

Subject: MAJOR SYSTEM ACQUISITIONS

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Exhibit

1-150-A Office of Management and Budget (OMB) Circular No. A-109, dated April 5, 1976 - Major System Acquisitions

f-150-00 PURPOSE

This chapter prescribes Departmental policies, procedures! and responsibilities for implementing the provisions of OMB Circular NO. A-109, Major Systems Acquisitions.

J-150-10 SCOPE

This chapter applies to all Departmental organizational elements **and shall** be used in conjunction with OMB Circular No. A-109 (See **Exhibit 1-150-A**) to obtain a comprehensive knowledge of the major system acquisitions concept.

J-150-20 POLICY

The Department shall adhere to the objectives and guidance stated in OMB Circular No. A-109 and this chapter to ensure the effectiveness and efficiency of the process of acquiring a major system.

f-150-30 BACKGROUND

OMB Circular No. A-109 (the Circular) establishes Government-wide policy pertaining to the acquisition of a major system and establishes specific policy and procedural requirements for implementation by Executive agencies and departments.

The Circular provides for:

- A. Top level management attention to the determination of Departmental mission needs and goals:
- B. An integrated systematic approach for establishing mission needs, and for budgeting, contracting, and managing programs;
- c. Improved opportunities for innovative private **sector** contributions to national needs: and
- D. Early communications with Congress and **OMB** in the acquisition process by relating major system acquisitions to Departmental mission needs and goals.

f-150-40 DEFINITIONS

- A. **Major System.** OMB Circular No. A-109 defines a major **system** as "**that** combination of elements that will function to produce the capabilities required to fulfill a mission need. The elements may include, for example, hardware, equipment, software, construction, or other improvements or real property." In addition, the Circular expresses the basic major system acquisition criteria in terms of programs that:
 - 1. Are directed at, and critical to, fulfilling a Departmental mission:
 - 2. Entail the allocation of relatively large resources; and
 - 3. Warrant special management attention.

The Department has established a dollar threshold of \$100 million (and above) to further define the parameters of a major system. Any proposed acquisition meeting these four criteria shall be considered a major system and **shall be** acquired through the application of the A-109 policy. The **Secretary** may also decide to apply the A-109 policy to any acquisition having an estimated system cost between \$60 million **and** \$100 million which meets the three basic OMB major system criteria. (See **1-150-60C2**).

- B. **Mission Need.** A mission need is described as the capability required to accomplish a Departmental mission or to effectively pursue a scientific, technological, or other opportunity related to a Departmental mission, including cost and schedule considerations. Mission needs may be identified through Departmental analyses or through studies directed by appropriate executive or legislative authorities.
- C. **Mission Need Statement.** A mission need statement explains the mission need by **stating the purpose** of the mission, capability, Departmental activities involved, time constraints, value or worth of meeting the need, relative priority, and operating constraints. The mission need statement expresses needs and program objectives in mission terms rather than in equipment terms to encourage innovation and competition in the private sector.

J-150-50 GENERAL

The Office of Management and Budget has emphasized that implementation of the A-109 policy will serve to shorten the acquisition cycle by providing a methodical or systematic approach to a logical sequence of acquisition events and involve top management in all stages of the acquisition process, from start to finish, allowing for continual control and monitoring of the system process.

The following briefly indicate the major steps encompassing a typical major system acquisition:

- A. Analyze mission.
- B. Evaluate and reconcile needs in context of mission, resources, and priorities.
- c. Determine mission need.
- D. Prepare mission need statement.
- E. Submit mission need statement to Secretary for approval.
- F. Submit mission need to Congress via budget process.

- G. Designate a Program Manager.
- Tailor an acquisition strategy and develop plans.
 - Develop solicitation for alternate system design concepts.
- H. Competitively explore alternate system design concepts by contract.
- I. Select competitive system design concepts to be advanced to a test/demonstration phase **or** obtain Secretarial authorization to proceed with the development of a noncompetitive (single concept) system.
- J. Conduct competitive demonstrations.
- K. Select concept(s) and enter into full scale development, test, evaluation, and initial implementation or production.
- L. Commit system to full implementation or production.

