul 2011 memo--"Roles and Responsibilities of OSD OIPT Leaders, Teams, and Team Members"

Examples:

- DAES Pre-decisional FOUO format found at http://www.acq.osd.mil/damir/documents/DAES_CHART_NOTIONAL_TEMPLATE.pdf
- Developed DAB MS A and B templates to address the intent/content (information) that Mr. Kendall and Dr. Carter desire to see.
    - The templates: concisely address critical thinking required areas, show the logic and strategies of their program planning/execution and any real issues the MDA can influence.
- PMs and PEOs are required to brief what BBPi implementation they are doing as they brief at the DAEs and DABs.
- If you look at the new AS/TDS, SEP, LCSP, PPP, and TRA Guidance (and the Memos published to date) you see the ties to the DAB templates.
- OIPT Role clarification/restated:
    - OSD OIPT's are to assist the DAE in making sound investment decisions and to ensure programs are structured and resourced to succeed. (Success: defined as affordable, executable programs that achieve most value.) Documentation should support the program office, not generated with the OIPT review in mind.
    - OIPT's are not decision bodies, but bring independent assessment as well as a different perspective to support DAE decisions. Concerned with programmatic, technical, and business aspects of the program--provide the broader context including joint portfolios, trade-offs, risk, affordability, competition, industrial base, etc.
    - OIPT's assist with helping programs complete statutory and regulatory requirements. The OIPT structure should be leveraged to support the BBP initiatives. They assist the PM by helping complete framework requirements.
    - The PM runs the program and if there are differences of opinion, they should be resolved quickly in the context of their roles at lower levels. If not, these need to be brought forward quickly and should not surprise the DAB.
- The OIPT products are required NLT 15 days prior to the DAB and not less than 10 days after the OIPT meeting.



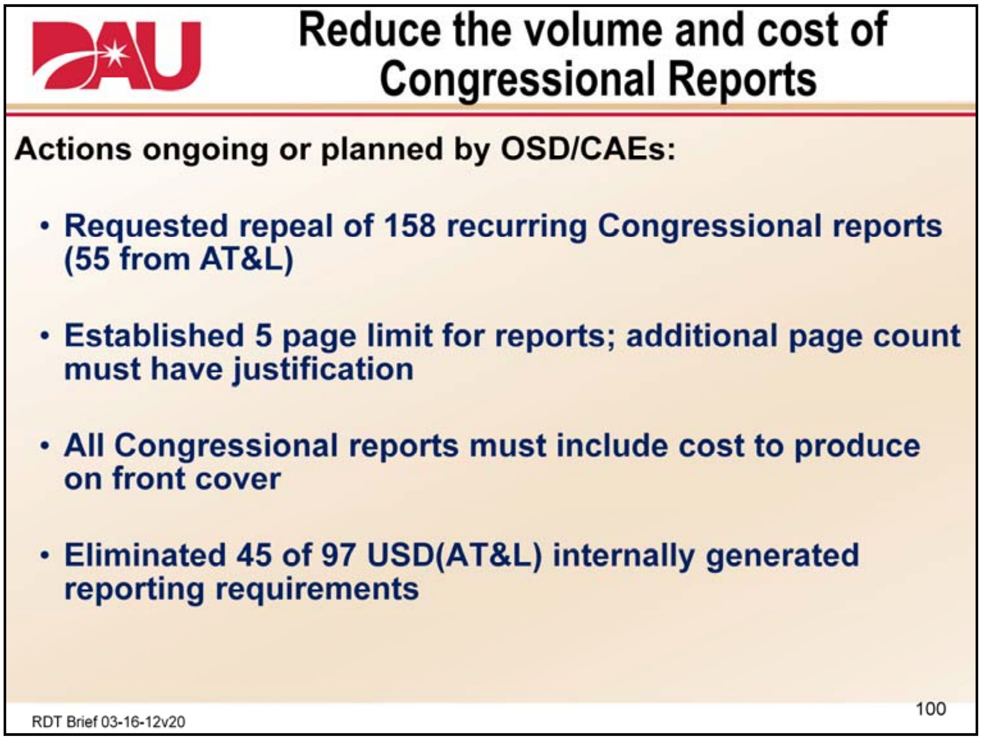
Take-a-ways: Congress has a vested interest in understanding DoD acquisition program status. However, status quo processes force us to expend resources on activities which do not aid in delivering capabilities or services to our warfighters**.**

References of note:

