



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

January 7, 2010

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Department of the Navy Service Cost Positions

References: (a) OUSD (AT&L)/ARA Policy Memo "Required Signed and Documented Component-level Cost Position for Milestone Reviews" of 12 March 2009
(b) SECNAVINST 5223.2 Department of the Navy Cost Analysis
(c) DoD Instruction 5000.02 of 02 December 2008
(d) SECNAVINST 5420.196 Department of the Navy Cost Analysis Improvement Group

Enclosures: (1) Service Cost Position Process
(2) Cost Review Board membership

1. This memorandum provides the process and policy for establishing and approving a Service Cost Position (SCP) for each Department of the Navy (DON) Acquisition Category (ACAT) ID, IC, IA, and selected ACAT II programs. This policy also applies to the establishment of an SCP for the naval component of joint ACAT I programs and other programs wherein the DON is expected to provide a Component-level cost position. SCPs will be established to serve as the DON Component-level cost position to comply with the requirements of the Office of the Secretary of Defense (OSD), Director for Acquisition, Resources and Analysis and Director, Cost Analysis Improvement Group (CAIG) as stated in reference (a) policy.
2. Consistent with reference (a), the Deputy Assistant Secretary of the Navy for Cost and Economics (DASN (C&E)) will be the signature authority for all DON SCPs. Systems Command Cost Directors will co-sign SCPs for ACAT ID programs. The SCP process is intended to consider cost inputs from all contributors to the cost estimating process. A depiction of the SCP process is provided in enclosure (1).
3. The SCP is the DON official life-cycle cost estimate of all resources and associated cost elements required to develop, produce, deploy, sustain, and dispose of a particular system. The SCP encompasses all past (or sunk), present, and future costs of the program of record, regardless of funding source. The life-cycle of a program is defined as program initiation through procurement of the last item plus the operational life of the item and disposal.

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4. SCPs shall be established for all Milestone A, B, C, and full-rate production decisions. SCPs shall be established whenever an Acquisition Program Baseline (APB) is established or updated for the program, or when otherwise directed by OSD. SCPs shall be reviewed and updated for all non-Milestone acquisition Gate Reviews. The SCP review and updates for non-Milestone decisions will be appropriately streamlined from that of the process for Milestone-based SCPs. The Director of Programming (Navy) or the Deputy Commandant, Programs and Resources (Marine Corps) will notify DASN (C&E) of an anticipated Gate Review or other requirement for an SCP prior to Gate 4. The respective acquisition DASN for the program will notify DASN (C&E) of an anticipated Gate Review or other requirement for an SCP for Gate 4 and all subsequent events. Notifications shall be made nominally six months before the SCP is required to be established, in concert with the requirements of reference (c). In cases where a program has breached a threshold and is establishing a revised SCP or a revised APB, the timelines described in this policy may need to be accelerated to meet the reporting directives related to the breach.

5. The SCP process starts four-to-six months prior to a program's acquisition decision meeting or Gate Review with a kick-off Cost Working-level Integrated Product Team (WIPT) meeting. This working-level meeting will establish the general schedule and the baseline of general assumptions for the cost estimate at the analyst level. The program office team will draft a Cost Analysis Requirements Description (CARD) to describe in detail all aspects and elements of the program throughout its life cycle phases, in accordance with references (b) and (c). The CARD forms the basis for program cost estimates. For non-Milestone Gate Reviews, only key sections of the CARD will be updated. The participating cost organizations will collect and share data, review and provide feedback on the initial iterations of the CARD, and begin developing cost methodologies.

6. For ACAT ID programs, Systems Command (SYSCOM) cost organizations will develop the Program Life-Cycle Cost Estimate (PLCCE) in accordance with reference (b). SYSCOM cost organizations will use a subject-matter expert (SME) peer review process to review details of the development of the estimate. During this time, the Naval Center for Cost Analysis (NCCA) will participate in the SYSCOM SME peer review process and collaborate with the SYSCOM to independently assess the SYSCOM estimate, consistent with reference (b).

7. The SME peer review process includes but is not limited to a detailed walk-through of all aspects of the estimate and a review of calculations, basis of estimate, assumptions, and methods. At least three peer reviews will be held prior to establishing the PLCCE at times that are appropriate to an initial, intermediate, and final review, which will allow NCCA to perform an assessment of the PLCCE. The schedule for the SME peer reviews

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will be established by mutual agreement between the SYSCOM and NCCA, to occur throughout the four-to-six month PLCCE development schedule. Read-ahead material shall be provided to maximize the efficiency of each peer review. SME peer reviews are expected to cover the following information, at appropriate times, throughout generation of the PLCCE:

- Discussion of the program schedule (development, production, fielding, etc.) and acquisition strategy.
- Estimate ground rules and assumptions.
- Detailed system and technical baseline description to the lowest anticipated Work Breakdown Structure (WBS) / Cost Element Structure (CES) level of the PLCCE, including weight and power budgets.
- Discussion of acquisition strategy.
- CARD review.
- Detailed WBS/CES including definitions.
- Comprehensive walk-through of the working cost model, including model methodologies, input variables, assumptions and inputs used in outside (i.e. standard, commercial, or government) models, as well as supporting data and data sources.
- Comprehensive walk-through of the risk/uncertainty approach, and methodologies used in the working cost model, to include the incorporation of technical and schedule uncertainty.
- In-depth walk-through and discussion of the estimate phasing methodologies and assumptions.

