



THE ASSISTANT SECRETARY OF THE NAVY

(RESEARCH, DEVELOPMENT AND ACQUISITION)

1000 NAVY PENTAGON

WASHINGTON DC 20350-1000

MAY 21 2010

MEMORANDUM FOR DISTRIBUTION

Subj: Acquisition Program Cost Management

**Reference: (a) ASN(RD&A) memorandum "Acquisition Program Cost Growth; Management of Engineering Change Proposals" dated December 4, 2006
(b) ASN(RD&A) memorandum "Configuration Steering Boards Implementation Update" dated May 7, 2008**

Enclosure: (1) ASN(RD&A) Engineering Change Oversight Process

This memorandum consolidates and revises ASN(RD&A) policy on change order management. References (a) and (b) are cancelled.

Program managers are responsible for developing budgets that fully fund their programs and reflect reasonably the estimated cost of contract changes that will be required based on the program's technical risk. Once a program achieves program initiation, program managers are responsible for exercising the business judgment to minimize contract changes and execute within funding appropriated for the program.

Contract changes are recognized as both 1) a sometimes necessary aspect of weapon system acquisition; and 2) a potentially disruptive aspect to planned contract cost and schedule performance. They may also have adverse program impacts beyond the immediate contract. Contract changes should be used sparingly and in accordance with the following guidance. Program managers may proceed with engineering changes and non-engineering changes limited to the following areas:

- a. Safety - e.g., changes required to eliminate hazards to ship and aircraft components or personnel as officially documented by oversight organizations, including American Bureau of Shipping, US Coast Guard, INSURV, and COMOPTEVFOR.
- b. Contractual defects - e.g., correction of defective specifications, defective or unavailable Government Furnished Equipment (GFE), or defective or unavailable Government Furnished Information (GFI).

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- c. Unavailable Contractor Furnished Equipment (CFE) - e.g., form, fit, and function replacement of government specified CFE that is no longer available.
- d. Testing and trial deficiencies - i.e., necessary government-directed component system modifications derived from developmental or operational testing.
- e. Statutory and regulatory changes that are accompanied by funding.
- f. Value Engineering Change Proposals with instant contract savings.

Some life cycle cost reductions in the out years require investment within the FYDP. A contract change that will reduce life cycle costs at the expense of acquisition cost, may be submitted for consideration at the Configuration Steering Board.

As the Service Acquisition Executive (SAE), I am increasing the rigor and consistency of the contract change management process by imposing a limitation on the amount of funding a program manager may expend on engineering changes without Office of the ASN(RD&A) level review and approval. Enclosure (1) outlines this new process. Effective immediately, programs that are funded starting in FY2010 and out are limited to expending no more than 40% of engineering change funding in accordance with policies established in this memorandum where change funding is separately identified in a budget line-item. The remaining funds in a program's change order budget line item will be released to the program based on the outcome of Configuration Steering Boards (CSBs) that are held in conjunction with Gate Six Sufficiency Reviews.

For those programs where funding for changes is not identified by a separate budget line item, ASN(RD&A) and ASN(FM&C) will determine an amount representative of funding for change orders within the dollars appropriated. Forty percent of that amount will be released to the program manager; the remainder will be placed on hold and will be released to the program based on the outcome of CSBs that are held in conjunction with Gate Six Sufficiency Reviews. This is in no way a tax on the program, but an administrative hold of funds pending additional management scrutiny prior to release. If a program manager requires release of funding between regularly scheduled Gate Six reviews, the Program Executive Officer shall schedule an out-of-cycle Gate Six review through the appropriate product DASN.

When requesting change order funding above the 40% made immediately available, the program manager shall indicate the amount requested, the timing of release of funding and, at a minimum, address the following questions:

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- What were the changes funded at the program manager's discretion with the initial 40% of funds available?
- What changes are planned to be funded with the balance and which contracts are affected?
- When is the additional funding required?
- What is the cost impact of funded and proposed change orders on total life cycle cost, PAUC and APUC?
- What is the impact of the changes relative to Nunn-McCurdy thresholds?

