United States Department of Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

Memorandum

To: Assistant Secretaries
Solicitor
Inspector General
Bureau Directors

From: John Berry, Assistant Secretary - Policy, Management and Budget

Subject: Planning, Budgeting, and Acquisition of Capital Assets

The Congress, Office of Management and Budget (OMB) and General Accounting Office have all concluded that Federal agencies need to improve their management of the planning, budgeting and acquisition of capital assets. This meshes well with my commitment to improve accountability for Interior's resources.

To lead this effort at Interior, I am establishing an Executive Review Committee to improve and oversee Interior's capital planning, budgeting, and acquisition process. The Committee is responsible for reviewing and approving the Department's portfolio of major capital assets to achieve strategic goals and objectives within budget limits. This will be done through the further implementation of the capital planning guidelines in OMB Circular A- 11, Part 3). See Attachment I for a brief summary of key policy and procedural requirements.

I will chair the Committee. Other Committee members include: Paul A. Denett. Interior's Director of Administration and Senior Procurement Executive; Daryl White. Chief Information Officer, who will have the lead for information technology systems; Michael Kaas, Director, Office of Managing Risk and Public Safety, who will have the lead for construction projects; John Trezise, Director, Office of Budget; Sky Lesher. Deputy Chief Financial Officer; the Director, Office of Acquisition and Property Management, and the Director, Office of Planning and Performance Management. The Committee will consult with program Assistant Secretaries or Bureau executives as needed.

The Committee will review Exhibit 300B budget submissions at the beginning of each budget cycle, beginning with FY200 1. Working primarily through the Chief Information Officer for information technology and the Director of Managing Risk and Public Safety for construction, the Committee will also continuously track the attainment of project cost, schedule and performance goals. The continuation of on-going projects exceeding cost schedule or performance goals by five percent will require Committee approval. The Committee will review Exhibit 300Bs by using A-I I guidelines and the checklist used by OMB budget examiners which is provided in Attachment 2.

Because of the highly diversified and decentralized structure of the Department, capital asset Management requires similar senior management and oversight at the Bureau level to assure thorough review of 300Bs before Departmental approval is requested. Bureau review Committees may also use the OMB checklist for that purpose.

By July 28, 1999, please provide the name of the executive in your Bureau who has been assigned the responsibility for implementing and managing this process. OMB guidelines provide fairly explicit policy direction. As a first formal step, Bureaus should establish a senior level review group or assign this task to an existing senior level group and issue written instructions or procedures which, at a minimum, assure adoption of the most essential features of the process,

namely: the assignment of all the appropriate disciplines to the preparation on critical, analysis, and high level approval of 300Bs for major new projects, as well as to the regular tracking and annual reporting for ongoing projects on 300Bs.

A copy of each Bureau's written operating instructions addressing at least these initial steps must be sent to Paul Denett within 60 days of the date *of* this memorandum. Exhibit 300Bs for the Committee's review and approval should also be sent to Mr. Denett; copies *of* the Exhibit 300Bs should be simultaneously provided to the appropriate bureau analyst in the Office of Budget.

Your staff may direct questions about this matter to Dean Titcomb on (202) 208-3433.

Attachments

cc: Bob Lamb
Paul Denett
Daryl White
John Trezise
Michael Kaas
Sky Lesher
Norma Campbell
Assistant Directors for Administration
Acquisition Managers' Partnership
Bureau Information Resources Management Coordinators
Bureau Budget Officers

Attachment 1

OMB Circular A-11. Part 3,
Planning, Budgeting and Acquisition of Capital Assets
(November 1998)

Key Policy and Procedural Requirements

Background:

The term "capital asset" means: land, structures (e.g.. buildings. dams. roads. bridges etc.), equipment and intellectual property (e.g., software) that are used by the Federal Government and have an estimated useful life of two years or more.

Policies in OMB budget guidance are based on the requirements of the Government Performance and Results Act of 1993 (GPRA) and the Federal Acquisition Streamlining Act of 1994 (FASA). In the acquisition of capital assets, GPRA mission statements, strategic goals and objectives, and annual performance plans are aligned with FASA requirements to assure that measurable cost, schedule and performance goals are established monitored and met. These policies are addressed in OMB Circular A-11, Part 3, revised November 3, 1998.