8. For ACAT IC and IA programs, the SYSCOM cost organization will develop the PLCCE, and NCCA will develop an Independent Cost Estimate (ICE) or Component Cost Analysis (CCA), respectively. The process and authority for establishing and reconciling the PLCCE and ICE/CCA for these programs is included in reference (d).

9. NCCA, the SYSCOM cost organization, and the program office will cooperate as much as possible during development of the independent assessment (ACAT ID)/estimate (ACAT IC and IA) and the SYSCOM-generated PLCCE without compromising the independence of the assessment/estimate. SYSCOM cost organizations and NCCA are expected to cooperate to facilitate an independent assessment beginning with the initiation of work on the PLCCE. NCCA and the SYSCOM will participate in all program cost IPT meetings and in meetings with OSD Cost Analysis and Program Evaluation (CAPE) analysts for DON programs. Throughout generation of the PLCCE and the independent assessment/ estimate, SYSCOM cost organizations and NCCA will share cost, technical and programmatic data. This includes

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providing the items relied on to develop the estimate such as the underlying assumptions, data, methodology, models, and program information.

10. Approximately two-to-three months prior to the required SCP signature date, an initial DON Cost Review Board (CRB) will be held with key stakeholders to review the technical and programmatic baseline as described in the CARD. Subsequently, the CARD will be finalized to respond to cost estimating organizations and program stakeholder comments, and the final cost analysis products will be generated.

11. The PLCCE that will be presented at the final CRB will be provided to NCCA one week prior to the final CRB.

12. A final CRB will be held no later than one week prior to the scheduled Gate Review or SCP due date. SYSCOM cost organizations will present the PLCCE, including assumptions, methodologies, and cost risk areas, to the DON CRB. NCCA will present their independent assessment or ICE/CCA results, including the independent assessment of cost risk, to the CRB. The final CRB will review all presented information needed to establish the program SCP, and will assess budget and funding profiles in light of the SCP.

13. DASN (C&E) will chair all DON CRBs. Each CRB will include representation from stakeholder offices and organizations, who will serve as principal advisors to DASN (C&E) for the establishment of the SCP, and who will advise on commitments or reservations to financially supporting the SCP in the programming and budgeting process. Membership of the CRB is provided in enclosure (2).

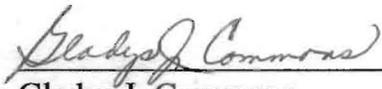
14. Program managers are expected to plan for the SCP process for all subject programs. Cost estimating support requirements should be identified as early as possible to supporting SYSCOM cost organizations. Program Managers will provide all information requested by the SYSCOM cost organization and by NCCA, in the time allotted, to allow generation of the PLCCE and the NCCA independent estimate or independent assessment of the SYSCOM PLCCE. At the initial CRB, Program Managers will present a detailed explanation of all major sections of the CARD and describe the process that was used to arrive at the technical and programmatic baseline, including the results of any independent reviews of the CARD. At the final CRB, Program Managers will present an overview of their program, including technical, schedule, cost, and acquisition risks, a detailed explanation of changes to the CARD, and the prospective Probability of Program Success (PoPS) total ownership cost estimating metric information.

15. DASN (C&E) will submit a signed SCP to the chair of the respective Gate Review and to the Assistant Secretary of the Navy (Financial Management and Comptroller) prior

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to the Gate Review. The SCP will be made available through NCCA for use by DON budgeting, planning and programming activities. Where the Department is required to certify funding support for a SCP to OSD, those documents will be staffed for dual signature by the Assistant Secretaries of the Navy for Research, Development & Acquisition and Financial Management & Comptroller.

16. This memorandum elaborates on policy promulgated in reference (b) and serves as interim guidance pending update of reference (d). Questions regarding this policy should be directed to DASN (C&E) at 703-692-4889.



