



Department of Defense INSTRUCTION

NUMBER 4245.nn

USD(AT&L)

SUBJECT: DoD Value Engineering (VE) Program

References: See Enclosure 1

1. PURPOSE. In accordance with the authority in DoD Directive 5134.01 (Reference (a)), this Instruction:

a. Implements section 1711 of title 41, United States Code (Reference (b)) and Office of Management and Budget Circular No. A-131 (Reference (c)) by establishing policy, assigning responsibilities, and defining authorities for the effective administration of the DoD VE Program.

b. Implements the reporting requirements of Reference (c).

c. Establishes and maintains the VE Executive Steering Group (ESG).

d. Establishes and maintains the VE Management Advisory Group (MAG).

2. APPLICABILITY. This Instruction applies to OSD, the Military Departments, the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense, the Defense Agencies, the DoD Field Activities, and all other organizational entities within the DoD (hereinafter referred to collectively as the "DoD Components").

3. DEFINITIONS. See Glossary.

4. POLICY. It is DoD policy that:

a. DoD Components shall implement a VE program to improve military worth or reduce acquisition and ownership costs pursuant to References (b) and (c) wherever it is advantageous. The Component VE senior manager or construction agency VE senior manager (in the case of construction projects) can decide to not require VE in cases deemed not advantageous (financially, scope or schedule wise) to the Government. A VE program consists of two parts: a

Government only program that uses VE proposals (VEP) to implement changes, and a Government-contractor contracting mechanism that uses VE change proposals (VECP) to implement Government approved changes.

(1) A Government only VE program shall be used to eliminate unnecessary costs and improve value in the development, procurement, acquisition, and life-cycle support of services, materiel, and facilities. It also includes applying VE principles and methodology by commanders, managers, and DoD contracting personnel on the acquisition and operating and support functions of DoD services, materiel, and facilities as well as applying VE to achieve the affordability goals in accordance with Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) memorandums (References (e) and (f)).

(2) As part of a contractor VE program, VE provisions shall be included in all contracts when the contract amount is expected to exceed the simplified acquisition threshold in accordance with part 48 of the Federal Acquisition Regulation (FAR) (Reference (g)) and part 52.248 of the FAR (Reference (h)).

b. DoD Components shall incorporate the VE methodology with continuous process improvement training, pursuant to DoD Directive 5010.42 (Reference (i)) to improve the full range of processes and activities that comprise their operations, including decision-making processes and appropriate engagement with industrial base suppliers.

5. RESPONSIBILITIES. See Enclosure 2.

6. INFORMATION COLLECTION REQUIREMENTS. The Statistical Summary of Value Engineering Actions in accordance with Reference (c)

7. RELEASABILITY. UNLIMITED. This Instruction is approved for public release and is available on the Internet from the DoD Issuances Website at <http://www.dtic.mil/whs/directives>.

8. EFFECTIVE DATE. This Instruction is effective upon its publication to the DoD Issuances Website.

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Acting Under Secretary of Defense for
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Enclosures

1. References

2. Responsibilities
 3. Procedures
 4. ESG and VE MAG Charters
- Glossary

ENCLOSURE 1

REFERENCES

- (a) DoD Directive 5134.01, "Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L))," December 9, 2005
- (b) Section 1711 of title 41, United States Code
- (c) Office of Management and Budget Circular No. A-131, "Value Engineering," May 21, 1993
- (d) SD 24, "Value Engineering: A Guidebook of Best Practices and Tools," June 13, 2011
- (e) Under Secretary of Defense for Acquisition, Technology, and Logistics Memorandum, "Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending," September 14, 2010
- (f) Under Secretary of Defense for Acquisition, Technology, and Logistics Memorandum, "Implementation Directive for Better Buying Power - Obtaining Greater Efficiency and Productivity in Defense Spending," November 3, 2010
- (g) Part 48 of the Federal Acquisition Regulation (FAR), current edition
- (h) Part 52.248 of the Federal Acquisition Regulation (FAR), current edition
- (i) DoD Directive 5010.42, "DoD-Wide Continuous Process Improvement (CPI)/Lean Six Sigma (LSS) Program," May 15, 2008
- (j) DoD Instruction 5105.18, "DoD Intergovernmental and Intragovernmental Committee Management Program," July 10, 2009

ENCLOSURE 2

RESPONSIBILITIES

1. USD(AT&L). The USD(AT&L) shall:

a. Establish policy for the DoD VE program and provide guidance on using VE to implement affordability, cost controls, and incentivizing productivity and innovation in accordance with better buying power (References (b) and (c)).

b. Support the application of VE in finding ways to reduce non-productive processes and bureaucracy in accordance with References (e) and (f).

c. Review DoD Components' annual VE results and management plans and continue the annual program recognizing exemplary VE accomplishments by DoD activities.

d. Assign an annual DoD VE goal applicable to all DoD Components and subordinate organizations.

e. Establishes and maintains the VE Executive Steering Group (ESG), and the VE Management Advisory Group (MAG), in accordance with DoD Instruction 5105.18 (Reference (j)).

2. HEADS OF THE DoD COMPONENTS. The Heads of the DoD Components shall:

a. Designate a senior VE manager, who will monitor and coordinate DoD Components' VE efforts in accordance with Reference (c), and establish a VE representative at each subordinate organization engaged in acquisition to include foreign military sales, service, support, construction to include foreign military financing, and operations and support activities.

b. Oversee DoD Component implementation of this Instruction.