The policies establish the Government's fundamental business principles for sound budgeting and management of the acquisition of capital assets.

OMB requires submission of an Exhibit 300B, Capital Asset Plan and Justification (copy attached) with initial budget submissions in September each year to support the funding request and to account for the progress of the acquisition of each major capital asset.

At Interior this process has been determined to apply to: (I) construction projects that require funding in more than one fiscal year of $500,000 or more, (2) construction projects with total costs in excess of $10 million; and (3) Information Technology (IT) systems considered to be mission essential.

OMB reports to Congress each year on agency progress with implementation of these policies and on cost, schedule and performance goal variances on major projects greater than 10 percent. Last year, OMB concluded and reported to Congress that there was "insufficient information available" for comment on Interior's progress with adoption of these policies.

Based upon direction in the FY 2000 budget passback recent feedback from OMB staff and our own review of the Capital Asset Plans and Justifications provided for the FY 2000 budget, Interior needs to strengthen its management of this process at the Bureau and Departmental levels.

OMB policies prescribe the active participation of several disciplines from the start of the acquisition planning through the completion of the project. Integrated Project Teams (IPTs) or staff from program, contracting, budget and finance offices should collectively prepare and update the planning, contracting, cost and performance management information reported through Exhibit 300Bs.

Exhibit 300Bs for projects that meet the criteria for reporting to OMB will be reviewed by the Department’s Executive Review Committee. We recognize that some projects are initiated by decisions made through the budgeting process: those projects are to be reported once the Bureau has sufficient information to begin the planning process.

Our first review indicates that, currently, at least 27 construction projects and 8 Information Technology projects throughout Interior are subject to OMB review. In the past, information

provided on 300Bs for construction projects has not been adequate. Of the construction projects, 60 percent originate from the National Park Service (NPS).

We are working with NPS and OMB to gain a better understanding of how to improve our procedures. Once NPS has adequate 300Bs for their projects, we will contact the remaining bureaus that have projects to report.

Beginning with the FY 2001 budget process, we will fully incorporate this new management review process in the planning, budgeting, and acquisition of our capital assets at the Departmental and bureau levels.

Summary of key policies:

- Budgeting policies encourage asking for full funding for projects with no year money versus incremental funding through annual appropriations.

- Producing acquisition plans with accurate cost and schedule estimates that have a high probability of successfully achieving cost, schedule, and performance goals is expected.

- Preparing the Capital Asset Plan and Justification (Exhibit 300B) in accordance with OMB and Interior annual budget guidance is essential.

- Using the 300B as the primary document for approval of a project by internal advisory boards, review councils, or steering committees, and budget offices.

- Providing through explanations of the alternatives considered to be proposed investments.

- Including **measurable** cost, schedule and performance goals related to the contract specifications in these plans. The performance goals must be explicitly associated with the Bureau's Government Performance and Results Act strategic plans and goals.

- Using integrated project teams, including acquisition personnel, to manage projects.

- Holding project team officials, named in the plans, accountable for meeting cost, schedule, and performance goals.

- Requiring contractors for major or mission essential projects to use and Earned Value.

Management System to monitor goal attainment. See OMB Circular A-11, Part 3, Appendix C and American National Standards Institute (ANSI) Standard on Earned Value Management System Guidelines, ANSI/EIA Standard 748-98.

  - Monitoring the attainment of project cost, schedule and performance goals.

  - Taking corrective action when a project exceeds its cost, schedule or performance goals by 5 percent.