This policy is applicable to all programs funded in FY2010 or later, categorized as ACAT II or higher.



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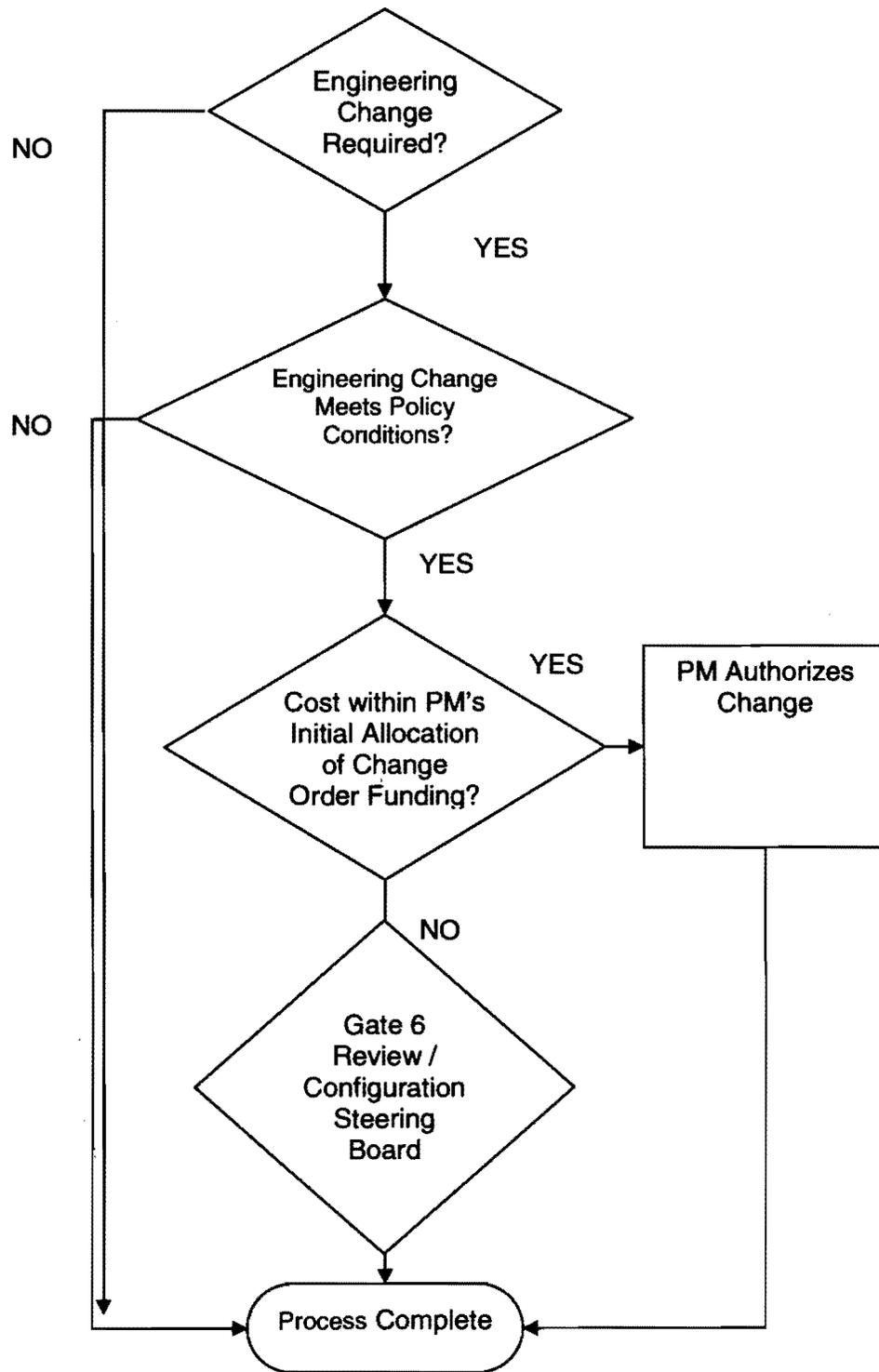
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ASN (RD&A) Change Order Oversight Process



Enclosure (1)