The need for the acquisition of a major system, or a system meeting the three basic OMB criteria (excluding the \$100 million dollar threshold) will be formally identified prior to the initial budget request review process and submitted to the Secretary for approval. The major system will be indicated in the budget request submitted to the Deputy Assistant Secretary, Budget during the initial budget review process. (See **1-150-60C2.**)

The mission need normally is communicated to OMB informally during the analysis and writing of the mission need statement.

After approval by the Secretary, the mission need is communicated to Congress during the budget process in accordance with OMB Circular Nos. A-10 and A-11.

Approval of the mission need statement begins the search for mission need solutions by approving authority to competitively explore alternative system design concepts by contract. This initial approval and the establishment of a

system acquisition program does not automatically mean that a new major system will eventually be acquired. Based on an approved need, designated Department activities may continue to analyze other optional means of satisfying the need in parallel with the contractual exploration of alternative systems which may, as development proceeds, **prove** unacceptable. This evaluation of options, including the alternative system design concepts, provides the basis for subsequent key decisions in the major system acquisition process.

A program manager should be designated and provided a charter for each major system acquisition program as soon as possible after the mission need has been approved. The program manager will be responsible for developing the acquisition strategy and plans and soliciting alternate system design concepts.

After prospective contractors have submitted offers based upon the solicitation and the offers evaluated by a panel of experts, multiple contracts are awarded to further competitively explore the alternative concepts, contractual efforts are evaluated, and the program manager recommends selected concepts for competitive demonstration.

The Secretary exercises the second key decision by committing the continued expenditure of resources to meet the mission need and selecting the proposed system concepts for demonstration and evaluation.

Competitive demonstrations are intended to verify that the chosen concepts are sound, perform in an operational **environment**, and provide a basis for selection of the system design concept(s) to be continued into full-scale development and initial implementation (or full implementation).

At the completion of the evaluation of the competitive system alternatives, the program manager updates the acquisition strategy and the anticipated cost and schedule data and forwards these items, along with the evaluation results and his recommendation, to the Secretary for the third key **decision**--selection of the system design concept(s) to enter into full scale development and initial implementation.

This phase should verify that the chosen system design concept(s) is sound and the risks are acceptable.

The final decision **reserved for the Secretary** is the **authorization of full** implementation of the major system needed to satisfy the mission need.

1-150-60 MAJOR DUTIES AND RESPONSIBILITIES

A. **Secretary.** The Secretary makes the initial determination **as** to which **programs will be** subject to the major system acquisition process. Once the program has been designated, the Secretary must be kept apprised **of** its progress, and therefore, shall make the four key decisions involved in a major system acquisition. They are:

1. Approval of mission need statement (Identification and definition of a specific mission need to be fulfilled, the relative priority assigned within the Department, and the general magnitude of resources that may be **invested**).
2. Selection of competitively derived system design concepts to be advanced to a test/demonstration phase or authorization to proceed with the development of a noncompetitive (single concept) system.
3. Commitment of a system to full-scale development and initial implementation of limited production.
4. Commitment of a system to full implementation or production.

In cases where more than one Operating Division (OPDIV), or Other major Departmental activity is involved in the acquisition of a major system, the Secretary will determine and assign the roles and responsibilities of each activity.

B. Acquisition Executive.

1. The Acquisition Executive is responsible for integrating and unifying the Department's major system acquisition management process and for monitoring the implementation **of** the A-109 **policy** and the practical applications under that policy.

