



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 26, 1988

CIRCULAR NO. A-131

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Value Engineering

1. Purpose. The purpose of this Circular is to require the use of value engineering, as appropriate, by Federal Departments and agencies to identify and reduce nonessential procurement and program costs. The Circular requires agency heads to establish and improve their use of value engineering programs.

2. Background. Value engineering in the Federal Government is a means for some Federal contractors and Government entities to change the plans, designs and specifications for Federal programs and projects. These changes are intended to lower the Government's costs for goods and services and maintain necessary quality levels.

a. Prior Reports. Over the last several years, reports issued by the General Accounting Office (GAO) and many Inspectors' Generals (IGs) have consistently concluded that greater use of value engineering would result in substantial savings to the Government. While some Federal agencies have value engineering programs, other agencies have not utilized value engineering fully. Even for agencies with established programs, the GAO and IG reports conclude that much more can and should be done to realize the benefits of value engineering.

b. Identified Impediments. The impediments that are frequently noted in these reports and that have prevented a greater use of value engineering include:

(1) Failure of senior management to allocate the necessary resources, both in effort and in funds, to establish and run value engineering programs;

(2) Absence of good criteria for selecting projects and programs for value engineering studies;

- (3) Failure to properly perform value engineering studies;
- (4) Inadequate attention by agency management to reviewing and implementing the recommendations made in value engineering studies.

c. Other Problems. Many of the problems noted in the GAO and IG reports are attitudinal. A common observation in many of the reports is that there are few incentives to use value engineering or other cost cutting techniques to save money on fully funded Federal programs and projects. Obviously, programs should be developed, critically reviewed and administered in the most cost effective manner possible. Value engineering and other management techniques must ensure realistic project budgets and identify and remove nonessential capital and operating costs.

3. Definitions.

- a. Agency. As used in this Circular, the term "agency" means any executive department, military department, government corporation, government controlled corporation or other establishment of the executive branch of the Federal government.
- b. Value Engineering. An organized effort directed by a person trained in value engineering techniques to analyze the functions of systems, equipment, facilities, services, and supplies for the purpose of achieving the essential functions at the lowest life cycle cost consistent with required performance, reliability, quality and safety.
- c. Value Engineering Change Proposal (VECP). A change proposal that is submitted by a contractor under a value engineering incentive or program requirement clause included in a Federal contract.
- d. Value Engineering Proposal. A change proposal developed by employees of the Federal Government or contractor value engineering personnel employed by the agency to provide value engineering services for the contract or program.

4. Policy. Agencies shall establish value engineering programs and use value engineering, where appropriate, to reduce nonessential costs and improve productivity. Value

engineering programs of agencies shall, at a minimum, provide for the following management and procurement practices.

a. Management Practices. Value engineering programs must be tailored to the mission and organizational structure of each agency. For example, the cost and program/project size usually indicate the potential for value engineering. In most agencies, a relatively few programs or projects comprise the majority of costs and value engineering efforts should be concentrated on these programs and projects. Therefore, agencies shall:

- (1) Emphasize, through training, evaluation and other programs, the potential of value engineering to reduce unnecessary costs.
- (2) Establish a single entity within the agency to manage and monitor value engineering efforts, encourage the use of value engineering and maintain data on the program. This function shall achieve the purposes of this circular. Value engineering training shall be provided to the person responsible for the value engineering function and to other personnel responsible for developing, reviewing and analyzing value engineering actions.
- (3) Report and update the name, address and telephone number of the person responsible for each agency's value engineering program to the Office of Federal Procurement Policy, Office of Management and Budget.
- (4) Ensure that funds necessary for operating agency value engineering programs are included in annual budget requests, and provide annual summary value engineering program information to the Office of Management and Budget as requested.
- (5) Establish criteria and guidelines to identify those programs and projects that are most appropriate for value engineering studies. The criteria and guidelines should recognize that the potential savings are generally greatest during the planning, design, and other early phases of project/program development.

- (6) Require that files be documented to explain why value engineering studies were not performed or required for any programs/projects meeting the agency criteria.
- (7) Establish guidelines to evaluate and process value engineering proposals.

b. Procurement Practices. Present procurement policies and practices for the use of value engineering are set forth in Parts 48 and 52 of the Federal Acquisition Regulation (FAR). Part 48 provides two basic incentive approaches for using value engineering. The first approach uses a Value Engineering Incentive (VEI) clause. In this approach the contractor's participation is voluntary and the contractor uses its resources to develop and submit VECPs. A contract clause provides that when a VECP is accepted any resulting savings are shared with the contractor on a preestablished - usually a percentage - basis set forth in the contract.

The second approach, uses a Value Engineering Program Requirement (VEPR) clause and requires the contractor to conduct a specific value engineering effort within the contract, i.e., an effort to identify and submit to the Government methods for performing more economically. In this second approach, the contractor also shares in any savings resulting from the VECP, but at a lower percentage rate than under the voluntary approach. This effort generally is directed at the major cost items of a system or project.

The FAR presently permits agency heads to exempt their agencies from using value engineering provisions in contracts. The authority to totally exempt agencies from using value engineering provisions will be rescinded and the FAR will be modified to require that contracting activities include value engineering provisions in contracts except where exemptions are granted on a case-by-case basis or for specific classes of contracts. One time agency-wide exemptions will no longer be permitted. In addition, agency contracting activities will:

- (1) Actively elicit VECPs from contractors.
- (2) Promote value engineering through contractor meetings and the dissemination of promotional

and informational literature regarding the value engineering provisions of contracts.

- (3) Establish guidelines for processing value engineering change proposals and require that contract files list all change proposals requiring more than 45 days to accept or reject.
- (4) Document all contract files to explain the rationale for accepting or rejecting value engineering change proposals.
- (5) Use the value engineering clauses provided in the FAR for appropriate supply, service, architect-engineer and construction contracts.
- (6) Use the value engineering program requirement clause (FAR 52.248-1 alternatives I or II) in initial production contracts for major systems programs and for contracts for research and development except where the controlling program officer determines and documents the file to reflect that such use is not appropriate (see Section 4 of Public Law 93-400, as amended (41 U.S.C. 403) for definitions of major systems).

5. Sunset Review. The policies contained in this Circular will be reviewed by the Office of Management and Budget three years from the date of issuance.

6. Inquiries. Further information about this Circular may be obtained by contacting the Office of Federal Procurement Policy, 726 Jackson Place, NW, Washington, DC 20503, Telephone (202) 395-6803.


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