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(FINANCIAL MANAGEMENT AND COMPTROLLER)
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WASHINGTON, DC 20350-1000

OCT 17 2014

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Contractual Services Guidance for FY 2015

Reference: (a) SECNAV memo of 11 Mar 2014
(b) Joint ASN (RD&A)/ASN (FM&C) memo of 30 Apr 2014
(c) OASN (RD&A) memo of 13 Apr 2012
(d) VCNO email to Navy Commands of 6 Dec 2012

As you know, the amount of funds budgeted and spent on contractual services has been an interest of the Congress over the last several years, a growing interest of the Department of the Navy (DON) and an overall interest of the Department of Defense (DoD). While there will always be a need for some level of contract services, it is important to maintain an appropriate balance of spending and to ensure proper management and oversight of the services being procured. Because the DON spends a substantial portion of available resources each fiscal year on contractual services, an effort to integrate contractual services into the Planning, Programming, Budgeting and Execution (PPBE) process was tasked by reference (a). The first step in the SECNAV's directed effort was to prepare a Top-Level Plan of Action and Milestones (POA&M), as well as providing some steps to "follow the money" for the remainder of FY 2014. Information and direction associated with the SECNAV tasking was distributed via reference (b).

Subsequent to the above efforts, teams were formed to address the POA&M requirements with more specificity. These teams were comprised of volunteers from various disciplines across the stakeholders. The teams reviewed the current "as is" process and provided some options for a future "to be" process. Additionally, a Contractual Services Implementation Working Group (CSIWG) was formed to keep senior leaders informed of the outcomes of the teams. The work of all who participated in this effort to date has been insightful and greatly appreciated. There is still much to be done to address all aspects of the SECNAV tasking, but there are some initial findings that warrant immediate action. Attachment 1 provides guidance for FY 2015 to assist the DON in the management of contractual services.

Acquisition process questions should be directed to [REDACTED], 703-693-1167, email: [REDACTED]; fiscal policy questions pertaining to this matter should be directed to [REDACTED], 703-695-5816, email: [REDACTED];

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Budget Object Classification questions should be directed to [REDACTED],
703-692-1679, [REDACTED]



S.J. Rabern
Assistant Secretary of the Navy
(Financial Management and Comptroller)