2. The Acquisition Executive is not responsible for conducting the major system acquisition; that responsibility remains with the Departmental activity which has identified the requirement for the **major** system that will accomplish that activity's **mission** need.
3. The Departmental Acquisition Executive (DAE) is the Assistant Secretary for Management and Budget (ASMB). This appointment has been made by the Secretary because the ASMB is responsible for the primary functional areas pertinent to the major system acquisition process.
4. The DAE shall evaluate each of the four key decision recommendations prior to submission to the Secretary and shall be kept informed regarding all actions taken under a major system acquisition process.
5. In cases where more than one OPDIV or other major Departmental activity is involved in the acquisition of a **major** system, the DAE will make recommendations to the Secretary regarding the roles and responsibilities of each activity.

C. Heads of **OPDIV's**, Heads of OPDIV **Major** Elements, Assistant Secretaries, Heads of OS Staff Offices, Regional Directors, Heads of **OPDIV's**, heads of OPDIV major elements, assistant secretaries, heads of OS staff offices, and regional directors are responsible for:

1. Identifying mission needs;
2. Notifying the Secretary of major system, and possible **major system**, acquisitions. (Approximately three months prior to the initial budget **request** submission to the Deputy Assistant Secretary, Budget, a memorandum shall be prepared and submitted to the Secretary, through the DAE, identifying each proposed **major system** acquisition meeting the four criteria, each proposed **major** system acquisition meeting the three OMB criteria and having an approximate cost ranging between \$60 M and \$100 **M**, and each proposed acquisition not meeting one or more of the three OMB criteria but having an approximate cost ranging between \$60 **M** and \$100 M.

Each acquisition shall be ranked as to its priority in the overall budget plan. Justifications and rationale supporting the determination that each acquisition between \$60 **M** and \$100 **M** meets or fails to meet the major system acquisition criteria shall be included in the memorandum. The Secretary will approve or disapprove each acquisition, and a copy of the Secretary's determinations will be furnished the Deputy Assistant Secretary, Budget. Upon receipt of the Secretary's determination, the head of the OPDIV, etc. will add the approved acquisitions to the initial budget request submissions.)

3. Assisting the Secretary, through the DAE, in making the four key decisions:
4. Designating **a** program manager for each major system acquisition:
5. Developing the program manager's charter in coordination with the program manager, and providing it to the DAE for approval:
6. Ensuring the program manager fulfills the requisite responsibilities and discharges the duties in accordance with the Circular and this chapter;
7. Becoming familiar with the requirements of the Circular and this chapter and ensuring staffs become familiar with the requirements.
8. Implementing the requirements of the Circular and this chapter:
9. Adhering to all principles **and** requirements concerning major system acquisition policies and procedures:
10. Establishing and maintaining clear lines of authority, responsibility, and accountability **for** the management of each major system acquisition program: and
11. Abolishing and precluding management layering and the placement of excessive reporting requirements on program managers and contractors.

D. Deputy Assistant Secretary, Budget. The Deputy Assistant Secretary, Budget is responsible for:

1. Providing guidance to the heads of the **OPDIV's** etc. regarding the identification of major system acquisitions in all budget submissions;
2. Identifying major system acquisitions during budget reviews and indicating them to the Secretary during his review: and
3. Verifying that major system acquisitions are accurately reported and assigned a relative priority ranking in budget submissions, based upon the Secretary's approval determinations.

E. Program Manager.

1. A program manager is to be appointed for each major system acquisition.
2. The program manager must thoroughly understand what is involved in the major system, understand user needs and constraints, and possess requisite management skills and experience. The program manager is to be provided with budget guidance and a written charter outlining specific authorities, responsibilities, and accountabilities for accomplishing the program objectives. However, management layering will be minimal to preclude restricting the program manager. Necessary resources will be made available to the program manager to fulfill the mission need.
3. The program manager ideally should be a **multi-**disciplined, experienced manager with sufficient tenure and interest in the program to provide continuity with full personal accountability for action taken. The organization and management level of the program manager should be consistent with the importance and scope of the program. A basic knowledge of past experience with the particular program area is a highly desirable prerequisite for the program manager.

