

AIR FORCE RESPONSE TO OFFICE OF MANAGEMENT & BUDGET CIRCULAR A-131

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Manufacturing Policies

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ABSTRACT

This paper reviews the newly revised OMB Circular A-131 and highlights the policy changes imposed by it on the Executive branch of the government. It candidly reviews the United States Air Forces' response to the circular and the measures established to promote Value Engineering (VE) within that department.

INTRODUCTION

In the preface of his 1961 book, Lawrence Miles¹ noted, "...additions to value, i.e., identifying and eliminating unnecessary cost, proceed on a do as well as we can and when we must basis." This observation was no doubt based on a lifetime of experience in industry. He understood, all too well, that it takes a commitment from the business side of the house to devote the needed resources and to create the nurturing atmosphere that allows value analysis (VA) to fulfill its promise. This commitment is essential for any successful VE program. It is just as true that a large purchaser of goods and services must make a conscious business decision to pursue VA as a means of reducing its costs of doing business. The Executive branch of the US Government has made its decision.

In May of 1993, the Office of Management and Budget (OMB) reissued its Circular A-131, which requires Federal departments and agencies to use VE as a management tool, where appropriate, to reduce program and acquisition costs. It differs from its predecessor because it focuses more on establishing a process and structure for Federal entities to follow. Here is a synopsis of what is required of each Federal entity: Designate a senior management official to monitor and coordinate each agency's VE efforts. This official will have the authority to grant waivers on any general agency requirements to conduct VE studies on particular programs or projects.

* Maintain files on those programs and projects eligible for VE analysis.

* Develop annual agency VE plans. At a minimum, these plans should identify both in-house and contractor programs, projects, systems, and products to which VE will be applied during the fiscal year.

* Budget for funds to support the planned VE level of effort.

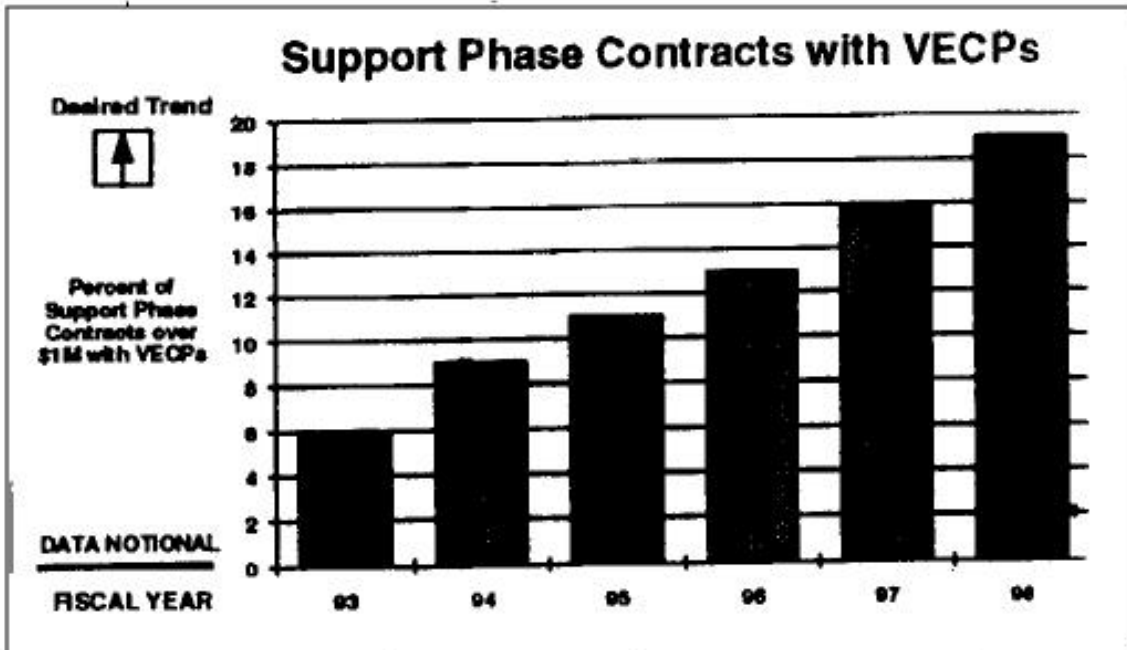
* Report results annually to OMB.

The revised Circular has added more muscle to efforts to expand the use of VE within the Federal government. What does it really mean to government and contractor personnel committed to practicing and promoting VE?

It demonstrates high level support for VE within the government hierarchy. OMB is part of the Executive Office of the President, and as such its circulars are not easily ignored by other Federal departments and agencies. OMB helps the President prepare the annual budget of the United States, and it also strives to develop and maintain effective government by reviewing the organizational structure and management procedures within the Executive branch. Within OMB, the Office of Federal Procurement Policy specifically focuses on improving the economy, efficiency, and effectiveness of the procurement process. This is where VE has found supporters.

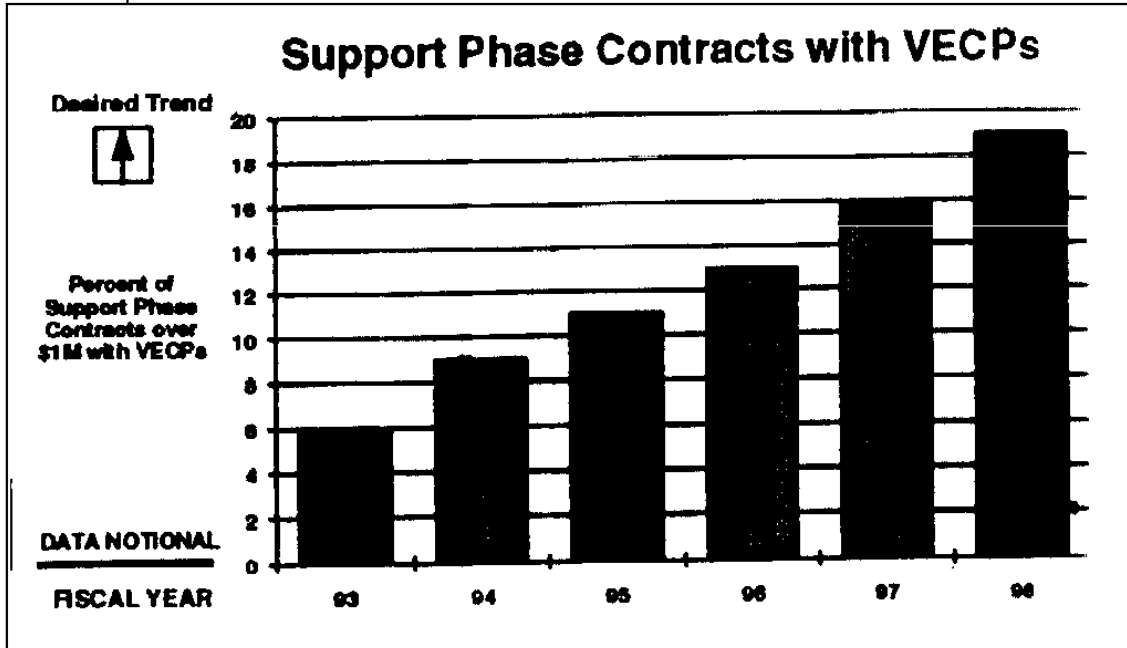
It requires a more structured approach in managing the VE program within each agency. The most important aspect is the requirement for an annual product-specific plan to guide each agency's attempt to expand VE.

