US Army Corps of Engineers®
Headquarters

COVE POLICY LETTER # 2015-01 **April 16, 2015**

SUBJECT: WILL THRESHOLD BE RAISED TO $5M FOR VALUE ENGINEERING?

BLUF: Enterprise change of VE threshold is not appropriate at this time.

This question has three separate responses:

1. OSD (AT&L) has not adjusted or accepted a blanket change to the VE threshold; and DOD policies already allow this flexibility.
2. Existing policies/procedures require documentation by the District VEO through the Screening Process & VMP's for all projects/procurements over $2M; and HQ Chief Value Officer, delegated legal authority for projects/procurements under $10M to the MSC VPgM in 2011 (currently 99.5% of USACE contracts are in this range).
3. USACE Threshold analysis is performed annually to assess historical/projected workload and performance. Workload analysis of FY14 execution data indicates that current threshold of $2M+ is appropriate (76% of contract dollars are in this 2.5% of contracts). HQ, CVO retains legal authority for projects/procurements $10M+ (approximately 308 contracts or 0.5% hold 46% of USACE contract value).

BACKGROUND: OMB released updated Circular on VE Statutory application (26 Dec 2013) including allowable increase to the VE threshold to $5M or lower "IF" determined by the Agency Senior Accountable Official (SAO) to be supported by Agency workload data. Circular includes significant clarifications/adjustments that impact this decision by the SAO. The Executive Agency, OSD(AT&L), is responsible for implementation of this update. OSD(AT&L) has not adopted the new threshold, stating existing DODI 4245.14 accommodates by allowing Components/Services SAO to set thresholds appropriately supported by their annual plan.

THE ANALYSIS: Starts with an assessment of the required and "fixed" target goals to be achieved.

1. OSD(AT&L) sets the annual VE Performance Goals based on 1.5% of Service/Component Total Obligation Authority (TOA).
2. Initial USACE goal is set for annual plan purposes based on: 5 yr historical TOA, initial FY TOA, and CEFMS estimated obligations.
3. Goal for FY14 was $571.5 M (based on ~$38B) with USACE reporting $458 M end of FY. The progress towards the estimated goal is tracked quarterly at DMR/CMR as TOA changes throughout year.

KEY POINT: Fixed goals mean that the VE Annual Plans must ensure diversification in application of VE is sufficient to accomplish the OSD goals, while focusing on the RIGHT projects/contracts with the most potential.

- TOA & OSD Goals for last 5 yrs & FY15 (Annual Plan)

	5 YR HISTORICAL TOA					FY15 ANNUAL PLAN			
	FY10	FY11	FY12	FY13	FY14	AVG	TOA	CEFMS	TARGET
TOA	$ 31,000,000,000	$ 29,500,000,000	$ 42,500,000,000	$ 38,600,000,000	$ 38,100,000,000	$ 35,940,000,000	$ 18,800,000,000	$ 26,100,000,000	$ 26,946,666,667
1.50%	$ 465,000,000	$ 442,500,000	$ 637,500,000	$ 579,000,000	$ 571,500,000	$ 539,100,000	$ 282,000,000	$ 391,500,000	$ 404,200,000

THE PLANNING & SCREENING REQUIREMENTS: The most critical adjustment by OMB in "planning for performance success" is accomplished by USACE through the VEO Screening Process & resulting VMP/Activity. This focuses actual VE workshops on the RIGHT projects/contracts with the most potential, and ensures PM resources the activity appropriately. Two possible outcomes documented by the screening process (VMP) are "Low Opportunity/Low Opportunity Bridge/ Low Opportunity Scan", or a standard VE "Level of Effort" (Workshop).

KEY POINT: Cost Savings/Avoidance (CA/CS) or outcomes are only generated as an outcome of "VE Workshops", when proposals are implemented/claimed in each project/procurement; or an approved VECP after contract award. Bridges and Scans may generate CA/CS, but they must always refer back to the original VE Workshop as the baseline for determination of CA/CS.

FY14 ANALYSIS & THRESHOLD: Current USACE Policy sets "appropriate" threshold at $2M and above are required to "address" the VE Statutory Requirement. .

- Example of threshold Impacts:

WHERE ARE THE DOLLARS?					
<$1M	<$1-2M	$2-5M	$5-10M	$10M+	
12.6%	11.5%			75.9%	FY13 CHANGE TO $2M+
		28.8%		58.6%	CHANGE TO $5M+
			41.4%	46.0%	CHANGE TO $10M+
N/R	<== MSC VPgM ==>			HQ CVO	

WHERE ARE THE CONTRACTS?					
<$1M	<$1-2M	$2-5M	$5-10M	$10M+	
95.6%	1.9%			2.5%	FY13 CHANGE TO $2M+
		3.4%		1.0%	CHANGE TO $5M+
			4.0%	0.5%	CHANGE TO $10M+
N/R	<== MSC VPgM ==>			HQ CVO	

- What percentage of workload actually had a VE study performed?

Looking at the data sources for Corporate AIS (P2) and Contracting (PD2)		
53000		is what workload Contracting shows as executed in FY14
1595		of contracts executed were above $2M
578	1.09%	is what workload PM/P2 shows as executed
438	0.83%	is what workload addressed the VE Statutory Requirement
322	0.61%	is what workload actually had VE Workshop performed

In FY14, USACE only addressed the VE Statutory Requirements on ~26% of the contracts executed. Of those contracts executed, **308 of them were over $10M**; and 1287 required but under $10M were all within MSC VPgM decision authority. However, of the 578 addressed the VE requirement; 322 actual VE Workshops performed; and the majority workshops executed that claimed CA/CS were on projects/procurements "BELOW" $5M (many less than the $2M & $1M statutory threshold).