Gladys J. Commons
Assistant Secretary of the Navy
Financial Management and
Comptroller



Sean J. Stackley
Assistant Secretary of the Navy
Research, Development, and
Acquisition

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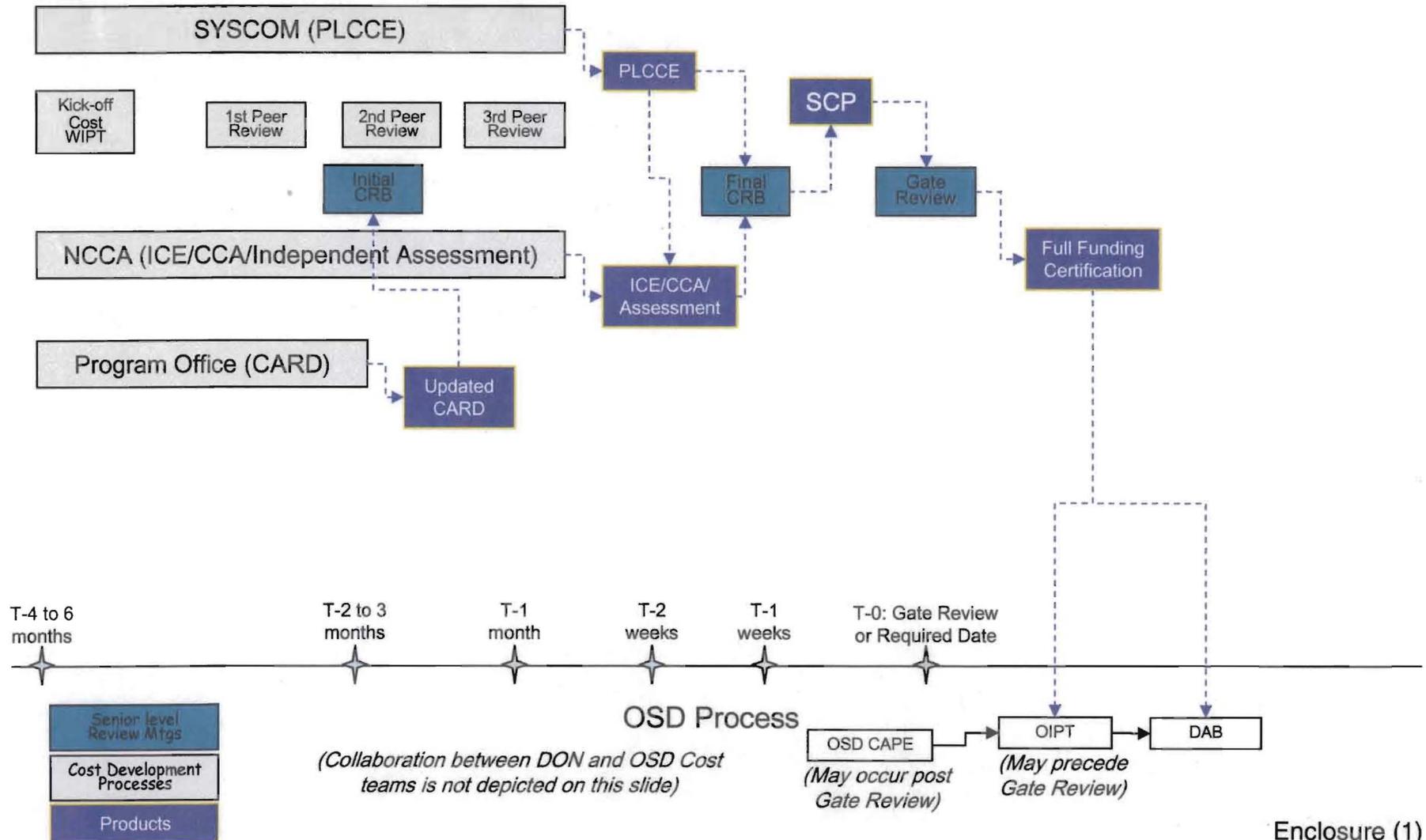
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DON Service Cost Position Process



Cost Review Board
Membership

Chair: Deputy Assistant Secretary of the Navy for Cost and Economics.

Principal members:

For all programs:

- a. Office of Program Assessments (OPA).
- b. Deputy Assistant Secretary of the Navy for Budget (FMB).
- c. Deputy Assistant Secretary of the Navy for the acquisition program.
- d. Program Executive Officer (PEO) of the program.
- e. Department of the Navy Chief Systems Engineer (ASN(RD&A) CHENG)
- f. Director of the respective Systems Command (SYSCOM) cost organization.

For all ACAT IA programs and other designated AIS programs:

- a. Department of the Navy Chief Information Officer (DON CIO).

For all Navy programs:

- a. Chief of Naval Operations, Director, Programming Division (OPNAV N80).
- b. Chief of Naval Operations, Director of Warfare Integration (OPNAV N8F).
- c. Chief of Naval Operations, Director, Training and Education (OPNAV N15).
- d. Deputy Chief of Naval Operations (Fleet Readiness and Logistics) (OPNAV N4).

For all Navy ISR, Cyber, C4, EW, Oceanography, Space and other information programs:

- a. Chief of Naval Operations, Director for Information Dominance (OPNAV N2/N6).

For all Marine Corps programs:

- a. Headquarters Marine Corps, Director of Programs Division.
- b. Director, Fiscal Division, Headquarters, United States Marine Corps.

Advisory Members:

Other program stakeholders will be invited to the board as required, in a non-principal role, depending on the nature of the program and responsibility assigned.