4. The program manager is to be provided with a charter to **serve** as a form of a contract between the program manager and the Department (OPDIV). This charter, which is developed specifically for each major system acquisition program, sets forth the scope, objectives, activities, organization and composition of the program manager's major system acquisition team, responsibilities, and the method of operations. Line and staff levels and lines of **authority** and accountability should be identified. All program objectives should be stated in mission need terms and the manner of presentation should not preclude any viable alternative solutions.
5. An initial responsibility of the program manager should be to recruit a staff or identify a team with the requisite skills and experience to manage the assigned project. Since acquisition personnel play a vital role in the A-109 process, they should be included at the earliest practicable point.
6. One of the program manager's first tasks will be to develop an acquisition strategy and plan. This will require that the program manager's team think through the acquisition process and the myriad of individual considerations involved. Based upon this review and evaluation, the factors must be integrated and blended **to** achieve the program objective(s) in an economical, effective, and efficient manner. In developing a system acquisition strategy, considerable thought should be given to specific program goals and objectives. The approach should not be constrained by past routine practices or follow a "schoolbook" solution--the acquisition strategy is to be tailored to the mission need.
7. The strategy should form the basis for the program manager's system acquisition plan. The plan should be used to communicate with higher authority, the management team, and industry. The plan also should provide the means of measuring accomplishments and risks and handling contingencies as the program progresses. At program initiation, it is neither possible nor desirable to address all considerations in detail. It is possible and desirable, however, to examine and **schedule** when decisions on each

consideration can and must be made throughout the acquisition process, that is, to develop and report milestones. Also, there should be a means of refining the strategy and plan as the program proceeds.

8. The program manager is responsible for preparing, and submitting to the DAE through established management channels, the acquisition strategy, the acquisition **plan**, and the key **decision** analyses, findings, and recommendations. When developing the acquisition plan, the program manager shall provide for a schedule to report pertinent milestones throughout the system acquisition process to indicate progress and interrelationships with the objectives of the Circular. These milestone reports shall also be submitted to the DAE for review.

1-150-70 TRAINING

Training needs will be identified as the Department becomes involved with the application of the major system acquisition policy. Program managers and other personnel to be directly involved shall be required to attend formal training sessions sponsored by the Federal government.





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

April 5, 1976

CIRCULAR HO. A-109

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Major System Acquisitions

1. Purpose. Circular establishes policies, to be followed by executive branch agencies in the acquisition of major systems.
2. Background. The acquisition of major systems by the Federal Government constitutes one of the most crucial and expensive activities performed to meet national needs. Its impact is critical on technology, on the Nation's economic and fiscal policies, and on the accomplishment of Government agency missions in such fields as defense, space, energy and transportation. For a number of years, OMB has been deeply concerned over the effectiveness of the management of major system acquisitions. The report of the Commission on Government Procurement recommended basic changes to improve the process of acquiring major systems. This Circular is based on executive branch consideration of the Commission's recommendations.
3. Responsibility. Each agency head has the responsibility to ensure that the provisions of this Circular are followed. This Circular provides administrative direction to heads of agencies and does not establish and shall not be construed to create any substantive or procedural basis for any person to challenge any agency action or inaction on the basis that such action was not in accordance with this Circular.
4. Coverage. This Circular covers and applies to:
 - a. Management of the acquisition of major systems, including:
 - Analysis of agency missions
 - Determination of mission needs
 - Setting of program objectives
 - Determination of system requirements
 - System program planning
 - Budgeting
 - funding
 - Research
 - Engineering
 - Development
 - Testing and evaluation
 - Contracting
 - Production
 - Program and management control
 - Introduction

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of the system into use or otherwise successful achievement of program objectives.

b. All programs for the acquisition of major systems even though:

(1) The system is one-of-a-kind.

(2) The agency's involvement in the system is limited to the development of demonstration hardware for optional use by the private sector rather than for the agency's own use.