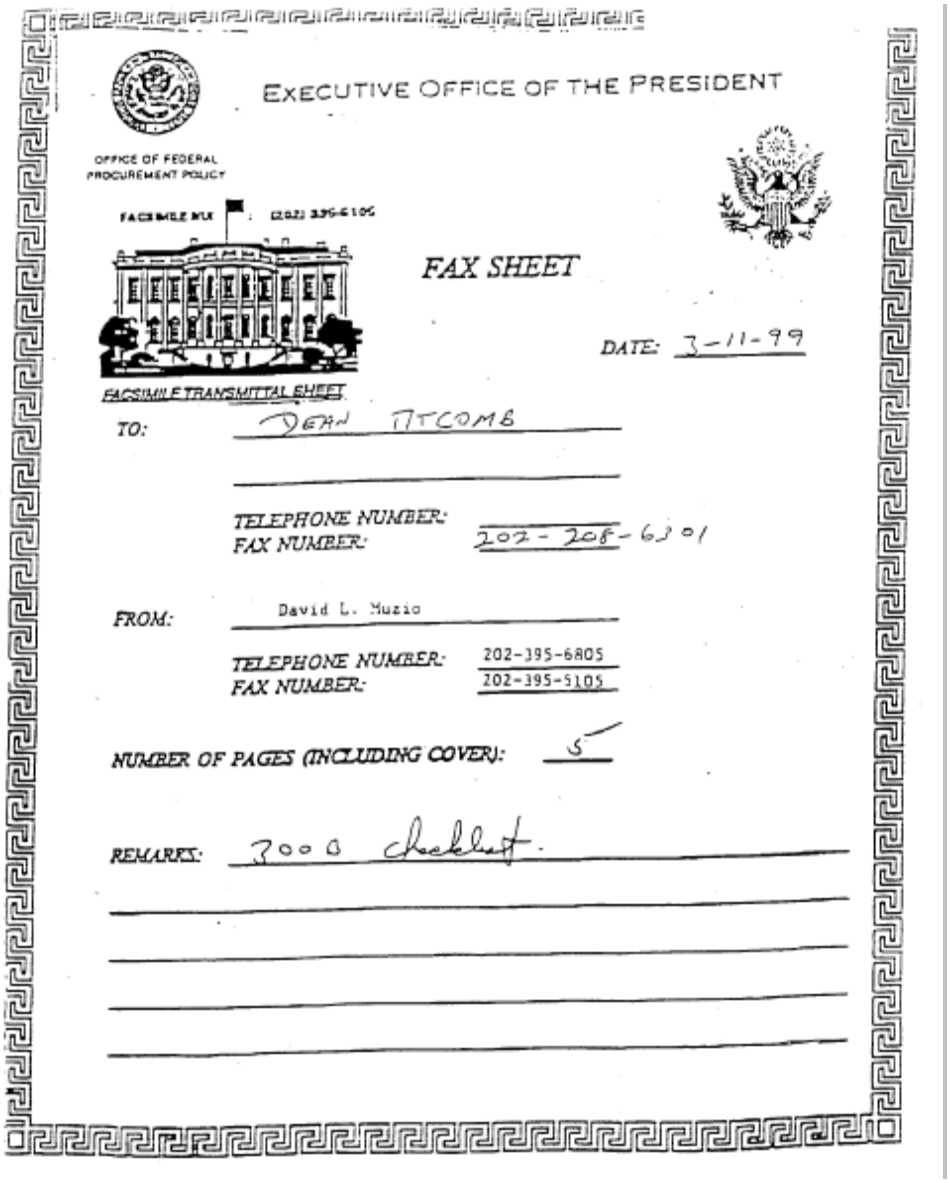
  - Obtaining Executive Review Committee approval before deciding to continue a major project which exceeds its cost, schedule or performance goals by 5 percent.

Reference Materials:

A copy of OMB Circular A-11, Part 3 is available through the Internet from:

Http://wwwl.whithouse.gov/WH/EOP/OMB/html/circular.html

A copy of the Supplement to Part Capital Programming Guide is also available from this same Web site.



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF FEDERAL PROCUREMENT POLICY

FACSIMILE NUMBER: (202) 395-6105

FAX SHEET

DATE: 3-11-99

FACSIMILE TRANSMITTAL SHEET

TO: DEAN ITCOMB

TELEPHONE NUMBER:
FAX NUMBER: 202-208-6301

FROM: David L. Muzio

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NUMBER OF PAGES (INCLUDING COVER): 5

REMARKS: 3000 checklist.