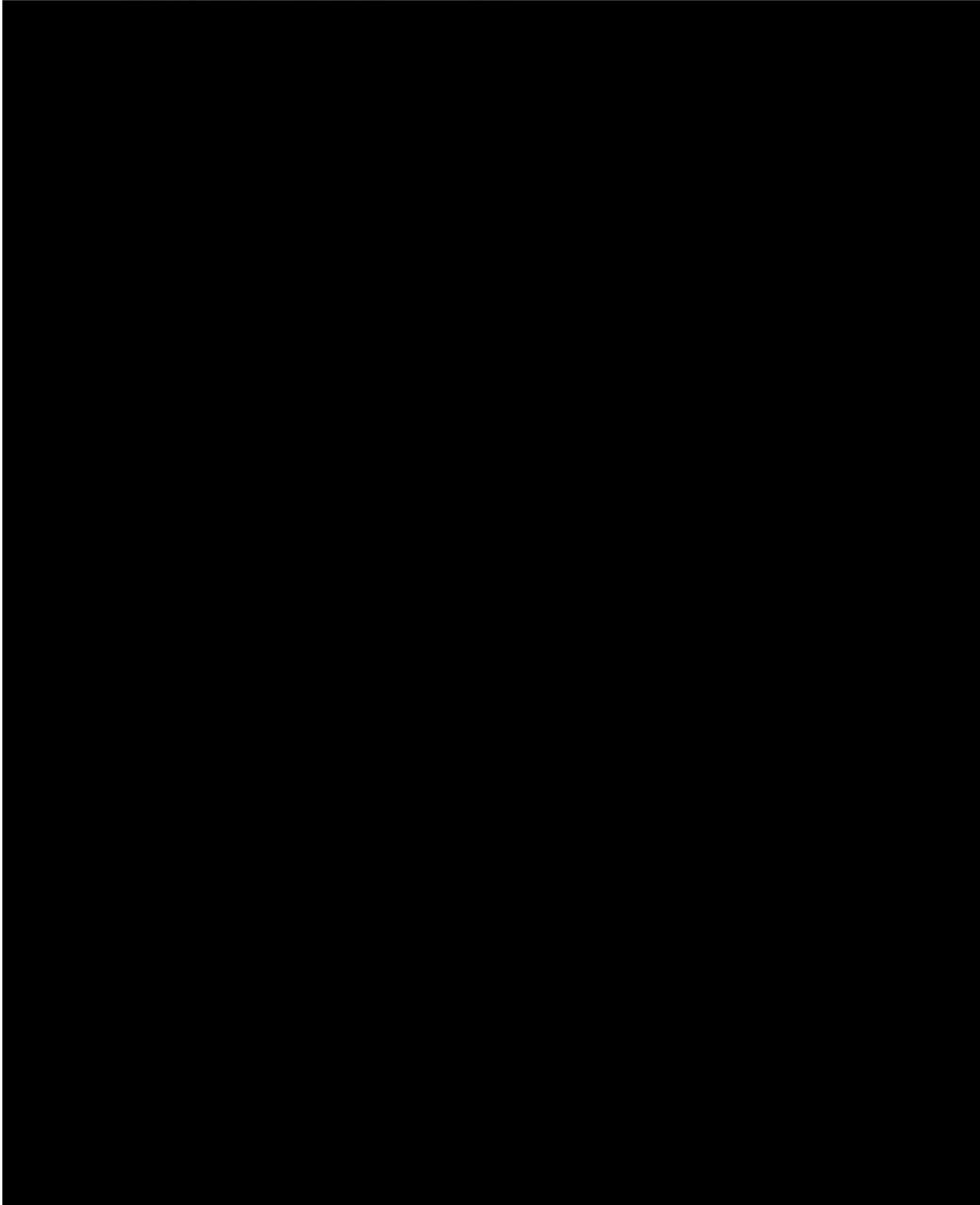


S.J. Stackley
Assistant Secretary of the Navy
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Attachments:

- 1. FY 2015 Contractual Services Guidance**
- 2. Service Requirements Review Board Guidance**
- 3. OCCs for Contractual Services**



FY 2015 Contractual Services Guidance

The following provides guidance for FY 2015 for contractual services monitoring and execution:

- 1) PEO reviews - Acquisition programs will continue to include contractual service plans and execution in their briefings for the ASN (RD&A) PEO Reviews held in FY 2015. This effort started in FY 2014 by direction contained in reference (b) and will be continued in FY 2015. Briefing templates will be provided by ASN (RD&A) under separate cover.
- 2) Service Requirements Review Boards (SRRB) – By reference (c) DON acquisition organizations were tasked to establish a review process for contractual services requirements and were provided risk assessment areas to ensure good order and discipline related to the procured services. The guidance was very encompassing and for ease of reference is provided as attachment 2. Additionally, reference (d), issued to Commanders of Navy commands (hereafter referred to as Budget Submitting Offices (BSOs)), including those that are not delegated contract authority, to implement a contract service oversight process. Based on direction in the aforementioned references, BSOs tasked should have a process in place and will use that process to review planned FY 2015 requirements. These BSOs will provide DASN(AP) with the point of contact for their SRRB and any standard operating procedures and/or command instructions that have been implemented. To the extent that a BSO was not previously tasked, this guidance provides the requirement to establish a review process and develop an implementation POA&M. Information from all BSOs should be provided to Shirley Franko at Shirley.Franko@navy.mil by 13 November 2014.
- 3) Object Class Codes - The POA&M presented in reference (b) noted a requirement to provide DON-wide training on Object Class Codes (OCCs). To help facilitate an understanding of efforts considered as contractual services, in accordance with OMB Circular A-11, definitions were provided in the reference. To facilitate execution processes, these definitions are also provided as attachment 2. Since issuance of reference (b) there are a few important efforts to be noted. OASN(FM&C) has conducted several training sessions with BSOs on OCCs. This training provided BSOs with an understanding of the importance of using correct OCCs for all efforts in budget execution. To identify contractual costs properly, a Product Service Code (PSC) to OCC crosswalk is available at <http://www.acq.osd.mil/dpap/pdi/p2p>. Requiring managers, or those generating the contractual services funding requirement,

