



DEPARTMENT OF THE NAVY

NAVAL AIR SYSTEMS COMMAND
NAVAL AIR SYSTEMS COMMAND HEADQUARTERS
WASHINGTON, DC 20381 -0001

IN REPLY REFER TO

NAVAIRINST 4858.3B
AIR-516B
13 Jan 94

NAVAIR INSTRUCTION 4858.3B

From: Commander, Naval Air Systems Command

Subj: VALUE ENGINEERING PROGRAM

Ref: (a) Office of Management and Budget Circular A-131
(b) FAR Chapter I, Subchapter G, Part 48
(c) DODINST 5000.2, "Defense Acquisition Management and Policies", -
Part 6, Section O, "Design for Manufacturing and Production"
(d) ASN Memo of 18 Sep 89, "Issuing Change Orders on Value Engineering
Change Proposals"

Encl: (1) Value Engineering Report

1. Purpose. To establish policy, assign responsibility, and provide guidance for management of Value Engineering (VE) programs within Naval Air Systems Command (NAVAIR). This instruction applies to acquisition programs managed by Aviation Program Executive Officers (PEO's) and the Direct Reporting Program Manager (AFX) and in compliance with the requirements of reference (a), the latest Federal Acquisition Regulation (FAR) applicable to VE promulgated by reference (b), and current Department of Defense (DOD) acquisition policy in reference (c).

2. Scope. This instruction applies to all headquarters and field components of the NAVAL Aviation Systems Team (TEAM).

3. Background. Value Engineering, synonymous with Value Analysis and Value Management, is a formalized process to analyze the functions of an item or process to determine "best value" for the customer. The term "best value" describes an item or process that consistently meets the required basic function with the lowest total life cycle cost. This VE process is applicable to hardware and software, and can be introduced at any phase in the acquisition cycle.

4. Cancellation. NAVAIR Instruction 4858.3A. Since this is a major revision, changes are not indicated.

5. Policy

a. All NAVAIR contracts of \$100,000 or more will include a VE clause.

b. Budget estimates and activity operating budgets will include funds for supporting:



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- (1) contractor's efforts per FAR VE clause 52.248-1
- (2) in-house VE efforts in compliance with the guidelines of references (a) and (b); and
- (3) VE training.

6. Responsibilities

a. Assistant Commander for Systems and Engineering (AIR-05) is responsible for the overall management and direction of the NAVAIR VE program. The NAVAIR VE Administrator (AIR-516B) through the Director, Product Integrity and Production Engineering Division (AIR-516), shall:

- (1) administer the NAVAIR VE program and conduct liaison with other VE organizations and contractors;
- (2) assist NAVAIR Program Managers and Naval Aviation Program Managers reporting to Program Executive Officers and Direct Reporting Program Manager (AFX) on VE processes, opportunities, and FAR deviations;
- (3) assist the Naval Aviation Depots (NADEP's), Naval Air Warfare Center (NAWC) field activities, and other NAVAIR field activities in executing their VE programs; and
- (4) Schedule and conduct VE training for contractors and TEAM personnel.

b. Program Executive Officers, Assistant and Deputy Commanders, and the Direct Reporting Program Manager (AFX) will:

- (1) emphasize and support VE initiatives through their cognizant programs and encourage VE activity through assistance in processing Value Engineering Change Proposals (VECP's);
- (2) ensure project managers within their purview support VE and encourage the VE process by their contractors;
- (3) encourage project managers to include VE status, where appropriate, in all management reviews; and
- (4) maximize VE saving opportunities in consonance with reference (d) by encouraging project managers to implement the VECP contractual modification through use of change orders. The impact on the projected savings that the normal negotiation and definitization process would have versus use of an unpriced change order must be considered. This bilateral contract ceiling modification defines minimum unit cost saving and establishes maximum contractor development and implementation cost.

c. Assistant Program Managers for Systems and Engineering shall:

- (1) ensure all VECP's receive appropriate technical assessment and the necessary coordination within NAVAIR and cognizant field activities;
- (2) prepare/review the necessary change coordination data Change Control Board (CCB) mat derived from the contractor VECP submittal (DD 1692) for presentation of the VECP to the applicable NAVAIR CCB; and
- (3) resolve VECP technical issues with the contractor.

d. Assistant Commander for Contracts (AIR-02) shall:

- (1) ensure all NAVAIR contracts contain a VE clause, when applicable, following FAR guidance;
- (2) negotiate VECP's that receive technical approval by the cognizant NAVAIR CCB. Expedite contract modifications following this instruction using ceiling priced orders per reference (d), where opportunity for savings warrant using Undefined Contractual Action (UCA).
- (3) ensure Navy and DOD executed waivers to FAR affecting VE are provided to all contract specialists within the automated FAR clause retrieval system.

e. NADEP's, NAWC's and other NAVAIR Field Activities shall:

- (1) encourage and support participation in the VE program.
- (2) plan, organize, and direct the activity VE training program;
- (3) perform VE studies following procedures described in enclosure (1); and
- (4) validate and approve VE study results and prepare accurate and auditable documentation.

