



ACQUISITION,  
TECHNOLOGY,  
AND LOGISTICS

## THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

AUG 19 2014

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Fiscal Year 2015 Value Engineering Program Plans and Fiscal Year 2014  
Department of Defense Value Engineering Results Reports

The Department will achieve greater efficiency and productivity in its spending by continuing to pursue activities like Value Engineering (VE) that support my Better Buying Power initiatives. By using VE techniques and procedures that challenge the status quo and promote innovation and creativity, Department of Defense (DoD) Components can attain cost savings and avoidance. The Office of Management and Budget (OMB) Circular No. A-131, Value Engineering, implements VE statute 41 USC Section 1711 and sets requirements for the DoD's and Components' VE programs.

OMB requires the DoD Components to prepare an annual VE plan. Please submit your FY 2015 VE plan not later than October 15, 2014, using the plan format in Attachment 1. OMB also requires the DoD Components to submit an annual VE results report. Please prepare and submit the FY 2014 VE results report not later than December 19, 2014, using the format provided in Attachment 2 and guidance in Attachment 3. You should aggregate results data by major commands/centers.

Please have your VE Senior Manager submit your VE plan and results report to the Mission Assurance Office, Attention: Mr. Andrew Monje, 3040 Defense Pentagon, Rm 3C160, Washington, DC 30201. My point of contact is Mr. Monje at 703-692-0841 or [andrew.n.monje.civ@mail.mil](mailto:andrew.n.monje.civ@mail.mil).

Thank you for your support as we work to improve and expand efficiencies through Value Engineering.



Frank Kendall

Attachments:  
As stated

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**CHIEF OF ENGINEERS AND COMMANDER, U.S. ARMY CORPS OF ENGINEERS**

**VALUE ENGINEERING PROGRAM PLANNING OUTLINE  
FISCAL YEAR 2015**

**I. Executive Summary**

<b>VE Senior Management Official (SMO)</b>		<b>FY 2015 Goal</b>
Name:		\$ _____
Email:		

A. Identify any major barriers to overcome to improve the VE program and/or achieve the goal.

B. Describe the key activities planned for FY 2015 to overcome the barriers.

**Expectations:**

- Components are expected to plan for their VE program and capture internal performance measures to inform management on what activities are effective and where changes are needed. This document provides an outline for the high-level elements of planning to be used as a basis for management activities.
- The SMO is the Component's senior person responsible for monitoring and coordinating VE efforts in accordance with DoDI 4245.14 "DOD Value Engineering (VE) Program"
- FY 2015 Goal: Use Total Obligation Authority for the Component, less the military personnel appropriation as shown in the FY 2015 President's Budget as the basis for the calculation. If the calculation of the goal is different than what is stated, please add a note to specify the formula used.

## II. VE Performance Measures

	FY15 Target	Notes/Comments
<b>A. Management and Planning</b>		
Have VE policy, guidance, and/or instructions been issued? (yes or no)		
Planned VE program operating expenditures (\$M)		
<p><b>Expectations: Components are expected to develop their own policy and guidance based on DoDI 4245.14 and SD-24. Components are also expected to adequately resource the program. Expenditures include all costs to manage and execute the VE program (e.g., in-house and contractor-support labor, training, travel, workshops, etc.). The program operating expenses are used to calculate a return-on-investment using the data in Section II.E. Operating expenditures do not include non-recurring engineering costs for specific projects since these costs should be subtracted from the figures reported in II.E.</b></p>		
<b>B. Training</b>		
Planned number of people completing a course on the principles and applications of VE (or equivalent)		
Planned number of people completing a course on the contractual aspects of VE (or equivalent)		
<p><b>Expectations: VE cost avoidance/savings cannot be achieved in the absence of training. Components are expected to train personnel on the use of the VE methodology and contracting officers on the processing of VECPs. Report Component unique training in the notes section.</b></p>		
<b>C. Outreach</b>		
Planned number of outreach events to be given		
Planned average number of people per outreach event		
<p><b>Expectations: Outreach is needed to raise awareness about VE and its application. Outreach planning is important and should include identifying the target audiences, determining the message for each of those audiences, delivering that message in the most effective way, and following-up to promote VE activities.</b></p>		
<b>D. VE Applications</b>		
Planned number of VE studies (workshops or equivalent)		
Planned number of VECPs to be received/awarded		
Planned average VECP processing time (days)		
<p><b>Expectations: VE benefits are achieved from either VEPs or VECPs. The planned number of VE studies represents the number of attempts made to generate savings from a VEP through efforts that meet the criteria defined by the DOD IG resolution.</b></p>		
<b>E. Cost Savings/Cost Avoidance</b>		
Planned net cost savings/avoidance from VEPs (\$M)		
Planned net cost savings/avoidance from VECPs (\$M)		
<p><b>Expectations: These performance measures reflect the results of the VE program. Together they should meet or exceed the 1.5% of TOA goal. Cost savings must meet the criteria defined in the DoD IG resolution.</b></p>		