5. Definitions. As used in this Circular:

a. **Executive agency** (hereinafter referred to as agency) means an executive department, and an independent establishment within the meaning of sections 101 and 104(1), respectively, of Title 5, United States Code.

b. **Agency component** means a major organizational subdivision of an agency. For example: The Army, Navy, Air Force, and Defense Supply Agency are agency components of the Department of Defense. The Federal Aviation Administration, Urban Mass Transportation Administration, and the Federal Highway Administration are agency components of the Department of Transportation.

c. **Agency missions** means those responsibilities for meeting national needs assigned to a specific agency.

d. **Mission need** means a required capability within an agency's overall purpose, including cost and schedule considerations.

e. **Program objectives** means the capability, cost and schedule goals being sought by the system acquisition program in response to a mission need.

f. **Program** means an organized set of activities directed toward a common purpose, objective, or goal undertaken or proposed by an agency in order to carry out responsibilities assigned to it.

g. **System design concept** means an idea expressed in terms of general performance, capabilities, and characteristics of hardware and software oriented either to

operate or to be operated as an integrated whole in meeting a mission need.

h. Major system means that combination of elements that will function together to produce the capabilities required to fulfill a mission need. The elements may include, for example, hardware, equipment, software, construction, or other improvements or real property. Major system acquisition programs are those programs that (1) are directed at and critical to fulfilling an agency mission, (2) entail the allocation of relatively large resources, and (3) warrant special management attention. Additional criteria and relative dollar thresholds for the determination of agency programs to be considered major systems under the purview of this Circular, may be established at the discretion of the agency head.

i. System acquisition process means the sequence of acquisition activities starting from the agency's reconciliation of its mission needs, with its capabilities, priorities and resources, and extending through the introduction of a system into operational use or the otherwise successful achievement of program objectives.

j. Life cycle cost means the sum total of the direct, indirect, recurring, nonrecurring, and other related costs incurred or estimated to be incurred, in the design, development, production, operation, maintenance and support of a major system over its anticipated useful life span.

6. General policy. The policies of this Circular are designed to assure the effectiveness and efficiency of the process of acquiring major systems. They are based on the General Policy that Federal agencies, when acquiring major systems, will:

a. Express needs and program objectives in mission terms and not equipment terms to encourage innovation and competition in creating, exploring, and developing alternative system design concepts.

b. Place emphasis on the initial activities of the system acquisition process to allow competitive exploration of alternative system design concepts in response to mission needs.

c. **Communicate** with Congress early in the **system** acquisition process by relating major system acquisition program to agency mission needs. This communication should follow the requirements of **Office of Management and Budget (OMB) Circular No. A-10 concerning** information related to budget estimates and related materials.

d. Establish **clear** lines of **authority**, responsibility, and accountability **for** management of major system acquisition programs. **Utilize appropriate** managerial levels in decisionmaking, and obtain **agency head** approval **at key** decision points in **the** evolution of **each acquisition** program.

e. Designate **a focal point responsible** for **integrating and unifying the** system acquisition management process and **monitoring** policy implementation.

f. **Rely on** private industry **in** accordance with the policy established by **OMB Circular No. A-76**.

7. **Major system acquisition management objectives.** Each major system should:

a. **Ensure** that **each major** system: **Fulfills a mission** need. **Operates effectively** in its **intended** environment. **Demonstrates a level** of performance and reliability that justifies **the allocation** of the **Nation's** limited resources for its acquisition and ownership.

b. Depend on, whenever **economically** beneficial, competition between similar or **offering system** design concepts **throughout the entire** requisition process.

c. Ensure **appropriate trade-off** among investment costs, ownership costs, schedules, and **performance characteristics**.

d. Provide strong checks and balances by **ensuring** **adequate system test and** evaluation. Conduct such tests and **evaluation** independent, where practicable, of **developer and user**.

e. Accomplish system acquisition **planning**, built on **analysis of** agency missions, which implies **appropriate resource allocation** resulting from **clear** articulation of **agency mission needs**.

