



DEPARTMENT OF THE NAVY
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MEMORANDUM FOR DISTRIBUTION

Subj: USE OF LEAD SYSTEM INTEGRATORS IN THE ACQUISITION OF
MAJOR SYSTEMS

Encl: (1) Section 805 to the FY 2006 Defense Authorization Act

Section 805 of the FY2006 Defense Authorization Act, enclosed, highlights several areas of concern to Congress regarding the use of Lead System Integrators in the acquisition of major weapons systems. These areas of concern include intellectual property, organizational conflict of interest, contractor performance of functions closely associated with inherently governmental functions, subcontracting competition, and subcontract pass-through charges.

These are areas that should already be the subject of consideration during the solicitation, award, and administration of Lead System Integrator contracts. Please share this memorandum throughout your contracting community to raise awareness of Congress's concerns in these areas and emphasize the need to fully address these areas under Lead System Integrator contracts.

Please contact Katherine Petersen at (703) 614-9641 if there are any questions regarding this memorandum.


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SEC. 805. REPORT ON USE OF LEAD SYSTEM INTEGRATORS IN THE ACQUISITION OF MAJOR SYSTEMS.

(a) Report Required- Not later than September 30, 2006, the Secretary of Defense shall submit to the congressional defense committees a report on the use of lead system integrators for the acquisition by the Department of Defense of major systems.

(b) Contents- The report required by subsection (a) shall include a detailed description of the actions taken, or to be taken (including a specific timetable), and the current regulations and guidelines regarding--

(1) the definition of the respective rights of the Department of Defense, lead system integrators, and other contractors that participate in the development or production of any individual element of a major weapon system (including subcontractors under lead system integrators) in intellectual property that is developed by the other participating contractors in a manner that ensures that--

(A) the Department of Defense obtains appropriate rights in technical data developed by the other participating contractors in accordance with the requirements of section 2320 of title 10, United States Code; and

(B) lead system integrators obtain access to technical data developed by the other participating contractors only to the extent necessary to execute their contractual obligations as lead systems integrators;

(2) the prevention or mitigation of organizational conflicts of interest on the part of lead system integrators;

(3) minimization of the performance by lead system integrators of functions closely associated with inherently governmental functions;

(4) the appropriate use of competitive procedures in the award of subcontracts by lead system integrators with system responsibility;

(5) the prevention of organizational conflicts of interest arising out of any financial interest of lead system integrators without system responsibility in the development or production of individual elements of a major weapon system; and

(6) the prevention of pass-through charges by lead system integrators with system responsibility on systems or subsystems developed or produced under subcontracts where such lead system integrators do not provide significant value added with regard to such systems or subsystems.

(c) Definitions- In this section:

(1) The term 'lead system integrator' includes lead system integrators with system responsibility and lead system integrators without system responsibility.

(2) The term 'lead system integrator with system responsibility' means a prime contractor for the development or production of a major system if the prime contractor is not expected at the time of award, as determined by the Secretary of Defense for purposes of this section, to perform a substantial portion of the work on the system and the major subsystems.

(3) The term 'lead system integrator without system responsibility' means a contractor under a contract for the procurement of services whose primary purpose is to perform acquisition functions closely associated with inherently governmental functions with regard to the development or production of a major system.

(4) The term 'major system' has the meaning given such term in section 2302d of title 10, United States Code.

(5) The term 'pass-through charge' means a charge for overhead or profit on work performed by a lower-tier contractor (other than charges for the direct costs of managing lower-tier contracts and overhead and profit based on such direct costs) that does not, as determined by the Secretary for purposes of this section, promote significant value added with regard to such work.

(6) The term 'functions closely associated with inherently governmental functions' has the meaning given such term in section 2383(b)(3) of title 10, United States Code.