KEY POINT: ~88% of contract value ($) was in 2.5% of the contracts. Changing threshold across all procurements to $5M would drop VE application to 58% of contract value ($) in 1% of contracts; or excluding 99% of USACE workload from VE.

EXISTING MSC VPgM and DISTRICT VEO AUTHORITY: Current policies/guidance delegate authority for contracts from $2M to $10M to the MSC VPgM; and only $10M+ requires HQ, CVO input or approval for VMP actions other than VE Workshop. In doing so, all flexibility, accountability, and Professional Responsibility reside with the Implementation (MSC) and Execution (District VEO) components for determining COA. The MSC VPgM approval authority is up to $10M.

KEY POINT: Although not advisable, in theory MSC VPgM's could approve "each" VEO's submitted VMP for contracts under $10M, as "LOW OPPORTUNITY", documenting the requirement for 99% of contracts executed by USACE. The impact of this decision will be seen in the CA/CS metrics (low performance towards OSD goals) and enterprise results reported; as you cannot have cost savings/avoidance if you do not do resource any VE Workshops.

USE OF REGIONAL APPROVED PROGRAMMATIC STUDIES: RISK/REWARD

Some MSC's are performing programmatic workshops where multiple contracts/projects are combined into one workshop, and applied to each as they are executed over 3-5 years; making the opportunity calculation a better investment than stand alone workshops. This approach was intended to be utilized on Dredging, Maintenance & Emergency type work that is highly repetitive, but smaller in contract value. This does come at an expense, requiring extensive VEO and MSC VPgM tracking of individual proposals and validation on every contract executed in order to "bridge" the results from the Workshop to the actual project/contract. This ensures the Compliance metric (control) accurately reflects the VE requirement as addressed.

KEY POINT: However, this requires greater VEO efforts to track/validate, and an even greater risk in CA/CS & ROI performance. The investment into Programmatic studies, while beneficial in the right application, has a very low ROI, resulting in nickels on the dollar application towards OSD goals. Where actual VE Workshops have a higher ROI; typically between $45 to $950 for every dollar invested in the workshop. MSC/District diversification of the planned VE efforts is the key to reaching OSD goals.

BACKUP: See attached.

CONCLUSION: Enterprise-wide change of the VE threshold to $5M is not appropriate or necessary at this time. Current policies/procedures effectively allow for flexibility and integration of VE, focused on resourcing the RIGHT projects, with the MOST opportunity, and the RIGHT level of effort & documentation, with the best possible results and the highest VALUE attainable.

Through diligent management at the Implementation (MSC) and Execution (District) levels; appropriate diversification in planning/documentation; due diligence in appropriate resourcing; emphasis on validation/QA/QC; adherence to internal controls; and exercise professional judgment within delegated authorities…successful VALUE improvement and performance is attainable without further exclusion.

We will continue to monitor and adjust thresholds as acquisition workload dictates; I encourage MSC VPgMs and District VEO's to do the same, so we can ensure the highest VALUE attainable, and most appropriate application within the spirit and intent of the law.

Jeffery T Hooghouse, AIA, DBIA, CVS
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Attachments.

SCREENING VALUE INDEX FOR “LEVEL OF EFFORT” & ASSOCIATED ROI:
(VALUE = FUNCTION / RESOURCES)

	V=F/R	0.00	0.33	1.00		3.00	2.44	3.71	2.50	3.09	1.08	0.29	0.58	0.51			
(FUNCTION)	**IMPACT ON GOALS?**	0	1	3		18	22	26	30	34	14	6	14	18			
					10					10							
					9				9	9							
					8			8	8	8						BIGGEST IMPACT	80%
					7		7	7	7	7							
					6	6	6	6	6					6			
					5	5	5	5			5		5	5			
					4	4	4				4		4	4			
					3	3					3	3	3	3			
				2	2						2	2	2			LEAST IMPACT	20%
			1	1	1							1					
		0	0	0	0							0					
		LO	**BR**	**SCAN**		**LVL-1**	**LVL-2**	**LVL-1/2**	**LVL-3**	**LVL-1/3**	**LVL-4**	**LVL-5**	**LVL-5B**	**LVL-6**			
		0			0	0											
			1	1	1	1											
			2	2	2	2	2									LEAST COST	80%
					3	3	3	3	3								
					4		4	4	4								
					5				5	5				5			
					6					6	6	6		6			
					7						7	7	7	7			
					8							8	8	8		BIGGEST COST	20%
					9								9	9			
					10												
(RESOURCES)	**COST OF EFFORT?**	0	3	3		6	9	7	12	11	13	21	24	35			

IMPACT ON GOALS?	0	1	3		18	22	26	30	34	14	6	14	18	15.5
COST OF EFFORT?	0	3	3		6	9	7	12	11	13	21	24	35	12.0
VALUE INDEX?	**0.00**	**0.33**	**1.00**		**3.00**	**2.44**	**3.71**	**2.50**	**3.09**	**1.08**	**0.29**	**0.58**	**0.51**	1.5
	LO	BR	SCAN		LVL-1	LVL-2	LVL-1/2	LVL-3	LVL-1/3	LVL-4	LVL-5	LVL-5B	LVL-6	

NOTES: