Defense Logistics Agency Instruction

Value Management

References: Refer to Enclosure 1.

1. PURPOSE.

   a. This Defense Logistics Agency Instruction (DLAI) provides guidance and direction for conducting the DLA Value Management (VM) Program. VM is an organized effort that analyzes functions of systems, subsystems, equipment, services, and supplies for the purpose of achieving the essential functions at the lowest life-cycle cost consistent with required performance, reliability, quality, and safety. DLA uses "Value Management" or "VM" as the overarching term when referring to the Value Engineering (VE), Price Challenge, Replenishment Parts Purchase or Borrow (RPPOB), Reverse Engineering, Sustaining Engineering, Should Cost, Spare Parts Breakout, and the VE Change Proposal (VECP) Programs.

   b. VM performance aims to reduce cost, increase productivity, and improve reliability and maintainability. Office of Federal Procurement Policy Act 41 U.S.C. 432, (Title 41 United States Code, Chapter 7, Section 432, Value Engineering) requires VM performance in accordance with that law. VM performance further aims to ensure realistic budgets, identify and remove nonessential capital and operating cost, and improve and maintain optimum quality of program and acquisition functions.

   c. VM activities focus on ensuring that the customer receives the right item at the right price.

   d. Achieved cost savings/avoidances serve as the main metric for this process. Other metrics include the number of projects developed and implemented, average processing time, and number of people trained.

   e. VM serves as a major contributor towards achieving the Agency’s strategic goal by providing best value supplies and services, reducing costs, improving efficiency and increasing effectiveness.

2. APPLICABILITY. This DLAI applies to Headquarters (HQ) DLA and the DLA Primary Level Field Activities (PLFA).
3. POLICY. DLA must fully utilize VM to reduce the cost and/or complexity and increase the military worth of services, supplies, and equipment so as to provide the optimum value for expenditures made. DLA policy directs each PLFA to establish and maintain a VM Program that involves a coordinated PLFA-wide effort to assure implementation of the DLA VM Processes and Sub-Processes contained in this chapter.

4. RESPONSIBILITIES. Refer to Enclosure 2.

5. PROCEDURES. Refer to Enclosure 3.

6. EFFECTIVE DATE. This Instruction is effective immediately.

   Director, DLA Support Services  
   October 24, 2003

   Executive Director, Materiel Policy, Process 
   & Assessment (J33)
   February 23, 2011

8 Enclosures
   Enclosure 1 – References
   Enclosure 2 – Responsibilities
   Enclosure 3 – Procedures
   Enclosure 4 – Standard Procedure for Calculating VM Savings
   Enclosure 5 – Sample Format PLFA VM Program Plan
   Enclosure 6 – DoD/IG Issue Resolution Agreement: Defining Value Engineering for Reporting Purposes
   Enclosure 7 – Sample Format of Agreement for Purchase of Replenishment Spare Parts
   Enclosure 8 – Sample Format of Agreement for Bailment of Government Property
Enclosure 1
References

3. Federal Acquisition Regulation Part 48 and Par 52,248-1, 2, & 3.
4. DFARS PGI 217.7506, Spare Parts Breakout Program.
6. DOD Directive 4140.57, DOD Replenishment Parts Purchase or Borrow Program.
11. DCMAD 1, Contract Management, Section 7.2.2., Value Engineering.
15. DLA 3200.1, Engineering Support for Items Supplied by DLA and GSA.
16. DLA Awards and Recognition Program
Enclosure 2
Responsibilities

1. The Chief, Technical and Quality Assurance (J-3314) must:
   a. Provide planning, programming, and policy guidance for the DLA VM Program.
   b. Evaluate DLA implementation of the program.
   c. Designate the DLA member of the DOD VE Management Advisory Group.
   d. Establish DLA-wide and specific PLFA objectives, monitors progress against these objectives, and makes planning and progress adjustments based on program execution.
   e. Provide Million Dollar Club awards for eligible employees.
   f. Manage the overall DLA Price Challenge Process, and provide policy guidance and oversight for the DLA Price Challenge process.
   g. Manage the overall DLA Replenishment Parts Purchase or Borrow (RPPOB) Program and provide policy, guidance, and oversight for the RPPOB Process.

2. DLA Finance, J-8, manages the overall DLA Price Verification Process and provides policy for out-of-cycle pricing.

3. The Commanders of DLA PLFAs must:
   a. Establish and maintain a PLFA VM Program. The program must involve a coordinated PLFA-wide effort to assure implementation of the DLA VM procedures (see enclosure 3).
   b. Direct the initiation of VM projects and studies to seek to improve the value of systems, equipment, facilities, services, and supplies. The VM projects aim to reduce costs and improve quality and schedules.
   c. Ensure all contracts for $25,000 or more, other than standard commercial parts, contain a VE incentive clause. (See Defense Logistics Acquisition Directive, Part 48, Value Engineering).
   d. Seek the agreement of the Military Service(s) affected by technical and engineering aspects of VM changes.
   e. Designate a full-time functional VM Program Manager (VMPM) to manage the VM Program and provide a point-of-contact with HQ DLA, other PLFAs, Military Services, and with industry on VM matters. Program adequate resources to ensure achievement of established objectives and goals. (See DOD 7000.14-R (http://www.dtic.mil/whs/directives/corres/html/700014r.htm).
   f. Ensure that under the basic VM philosophy, the VM office acts as a catalyst for the overall savings process and applies VM disciplines in all elements of their line organization.
Therefore, each VMPM ensures the establishment of an effective in-house VM training program that provides orientation and indoctrination in the application of VM principles for contracting, technical, supply, and other appropriate PLFA personnel. These VM principles become an integral part of their regularly assigned duties. VMPMs ensure that value engineers/analysts, VM coordinators, and other personnel assigned to VM complete a minimum of 40 hours of workshop-type training at a Government training facility or industry seminar. In addition, the VMPMs provide for the continuous improvement of PLFA professional and technical VM capability, through attendance by the VMPM himself, and other selected personnel at advanced and refresher training courses, and at local and national trade, industrial, professional, and management meetings and conferences.

g. Delegate responsibility to the VMPM to validate all VM actions originating within the PLFA. In addition, designate the VMPM’s first-line supervisor to verify VM actions with reported savings of $500,000 or more. Subsequently, forward those VM actions with savings exceeding $1 million to the appropriate commodity or product center director/deputy director for coordination before they are reported with final concurrence from Headquarters. (This review does not apply to follow-on savings.)

h. Require value engineers/value analysts to submit an OGE Form 450, Confidential Statement of Affiliations and Financial Interests, on an annual basis where applicable.


j. Establish, maintain, publicize and make Price Challenge Processes available to all PLFA personnel.

k. Designate the Value Management Program Manager as the focal point responsible for providing management oversight of the Price Challenge Process and or monitoring the results of reviews of price challenges, including savings, recuperation, and average processing days as necessary, to ensure the conduct of an effective Price Challenge Process in accordance with DoD 4140.1-R. The designation of an alternate focal point requires the approval of HQ DLA (Technical and Quality Assurance (J-3314)).

l. Submit annual program plans to HQ DLA (Technical and Quality Assurance (J-3314)) in accordance with Enclosure 4.

m. Establish an RPPOB process in the VM Office at each PLFA.

n. Designate the VM Program Manager (VMPM) as the focal point for the RPPOB process at each PLFA.

o. Ensure that the Competition Advocate (COMPAD) and Small Business Office inform contractors of the availability of the RPPOB Program and encourage their participation, if appropriate.

p. Seek the agreement of the Military Services when the RPPOB Program requires evaluation of data or sources for engineering critical components/items of supply.
q. Utilize the VE Program to promote RPPOB and provide training, where necessary, to contracting, technical, supply, and other PLFA personnel and contractors as part of their duties.

r. Ensure that accountability is maintained for replenishment parts loaned to contractors.

s. Designate warranted personnel to execute agreements for sale or bailment of items of supply for purposes of the RPPOB process.

