

OMB Directs Agencies to Embrace 'Value Engineering'

By Charles S. Clark

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In its first such update in two decades, the Office of Management and Budget has revised long-standing guidance instructing agency managers to adopt the private-sector discipline known as "value engineering" to boost innovation and achieve savings.

In a revision of OMB Circular A-131 published Dec. 26 in the *Federal Register*, OMB tasked agencies with applying value engineering to programs costing more than \$5 million -- an increase from the current \$1 million -- and with naming an official to be accountable for embracing the concept. OMB believes targeting value engineering to projects costing more than \$5 million will focus the strategy on projects "where it is likely to have the greatest value while allowing agencies to tailor the use of the tool to meet their mission needs," the circular stated.

Value engineering "challenges agencies to continually think about their mission and functions -- in the most basic terms -- in order to determine if their requirements are properly defined and if they have considered the broadest possible range of alternatives to optimize value," wrote Joe Jordan, administrator for federal procurement policy, who leaves government at the end of January for the private auction firm Fedbid. "It promotes 'share-in-savings' by encouraging contract holders to identify ways to reduce the cost of performance on existing contracts and share with the government in the savings produced from the results."

The discipline, he continued, is "generally performed in a workshop environment by a multidisciplinary team of contractor and/or in-house agency personnel (such as an integrated project team), which is facilitated by agency or contractor staff that is experienced, trained and/or certified in leading VE teams through a series of specific phases."

Value engineering dates back to World War II when the Defense Department used it primarily in construction projects. It has been widely adapted by private corporations under the name value methodology, or functional analysis, according to Rob Burton, who worked in the procurement policy office under President George W. Bush and is now a law partner at Venable.

OMB first outlined principles of value engineering in a 1988 circular that was updated in 1993. Evidence of its success, according to the revised circular, includes Defense's reported cumulative savings of more than \$10 billion in fiscal 2011 and fiscal 2012; the Transportation Department's Federal Highway Administration's savings of \$1 billion to \$2 billion in construction projects from fiscal 2010 to fiscal 2012; and the State Department's reported "life cycle" savings of \$40 for every \$1 spent on value engineering studies since 2008.

The new approach calls for consideration of value engineering to reduce contracting delays on projects involving strategic sourcing and even services.

"This is long overdue," Burton told *Government Executive* noting that OMB seldom revises circulars. "The timing is critical since agencies are facing greater challenges than ever to save costs." Burton calls value engineering more valuable than "almost any other management tool available to government to help agencies use it before issuing a request for proposal to get better procurements, reduce bid protests and get what they need. It's not just for construction projects, but for information technology and other services," he added.

Equally pleased with the revision is the Dayton, Ohio-based nonprofit society Save International, which promotes value engineering and has worked with OMB. "The process forces creativity and fosters efficiencies, whether in analyzing the organizational structure of an agency, the improved procurement of IT or other services, or the design of a VA hospital," the group's executive vice president, Mary Ann W. Lewis, told *Government Executive*. "Kudos to OFPP for its diligence in making A-131 relevant, addressing the need for accountability, and relating VE to OMB Circulars. Much has changed in the last 20 years and the updated circular reflects how VE works for government now.

The White House office plans to work with the Federal Acquisition Regulation Council on possible regulatory revisions to promote VE, and will cooperate with the Federal Acquisition Institute and the Defense Acquisition University on new training materials.

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