5 FAM 660
BENEFIT COST ANALYSIS (BCA)

(CT:IM-92; 08-01-2007)
(Office of Origin: IRM/BPC/PRG)

5 FAM 661 PROJECT COST ANALYSIS

(CT:IM-86; 04-26-2007)

a. Project managers must prepare, update, and submit to the Office of Management and Budget (OMB) representative a benefit cost analysis (BCA) for each new, modified, or fully integrated program or project. The level of detailed analysis in a BCA must be:

   (1) Proportionate to the size of the investment and rely on systematic measures of mission performance; and

   (2) Consistent with the methodology described in OMB Circular A-94, "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs."

b. Project managers must follow regulatory approval thresholds, apply the BCA process, and determine BCA pitfalls and limitations (see 5 FAM 662).

c. Use OMB Circular A-94 for all investments and the Clinger Cohen Act for information technology (IT) investments and criteria for BCA.

5 FAM 662 APPROVAL THRESHHOLDS

(CT:IM-86; 04-26-2007)

a. OMB Circular A-11, revised, and the Federal Acquisitions Regulations (FAR) require that a BCA be included with the annual budget when an IT initiative exceeds $30M over the system's life cycle or exceeds $10M in any one year. If the life cycle cost is below $10M, a simplified BCA is required (see 5 FAM 613, Definitions).

b. OMB Circular A-94 "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs."

c. In the Department, a BCA is required for development, integration or maintenance projects that exceed $100K. Managers must tailor the BCA effort to the size of the project.

5 FAM 663 THE BCA PROCESS

(CT:IM-86; 04-26-2007)

a. The BCA process is a systematic methodology for comparing alternative means of meeting a specific objective.

b. The process consists of eight steps. The BCA may emphasize one or more steps, depending on the stage of the project lifecycle.

(1) Establish and define the goals or objectives;

(2) Formulate appropriate assumptions;

(3) Identify alternatives for accomplishing the objective;

(4) Determine the benefits and costs of each alternative;

(5) Evaluate alternatives by comparing their benefits and costs;

(6) Test the sensitivity of the analysis outcome to major uncertainties;

(7) Present the results; and

(8) Recommend an alternative.

5 FAM 664 RETURN ON INVESTMENT (ROI)

(CT:IM-86; 04-26-2007)

a. Project managers must demonstrate a projected ROI on IT investments that is clearly equal to or better than alternative uses of available public resources. The ROI must be evaluated on the following criteria:

(1) Improved mission performance in accordance with Government Performance Results Act (GPRA) measures;

(2) Reduced cost;

(3) Increased quality;

(4) Improved speed and/or greater flexibility; and

(5) Increased customer and employee satisfaction.

b. The ROI analysis must provide a quantifiable method for assessing, justifying, and prioritizing IT project funding.

c. ROI's must, where appropriate, reflect actual returns observed through pilot projects and prototypes.

5 FAM 665 EARNED VALUE MANAGEMENT (EVM)

(CT:IM-86; 04-26-2007)

a. Project Managers must demonstrate use of an Earned Value Management System (EVMS) that meets American National Standards Institute / Electronic Industrial Alliance (ANSI/EIA) Standard 748, for those parts of the investment that require development efforts (e.g., prototypes and testing in the study period) (see 5 FAM 626.1) and development efforts in the acquisition period (see 5 FAM 626.2).

b. Project managers must also show by using EVMS how closely the investment meets the approved cost, schedule, and performance goals.

c. See 5 FAM 680, Earned Value Management Program for the policy and authority on EVM across the Department.

5 FAM 666 THROUGH 669 UNASSIGNED