5. The Value Management Program Manager:

a. Maintains control and program responsibility for the following programs/initiatives: Value Engineering, Price Challenge, RPPOB, Reverse Engineering, Sustaining Engineering, Should Cost, Spare Parts Breakout, and contractor VE Change Proposals.

b. Provides planning, programming, and policy guidance for all VM programs/initiatives and promotes and monitors the use of them.

c. Evaluates the effectiveness of VM programs/initiatives by establishing DLA-wide objectives, monitoring progress against these objectives, and adjusting processes, as required.

d. Identifies items whose functions appear not to be commensurate with their costs. Initiates and conducts VM projects on these items. Maintains a workload of active projects that constitutes the major portion of the projected VM effort. Additionally, applies VM techniques wherever DOD can likely achieve savings.

e. Promotes and monitors the use of the Federal Acquisition Regulation (FAR) VE incentive clauses in supply and service contracts. Advises the cognizant Defense Contract Management Agency Division of contractors where orientation visits can likely increase the submission of VECPs. Assists in and encourages the submission of VECPs through contact with DCMA and contractors and, when appropriate, plans visits in conjunction with DCMA.

f. Controls all efforts related to the administration of VECPs including coordination with Engineering Support Activities/Specification Preparing Activities (ESAs/SPAs) for technical evaluation, serves as a liaison for DCMA elements and provides instruction and recommendations to the Procurement Contracting Officer (PCO) for compliance with the Value Engineering Incentives (VEI) clause in the contract concerning implementation of approved VECPs, negotiations of royalty sharing percentages and sharing periods, and timely payment of royalties to the contractors.

g. Promotes and fosters the submission of VM proposals, recommendations, or suggestions from all sources which would result in overall cost reductions by application of VM techniques. Provides a means for evaluating and reporting VM savings generated by other PLFA personnel.

h. Maintains coordination with elements responsible for other established processes, such as those to improve reliability, quality assurance, standardization, maintainability, and competitive acquisition.
i. Maintains a liaison, including on-site visits, as deemed appropriate with users, developing agencies, contractors, suppliers, and activities responsible for the design, development, standardization, quality assurance, preservation, packaging, storage, and distribution of assigned supplies and equipment.

j. Utilizes provisions of DLA Awards and Recognition Program Instruction to provide full recognition of DLA personnel whose VM Proposals merit award.

k. Promotes interchange and dissemination of VM information with HQ DLA, other PLFAs and Government Agencies, private industry, industrial associations, and technical, management, and professional societies. Keeps abreast of latest technological and engineering developments and production methods, processes, and materials, and utilize advances whenever possible.

l. Ensures control of all efforts related to the Price Challenge Process.

m. Controls all efforts related to reverse engineering (including contracting out reverse engineering services) and the DLA RPPOB Process in accordance with DoDI 4140.57.

   (1) Administer the RPPOB Program, including sale and loan of stock and preparing reports and other documentation, as required.

   (2) Ensure that rules governing the RPPOB process are followed.

   (3) Coordinate with the COMPAD Branch and Small Business Office promotional efforts to stimulate contractor participation.

   (4) Develop local procedures to provide for coordination, as necessary, of local loan or purchase requests/agreements with appropriate directorates, including Contracting and Supply Operations.

   (5) Provide HQ DLA (Technical and Quality Policy Assurance (J-3314)) with information copies of VE studies/projects that result in savings from RPPOB efforts on an as-requested basis.

n. Controls all efforts related to the Spare Parts Breakout Process.

o. Selects and develops at least one example of an outstanding VM action each fiscal year for use as a display, exhibit, or as training aid.


q. Prepares a PLFA VM Program Plan annually. (See Enclosure 5, “Sample Format PLFA Value Management Program Plan.”).

r. Submits Honorary DOD VE Achievement Award nominations annually.

s. Reports employees who qualify for membership in the VM Million Dollar Club to HQ DLA (Technical and Quality Assurance (J-3314)) no later than 60 days after date of eligibility.
t. Manages the PLFA “Should Cost” Process. Ensures that intrinsic value analyses support acquisition personnel and support responses to price challenges.

u. Acts as the principal technical focal point for competition and pricing initiatives. Coordinates with the competition or pricing element, as applicable, in the identification, compilation, and prioritization of competition and pricing projects.

v. Controls all efforts related to the administration of VECPs including coordination with Engineering Support Activities/Specification Preparing Activities (ESAs/SPAs) for technical evaluation, serves as a liaison for DCMA elements and provides instruction and recommendations to the Procurement Contracting Officer (PCO) for compliance with the Value Engineering Incentives (VEI) clause in the contract concerning implementation of approved VECPs, negotiations of royalty sharing percentages and sharing periods, and timely payment of royalties to the contractors.

w. Calculates savings resulting from VM studies and proposals in accordance with the Standard Procedure for Calculating VM Savings (see Enclosure 6). When circumstances for a specific project do not fit the examples presented in Section 5.2, the VMPM calculates the savings based upon a common-sense conservative approach and can defend that approach in an audit.

6. VM Definitions:

a. Bailment Agreement. An arrangement between the Government and contractor whereby the Government makes available through a sale or loan agreement a sample item of supply to a contractor so that the contractor may perform reverse engineering or other Value Engineering methodology on the sample item, thus enabling the contractor to bid on future competitive contracts.

b. Catalog Price. The Federal Logistics Information System (FLIS) prices appearing in segment H of the Total Item Record (TIR).

c. Commercial and Government Entity (CAGE) Code. A five-digit alphanumeric code assigned by Defense Logistics Information Service (DLIS) to identify in the Federal Catalog System establishments which are manufacturers of, have design control of, or are registered suppliers of items of supply procured by the Federal Government.

d. Cost Estimate. An estimate, generally built up from the individual elements of cost (materiel, labor, and other resources) and profit required by a cost-efficient source of supply to produce an item in an economic order quantity and/or other quantity.

e. Critical Safety Item. A part so crucial that independent malfunction or failure could be catastrophic and result in personal injury or loss of life, jeopardize a military mission, or result in a loss of a military weapon system or equipment. Engineering critical parts require special documentation, controls, and testing beyond normal requirements.
f. Direct Purchase. An arrangement between the Government and contractor whereby the Government makes a sample part available by direct purchase. This method minimizes the management and administration impact to the Government and is the preferred method.

g. Domestic Business Concern. A business concern having its principal place of business in the United States or its territories and possessions.

h. Federal Logistics Information System (FLIS). A centralized data bank maintained by the Defense Logistics Information Service (DLIS), Battle Creek, MI, in support of DOD, civil agencies and foreign countries participating in the integrated data program.

i. Item of Production. Those pieces or objects grouped within a manufacturer’s identifying number and conforming to the same engineering drawings, specifications, and inspection.

j. Item of Supply. A single item of production, or two or more items of production that are functionally interchangeable or that may be substituted for the same purpose and that are comparable in terms of use.

k. Life Cycle Costs. Costs involved in the total life of the assembly or component. Includes maintenance and replacement costs and cost of replenishment.

l. Modification. A Government approved change in the configuration of a part or item which offers a significant benefit to the Government by correcting deficiencies, satisfying a change in operational or logistic support requirements, or affecting a substantial life cycle cost savings.

m. Price Challenge. A price inquiry that provides specific detailed information indicating potential overpricing that merits an in-depth review.

n. Price Inquiry. A suggestion, question, or recommendation made about the price of an item of supply. Any subsequent referral for further review must be as either a “price challenge” or “price verification.”

o. Price Verification. A price inquiry that involves clear price discrepancies (between a catalog price and a billing price, contract price, or prior catalog price). Inquiries on non-stocked items should be processed as verification requests. Price verifications must be forwarded to the PLFA Comptroller for evaluation and processing.

p. Replenishment Part. Repairable or consumable part required to re-supply initial stock or increased stock for reasons other than support of newly fielded end items. As used in this regulation, the term “part” includes subassemblies, components, and subsystems.

q. Reverse Engineering. A process by which parts are examined and analyzed to determine how they were manufactured, for the purpose of developing a complete technical data package. Reverse engineering may be done in-house or by contractors.

r. Sample. An item of production owned by a DOD Service/Agency which meets the item of supply concept for a specified replenishment part.
s. Technical Data Package (TDP). A technical description of an item adequate for acquisition and engineering support. The description defines the required design configuration and ensures adequacy of item performance. A TDP consists of all applicable technical data such as plans, drawings and associated lists, specifications, standards, models, performance requirements, quality assurance provisions, and packaging data.

t. Total Item Record (TIR). The portion of the FLIS data bank containing all available information on NSNs necessary for identification and logistical support.

u. Unlimited Rights. Rights to use, duplicate, or disclose technical data or computer software in whole or in part, in any manner and for any purpose, and to have or permit others to do so.

v. Design Unstable Part. The design of a part is considered to be unstable if its engineering, manufacturing, or performance characteristics (or those of the component for which it is a part) indicate that the required design objectives have not been achieved and major changes are contemplated to “input-output” or “form-fit-function” characteristics; these changes would render the part obsolete and unusable in the present configuration.

7. VM Terms:

a. Value Engineering (VE). A systematic function analysis leading to actions or recommendations to improve the value of systems, equipment, facilities, services, and supplies. The objective is to improve quality, reduce cost, and improve schedules. (Terms such as value analysis, value control, value improvement, and VM are synonymous.)

b. Value Engineering Proposal (VEP). A specific proposal by DOD personnel for value improvement through the use of VE techniques.

c. Value Engineering Change Proposal (VECP). A change proposal submitted by a contractor pursuant to the VE incentive clause in the contract that results in an acquisition and/or collateral savings to DOD and requires a contract modification.

d. VE Study. A VE study is an analysis of an opportunity to achieve essential function, performance, and quality at minimum cost. The VE study is a purposeful approach utilizing analytical techniques that may be conducted by an individual or by a mixed team of specialists from many disciplines.

e. VM Million Dollar Club. A group of DLA employees other than VM staff members who each have developed or assisted in the development of at least one million dollars in VM savings. For savings achievement of $1 and $3 million, plaques will be provided with a letter signed by the Executive Director, Materiel Policy, Process and Assessment. Five Million Dollar club letters will be signed by the Director, Logistics Operations & Readiness. Ten Million Dollar club award letters (and above) will be signed by the Director, DLA.
f. Intrinsic Value Analysis/“Should Cost.” An engineering cost estimate of an item assembly or a system which includes a complete cost breakdown of material, labor, testing, packaging, set-up and manufacturing charges, overhead and profit, etc.

g. Replenishment Parts Purchase or Borrow (RPPOB). A process that permits a U.S. Domestic business to purchase or borrow repairable or consumable parts from the federal government to replicate (reverse engineer) the item and become an alternate source of supply. RPPOB is commonly referred to as the Bailment Program.

h. Spare Parts Breakout. A technical review (screening) of an item that may result in an improvement of its acquisition status. The objective is to reduce cost through the use of competitive methods, or the purchase of parts directly from the actual manufacturer rather than the prime contractor.

i. Sustaining Engineering (SE). Technical activities that reduce the total ownership cost or improve the readiness of existing weapons systems. These activities can include updating designs, introducing new materiels, or revising product, process, and test specifications. SE was established to maximize savings in the reliability and maintainability area and encourages the assistance of the Military Services and contractors to identify and improve DLA-managed items that the military customers find to be problematic.

j. VM Savings:

(1) Direct VM savings are those implemented and documented as a result of value engineering or value analysis by the VM office. An audit trail must be maintained and describe the VM office effort. Savings are not reportable as direct when the VM office effort consists only of computation of savings and/or administrative handling and recording of the VM project.

(2) Indirect VM savings are those developed by PLFA or DOD personnel outside of the VM office who have been exposed to the application of VM principles or techniques, therefore, motivated to produce cost savings.

(3) Contractor VE savings result from an approved VECP submitted by a contractor as negotiated with the Procurement Contracting Officer (PCO) in accordance with the Value Engineering Incentives (VEI) Clause in the contract. The Government’s share of the savings must be reported by the VMPM upon receipt of a signed contract modification that reflects payment to the contractor. The audit trail must include the contractor proposal and all subsequent PLFA actions related to the VECP.

(4) Within DLA, VM savings actions are reported in accordance with DoD Guidance and Office of Management and Budget Circular A-131. Recurring savings must be reported for a maximum of six years (initial year and the five subsequent years). VM follow-on savings are reportable for procurements incorporating the adopted VM proposals that are generated within six years from the date of the first contract awarded that includes the VM proposal. (In the event that no follow-on procurement is initiated within six years, the next procurement utilizing the VM proposal must be counted regardless of the date.) On projects that realize life cycle savings, allowable savings may be reported annually up to ten years or the life of the item if less than ten years.
Enclosure 3
Procedures

1. Value Management (VM)/Value Engineering (VE):

a. Selecting In-House Study Projects. Establish a procedure for a continuing survey of DLA-managed items. The survey identifies candidate items or families of items for in-depth VM studies that provide a potential return on investment of at least 10 to 1.

b. Conducting VM Studies. When potential savings warrant, conduct a VM study organized either by groups or individuals (i.e., buyers, engineers, production personnel, or others). In either case, utilize and document applicable elements of the VM discipline. Assign a VM project number at the onset of the VM study effort. The project number facilitates the identification of the study and any follow-on VM proposals throughout the life of the project. Cancel a VM study at any time when it demonstrates that resulting savings do not likely fall in range that warrants continuing the study.

c. Documenting Proposals. Document each proposal in accordance with the DOD Inspector General (IG) Issue Resolution Agreement (see Enclosure 6). Within the scope of each proposal, conduct direct contact between the PLFA and the Engineering Support Activity (ESA) of the appropriate Military Service according to the requirements of DLAI 3200.1, Engineering Support for Items Supplied by Defense Logistics Agency and General Services Administration. Clear and document all known factors supporting the proposal so that the decision authority can evaluate the proposal and render a timely decision.

d. Processing Proposals. In-house VM proposals result from VM studies. Send acknowledgment of receipt of a VM proposal to the originator within 15 working days. VM proposals may result in approval or disapproval of the recommended VM action. Approved VM proposals serve as the basis for reported actual savings to HQ DLA.

e. Process proposals that require a change to a specification, standard, or purchase description through the Preparing Activity or to the ESA in accordance with DLAI 3200.1

f. A VECP must receive expedited processing. Assign a project number upon receipt of the VECP. Within 10 working days of receipt in the VM office, the VM Program Manager (VMPM) must forward the package to the ESA/Specification Preparing Activity (SPA), along with additional information or recommendations that may help in their evaluation. Conduct follow-up with the ESA/SPA every 30 days unless the contractor and Service agree to a more liberal timeframe. Notify the contractor, in turn, of the status of the proposal, including the estimated decision date, within 45 calendar days in accordance with the Value Engineering Incentive (VEI) Clause in the contract. The PCO, upon receipt of recommendations from the evaluating authority, furnishes written notice of a VECP approval or the comprehensive reason(s) for the rejection of a VECP to the contractor. If the contractor, upon receipt of a non-acceptance of the VECP, still desires clarification of the Service’s position, the VMPM acts as the interface between the contractor and the Service in attempting to satisfy the contractor’s concern. On those occasions where correspondence or telephone conversation cannot resolve the problem, the VMPM may bring interested parties together for a meeting. Consideration as to the
potential value of the VECP governs the decision on this course of action. Furnish copies of all correspondence to the Administrative Contracting Officer (ACO), when administered by Defense Contract Management Agency (DCMA), and to the VMPM for retention in pertinent files. Royalty payments to the contractor must comply with the VEI clause in the contract.