**FY 2014 DoD VE Statistics  
Annual Value Engineering Report**

DD-AT&L(A) 2510

**PART I**

Senior Accountable Official Responsible for VE Program:

Name:

Title:

Address:

Phone:

Email:

Fax:

Agency VE Expenditures (\$'s Invested in VE this fiscal year)(\$M):

Number of Value Engineering Change Proposals (VECP) Submitted:

Number of VECPs approved:

Number of VECPs disapproved or withdrawn:

Dollar Share of Savings Provided to Contractors (VECP) (\$M)

Dollar Threshold for VE for New Projects, Existing Projects, Major Acquisitions if different than \$5M:

Number of major Acquisitions which use VE

Number of major Acquisitions which were granted a waiver:

Number of VE Studies performed:

Return on Investment (annual savings divided by expenditures) (xx:1):

Total Annual VE Savings (\$M)

**TOTAL AGENCY NET LIFE-CYCLE COST SAVINGS ATTRIBUTABLE TO VE**

A. A summary of cost savings and avoidances reported by category (See B. below):

VE Expenditures (\$M)		Cost Savings (\$M)		Cost Avoidance (\$M)	Total Savings (\$M)
1 In-House	2 Contractor	1 In-House	2 Contractor	In-House	
\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

B. Total Agency VE Net Life-Cycle Cost Savings by Category:

VE Studies

Acquisition (VECP)

Administrative

Other (be specific)

C. Steps Taken to Validate the Reported Cost Savings (through IG Audit or other measures)

D. Methodology used to calculate the savings, e.g. savings accepted at the conclusion of the VE study or at any time of manufacturing or construction:

**PART II**

**VE -Top Five Projects**

List the top five VE projects by name. Describe any quality or other non-quantifiable improvements resulting from VE.

Project Title	VE Expenditures (\$M)	Cost Savings (\$M)		Cost Avoidance (\$M)
	In-House	In-House	Contractor	In-House
<b>VE Studies</b>				
Project No. 1				

Project No. 2					
Project No. 3					
Project No. 4					
Project No. 5					

**Description of Quality/Non-quantifiable Improvements, e.g. environmental, security, or schedule improvements**

Project No. 1					
Project No. 2					
Project No. 3					
Project No. 4					
Project No. 5					

**Notes:**

- VE Studies      Funded studies by the government, e.g. construction or administrative studies.
- Acquisition (VECP)      Savings in acquisition cost is evidenced by a change in contract price.
- Administrative      Savings in the operations of the agency. These should also be reported in the VE Studies category.
- Other      Set forth categories for which you have gathered other specific information, e.g. IT, E-commerce, Power, etc.

**DoD IG Issue Resolution Agreement:  
Defining Value Engineering for Reporting Purposes**

**Background:**

The Department of Defense (DoD) Value Engineering (VE) Quality Management Board (QMB) was tasked with developing guidance that differentiates the application of VE techniques and the reporting of VE savings from other cost reduction initiatives. Other initiatives include such efforts as the Navy's AEGIS Affordability Management Program, directed feasibility studies, logistics engineering change proposals, suggestions, and VE savings realized by foreign military sales customers. Examples of other initiatives include recent acquisition reform programs, as well as efforts from other cost-reduction initiatives such as the DoD Spare Parts Breakout Program and other activities normally expected in the performance of functions such as inventory management and purchasing.

The DoD Inspector General's Office agreed to work with the QMB to develop this guidance in a consensus building format. Agreement was reached to clarify guidance in the following areas:

- A. VE definition for accounting purposes
- B. Savings, and cost scope and calculation
- C. Savings and cost documentation
- D. VE Integration with or differentiation from other programs

The QMB DoD IG Issue Resolution Working Group reached consensus as follows in the above four areas:

**A. VE Definition (Criteria) for Accounting (Reporting) Purposes**

The results of value improving activities may be included in annual VE reporting if one of the following two criteria applies:

1. Results from an approved VE Change Proposal (VECP)

-or-

2. Results from a change that improves value of required function (where value is a function of performance and cost) using function analysis to determine best value (an example worksheet showing the minimum elements of function analysis is included below).