- First and foremost: 14 September 2010 memo specifically states "The Department will continue to comply with all statutory requirements" but will "tailor how we achieve compliance"
- Title 10, of US Code (USC) governs the defense acquisition structure – National Defense Authorization Acts may add or modify Title 10. Statutory requirements also exist in Title 15, Title 31, Title 40, Title 42, Title 47, Public Law 101-576, 102-538, 106-398, 107-314, 109-163
- Number of statutory requirements per the 5000.02 (these numbers may change from year to year but it gives you an idea of the complexity of the requirements):
  - MDAPs – 27
  - MAISs – 22
  - ACAT II – 20
  - ACAT III and below – 17
- Addition information on 2366a/b requirements can be found at: http://www.law.cornell.edu/uscode/usc_sec_10_00002366---a000-.html
- Additional information on 2433 requirements can be found at: http://www.law.cornell.edu/uscode/search/display.html?terms=2433&url=/uscode/html/uscode10/usc_sec_10_00002433----000-.html

Examples: As an example of overhead costs, OSD calculated for the six program evaluations conducted over the last year: they cost the Department approximately $10M and 95,000 hours of overhead labor. Two of the six were for technical breaches (quantity or acquisition strategy changes), not the result of cost growth per se.

Gap: What are the list of the six programs and the two?



Take-a-ways: Congress, OSD, and the Services require information to execute their respective responsibilities; the key is to provide appropriate information efficiently

References of note:

- 14 Sept 2010 memo to Acquisition Professionals
- The following link provides a list of DoD reports, however it is not sorted by year or OSD agency so not very user friendly: http://www.dtic.mil/whs/directives/corres/html/reportcancellation.html

Examples:

In the past 10 years

- Congressional reports have increased from 514 to 719 (cost is approximately $350M annually)
- OSD reports have increased from 102 to 156

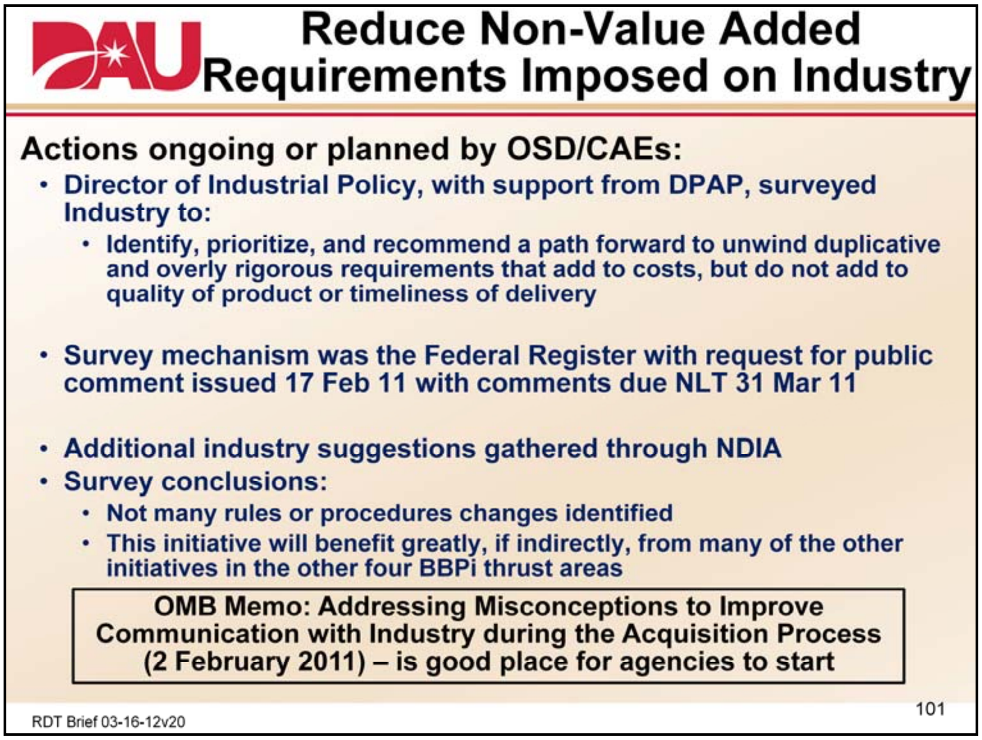
AT&L has:

- Eliminated 45 internal reports and set page limits on Congressional reports
- Requesting repeal of requirements for Retroactive ACAT I program certifications
    - WSARA 2009 required programs post MS A but not yet through MS B to be re-reviewed for 2366a certification—this is seen as non-value added
- Setting the example in reporting reductions that components could follow.

Gaps:

- Need current status from OSD staffs/principals on what's been accomplished (variance between 3. and 4. data above?) **to keep this chart current**
- Accuracy/consistency of data: who is the source/gatekeeper of the most valid and current data set?