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f. Tailor an acquisition strategy for each program, as soon as the agency decides to solicit alternative system design concepts, that could lead to the acquisition of a new major system and refine the strategy as the program proceeds through the acquisition process. Encompass test and evaluation criteria and business management considerations in the strategy. The strategy could typically include:

- Contracting process as an important tool in the acquisition program.
- Scheduling of essential elements of the acquisition process.
- Demonstration, test, and evaluation criteria.
- Content of solicitations for proposals.
- Decisions on whom to solicit.
- Methods for obtaining and sustaining competition.
- Guidelines for the evaluation and acceptance or rejection of proposals.
- Goals for design-to-COST.
- Methods for projecting life cycle costs.
- Use of data rights.
- Use of warranties.
- Methods for analyzing and evaluating contractor and Government risks.
- Need for developing contractor incentives.
- Selection of the type of contract best suited for each stage in the acquisition process.
- Administration of contracts.

g. Maintain a capability to:

- Predict, review, assess, negotiate and monitor costs for system development, engineering, design, demonstration, test, production, operation and support (i.e., life cycle costs).
- Assess economic cost, schedule and performance experience against predictions, and provide such assessments for consideration by the agency head at key decision points.
- Make new assessments where significant costs, schedule or performance variances occur.
- Estimate life cycle costs during system design concept evaluation and selection, full-scale development, facility conversion, and production, to maintain appropriate trade-offs among investment costs, ownership costs, schedules, and performance.
- Use independent cost estimates, where feasible, for comparison purposes.

8. Management structure.

a. The head of each agency that acquires major systems will designate an acquisition executive to integrate and unify the management process for the agency's major system acquisitions and to monitor implementation of the policies and practices set forth in this Circular.

b. Each agency that acquires or is responsible for activities leading to the acquisition of major systems will

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establish clear lines of authority, responsibility, and accountability for management of its major system acquisition programs.

c. Each agency should preclude management and placing nonessential reporting procedures and paperwork requirements on program managers and contractors.

d. A program manager will be designated for each of the agency's major system acquisition programs. This designation should be made when a decision is made to fulfill a mission need by pursuing alternative system design concepts. It is essential that the program manager have an understanding of user needs and constraints, familiarity with development principles and requisite management skills and experience. Ideally, management skills and experience would include: Research and development, Operations, Engineering, Construction, Testing, Contracting, Prototyping and fabrication of complex systems, Production, Business, Budgeting, Finance, with satisfactory performance, the tenure of the program manager should be long enough to provide continuity and personal accountability.

e. Upon designation, the program manager should be given budget guidance and a written charter of his authority, responsibility, and accountability for accomplishing approved program objectives.

f. Agency technical management and Government laboratories should be considered for participation in agency mission analysis, evaluation of alternative system design concepts, and support of all development, test, and production efforts.

g. Agencies are encouraged to work with each other to foster technology transfer, prevent unwarranted duplication of technological efforts, reduce system costs, promote standardization, and help create and maintain a competitive environment for an acquisition.

9. Key decisions. Technical and program decisions normally will be made at the level of the agency component or operating activity. However, the following four key decision points should be retained and made by the agency head:

a. Identification and definition of a specific mission need to be fulfilled, the relative priority assigned within the agency, and the general magnitude of resources that may be invested.

b. Selection of competitive system design concepts to be advanced to a test/demonstration phase or authorization to proceed with the development of a noncompetitive (single concept) system.

c. Commitment of a system to full-scale development and limited production.

d. Commitment of a system to full production.

10. Determination of mission needs.

8. Determination of mission need *should* be based on an analysis of an agency's mission reconciled with overall capabilities, priorities and resources. When analysis of an agency shows that a need for a new major system exists, such a need should not be defined in equipment terms, but should be defined in terms of the mission, purpose, capability, agency components involved, schedule and cost objectives, and operating constraints. A mission need may result from a deficiency in existing agency capabilities or the decision to establish new capabilities in response to a technologically feasible opportunity. Mission needs are independent of any particular system or technological solution.

b. Where an agency has more than one component involved, the agency will assign the roles and responsibilities of each component at the time of the first key decision. The agency may permit two or more agency components to sponsor competitive system design concepts in order to foster innovation and competition.

c. Agencies should, as required to satisfy mission responsibilities, contribute to the technology base, effectively utilizing both the private sector and Government laboratories and in-house technical centers, by conducting, supporting, or sponsoring: • Research • system design concept studies • Proof of concept work • Exploratory subsystem development • Tests and evaluations. Applied technology efforts oriented to system developments should be performed in response to approved mission needs.

11. Alternative systems.

a. Alternative system design concepts will be explored within the context of the agency's mission need and program objectives--with emphasis on generating innovation and competition from industry. Benefits to be derived should be optimized by competitive exploration of alternative system design concepts, and trade-offs of capability, schedule, and cost. Care must be exercised during the initial steps of the acquisition process not to conform mission needs or program objectives to any known systems or products that might foreclose consideration of alternatives.

b. Alternative system design concepts will be solicited from a broad base of qualified firms. In order to achieve the most practical system solution, emphasis will be placed on innovation and competition. To this end, participation of smaller and newer businesses should be encouraged. Concepts will be primarily solicited from private industry; and when beneficial to the Government, foreign technology, and equipment may be considered.

c. Federal laboratories, federally funded research and development centers, educational institutions, and other not-for-profit organizations may also be considered as sources for competitive system design concepts. Ideas, concepts, or technology developed by Government laboratories or at Government expense may be made available to private industry through the procurement process or through other established procedures. Industry proposals may be made on the basis of these ideas, concepts, and technology or on the basis of feasible alternatives which the proposer considers superior.

d. Research and development efforts should emphasize early competitive exploration of alternatives, as a relatively inexpensive insurance against premature or preordained choice of a system that may prove to be either more costly or less effective.

e. Requests for alternative system design concept proposals will explain the mission need, schedule, cost, capability objectives, and operating constraints. Each offeror will be free to propose his own technical approach, main design features, subsystems, and alternatives to schedule, cost, and capability goals. In the conceptual and

lest than full-scale development stages, contractors should not be restricted by detailed Government specifications and standards.

f. Selections from competing system design concept proposals will be based on a review by a team of experts, preferably from inside and outside the responsible component development organization. Such a team will consider: (1) Proposed system functions and performance capabilities to meet mission needs and program objectives, including resources required and benefits to be derived by trade-offs, where feasible, among technical performance, acquisition costs, ownership costs, time to develop and procure; and (2) The relevant accomplishment record of competitors.

g. During the uncertain period of identifying and exploring alternative system concepts, contracts covering relatively short time periods at planned dollar levels will be used. Timely technical reviews of alternative system design concepts will be made to effect the orderly elimination of those least attractive.

h. Contractors should be provided with operational test conditions, mission performance criteria, and life cycle cost factors that will be used by the agency in the evaluation and selection of the system(s) for full-scale development and production.

i. The participating contractors should be provided with relevant operational and support experience through the program manager, as necessary, in developing performance and other requirements for each alternative system design concept as tests and trade-offs are made.

j. Development of subsystems that are intended to be included in a major system acquisition program will be restricted to less than fully developed hardware (full-scale development) until the subsystem is identified as a part of a system candidate for full-scale development. Exceptions may be authorized by the agency head if the subsystems are long lead time items that fulfill a recognized generic need or if they have a high potential for common use among several existing or future systems.