g. Normally, a VEP supported by a well-documented study provides sufficient data for the decision authority to make a timely decision. In the event of inordinate delay in obtaining a decision, or where the PLFA does not accept the rendered decision and the Commander’s follow-up and/or reclaim actions prove unsuccessful, the VMPM must refer the case to HQ DLA (Technical and Quality Assurance [J-3314) for follow-on action and decision in accordance with DLAI 3200.1.

h. Each VMPM submits quarterly progress reports using the VM template contained in eWorkplace within the VM Collaboration Room. The reporting element maintains documentation to support the report to provide an audit trail.

i. Each VMPM prepares an annual PLFA VM Program Plan and submits it to HQ DLA (Technical and Quality Assurance (J-3314) 10 working days after the start of the fiscal year. See sample format at Enclosure 4.

2. Intrinsic Value Analysis (“Should Cost”). Process a request for an intrinsic value analysis, if possible, within the timeframe requested by the submitter. If the submitter does not provide samples or sufficient data to perform an intrinsic value analysis, the VM office promptly notifies the submitter and states that they will reopen the case as soon as data becomes available. They also state to the submitter that he has engineer/technician services available to assist him in negotiation of any related contract or settlement of a price challenge.

3. Price Challenge:

a. All PLFAs must:

   (1) Encourage the submission of price challenges by publicizing a local hotline number.

   (2) Evaluate and resolve all price challenges.

   (3) Acknowledge to the submitter receipt of their price challenge within 5 working days, together with an anticipated completion date.

   (4) Track all price challenge requests and furnish timely status updates to the submitter until completion.

   (5) Report the results of all price challenge reviews to the submitter within 90 days of receipt.

   (6) Aggressively pursue price reductions/recoupment in cases of contractor overcharging.

b. DLA ICPs must reply directly to the submitter.
c. Required information for Price Challenges include:

(1) National Stock Number (NSN) (provide manufacturer’s part number and applicable Commercial and Government Entity (CAGE) code, if available).

(2) Item Name (if unknown, provide common nomenclature).

(3) Catalog or other unit price questioned.

(4) Source of price questioned.

(5) Point of contact (inquirer and screener)—name, office symbol or code, address, e-mail address, and DSN and commercial telephone numbers. Include the FAX number, if available.

d. In addition to the information required above, submission of a Price Challenge should include substantial evidence that the item is significantly overpriced and should include, but is not limited to, the following:

(1) Substitute/interchangeable item (i.e., same form, fit and function) with a substantially lower price. Identify similar NSN and its catalog unit price, or nomenclature, CAGE code, vendor’s name, and vendor’s part number.

(2) Similar/equivalent item (i.e., comparable size and function) with a substantially lower price. Identify similar NSN and its catalog unit price, or nomenclature, CAGE code, vendor’s name, and vendor’s part number.

(3) Alternate source with a substantially lower price. Identify nomenclature, CAGE code (name, address and telephone number) of alternate source, unit price, and the vendor’s part number.

(4) Kit price, or other end item price, versus component item price disparity.

(5) Cost estimate of what the submitter believes the item should cost, with supporting rationale.

(6) End item application or intended item usage.

(7) A sample of item (even if damaged), if practicable; otherwise, a drawing, photograph, dimensioned sketch, or photo static copy of the item(s).

e. Price Challenge Responses. Responses for price challenge referrals answer the following questions:

(1) What factors (buy quantities, sole source procurement, file error, etc.) resulted in the challenged price? (If the basis cannot be determined, a cost estimate or other analysis is required to determine whether overpricing occurred.)
(2) Why is the challenged price considered reasonable or over-priced? (The existence of price competition does not automatically preclude overpricing.)

(3) If overpricing existed, what is the date and amount of recoupment and/or the date and nature of any related corrective actions?

(4) What are the total savings/benefits and costs associated with the price challenge implementation? (See, DLA Awards and Recognition Program Instruction.) If savings cannot be calculated at the time of approval, then include a projected savings (based on past contract history, estimated future demand etc.) in the response and also include a projected implementation date.

(5) What corrective action will be taken and estimated implementation date?

(6) Does the response adequately describe the evaluation results in a clear understandable manner?

f. Recognition/Award.

(1) If a price challenge results in a savings/benefit to the Government, the challenger may elect to submit his/her approved price challenge results through their local Employee Suggestion Program to be eligible for a cash award or some other form of recognition. (See, DLA Awards and Recognition Program Instruction.) At the discretion of challenger’s supervisor, recognition may also be considered through local incentive awards.

(2) The evaluating ICP must in its response indicate the savings/benefit as well as any costs resulting in the adoption of the price challenge. (See paragraph 3.f. (4) above.)

4. Forms and Reports:

a. DLA Form 1801 (Price Inquiry). DLA personnel may submit price challenges using DLA Form 1801. The DLA Form 1801 is located at: https://eworkplace.dla.mil/sites/org3/des/Shared%20Documents/DLA%20Forms%20Library/DLA/dl1801.pdf.

b. Price Challenge Program Report. Each PLFA maintains monthly statistics and reports them to HQ DLA (Technical and Quality Assurance (J-3314)) on an as needed basis. The elements tracked in order to measure the success of the Program include:

(1) Number of price challenges received - Army, Navy, Air Force, Marine Corps, DLA, DOD Hotline, other.

(2) Percent of receipts acknowledged within 5 working days (date of receipt to date response is returned).

(3) Number and age of price challenges in process at month’s end (backlog) for 0 to 30 days, 31 to 60 days, 61 to 90 days, 91 to 180 days, 181 to 270 days, 271 to 365 days, and over 365 days.
(4) Number of challenged items determined to be overpriced.

(5) Number of voluntary refunds requested.

(6) Number, dollar value, and average receipt time of voluntary refunds received.

(7) Number of price challenges resulting in a logistics/pricing problem being fixed (i.e., new source added, cancel duplicates, refund, eliminated from noncompetitive automated system, etc.).

(8) Dollar value of savings resulting from actions initiated as a result of inquiry.

5. Replenishment Parts Purchase or Borrow (RPPOB):

a. DOD has a policy to lower costs through competition and product simplification. Therefore, make sample parts available to domestic business concerns when a determination indicates that this action serves the best interest of the Government. That determination includes consideration for national security requirements, inventory needs, the probability of future purchases of parts, criticality of the part, and any additional restrictions required by law. The law requires DLA to promote and provide for full and open competition. This process provides another avenue to foster competition within provided constraints. The high degree of visibility being offered to the RPPOB Program requires that DLA make every effort to use it in a clear, open, and consistent manner. DLA must respond to contractors in a timely and factual manner. The Commanders of PLFAs must fully utilize this process. More detailed procedures regarding RPPOB and reverse engineering may be found at Appendix B37 of the DLA Technical Quality Deskbook.

b. Contractors must submit requests for parts from DLA inventory by email, Fax, or letter to the responsible DLA Bailment/RPPOB officer at the respective PLFA. Since physical and other technical characteristics may vary from item to item, depending on manufacturing tolerances as well as the nature of the item, it is recommended that a minimum of three parts be used when taking measurements. The request shall:

(1) Identify the Company, the name of the Officer, and position of the Officer making the request.

(2) Identify the National Stock Number (NSN), quantity required, and for bailments only, the duration of time borrowed part is required.

(3) Indicate their intent to purchase or borrow the part.