5. Action

a. Addressees shall implement the policy in this instruction within their organizations.

b. Field activities will submit annually by 31 October Report Symbol DD P&L (SA) 1138 with Signature of Commanding Officer/Officer in Charge to NAVAIR Headquarters (AIR-516). Enclosure (1) will document VE program saving of \$100K or more.

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6. Reports. Report Symbol DD-P&L(SA) 1138 (4858), assigned by reference (c), applies to the reporting requirements of paragraph 5 above.


A. R. SOMOROFF
Deputy Commander

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VALUE ENGINEERING (VE) REPORT

- References: (a) Office of Management and Budget Circular A-131, "Value Engineering", January 26, 1988
(b) DoD Instruction 5000.2, "Defense Acquisition Management Policies and Procedures", February 23, 1991

1. PURPOSE

a. This part provides for statistical VE data necessary to document the status of VE program efforts and to identify areas for program improvement.

b. This part implements the requirements of Office of Management and Budget Circular A-131, "Value Engineering" (reference (a)).

c. The VE report has been assigned Report Control Symbol DD P&L(SA) 1138.

2. PROCEDURES

a. The DOD Components will compile and submit an annual statistical summary of their VE efforts as outlined in the sample format and instructions.

b. This VE report will cover the entire fiscal year (FY) and will be submitted to the Assistant Secretary of Defense for Production and Logistics 45 days after the close of the FY.

3. RESPONSIBILITIES AND POINT OF CONTACT

The matrix on the next page identifies the offices to be contacted for additional information on this part. The full titles of these offices may be found in Part 14 of DOD Instruction 5000.2, "Defense Acquisition Management Policies and Procedures" (reference (b)).

Enclosure (1)

VALUE ENGINEERING REPORT (FORMAT) (Com't)

DOD Component
Annual VE Report FY____

1. Estimate the amount of funds invested in VE by your component in this FY.

	In-House	Contract Related
Funds invested: (see Instruction #1)	\$ _____	\$ _____

2. What were the estimated VE savings by your components this fiscal year? List these saving for in-house savings and contractor-generated savings. What was the estimated return on investment (ROI) for each of these categories?

	Current FY savings (see Instruction #2&3)	ROI (see Instruction #2)
In-house:	\$ _____	_____
Contractor:	\$ _____	_____

3. How many people are now assigned full time to VE in your component? How many people full-time equivalents (FTE)?

People assigned:
Full-time _____
FTE: _____

4. Identify the number of people in your component receiving VE training in this FY.

Training (people):
8 hours or more: _____
Under 8 hours: _____

5. How many VE proposals did your component receive in this FY? Report in-house and contractor-generated proposals separately. How many in-house and contractor-generated VE proposals were approved for the same time period?

VALUE ENGINEERING REPORT (FORMAT)(Con't)

Proposals:	Received	Approved
In-house:	_____	_____
Industry origin:	_____	_____
Average Value Engineering Change Proposal (VECP) processing time:		_____
Number of VECPs requiring more than 45 days to accept or reject:		_____
Number of program requirement clauses placed in contracts this year:		_____

6. Provide narrative of accomplishments as described below:

- a. A description of the efforts to increase contractor participation in VE.
- b. A description of each of the top 20 fiscal year contractor VE projects, to include the number of VECPs submitted, the number approved, and the net savings to both the Government and to the contractor.

VALUE ENGINEERING REPORT INSTRUCTIONS

1. Funds Invested. Estimates should include salaries and overhead expenses of VE employees, VE training costs, costs for contracting for VE services, Value Engineering Proposal (VEP) or VECP development and implementation costs, and any other costs directly associated with your VE program. Overhead may be estimated at 50% of salaries.
2. Savings. Are defined as a reduction in or the avoidance of expenditures that would have been incurred except for the VE program. Savings should be reported in the year incurred; i.e., in the year the reduction or cost avoidance actually occurs. Recurring savings resulting from a specific VE effort should be reported for a maximum of 3 years - the initial year and the 2 subsequent years. Procurement savings resulting from the VE effort should be calculated per FAR 42.248-1(g).
3. A study or project may be reported as an in-house VE study only if:
 - a. it was identified as a VE project before presentation of specific proposal for decisions; or
 - b. evidence of the application of elements of the VE discipline is available (such as functional analysis, evaluation of worth, cost comparisons).
4. Return on Investment (ROI). ROI is determined by dividing the Government's cost of performing the VE function into the savings generated by the function.