12. Demonstrations.

a. Advancement to a competitive test/demonstration phase may be approved when the agency's mission need and program objectives are reaffirmed and when system design concepts are selected.

b. Major system acquisition programs will be structured and resources planned to demonstrate and evaluate competing alternative system design concepts that have been selected. Exceptions may be authorized by the agency head if demonstration is not feasible.

c. Development of a single system design concept that has not been competitively selected should be considered only if justified by factors such as urgency of need, of by the physical and financial impracticality of demonstrating alternatives. Proceeding with the development of a noncompetitive (single concept) system may be authorized by the agency head. Strong agency program management and technical direction should be used for systems that have been neither competitively selected nor demonstrated.

13. Full-scale development and production.

a. Full-scale development, including limited production, may be approved when the agency's mission need and program objectives are reaffirmed and competitive demonstration results verify that the chosen system design concept(s) is sound.

b. Full production may be approved when the agency's mission need and program objectives are reaffirmed and when system performance has been satisfactorily tested, independent of the agency development and user organizations, and evaluated in an environment that demonstrates expected operational conditions. Exceptions to independent testing may be authorized by the agency head under such circumstances as physical or financial impracticability or extreme urgency.

c. Selection of system(s) and contractor(s) for full-scale development and production is to be made on the basis of (1) system performance measured against current mission need and program objectives, (2) an evaluation of estimated acquisition and ownership costs, and (3) such factors as

contractor (s) demonstrated management, financial, and technical capabilities to meet program objectives.

d. The program manager will monitor system tests and contractor progress in fulfilling system performance, cost, and Schedule commitments. Significant actual vs forecast variances will be brought to the attention of the appropriate management authority for corrective action.

14. Budgeting and financing. Beginning with FY 1979 all agencies will, as part of the budget process, present budgets in terms of agency missions in consonance with Section 201 (i) of the Budget and Accounting Act, 1921, as added by Section 601 of the Congressional Budget Act of 1974, and in accordance with OMB Circular A-11. In so doing, the agencies are desired to separately identify research and development funding for: (1) The general technology base in support of an agency's overall missions, (2) The specific development effort; in support of alternative system design concepts to accomplish each mission need, and (3) Full-scale developments. Each agency should ensure that research and development is not undesirably duplicated across its missions.

15. Information to Congress.

8. Procedures for this purpose will be developed in conjunction with the Office of Management and Budget and the various committees of Congress having oversight responsibility for agency activities. Beginning with FY 1979 budget each agency will inform Congress in the normal budget process about agency missions, capabilities, deficiencies, and needs and objectives related to its programs, in consonance with Section 601(i) of the Congressional Budget Act of 1974,

b. Disclosure of the basis for an agency decision to proceed with a single system design concept without competitive selection and demonstration will be made to the congressional authorization and appropriation committees.

16. Implementation. All agencies will work closely with the Office of Management and Budget in resolving any implementation problem.

17. Submissions to Office of Management and Budget. Agencies will submit the following to OMB:

(No. A-109)

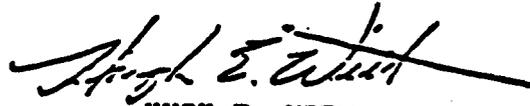
8. Policy directives, regulations, and guidelines as they are issued.

b. Within six months after the date of this Circular, a time-phased action plan for meeting the requirements of this Circular.

c. Periodically, the agency approved exceptions permitted under the provisions of this Circular.

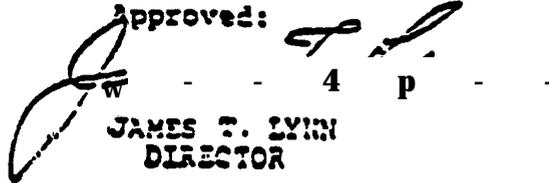
This information will be used by the OMB, in identifying major system acquisition trends and in monitoring implementations of this policy.

18. Inquiries. All questions or inquiries should be submitted to the OMB, Administrator for Federal Procurement Policy. Telephone number, area code, 202-395-4677.



HUGH E. WITT
ADMINISTRATOR FOR
FEDERAL PROCUREMENT POLICY

Approved:


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JAMES T. LYINN
DIRECTOR