(4) Disclose if the item will be reverse engineered and/or modified for subsequent offer or sale to the Government.

(5) Calculate the potential benefit to the government (savings).
(6) Indicate (for Kitting NSNs only) their intention (i.e. supply the items via approved sources or RE some or all the items.)

c. RPPOB Determination Criteria. The PLFAs may approve written requests from potential contractors to view or obtain parts on a loan or purchase basis that meet all of the following criteria:

(1) Must not be a suspended or debarred contractor.

(2) Must be a domestic business concern having its principal place of business in the United States or its territories and possessions as stated in DODD 4140.57.

(3) Must not have been awarded any past contracts for the item in question. Exceptions may be made when in the best interest to the Government.

(4) Must not be an item procured using full and open competition citing drawings and/or standardization. This provision applies to items with Acquisition Method Suffix Codes (AMSCs) other than “G” or “T.”

(5) Must not be an item procured using source control documents unless the action is deferred by the design control activity. This provision applies to items with AMSC “B.”

(6) The actual procurements of the part over the past two years exceed $10,000 each year or if it is in the best interest of the Government to do so.

(7) The law does not prevent the loaning, viewing, or selling of this part.

(8) The part is not classified and is not marked as being subject to one or more patents or as “patent pending” or patent applied for.

(9) The loan or sale of the part does not adversely affect or deplete supply quantities.

(10) The development of a TDP for the part cannot disclose critical technology with regard to military or space applications. Make this determination in accordance with the provisions of DoD Directive 5230.25.

(11) The part has limited or reduced sources of supply due to the non-availability of a TDP, an incomplete TDP, or a TDP that contains limited rights data. The Government may issue parts with TDPs containing partial data with limited rights if the Government does not release the limited rights data to potential manufacturers or suppliers. Before processing, an attempt to acquire the data from the OEM, previous manufacturing sources or other design controlling entity is required. If the rights can be purchased, an economic decision based on the estimated cost to RE verses purchase of the data should be performed. The economic evaluation as well as the RE effort itself should be coordinated with or performed by the VM Office. If the data can be acquired, check Block 15.d of the DLA Form 339 and send it to the appropriate ESA for approval.
(12) The total cost of local evaluation. ESA initial evaluation ($500.00 per each ESA); ESA review of the RE SAR ($1,500.00 per each ESA), plus any additional known costs should be calculated by the VM Office before continuing the RPPOB effort. Potential savings will be verified before proceeding to the next step.

d. If denied for any of the above reasons, and/or the offer is not in the best interest of the Government, a letter will be sent back to the contractor explaining the reason for rejection.

e. Develop alternate sources of supply through this process when appropriate under the Federal Acquisition Regulation, subpart 6.202. Furthermore, the Sale or Loan of an item through Bailment enables a potential alternate source to reverse engineer an item. If the item is critical or weapon system coded, obtain the required ESA approval via DLA Form 339 before you consider reverse engineering. If the ESA approves the Reverse Engineering project, an additional DLA Form 339 is required for the evaluation and approval of the TDP on the Reverse Engineered item.

f. Methods to be Utilized. There are three methods that may be used to make parts available to the potential suppliers. Methods that may be utilized are as follows:

   (1) Direct purchase of the part by the potential supplier. This serves as the preferred method since it minimizes the management and administrative impact to the Government. Apply pricing policies for this method in accordance with DOD 7000.14-R (http://www.dtic.mil/whs/directives/corres/html/700014r.htm), Financial Management Regulations (FMR). There is no limitation on the dollar value of parts that may be purchased. Use the recommended format included in Enclosure 7, “Sample Format Agreement for Purchase of Spare Parts,” for purchase transactions.

   (2) Bailment of the part to the potential supplier. Prepare a bailment agreement with the provisions agreed upon by both parties. Do not subject bailed parts to destruction or irreversible disassembly. Do not loan bailed parts to potential suppliers unless the Government can re-inspect and validate such parts. For an approved bailment or loan of an item, the prospective manufacturer must submit a certified check, payable to the Treasurer of the United States, to the designated VM official to cover the cost of the item(s). The money is placed in an escrow account and must be returned when the item(s) is returned in good condition. Use the recommended format included in Enclosure 8, “Sample Format for Bailment of Government Property,” in loan or bailment situations.

   (3) Gifting of bailed parts is not authorized. However, it may serve the best interest of the Government to waive return of a bailed item (excluding classified items) when the cost of returning the item exceeds the cost of the item. In making the determination to request the return of a bailed part, consider the following factors for unclassified parts:

      (a) The current or probable future need of the Government or the item(s).

      (b) The residual value of such item(s)

      (c) Administrative and other expenses incident to handling and storage of such item(s).
(4) Viewing of the part. Potential suppliers may inspect parts for the purpose of familiarization in Government designated display areas. The Government determines the parts to be displayed. Encourage viewing of parts to eliminate unneeded purchase or loan agreement.

6. Spare Parts Breakout:

   a. Selection of Items for Review. Use annual-buy forecasts and other appropriate reports/information to identify candidates for Breakout review to provide the greatest potential for return on investment. In general, sole source items coded with noncompetitive Acquisition Method/Acquisition Method Suffix Codes (AMC/AMSC) and having annual-buy values of $5,000 or more offer good potential for Breakout review. Conduct the Breakout review in accordance with DFARS, PGI 217.7506:

      http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/dfars/PGI%20217_75.htm#P52_2341

   b. Documentation. Document, in writing, each completed Breakout review with all available relevant technical, manufacturing, cost and user data, correspondence, and other proposed changes. Within the scope of each review, direct contact between the PLFA and the Engineering Support Activity of the appropriate Military Service is authorized. Due to the impact on the DLA budget and DLA/DoD policy documents, retain documentation pertaining to savings generated by the Program for a period of 10 years.


   d. Spare Parts Price Reduction Metrics. Spare Parts Breakout actions/savings are to be reported quarterly using the VM template contained in eWorkplace in the VM Collaboration Room. This cumulative quarterly report reflects the accomplishments of the Program.
STANDARD PROCEDURE FOR CALCULATING VM SAVINGS

1. Competition Savings (item made competitive or competition improved as a result of VM action):
   a. Determine Base Price (before VM) - See Base Price Determination Table attached.
   b. Determine “After VM” price.
   c. Determine quantity being procured.
   d. Calculate savings using formula: $\text{VM Savings} = (a - b) \times c$.

2. VE savings resulting from technical/specification changes (redesign):
   a. Determine unit price before VM change.
   b. Determine unit price after VM (with or without competition).
   c. Determine quantity being procured using formula: $\text{VM Savings} = (a - b) \times c$.

3. Cancellation of a procurement action through application of VM methodology:
   a. Determine unit cost of procurement if buy continues. *
   b. Determine quantity being procured - now cancelled.
   c. Calculate savings using formula: $\text{VM Cost Avoidance Savings} = (a \times b)$

   If unit cost is not available, use the last contract price.

**NOTE:** Report only real savings to DOD. For example, if a Center cancels a PR, but the requirements are transferred to an NSN managed by one of the Services, reported savings, if any, would be the difference in price of the Service-managed item from the Center-managed item that was cancelled.

4. Reclamation Savings:
   a. Determine contract unit cost.
   b. Determine quantity reclaimed.
   c. Determine cost of items if purchased (a x b).
   d. Determine cost through reclamation.
   e. Determine unit cost - reclamation (d / b).
f. Determine unit savings (a - c).

g. Determine total savings using formula: Reclamation Savings = (f x b) or (c - d).

5. "Replace By” savings as a result of replacing an item with another, less expensive, but acceptable item:

   a. Determine before unit cost based on cost to procure replaced NSN.
   
   b. Determine after unit cost based on cost to procure replacing NSN.
   
   c. Determine quantity being procured of replaced NSN.
   
   d. Calculate savings using formula: VM Savings = (a - b) x c.