It seeks to create an environment in which procurement



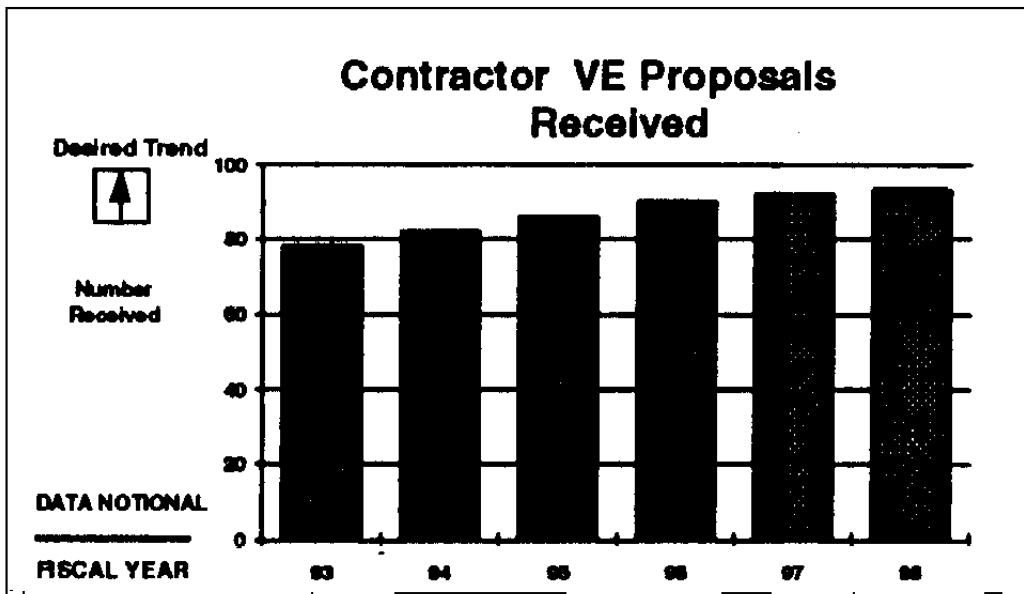
The Acquisition Programs with VECPs metric on the left is one that we will use. It does not measure accomplishments against an absolute value; instead it uses a relative measure of merit. It compares improvements to the previous years' performance. The "desired trend" indicator in the upper left corner represents the expected direction of annual improvement. In this instance, ACAT I and II programs are those AF programs expected to cost more than \$75 million in fiscal year 1980

constant dollars (approximately \$115 million in fiscal year 1990 constant dollars) during the research, development, test, and evaluation phase or an expected expenditure for procurement of \$300 million in fiscal year 1980 constant dollars (approximately \$540 million in fiscal year 1990 dollars) and are in the Engineering and Manufacturing Development or Production and Deployment phase. Both phases and the dollar limits governing ACAT programs are defined by DoD Instruction 5000.2.



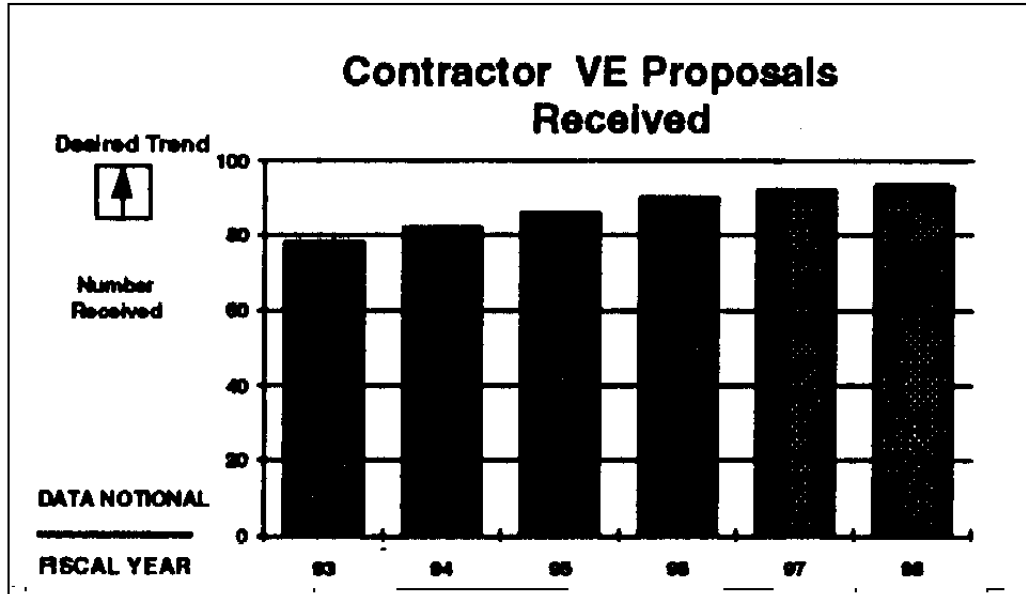
This metric was established to gage annual improvement in applying VE to all operations and support phase contracts exceeding \$1 million. The AF has approximately 9,000 contracts that meet this dollar limit. Once again the direction of the annual

improvement expected is in the upper left corner. Many of these contracts are for items supporting older weapon systems. We believe that applying VE to items originally developed 10 or 15 years ago offers a lucrative area to investigate.