Some relief for the PM and this effort should allow OSD staff to focus more on pertinent matters. ??????



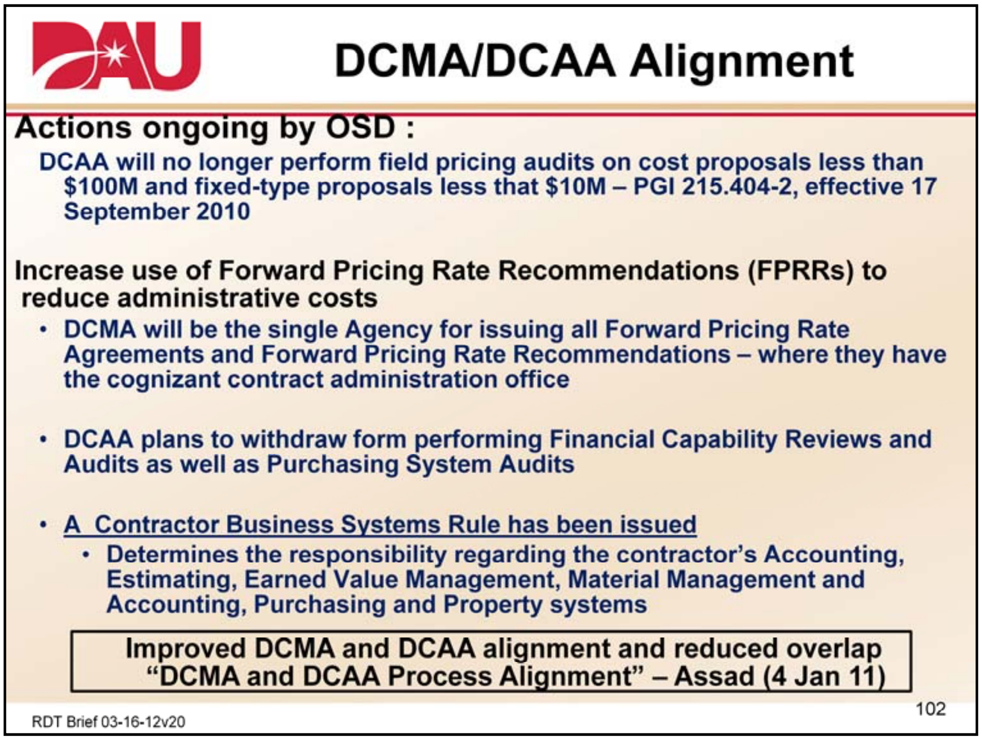
Take-a-ways: The acquisition strategy and contractor interaction should be focusing on efficiency to reduce contract costs not focused solely on overhead costs.

References of note:

- Survey conclusions provided by Dr. Eugene Gholz, Senior Advisor to the DASD(Manufacturing & Industrial Base Policy.
- "Myth-Busting": Addressing Misconceptions to Improve Communication with Industry during the Acquisition Process OMB 2 February 2011 Memo
- Enhanced/improved communications between the acquiring office and industry can reduce industry rework and false starts especially when it comes to proposals and bid/proposal costs.
- 23 June 2011 memo on the Pre-EMD review which I think is also crucial for reducing burden on industry.
- The added OSD review pre-MS B will have the positive impact on industry of reducing the likelihood of a false start on a flawed RFP (a la Army GCV). Beware though, this could delay RFP release which could have the opposite effect IF the PMs and KOs have spun industry up with excessively optimistic/aggressive draft RFPs, pre-solicitation communications, etc…

Examples:

- DO NOT: spin industry up then delay the RFP release, release the RFP then delay the contract award, impose requirements that will drive a "no-bid" decision and reduce your competition.
- Challenge every contract deliverable. Are all CDRL items absolutely needed? For example, does the PM or Acquiring office need to review and approve every plan the contractor writes?
- Use past performance correctly. For example, Eliminate Past Performance citations - use the database.
- Ask for cost and pricing data only as truly needed. Example - for cost type contracts, detailed cost proposals make sense. However, a simple price proposal for service contracts should be sufficient for FFP contracts. When reputable firms submit offers for FFP service contracts, a price proposal should be sufficient.
- Improve section L of the RFP.
- Example - Section L instructions for service contracts often require a paragraph by paragraph response to the specification describing the offeror's understanding and approach to satisfying the requirements.
- During the discussions phase of the procurement, the paragraph by paragraph response is the subject of many of the evaluation notices, sometimes exceeded only by questions about staffing. Arguably about 75% of proposal costs are incurred, and eventually passed on to the Government, in preparing this response and defending it during the discussion phase.
- Note: the contractor is obligated to perform the task defined in the specification by his authorized agent's signature on the Standard Form 33.