should utilize the proper PSC/OCC combination so that costs are properly identified. In accordance with current financial procedures and to ensure that DON budget execution data is accurate, every DON funding action will reflect the correct OCC for the work product being requested in the 3 digit OCC field in the line of accounting. To enhance communication between requiring managers and a contracting office, BSOs are directed to establish a process to include the PSC on the funding action in the description of work. This process will help ensure the intent to a contracting officer and accuracy of data being reflected both in contracting and accounting systems. BSOs should establish this new process no later than 1 April 2015. The Office of Undersecretary of Defense (Comptroller) (OUSD(C)) is considering the future possibility of pulling data directly from the accounting system to reflect actual updates after the fiscal year closes. It is imperative that BSOs work diligently to ensure accuracy of OCC data. To prepare for future OSD endeavors, OASN(FM&C) is extracting Object Class information monthly from the Department of Defense Reporting System (DDRS) and comparing the data to budget formulation data provided by the BSOs in the Budget Object Class System (BOCS). The monthly pull from DDRS is posted at the below link and is available for BSO review:
https://fmbweb1.nmci.navy.mil/exec/Object_Class_Reports.htm.

- 4) Annualized funding policy – Investment funding is appropriated as multi-year appropriations and thus has more than one year to incur new obligations. In the applicable investment appropriations certain costs are to be annualized. The term annualized refers to costs that are required in a given year for no more than a 12 month period. These costs are budgeted for execution in the first year of availability; to the extent not executed as budgeted, an asset is presumed. Examples of annualized costs include contractor training associated with the delivery of new equipment, general support costs, and contractor support services. In accordance with the DON Financial Management Policy Manual, paragraph 075323, annualized costs should be budgeted in the fiscal year of need and therefore executed in that same fiscal year. Commencing in FY 2015, funds for contract services in investment accounts not executed in the first year of availability of the account will require prior approval of the Command's contract services review board. Exceptions to this policy are SCN funds that are required to comply with full funding policies. An example of a contractual service requiring a review board approval is: FY 2014 procurement funds are budgeted for annualized contract services but were not executed in the first year of availability. To determine if the requirement is still valid and should be executed in the second year of availability (FY 2015), approval will be required by the BSO SRRB. This practice does not preclude spending the prior year funds but ensures validation that a need still exists.

Service Requirements Review Board Guidance

- I. **Purpose:** To establish a uniform guidance regarding process(es) to identify, validate, assess, plan, and monitor service acquisitions across the Department of Navy (DON), ensuring accountability of all DON portfolio service acquisition requirements. The process is to provide focus on optimizing and validating current and future Service Acquisition requirements spend and on management of contracted services in the constrained fiscal environment.
- II. **Scope or Mission:** Development of a DON-wide capability for standardized review across all services acquisitions.
- III. **Focus:** DON has developed a Services Requirements Review that will focus on nine key areas:
 1. Requirements Definition – Have the requirements been clearly defined?
 2. Requirements Validation- Is this a valid requirement?
 3. Market Research – Did the government conduct market research and consult with industry experts to determine best practices for the requirement and identify opportunities for small business participation at the prime and subcontractor levels?
 4. Contract Administration – How are we monitoring contract performance?
 5. Competition – What is the extent of competition?
 6. Contract Type – Is it risk-appropriate to the services we need?
 7. Spend – How much are we spending on each part of the contract (labor, ODCs, etc.) and what is the highest labor rate in the contract?
 8. Tripwires - Are there breaches to threshold metrics that warrant further explanation?
 9. Contracting Activity - Does the contracting activity have authority to make the procurement for the requiring activity?

The process will focus on validating, optimizing, and reducing current DON service acquisitions while seeking and exporting best business practices. In addition to those cited above, questions to be asked include, but are not limited to: Does the requirement encompass an inherently governmental position? What analysis was done to determine the best way to accomplish the service (“buy vs. employing organic resources”)? How was it decided that the most cost effective and beneficial way to meet this service requirement was through a contract? What can be done to maximize opportunities for small business participation now and in the future? The attached Appendix provides some basic questions and concerns to consider during the review process.

- IV. **Review Chair:** Reviews shall be chaired at a level consistent with responsibility and ownership of all requirements. Recommend review at the Budget Submitting Office (BSO) level. For Field Contracting Activities, the Head of the Contracting Activity shall coordinate with supported BSOs and document the level of review authority.