6. Utilization of rebuilt or surplus material through use of rebuild or other standards:

   a. Determine unit cost to buy new material.
   
   b. Determine unit cost to buy rebuilt or surplus.
   
   c. Determine quantity involved that would have been procured.
   
   d. Calculate savings using formula: VM Savings = (a - b) x c.

7. Utilization of reclaimed material (to be excessed) through application of VM methodology:

   a. Determine value of stock in use.
   
   b. Determine value of material in excess (use 10 percent unless documentation supports other value).
   
   c. Determine quantity of material used.
   
   d. Calculate savings using formula: VM Savings = (a - b) x c.

8. Utilization of component parts in lieu of assembly:

   a. Determine unit cost of assembly.
   
   b. Determine total cost of components normally replaced.
   
   c. Determine quantity of assemblies to be replaced.
   
   d. Calculate savings using formula: VM Savings = (a - b) x c.

9. Savings from Improved Repair/Maintenance Procedures:
a. Determine standard time to repair/replace part or assembly before VM action.

b. Determine labor rate for subject repair or maintenance action.

c. Determine standard time to repair/replace part or assembly after VM action.

d. Determine annual occurrence of scheduled maintenance or repairs before VM action.

e. Determine annual occurrence of scheduled maintenance or repairs after VM action.

f. Calculate savings using formula: VM Savings = (a x b x d) - (c x b x e).

10. VM savings from rework (if the rework is not accomplished, items would be coded excess and disposed of):

   a. Determine cost of replacement unit if rework is not accomplished.

   b. Determine unit cost of rework.

   c. Determine disposal value (use 10 percent unless documentation supports other values).

   d. Determine number of units being reworked.

   e. Calculate savings using formula: VM Savings = [(a - b) - (a x c)] x d.

11. Recovery of lost stock:

   a. Verify that there is a demand for the items and that the recovered stock must be utilized and not sent to Property Disposal.

   b. Determine replacement value items recovered.

   c. Determine quantity of item recovered.

   d. Calculate savings using formula: VM Savings = (b x c).

12. Life Cycle Savings (best value) - New item/process may cost more, but replacement costs are less because new item lasts longer or new process requires fewer repairs or less maintenance:

   a. Determine the annual cost of the item/process before VM.

   b. Determine project implementation costs.

   c. Determine the annual cost of the item/process after VM.

   d. Determine the remaining service life of the end item/weapon system. Costs of the old method versus the VM method must be projected over the remaining life of the end item/weapon
system. The VM savings must be totaled and averaged and the average savings for 10 years
must be reported. (See example.)

Example:

Scenario: Remaining service life is 10 years. VM project costs $2 million to implement
(retrofitting) in first year. New VM item is $20 per unit higher than old item. The item must last
five times longer than old item (this must be documented). Annual expenditures before VM
were $1M ($100/unit x 10,000 units). New item must cost $1.2 million every 5 years ($120/unit
x 10,000 units).

<table>
<thead>
<tr>
<th>Years</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Costs (Old)</td>
</tr>
<tr>
<td>1</td>
<td>1M</td>
</tr>
<tr>
<td>2</td>
<td>1M</td>
</tr>
<tr>
<td>3</td>
<td>1M</td>
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<td>9</td>
<td>1M</td>
</tr>
<tr>
<td>10</td>
<td>1M</td>
</tr>
</tbody>
</table>

Total Savings 6.8M
Savings Per Year .68M

Reported
Savings .68 + .68 + .68 + .68 + .68 + .68 + .68 + .68 + .68 + .68 = 6.8M

13. Contracted Out Reverse Engineering:
   a. Determine base price (before VM).
   b. Determine “After VM” price.
   c. Determine quantity being procured.
   d. Determine cost of reverse engineering (contract/task order).
   e. Calculate first year initial savings using formula: ** VM Savings = (a - b) x c - d
   f. Calculate the follow-on savings using formula: VM Savings = (a - b) x c.

14. In-House Reverse Engineering:
   a. Determine base price (before VM).
   b. Determine “After VM” price.
   c. Determine quantity being procured.
   d. Determine cost of fabricating prototype(s)/testing.
   e. Calculate first year initial savings using formula: ** VM Savings = (a - b) x c - d.
   f. Calculate follow-on savings using formula: VM Savings = (a - b) x c.
** Justification for undertaking the cost of reverse engineering is often based upon the expected return on investment over the life of the item, but savings may only be tracked for a period of 6 years from the initial contract to procure the item under a reverse engineering data package.

15. Reduction in Contract Price through Utilization of VM “Should Cost” in the Negotiation Process:

   a. Determine that a “Should Cost” study or intrinsic value analysis was performed on the subject item and forwarded to the buyer.

   b. Determine the quoted contract price before negotiations.

   c. Determine the historical percentage of reduction in contract price resulting from negotiations (without “Should Cost” backup). Assume 5 percent unless documentation supports other value.

   d. Determine the actual contract price after negotiations.

   e. Calculate VM savings using formula: VM savings = b - d - c (b - d).

**NOTE:** This list is meant to cover the majority of VM cases but it is not all-inclusive. Management judgment must frequently be applied.
**SUPPLEMENTAL GUIDANCE FOR “BEFORE” PRICE OR “BASE” PRICE DETERMINATIONS FOR USE IN CALCULATING VM SAVINGS**

<table>
<thead>
<tr>
<th>Situation</th>
<th>Determination - Base Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement record changed to add new source(s) or adequate data prior to solicitation.</td>
<td>Use Original Equipment Manufacturer (OEM) quote unless it is apparent that a reduction in OEM price has occurred due to presence of competition. If OEM quote is lower than their most recent quote for a similar quantity, then the previous contract price should be used as a base price. If no procurements have been made in the past, then use actual current OEM quote.</td>
</tr>
<tr>
<td>Procurement record changed to add source(s) or adequate data during solicitation.</td>
<td>Use first OEM quote on instant solicitation as base price unless item of supply concept (design) has changed. Any decrease in price by OEM during negotiation must be considered to have been caused by competition.</td>
</tr>
<tr>
<td>Procurement record changed to add source(s) or adequate data prior to solicitation but OEM does not quote on Procurement Request.</td>
<td>Use last price from OEM for a similar or larger quantity. If no similar or larger quantity was procured, use the price for the small quantity. If there is no price history (first time procurement) but more than one new source has quoted, use the highest new quote as the “Base” price and the lowest new quote as the “After” VM price. If there is no price history and only one quote (not from the OEM) use the provisioning price (standard unit price) reduced by the DLA surcharge percentage, as the base price.</td>
</tr>
</tbody>
</table>

Consideration for changing the base price based upon increases in quantities procured should not be made except for the following circumstances:
changed to add source(s) or adequate data and, after initial quotes are received, quantity being procured increases significantly.

a. OEM presents specific evidence supporting quantity price breaks in the bid.

b. Quantity being procured changes significantly from an initial (1 to 10) to a final (500 or >). NOTE: Quantity changes in the higher range (e.g., initial 200, final 2000) are not considered to impact the unit price.

If condition in “a” or “b” is not met, use initial OEM quote as base price. If condition “b” applies, use quantity price break data based upon a 95% learning curve.

