



THE ASSISTANT SECRETARY OF THE NAVY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

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MEMORANDUM FOR DISTRIBUTION

Subj: ACQUISITION PROGRAM COST GROWTH; MANAGEMENT OF
ENGINEERING CHANGE PROPOSALS

Ref: (a) ASN(RD&A) memo of 4 September 2001, Subj: Shipbuilding Program Cost
Growth

Program Executive Officers and Program Managers are responsible for developing budgets that fully fund their programs and reasonably reflect the projected cost of incorporating necessary contract modifications. Once a budget is properly established and funded by the Department of the Navy, Program Managers are then responsible for executing the complete scope of the program within that budget.

This topic was last addressed in reference (a), but limited to shipbuilding programs. The purpose of this memo is to cancel reference (a) and release an updated version that applies across all Department of the Navy acquisition programs.

Program Managers must manage modifications to acquisition contracts in a way that preserves safety or corrects government defects but eliminates changes that increase capability with additional cost. Specifically, Program Managers are authorized to approve engineering and non-engineering change proposals that reduce contract cost or result in no change to contract cost while maintaining all key performance parameters. Existing program funds appropriated for change orders shall be reserved to correct government responsible deficiencies in the following categories:

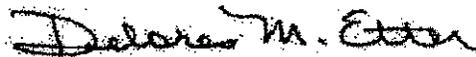
- a. Safety -- e.g., changes required to eliminate hazards to ship and aircraft components or personnel as officially documented by oversight organizations, including American Bureau of Shipping, US Coast Guard, INSURV, and COMOPTEVFOR.
- b. Contractual defects -- e.g., correction of defective specifications, defective or unavailable Government Furnished Equipment (GFE), or defective or unavailable Government Furnished Information (GFI).
- c. Unavailable contractor furnished equipment -- e.g., form, fit, and function replacement of government specified Contractor Furnished Equipment (CFE) or components that are no longer available.
- d. Testing and trial deficiencies -- e.g., necessary component or system modifications derived from developmental or operational testing.
- e. Statutory and regulatory changes that are accompanied by funding.

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Program Managers may not approve any change proposals outside of these categories which increase acquisition cost, life cycle cost, or unit cost. Furthermore, once a program's engineering change order budget is expended, Program Managers must offset the cost of additional changes within the categories above with reductions in scope, in order to stay within budget. The OPNAV N8 process for Requirements and Resources Review (R3B) is the appropriate forum to vet such change proposals.

Any increased cost alteration to the program baseline (except for the correction of deficiencies noted herein) that would result in a reduction of life cycle cost may be submitted for consideration to the Resource Sponsor. Some life cycle cost reductions in the out years require investment within the FYDP, and the Resource Sponsor must evaluate this within the relevant Enterprise, with a view towards funding such alterations with offsets from elsewhere within the Enterprise. Modifications that are mandated by statute or regulation, but are unfunded, should be submitted to ASN(RDA) for consideration. For instance, a new Information Assurance requirement that is levied on a C4I system after its baseline is approved, but for which no new funding is provided, would fall into this category.

In reviewing Nunn-McCurdy breach explanations, one trend is very clear. Incremental capability increases, through P3I or other good ideas, even when funded by the Resource Sponsor, can result in significant unit cost increases. The overarching objective is to execute the acquisition program within assigned funds. The direction above gives each Program Manager an ability to say "no" to seemingly good ideas that drain down the engineering change order budget.



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