## **B. Savings, and Cost Scope and Calculation**

### *Savings*

All cost savings and cost avoidances that are included will be net savings to the government. It is allowable to report savings up to six years consistent with budget projections in the Future Years Defense Program (FYDP) that is current at the time the value improving project is implemented. Savings may be reported in the years they occur during the FYDP period or as an estimate projected against the FYDP budget profile. Life-cycle savings may be reported up to ten years.

VECPs: For acquisition savings, report the government's share during the VECP sharing period; thereafter until the end of the FYDP period, 100 percent of the net savings may be reported. For collateral savings (life-cycle savings other than acquisition), government share of average annual collateral savings for the FYDP period may be reported.

VEPs (value improving projects other than VECPs): For acquisition savings, 100 percent of the net savings for the FYDP period may be reported. For collateral savings (life-cycle savings other than acquisition), 100 percent of average annual collateral savings for the FYDP period may be reported.

### *Cost*

On a project-by-project basis, development and implementation costs are those costs above normal government administrative costs that result directly from developing and implementing each individual value-improving project, such as any net increases in the cost of testing, operations, maintenance, and logistics support. The term does not include the normal administrative costs of processing the value improving project or the costs of running the VE office. The annual report will sum project by project costs and add the annual cost of running the VE office (work force and other required resources) for a total VE program cost.

Return on Investment (ROI): ROI equals total net VE savings to the government divided by total VE program costs (savings and cost as defined above).

## **C. Savings & Cost Documentation**

To be included in the performance metrics data, each value improving project must be documented and include the following minimum essential documentation elements:

1. Unique project number or identifier
2. Identification of development and implementation costs to the government above normal administrative costs consistent with the Federal Acquisition Regulation. Government costs are those agency costs that result directly from developing and implementing the



value-improving project, such as any net increases in the cost of testing, operations, maintenance, and logistics support. The term does not include the normal administrative costs of processing the value-improving project.

3. Description of gross and net savings to the government: acquisition and/or collateral (life cycle cost other than acquisition)
4. Description of technical changes
5. Validation of savings (either through actual documented savings or documented estimate of future savings and/or cost avoidances using established financial analysis procedures - approval and date)
6. Approval of technical change and date
7. Identification of who did the study or analysis or submitted idea
8. Program approval and date
9. Identification of items to which VE proposal applies
10. Date project initiated or proposal submitted for approval
11. Cost and savings figures for each of the years identified
12. Date of construction/etc- include customized instructions on completing form (applies to construction projects only)
13. Indication of the above VE criteria met (if not VECP, must document minimum elements of function analysis)

**D. VE Integration With or Differentiation From Other Programs**

DoD Components are encouraged to integrate VE with other similar programs. To be reported, projects must meet the minimum criteria and documentation requirements listed above. Savings reported through multiple channels are allowed.

## Function Analysis/Best Value Alternative Worksheet (Examples)

For reporting purposes, the minimum elements necessary to constitute function analysis required for other than VECPs are: project identification; function definition; alternative(s) identification; and alternative selection.)

### Project Identifier:

- Example 1. Finnigen Pin Sparing.
- Example 2. Mark I Mod O Disposable Coffee Receptacle.
- Example 3. Flag/Senior Management Liquid Containment Vessel.

### Function Definition (Use Verb-Noun Descriptor):

- Example 1. Obtain Finnigen Pins.
- Example 2. Hold Coffee.
- Example 3. Impress Associates.

### Function Performance Alternatives:

- Example 1.
  - a. Purchase from OEM.
  - b. Find alternate source.
  - c. Reverse Engineer for Competition.
- Example 2.
  - a. Paper cups.
  - b. Styrofoam cups.
- Example 3.
  - a. Gold Leaf embossed ceramic.
  - b. Cut Waterford crystal.

### Selected Alternative:

- Example 1. Use alternate source. (other suppliers; lower cost)
- Example 2. Paper Cups. (Biodegradable, no disposal cost)
- Example 3. Gold Leaf Embossed. (Stars don't show well on Crystal)