ENCLOSURE 3

PROCEDURES

1. The VE executive is the DoD Component's representative on the ESG and designates the Component's qualified VE manager/representative on the VE MAG.
2. To implement cost-effective VE procedures and processes for analyzing the functions of a program, project, system, product, item of equipment, building, facility, service, or supply, DoD Components shall:
 - a. Apply VE in acquisition, services, support, construction, and O&S activities in accordance with better buying power directions (References (e) and (f)).
 - b. Provide resources necessary for operating the DoD VE program, including training of personnel and means of evaluating proposals. Establish procedures for timely payment of the contractor share of VECP savings that occur in future budget years or in different budget accounts.
 - c. Establish and maintain an annual DoD Component VE Management Plan, including, but not limited to, training, staffing, and projected VE savings.
 - d. Establish VE goals for subordinate organizations' Government only and contractual activities, as required. Activities responsible for managing major systems, such as program executive offices and system project offices, shall set VE goals.
 - e. Retain DoD resource benefits resulting from VE application. Apply VE savings to create an incentive for participation in the VE program.
 - f. Submit one summary report covering the entire year to the USD(AT&L) within 90 days after the end of the reporting period pursuant to the sample format in Reference (c).
 - g. Apply VE to identify and eliminate unnecessary and non-cost-effective contract requirements.
 - h. Use value engineering program requirements (VEPRs) to identify opportunities for savings in contracts consistent with the functional requirements of the end item of the contract to include production, support, and service contracts.
 - i. Apply VE to identify spare parts whose prices are excessive and use VE to support actions to reduce unnecessary costs or improve functionality and value.
 - j. Evaluate and process, objectively and promptly, contractor and Government only VE proposals.

k. Require managers (program and project, procurement, contract administration, engineering, and support) to encourage contractors and DoD personnel to develop and submit VE proposals.

l. Document the evaluation and processing of VEPs and VECs.

m. Provide training on principles and applications of value engineering methodologies and contractual aspects.

n. Develop criteria and procedures for providing recognition awards to individuals and organizations for exceptional VE accomplishments. Provide annual nominations for the DoD Honorary VE Awards Program.

ENCLOSURE 4

ESG AND VE MAG CHARTERS

1. VE ESG. The DoD VE ESG shall:

- a. Be chaired by a senior executive of the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics.
- b. Be composed of the VE Executive from the DoD Components who are full-time or permanent part-time Federal officers or employees.
- c. Meet periodically at the call of the Chair but at least annually to review compliance with, and the results of, the VE program.
- d. Review VE policy and recommend solutions for program problems and ensure VE is adequately supporting the goals established by Reference (c).

2. VE MAG. The DoD VE MAG shall:

- a. Be chaired by the USD(AT&L) qualified VE Program Manager.
- b. Be composed of the designated DoD Components' qualified VE manager/representative who are full-time or permanent part-time Federal officers or employees.
- c. Meet periodically at the call of the Chair. Agenda items may include, but are not limited to:
 - (1) Reviewing VE program progress and problems.
 - (2) Recommending policy changes as required in accordance with Reference (c).
 - (3) Exchanging concepts and techniques.
 - (4) Reviewing honorary award nominations and forwarding its recommendation to the USD(AT&L).
 - (6) Recommending and enhancing training.
 - (7) Promoting VE.

GLOSSARY

PART I. ABBREVIATIONS AND ACRONYMS

ESG	Executive Steering Group
FAR	Federal Acquisition Regulation
FTE	full-time equivalent
MAG	Management Advisory Group
OMB	Office of Management and Budget
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
VE	value engineering
VECP	value engineering change proposal
VEI	value engineering incentive
VEP	value engineering proposal
VEPR	value engineering program requirement

PART II. DEFINITIONS

These terms and their definitions are for the purpose of this Instruction.

cost avoidance. Cost avoidance is an immediate time frame action taken to reduce future costs. Cost avoidance may incur higher (or additional) costs in the short run but the final or life-cycle cost would be lower.

cost savings. A reduction in actual expenditures below the projected level of costs to achieve a specific objective.

value engineering contract clauses. Reference (g) requires VE clauses to be included in most DoD contracts. The two types of clauses are a VE incentive (VEI) clause and a VEPR clause. In accordance with part 48.201(a) of Reference (g), unless exempted by an agency head, a VEI clause must be included in all contracts exceeding the simplified acquisition threshold (see part 2.1 of Reference (g)) except those for research and development (other than full-scale development), engineering services for non-profit organizations, personal services, commercial items, or a limited specific product development.

VE. An analysis of the functions of a program, project, system, product, item of equipment, building, facility, service, or supply of an executive agency performed by a qualified agency or contractor personnel, directed at improving performance, reliability, quality, safety, and life-cycle cost. Other terms used for VE include value methodology, value analysis, value management, value improvement, or value planning.

VECP. A contractor-initiated proposal where the savings are shared between the Government and the contractor. A VECP is submitted under the VE clause of a contract (Reference (g)). It proposes a net life-cycle cost reduction to the DoD and requires a contract modification.

VEP. VEP is a Government-initiated, multidisciplinary product, usually the result of a team study. VEP may be developed and submitted by individual employees or contractors under contract to provide VE services or studies for a Government program. The Government retains all the savings from VEPs.

VEPR. A VEPR is a separately priced line item in the contract that specifies a certain level of VE activity and the portion (or portions) of the contract work to which it applies.