NOTE: In the interest of displaying a conservative representation of VM savings, the base price should not be adjusted for inflation.
Enclosure 5

SAMPLE FORMAT FOR PLFA VALUE MANAGEMENT PROGRAM PLAN

Reporting Activity: ________________________________ for FY ________

GOAL

1. Projected Training (No. of Individuals):
   a. Principles and Applications of VE (PAVE) ______
   b. Contractual Aspects of VE (CAVE) ______
   c. Orientation (4-24 hours) ______
   d. Executive Seminar (2-4 hours) ______

2. Projected In-house Studies (Direct and Indirect):
   a. VM Studies initiated ______
   b. VM Proposals implemented ______
   c. VM Savings ______
   d. Production Lead Time (PLT) Savings ______
   e. PLT No. Days ______

3. Projected VECPs:
   a. VECPs received from contractors ______
   b. VECPs approved ______
   c. Reportable Dollar ______

4. Other activities (Narratives stating future plans for the areas listed below or other pursuant initiatives):
   a. Reverse Engineering
   b. VECP promotion
   c. Should Cost/Navy Price Fighter support
   d. Major VM studies
e. Integration with other cost reduction initiatives

f. Other
DoDIG Issue Resolution Agreement:
Defining Value Engineering (VE) for Reporting Purposes

Background:

The DOD VE Quality Management Board (QMB) was tasked with developing guidance that differentiates the application of VE techniques and the reporting of VE savings from other cost reduction initiatives such as the Navy’s AEGIS Affordability Management Program, directed feasibility studies, logistics engineering change proposals, suggestions, and VE savings realized by foreign military sales customers, and recent acquisition reform programs as well as from other cost-reduction initiatives such as the DOD Spare Parts Breakout Program and from other activities normally expected in the performance of functions such as inventory management and purchasing.

The DOD Inspector General’s Office agreed to work with the QMB to develop this guidance in a consensus building format.

Agreement was reached to clarify guidance in the following areas:

a. VE definition for accounting purposes

b. Savings & cost scope & calculation

c. Savings & cost documentation

d. VE Integration with or differentiation from other programs

The QMB DOD IG Issue Resolution working group reached consensus as follows in the above four areas:

A. VE Definition (Criteria) for Accounting (Reporting) Purposes

The results of value improving activities may be included in annual VE reporting if one of the following two criteria applies:

1. Results from an approved VE Change Proposal (VECP)
   •
   • or-

2. Results from a change that improves value of required function (where value is a function of performance and cost) using function analysis to determine best value (an example worksheet showing the minimum elements of function analysis is included below).

B. Savings & Cost Scope & Calculation
**Savings**

All cost savings and cost avoidances that are included in the annual VE report must be net savings to the government. It is allowable to report savings up to six years consistent with budget projections in the Future Years Defense Program (FYDP) that is current at the time the value improving project is implemented. Savings may be reported in the years they occur during the FYDP period or as an estimate projected against the FYDP budget profile.

VECPs. For acquisition savings, report the government’s share during the VECP sharing period; thereafter until the end of the FYDP period, 100 percent of the net savings may be reported. For collateral savings (life cycle savings other than acquisition), government share of average annual collateral savings for the FYDP period may be reported.

VEPs (value improving projects other than VECPs). For acquisition savings, 100 percent of the net savings for the FYDP period may be reported. For collateral savings (life cycle savings other than acquisition), 100 percent of average annual collateral savings for the FYDP period may be reported.

**Cost**

On a project by project basis, development & implementation costs are those costs above normal government administrative costs that result directly from developing and implementing each individual value improving project, such as any net increases in the cost of testing, operations, maintenance, and logistics support. The term does not include the normal administrative costs of processing the value improving project or the costs of running the VE office. The annual report must sum project by project costs and add the annual cost of running the VE office (work force and other required resources) for a total VE program cost.

*Return on Investment (ROI).*

ROI equals total net VE savings to the government divided by total VE program costs (savings and cost as defined above).

**C. Savings & Cost Documentation**

To be included in the annual VE report, each value improving project must be documented and include the following minimum essential documentation elements:

**Unique project number/identifier**

1. Identification of development & implementation costs to the government above normal administrative costs consistent with the Federal Acquisition Regulation. Government costs are those agency costs that result directly from developing and implementing the value improving project, such as any net increases in the cost of testing, operations, maintenance, and logistics support. The term does not include the normal administrative costs of processing the value improving project.
2. Description of gross and net savings to the government: acquisition and/or collateral (life cycle cost other than acquisition).

3. Description of technical changes.

4. Validation of savings (either through actual documented savings or documented estimate of future savings and/or cost avoidances) using established financial analysis procedures - approval and date.

5. Approval of technical change and date.

6. Identification of who did the study or analysis or submitted idea.

7. Program approval and date.

8. Identification of items to which VE proposal applies.

9. Date project initiated or proposal submitted for approval.

10. Cost and savings figures for each of the years identified

11. Date of construction/etc. - include customized instructions on completing form (applies to construction projects only).

12. Indication of the above VE criteria met (if not VECP, must document minimum elements of function analysis).

D. VE Integration With or Differentiation from Other Programs

It was agreed that DOD Components should be encouraged to integrate VE with other similar programs and capture the savings in the annual VE report whenever possible. To be reported in the annual VE report, projects must meet the minimum criteria and documentation requirements listed above. Savings reported through multiple channels are allowed but should be noted in the report.
Function Analysis/Best Value Alternative Worksheet (Examples)

(For reporting purposes, the minimum elements necessary to constitute function analysis required for other than VECPs are: project identification; function definition; alternative(s) identification; and alternative selection.)

Project Identifier:

Example 1. Finnigen Pin Sparing.
Example 2. Mark I Mod O Disposable Coffee Receptacle.
Example 3. Flag/Senior Management Liquid Containment Vessel.

Function Definition (Use Verb-Noun Descriptor):

Example 1. Obtain Finnigen Pins.
Example 2. Hold Coffee.
Example 3. Impress Associates.

Function Performance Alternatives:

Example 1.
  a. Purchase from OEM.
  b. Find alternate source.
  c. Reverse Engineer for Competition.

Example 2.
  a. Paper cups.
  b. Styrofoam cups.

Example 3.
  a. Gold Leaf embossed ceramic.
  b. Cut Waterford crystal.

Selected Alternative:

Example 1. Use alternate source. (other suppliers; lower cost)
Example 2. Paper Cups. (Biodegradable, no disposal cost)
Example 3. Gold Leaf Embossed. (Stars don’t show well on Crystal)
Enclosure 7

Sample Format of Agreement for Purchase of Replenishment Spare Parts

1. The United States Government (hereinafter the “Government”) agrees to sell the item described below:

(NSN) ______ Quantity______ Unit Price ________ Total Price ________
Condition Code ____________

To (hereinafter the “purchaser”): Address:

By: Address:

This agreement is for the purchase of the item(s) listed above and is accomplished pursuant to the provisions of 10 U.S.C. 2321 and the regulations promulgating it.

2. The parties agree that this contract for sale is subject to the following terms and conditions:

The Government in consideration of the promises contained herein, agrees to sell the item(s) listed above to be used by the purchaser whose name appears above for the sole purpose of design replication (reverse engineering) or modification and subsequent submission of offers to sell the same or like parts to the Government.

The Government agrees to make the item(s) available to the purchaser at ___(place)___ upon receiving both payment of the full purchase price and this signed agreement. The purchaser must be responsible for any and all arrangements and expenses for removal of the property from the installation. For items requiring loading onto the purchaser's conveyance, the Government agrees to make initial placement on the conveyance as determined by the Government.

The purchaser agrees that all property is offered “as is” and “where is” and that the GOVERNMENT MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE PROPERTY’S FITNESS FOR USE OR FOR ANY OTHER PURPOSE. The purchaser understands that any oral statements by any Government or employee other than the contracting officer are unauthorized and confer no rights on the purchaser.

The purchaser certifies that it is a domestic business concern and a prospective manufacturer of the item(s) listed above

The purchaser agrees that the item(s) subject to the agreement are intended solely for the purpose of meeting Government supply requirements and the purchaser agrees that it shall not transfer any item subject to the agreement, or resulting technical data, to any third party or foreign government. The purchaser agrees it shall not sell items whose production is based on the design replication or modification efforts which relate to this contract without the written permission of the contracting officer.
The purchaser agrees that it shall hold the Government harmless from any claim, demand or cause of action for damages or injury to any person based on a defect, latent or apparent, in any purchased item pursuant to this agreement.

