



THE SECRETARY OF THE NAVY  
WASHINGTON, D.C. 20350-1000

**MAY 02 2008**

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Department of the Navy (DON) Cost Analysis

1. Cost and effectiveness estimates form the basis for decisions regarding future Naval forces and weapon systems. It is therefore imperative realistic, objective and comprehensive cost information be available throughout each stage of the acquisition decision making process. The cost estimating process must be transparent and information presented must be credible and defensible. This memorandum serves as guidance to establish a robust cost estimating construct to improve visibility into cost and risk drivers for program managers and decision makers throughout the DON.

2. Senior DON leadership shall consider the independent cost and risk assessments provided by Naval Center for Cost Analysis (NCCA) or by Systems Commands (SYSCOM) cost organizations before making milestone, programming or budgeting decisions. To provide such support to senior leadership, this memorandum assigns responsibilities to the respective cost estimating organizations within the Department for cost estimating, cost assessments and reviews, Earned Value Management (EVM) analyses and advisory support. Responsibilities are also assigned to DON Program Managers and Resource Sponsors who participate in the planning, programming, budgeting and execution of DON programs.

3. NCCA will contribute to a more efficient and transparent cost analysis process by serving as the focal point for cost analysis within the DON. NCCA shall serve as the Principal Advisor to DON leadership on issues of cost, budget risk and affordability. In addition to the responsibilities assigned to NCCA throughout established policy directives, NCCA will perform the following:

a. Review cost, economic and business case analyses presented to the Secretary of the Navy, Chief of Naval Operations (CNO) or Commandant of the Marine Corps (CMC).

b. Assess SYSCOM-generated Program Life-Cycle Cost Estimates for all Acquisition Category (ACAT) I programs. NCCA will additionally assess estimates for ACAT II programs as directed by the Assistant Secretary of the Navy (Financial Management and Comptroller). Assessments will be conducted to support program milestone decisions and updated annually in consonance with the Requirements and Resources Review Board (R3B) schedule of program reviews. Assessments will include an independent evaluation of risk and uncertainty and provide increased visibility and understanding of major program costs and cost growth. NCCA will review cost processes and key assumptions to ensure cost estimates are consistent with DON policy and guidance frameworks and collaborate with SYSCOM cost organizations to determine a common DON cost position for each program reviewed.

c. Perform non-advocate assessments for programs incurring Nunn-McCurdy breaches.

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d. Provide cost analysis support to joint programs where Navy or Marine Corps is not the lead service, to special interest programs where no single SYSCOM is the lead, and to pre-Milestone A programs where no SYSCOM lead has been designated. NCCA will generate independent estimates, sufficiency reviews or cost assessments as appropriate for each program.

e. Support Independent Price and Validation Teams, the R3B, and the acquisition gate review process.

f. Provide special cost studies and analyses to the Secretariat, CNO and CMC staffs.

g. Chair a DON Cost Estimating Stakeholders Group (CESG). The CESG will:

(1) Establish best practices and develop common cost estimating policy, processes, tools and standards across DON cost organizations.

(2) Oversee general plans for professional development and training.

(3) Address data availability issues and proactively address future analytical requirements.

(4) Develop and maintain cost and budget risk metrics.

(5) Oversee issues affecting the DON cost estimating community.

4. SYSCOM cost organizations will provide comprehensive cost analysis support and EVM analyses for all acquisition, non-acquisition pre-Milestone A, Rapid Deployment Capability and special interest programs. To achieve this level of support, SYSCOM cost organizations, as the cost competency leads, will oversee Program Executive Office (PEO) and Program Manager defined cost analysis, estimating and EVM analyses. SYSCOM cost organizations shall utilize demand-driven organic, non-organic, cost reimbursable or working capital fund resources to execute the following responsibilities:

a. Develop Program Life-Cycle Cost Estimates for all acquisition programs in support of milestone reviews.

b. Oversee development and review of cost estimates in support of Evaluations of Alternatives, Analyses of Alternatives and Business Case Analyses whether done by government personnel or contractors.

c. Serve as the approving technical authority for all outsourced program cost analysis support prior to SYSCOM Comptroller authorizing contract funding.

d. Support the Independent Price and Validation Teams, the R3B, and the acquisition gate review process.

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e. Support NCCA in reviews of cost estimates. Collaborate with NCCA to determine a common DON cost position for each program NCCA reviewed.

f. Support the PEOs and program managers with cost information to substantiate and inform budget formulation, justification, and execution.

g. Participate in DON CESG activities.

h. Maintain program cost documentation, justification and quality metrics for all cost products developed by the SYSCOM cost organization.

i. Review program plans for Contractor Cost Data Reports and Software Resource Data Reports and advise program managers on required data inputs.

j. Provide cost analysis capability in the areas of Integrated Logistics Support and Operating and Support costs.

k. Provide cost analysis in support of Echelon II command objectives including special studies, risk and uncertainty analyses, trade studies, industry studies, source selection cost evaluations, and strategic analyses.

l. Provide EVM program support. Support Estimate to Complete analyses, Schedule Risk assessments, Management Systems assessments, and Integrated Baseline reviews. Implement the use of common tools to collect, report, and manage EVM data.

5. Program managers shall utilize the cost and risk information provided by DON cost agencies for their programs. Cost estimates, earned value analysis and budget planning information provided by cost organizations shall be used to inform all relevant program management decisions. Program Manager financial positions counter to the provided information shall be fully documented and thoroughly explained to program decision making authority at appropriate decision, programming, budgeting and execution reviews. Program offices shall attain the approval of the respective SYSCOM cost competency prior to contracting for program cost support. To further achieve more responsive cost growth control, program managers shall be responsible for the following:

a. Develop as a basis for estimating a Cost Analysis Requirements Description (CARD) when a Program Life-Cycle Cost Estimate is required. The CARD shall include all program financial, technical and schedule assumptions.

b. Update the CARD annually. Annual updates should be made in conjunction with the R3B process or with appropriate reviews required by established acquisition directives. Updates should reflect all pertinent information that describes configuration changes; additional known programmatic, contractual, financial, or system information; reassessment of risk; and any other changes to the program that may affect its cost or cost risk.

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c. Attain a review of technical and programmatic requirements contained in the CARD from designated SYSCOM authorities before submittal of CARD to the appropriate cost organization(s).

d. Obtain SYSCOM cost organization review and acceptance of the CARD and all annual updates prior to final approval. The CARD for all ACAT IC and IA programs shall be reviewed and accepted by NCCA prior to final approval.

6. DON program resource sponsors shall utilize the cost and risk information developed by DON cost agencies for their respective programs.

7. Assistant Secretary of the Navy (Research, Development, and Acquisition), Assistant Secretary of the Navy (Financial Management and Comptroller) and SYSCOM Commanders will ensure performance of the specified functions and tasks by ensuring subordinate organizations are chartered and resourced appropriately. Lead program cost estimators and cost engineers who fill key leadership positions shall be qualified full time Department of Defense civilian or military employees.

8. This memorandum will serve as interim guidance for DON cost analysis until superseded by a published directive. Questions regarding this policy should be directed to Ms. Wendy Kunc, Director, NCCA, at 703-692-4889.



Donald C. Winter

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