Attachment 2

EXHIBIT 300B CHECKLIST FOR ANNUAL BUDGET Date of review_____

Heading

Agency_____ bureau_____
Account title_____ Identification code_____
Program Activity_____ Name of project _____
New Project ___ On-going project ___ IT Project ___

PART I - Summary of spending for project stages

BA/OL estimates in millions
Stages - Planning ___ Prototype___ Module ___ Full Acquisition ___

PART II - Justification and other information.

A. Provide a full justification for the asset and cost of the asset.

How asset will help agency meet agency mission, accomplish long-term, goals and objectives and adhere to annual performance plan. What gap in the agencies ability to meet its strategic goals and objectives is the investment designed to fill? Has agency conducted a baseline assessment of all capital assets to evaluate capacity of existing capital for bridging the performance gap?

Are the requirements clearly defined in performance terms?

Three Pesky Questions

Does investment support function that needs to be performed by the Government?

Is there an alternate private sector or governmental source that can better support The function

Have the work processes the investment is to support been reengineered to reduce cost, improve effectiveness and make maximum use of commercial off-the-shelf technology?

Basis for selecting the project - Choosing the Best Capital Asset

Extent of Market Research to Identify Available Alternative Solutions. Was emphasis placed on solutions currently available? Were offerors allowed to propose any solution they believed would meet the agency's needs?

If market capability not sufficient to fulfill the entire performance gap, did the agency weigh the extent of increased capability that could be obtained quickly against the delay in capability improvement, risk of failure, and cost of development effort needed to obtain the desired capability?

Benefit Cost Analysis, including full life-cycle costs, of alternatives (A-94)

Is the asset affordable within budget limits? If full requirement not affordab1e, can it be divided into separate modules that are affordable?

Risk and Sensitivity Analysis provided? What is the risk and uncertainty in meeting cost, schedule, and performance goals?

High risk justified by high expected returns? Can project failure be absorbed by the agency without loss of service capability or significant effect on budget?

What is priority of project within agency capital asset portfolio?

B. Program Management

Will Integrated Project Team (IPT) be used to manage the project ? Is Program Manager qualified to manage the size and complexity of program?

Is there an IPT charter defining scope of authority, responsibility and accountability for managing the program?

C. Contract Strategy

Is contract statement of work performance based?

Is the contract a fixed price or cost reimbursement contract? If cost reimbursement, why was that type chosen? Does the contract type limit the government's risk? Does the contract type match the risk associated with the project?

PART III - Cost, Schedule and Performance goals.

The agency planning process is expected to produce acquisition plans that have a high probability of successfully achieving the cost, schedule and performance goals. Agencies are to request funding for only those stages where the agency is able to establish realistic cost, schedule and performance goals? Are each of the goals clearly defined? Is the cost goal based and the most likely cost with risk included? Was an independent risk assessment completed?

A. Description of performance based management system

Did the agency identify the Earned Value or other type system to be used to manage the Program and explain how the system: (1) identifies the amount of planned work actually Accomplished: (2) compares actual work accomplished against planned work and actual Costs incurred by the contractor against planned costs, and (3) establishes the deviation percentage from goals? Is the management system adequate?

A. Original Baseline goals

Total Cost:

Scheduled date of project completion

Performance goals. Summary of performance goals included in the contract statement of work. Were key programmatic assumptions used to determine performance goals Identified?

B. Revised Baseline Goals: (Approved by OMB)

Revised Total Cost to Complete:

Revised Completion Date:

Revised Performance goals:

Identify probability of meeting goals and whether independent risk assessment was completed.

Identify key programmatic assumptions used to determine the performance goals.

D. Current Estimates

Total Cost to Complete

Estimated Completion Date:

Revisions to Performance goals

E. Variances from baseline goals

Variances in cost - if 10 percent or more above baseline - discuss and give reasons

Variance from Schedule - same

Variance in performance - report any deviation in performance goals - discuss/reasons

If variance more than 10 percent has agency head made decision to continue to fund program? What is source of additional funding?

F. Corrective Actions

Identify corrective actions - that have been or will be taken. Effect the actions will have on cost, schedule and performance goals. Explain how project will be brought back within baseline goals, or, if not, how and why the goals should be revised and whether project is still cost-beneficial.

G. Proposed revisions to goals.

Should OMB support changes to goals? Why?