The purchaser acknowledges and understands that the Government makes no guarantee that the item(s) sold under this agreement can successfully be reverse engineered or modified in a manner which will result in their acceptance by the Government if they are later proposed to be sold to the Government.

The item described above is supplied in ready for issue condition, unless otherwise noted. However, the government makes no representation, warranty or guarantee that this item is free from defects in workmanship or materials, or that it is identical to, or depicted by, the latest drawings or revisions thereof, nor that the government will continue to buy this item.

The purchaser assumes any and all risks and expenses associated with its design replication or modification efforts or any other act related thereto. The purchaser agrees that it shall be entitled to no compensation from the Government based on the purchase, its design replication or modification efforts, or any other act related thereto.

The purchaser agrees that at the completion of its design replication or modification efforts it may provide a Source Approval Request (SAR) Package to the contracting officer describing the results of its design replication efforts and its capability to manufacture the item(s) in accordance to DLAD Clause 52.217-9002. This SAR package must be prepared in accordance with the guidelines detailed at: http://www.dser.dla.mil/ExternalWeb/UserWeb/AviationEngineering/Engineering/Documents/RE_GuidelinesforContractors.pdf

The provisions of the federal acquisition regulations, sections 52.227-1 and 52.227-3, alternate (1), apply.

The government grants no exclusivity to the purchaser and therefore reserves the right to conduct other independent efforts to improve the competitive status of the item.

If the purchaser intends to modify the item(s) which are purchased pursuant to this agreement, its intended modifications are as follows: (explain)

The purchaser agrees to pay to the Government $_____ in United States currency, certified check, or money order payable to the Treasurer of the United States or Defense Finance and Accounting Services (DFAS) before it takes possession of the item(s).

Title to the property shall vest in the purchaser upon payment of the full purchase price and upon the removal of the property from the installation.

In the event of any determination that the Government is liable to the purchaser based on this contract, the maximum extent of the Government's liability to the purchaser shall be the refund of the full purchase price listed above.
3. The parties agree that any dispute arising from this agreement is subject to the provisions of FAR 52.233-1, Disputes, incorporated herein, and the Contract Disputes Act. The governing substantive law regarding bailment shall be the law of the state where the agreement is executed by the contracting officer.

__________________________________  ______________________
Signature of Purchaser                                          Date

__________________________________
Name/Title

__________________________________  ______________________
Signature of Contracting Officer                              Date

__________________________________
Name/Title
Sample Format of Agreement for Bailment of Replenishment Spare Parts

1. The United States Government (hereinafter the “Government”) agrees to sell the item described below:

(NSN) _________ __ Quantity___ Unit Price_________ Total Price_________ Condition Code __________

To (hereinafter the “bailee”): Address:

By: Address:

This agreement is for the bailment of the item(s) listed above and is accomplished pursuant to the provisions of 10 U.S.C. 2321 and the regulations promulgating it.

2. The parties agree that this contract for bailment is subject to the following terms and conditions:

The Government in consideration of the promises contained herein, agrees to bail the item(s) listed above to be used by the bailee whose name appears above for the sole purpose of design replication (reverse engineering) or modification and subsequent submission of offers to sell the same or like parts to the Government.

The Government agrees to make the item(s) available to the bailee at ___(place)___ upon receiving both payment of the bailment price and this signed agreement. The bailee must be responsible for any and all arrangements and expenses for transporting the item(s) from the installation. For items requiring loading onto the purchaser's conveyance, the Government agrees to make initial placement on the conveyance as determined by the Government.

The bailee agrees that all property is offered “as is” and “where is” and that the GOVERNMENT MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE PROPERTY'S FITNESS FOR USE OR FOR ANY OTHER PURPOSE. The bailee understands that any oral statements by any Government or employee other than the contracting officer are unauthorized and confer no rights on the bailee.

The bailee certifies that it is a domestic business concern and a prospective manufacturer of the item(s) listed above.

The bailee agrees that the item(s) subject to the agreement are intended solely for the purpose of meeting Government supply requirements and the bailee agrees that it shall not transfer any item subject to the agreement, or resulting technical data, to any third party or foreign government. The bailee agrees it shall not sell items whose production is based on the design replication or modification efforts which relate to this contract without the written permission of the contracting officer.
The bailee agrees that it shall hold the Government harmless from any claim, demand or cause of action for damages or injury to any person based on a defect, latent or apparent, in any bailment item pursuant to this agreement.

The bailee acknowledges and understands that the Government makes no guarantee that the item(s) sold under this agreement can successfully be reverse engineered or modified in a manner which will result in their acceptance by the Government if they are later proposed to be sold to the Government.

The item described above is supplied in ready for issue condition, unless otherwise noted. However, the government makes no representation, warranty or guarantee that this item is free from defects in workmanship or materials, or that it is identical to, or depicted by, the latest drawings or revisions thereof, nor that the government will continue to buy this item.

The bailee assumes any and all risks and expenses associated with its design replication or modification efforts or any other act related thereto. The bailee agrees that it shall be entitled to no compensation from the Government based on the bailment, its design replication or modification efforts, or any other act related thereto.

The bailee agrees that at the completion of its design replication or modification efforts it may provide a Source Approval Request (SAR) Package to the contracting officer describing the results of its design replication efforts and its capability to manufacture the item(s) in accordance to DLAD Clause 52.217-9002. This SAR package must be prepared in accordance with the guidelines detailed at:

The provisions of the federal acquisition regulations, sections 52.227-1 and 52.227-3, alternate (1), apply.

The government grants no exclusivity to the bailee and therefore reserves the right to conduct other independent efforts to improve the competitive status of the item.

If the bailee intends to modify the item(s) which are bailed pursuant to this agreement, its intended modifications are as follows: (explain)

The bailee agrees to pay to the Government $_____ in United States currency, certified check, or money order payable to the Treasurer of the United States or Defense Finance and Accounting Services before it is bailed the item(s).

The bailee acknowledges and agrees that the item(s) are property of the Government and that this agreement creates no ownership interest in the bailee. The bailee further agrees that the item(s) must be returned to the Government at the completion of the design replication, modification, or upon a written demand by the contracting officer, but not later than _____date____ without the permission of the contracting officer. The bailee further agrees to return the item(s) to the same place where it accepted the item(s) with all costs being the responsibility of the bailee.
The bailee agrees that it shall return the item(s) to the Government in the same condition as when received. After the Government is assured it is in the same condition the bailee will be fully refunded the amount that was paid. Failure of the bailee to comply with the provisions may result in forfeiture of the bailee’s payment.

The bailee agrees that it shall be solely responsible for loss or damage to the item(s) whether or not such loss or damage results from its fault or negligence or that of its employees or whether the loss or damage occurs through theft or intentional acts of its employees or third parties. In the event of loss or damage to any item, the bailee agrees to pay to the Government the full cost of any such item via forfeiture of the bailee’s payment.

In the event of any determination that the Government is liable to the bailee based on this contract, the maximum extent of the Government's liability to the bailee shall be the refund of the full bailment price listed above. Should the bailee have already been refunded the full bailment cost after return of the item, the Government will have no additional liability.

3. The parties agree that any dispute arising from this agreement is subject to the provisions of FAR 52.233-1, Disputes, incorporated herein, and the Contract Disputes Act. The governing substantive law regarding bailment shall be the law of the state where the agreement is executed by the contracting officer.

________________________                            _________
Signature of Bailee                                                Date

__________________________________
Name/Title

__________________________                          _________
Signature of Contracting Officer                              Date

__________________________________
Name/Title