Take-a-ways: There were redundancies, confusion and inaccurate processes between DCMA and DCAA

References of note:

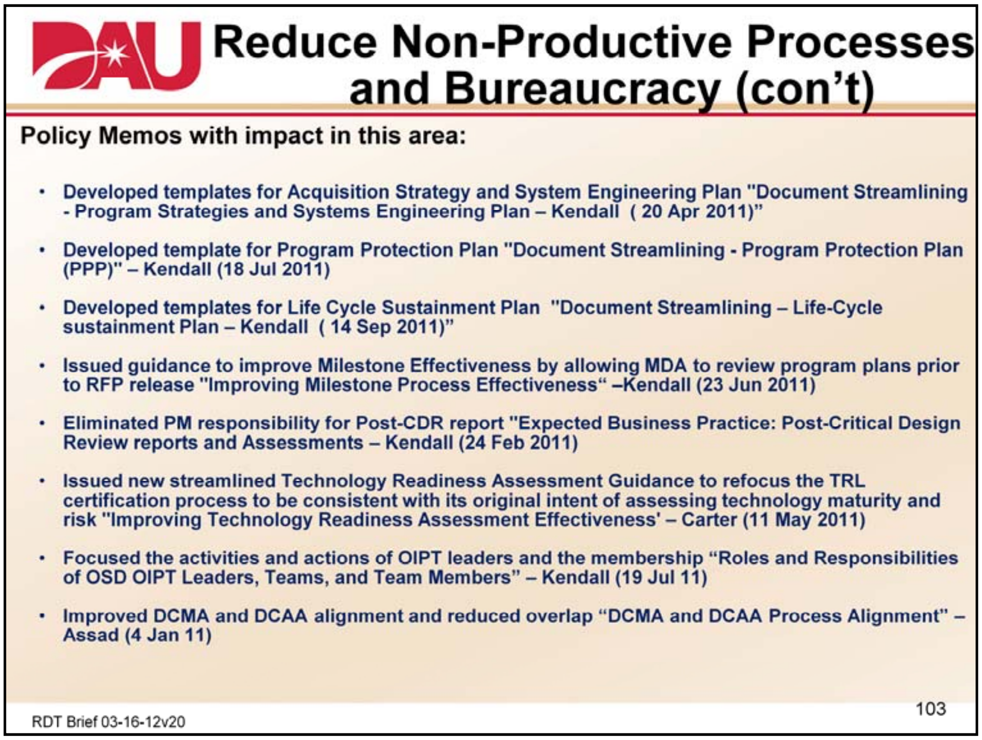
- 14 Sep 2010 USD(AT&L) memo
    - *"… DCMA and DCAA have progressively reduced staff and capability. As a result, critical functions they perform have become blurred and require clarification …. "*
- 4 Jan 11 DPAP memo "DCMA and DCAA Process Alignment"

Examples:

- DCMA hiring additional cost/price analysts (over 200 to date) to handle anticipated increased workload
- FPRR/FPRA work by DCMA allows DCAA to move audit resource to higher risk work
    - If DCAA has completed and audit of the contractor rates, DCMA shall adopt the DCAA recommendation as DoD's FPRR position
    - DCMA and DCAA have drafted a Forward Pricing Rate policy on the changes

DCMA will continue both IAW FAR part 9.106 and DFARS PGI part 209.106 as well as FAR part 44.3 and DFARS part 244.3 respectively

Gap: Need to include description of what FPRR and FPRA really are in layman's terms?



Take-a-ways:

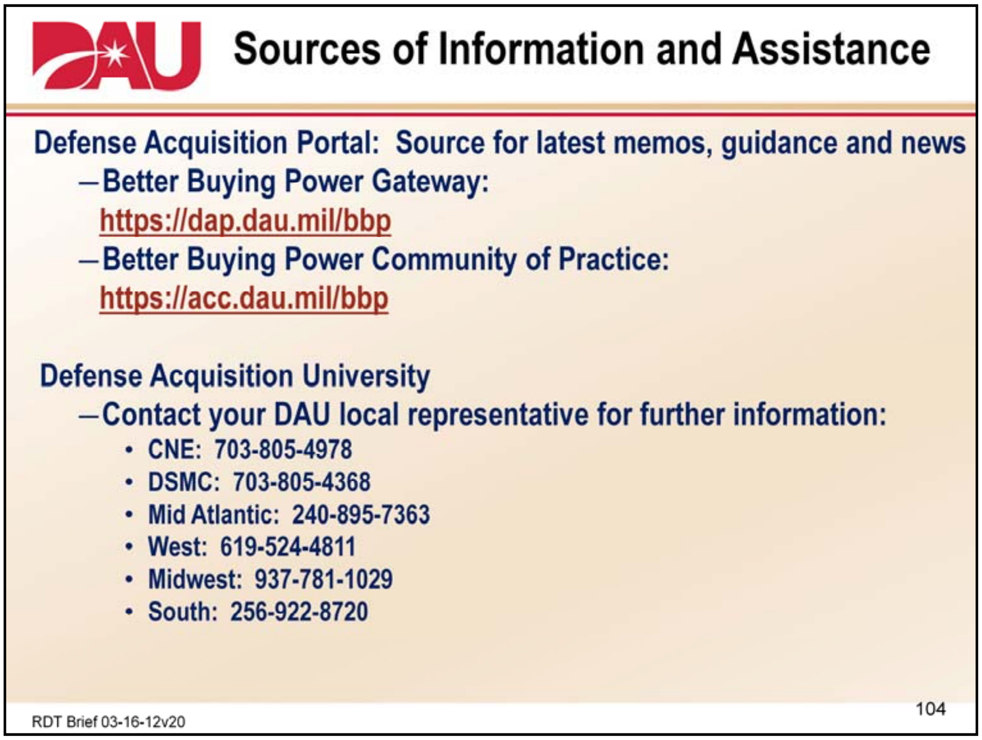
- The reality is to date there have been 28 policy type memos released addressing "Improving Efficiency in Acquisition. The five 14 September 2010 memos documented actions to various OSD organizations to specifically "Reduce Non-Productive Processes and Bureaucracy."
- The 3 November 2010, "Memo for Services and Agencies" documents the flow down of expectations

References of note:

- While not a policy memo, but I think the one BBP memo that impacts reducing burden on industry most is the memo:
- "Myth-Busting": Addressing Misconceptions to Improve Communication with Industry during the Acquisition Process OMB Memo: Addressing Misconceptions to Improve Communication with Industry during the Acquisition Process (2 February 2011). Rationale – Enhanced/improved communications between the government acquiring office and industry can reduce or eliminate industry rework and false starts especially when it comes to proposals and bid/proposal costs.

Examples:

- You already have the Kendall 23 June 2011 memo here on the Pre-EMD review which I think is also crucial for reducing burden on industry. Rationale – The added OSD review pre-MS B will have the positive impact on industry of reducing the likelihood of a false start on a flawed RFP (a la Army GCV). On the other hand, this could delay RFP release which could have the opposite effect IF the PMs and KOs have spun industry up into a frenzy with excessively optimistic/aggressive draft RFPs, pre-solicitation communications, etc…
- AS, SEP and PPP templates - outlines were released with respective memos. – Driven by 14 Sep 10 memo – Documents have become bloated and at the same time often fail to provide the necessary and important content. (20 Apr 11) - Each outline has been completely rewritten and refocused on information central to the purpose of the document.
- PPP – (18 Jul 11) template guides both program protection management and document preparation:
- MDA review and approval at MS A and updated at each subsequent MS and FRP
- No longer included in TDS
- Acquisition IA Strategy reviewed and approved IAW DoDI 8500.1 and included as an appendix to the PPP
- Good general guidance is included as part of the template (pgs 2 and 3) – **DAB template?? Lois please answer**
- Revised milestone review process (23 Jun 11 memo)–
- Intent is to align AT&L resources to address the most significant investment decisions. The MDA lacked the adequate opportunity to review program plans prior to the release of the final RFP – the point at which the Department's requirements, schedule, planned program content, and available funding should be firm and available for review.
- Desire throughout the milestone process is to minimize the overhead associated with the reviews and to rely on planning documents, including SEPs and TEMPS, which are actually used to plan and manage the program as opposed to documents created solely for review by the MDAP and supporting staff.
- Post-CDR Report by PM is eliminated (24 Feb 11 memo).
- DASD(SE) will participate in program CDRs and prepare a brief assessment of program's design maturity and technical risk which may require MDA attention. This means PM will invite DASD(SE) to system-level CDRs and make available CDR artifacts.
- Draft assessments will be coordinated with PM prior to forwarding to MDA. Eliminate the PM's responsibility for the Post CDR report required by DoDI 5000.02.
- TRA process streamlined (11 May 11 memo) – Reorient the TRL review to an assessment of technology maturity and risk as opposed to engineering or integration risk.
- Life Cycle Support Plan (LCSP) template has also been recently released (August 2011)



For additional information, consult the Defense Acquisition Portal for the latest guidance. Address requests for assistance to your regional representative.