This Contractor Savings metric will weigh the savings generated by Air Force contractors against the AF's annual investment Total Obligation Authority. These investment accounts for the Air Force includes: Aircraft Procurement; Missile Procurement; Other Procurement; and Military

Construction Program monies. The desired trend is for the annual savings to increase each year. This will be the responsibility of both the AF field organization and the business entity.



This measure is to gage contractor participation in the VE incentive program. This is the portion of the VE program that provides increased sharing rates to contractors that voluntarily develop and suggest ways that the AF can reduce costs.

These are four of the nine metrics chosen to provide field organizations with measures against which they will be judged. The other five will provide measures to evaluate the effectiveness of AF organizations in-house programs, the amount of time needed to determine if the VECP is technically acceptable, VE use on AF facility construction estimated to cost over \$10 million, VE use on projects between \$2 million and \$10 million, and the number of AF personnel receiving training in VE techniques and contractual issues pertaining to VE. This approach is to measure continuous improvements expected of the program over a period.

In addition to AFD 63-8, an AF Instruction (AFI) is being developed to fill in the specifics expected of field units. This AFI 63-801 is written by AF Materiel Command in concert with the Secretary's staff. It will address a variety of topics. The development of a product specific long-term plan is one major element in this instruction. It will be prepared approximately once every five years. Each year thereafter a portion of those systems or products appearing in this long-term plan will be targeted for a VE effort. This approach also allows a more disciplined and supportable method of arriving at the amount of money that each command or agency will seek to budget for this VE effort. This AFI will also deal with manpower issues related to managing each organization's VE program. One new approach in discussion is to have each major organization designate a contracting official to serve as a focal point for other contracting officials in the field. This contracting official will complete the Contractual Aspects of VE course offered by the AF

Institute of Technology and stay current on issues surrounding VE, so that he or she can serve as a reservoir of advice on contracting issues to contracting officials less familiar with the particulars of VE clauses and sharing rates.

CONCLUSION

Will the revised OMB A-131 and the AF's response to it result in immediate improvement? There is no definitive answer to this question. We hope so. We think that both will strengthen the government's and AF's internal programs. They will help identify product and system VE candidates and budgeting funds to conduct VE studies. The most desired long-term impact would be a culture change that produces the enthusiasm needed to view procurement actions increasingly with VE in mind, but that result may not be apparent for some years to come.

In achieving better value, there are two separate opportunity areas: 1) The identification of unnecessary costs and 2) the decision making which will eliminate the identified unnecessary cost. This statement is also taken from the preface of Lawrence Miles *Techniques of Value Analysis and Engineering*. This phrasing and numerous other examples and comments throughout his book strongly suggest that Lawrence Miles understood that VA was the servant of business. VE can flourish only to the extent that it serves the business interests of a particular company. Similarly, VE can flourish within the government only to the extent that it serves the business interests of a particular government agency. Within the government, visible and positive results are the best guarantor of VE's survival and growth.

OMB Circular A-131 has been and continues to be a

positive step for VE within the government. It establishes a process and structure for each agency's program, but it cannot by itself guarantee VE success. Although this Circular can shape an agency's VE program, the true substance is provided by those in the field who truly believe Lawrence Miles' famous statement to his boss in 1938, "Doesn't anyone in ... care what things cost?"

References

1. Miles, Lawrence D., "Techniques of Value Analysis and Engineering", 1972, McGraw-Hill, New York
2. Office of Management and Budget Circular Number A-131, Subject: Value Engineering, May 21, 1993
3. Air Force Policy Directive 63-8, Value Engineering, June 7, 1993