

Unit Cost Reporting APPLICABILITY

- Applies to Major Defense Acquisition Programs (MDAPs) (pursuant to Title 10, Sec 2430, US Code):
 - Research & Development costs ≥ \$480M (BY14 \$)
 - Procurement costs ≥ \$2.79B (BY14 \$)
- Unit Cost Reporting (UCR) begins at Milestone B (Engineering and Manufacturing Development)
- UCR ends when the Selected Acquisition Report (SAR) reporting is terminated at 90% complete (deliveries or expenditures)
- Source: Title 10, Sections 2432 and 2433, US Code

Unit Cost Reporting REPORTING CRITERIA

- Two unit cost criteria (in base-year dollars):
 - Program Acquisition Unit Cost (PAUC)
 - Average Procurement Unit Cost (APUC)
- Definitions:

$$\text{PAUC} = \frac{\text{Total Development \$} + \text{Procurement \$} + \text{Construction \$}}{\text{Total Program Quantity}^*}$$

$$\text{APUC} = \frac{\text{Total Procurement \$}}{\text{Procurement Quantity}}$$

* Total Program Quantity represents procurement quantities plus fully configured RDT&E prototypes (fully configured means operationally equivalent to the production units)

Unit Cost Breaches (with respect to APUC or PAUC)

	<i>Significant</i>	<i>Critical</i>
Current Baseline Estimate (Current APB)	+ 15%	+ 25%
Original Baseline Estimate (Original APB)	+ 30%	+ 50%
Required Actions	Notification and SAR	Notification, SAR and Certification

Quantity-Related Critical Breach:
 -No milestone rescission, **re-approval, or follow-on periodic reviews** if PAUC/APUC cost growth, for other than quantity, is limited to:
 --Less than or equal to 5% against current Acquisition Program Baseline (APB)
 --Less than or equal to 10% against original APB

Certification for *Critical* Breaches

- **USD(AT&L) certification to Congress:**
 - Due 60 days after the date the SAR is required to be submitted
- **Certification Criteria:**
 1. the continuation of the program is essential to the national security;
 2. there are no alternatives to the program which will provide acceptable capability to meet the joint military requirement at less cost;
 3. the new estimates of the PAUC or APUC have been determined by the Director, CAPE* to be reasonable;
 4. the program is a higher priority than programs whose funding must be reduced to accommodate the growth in the cost of the program; and
 5. the management structure for the program is adequate to manage and control PAUC or APUC

* CAPE = Cost Assessment and Program Evaluation

Weapon System Acquisition Reform Act (WSARA)

Sec 206: Critical Cost Growth in MDAPs—Title 10, Sec 2433a, US Code

- **Required root cause analysis**
- **Directed Dir, CAPE to assess**
 - Projected cost of current requirements
 - Projected cost with reasonable modification of requirements
 - ROM for reasonable alternatives or capability
 - Need to reduce funding for other programs due to this cost growth
- **SecDef will terminate the program unless certification is submitted before the end of 60-day period after due date of the SAR to Congress**
- **Added 5th item for certification**
 - The program is a higher priority than programs whose funding must be reduced to accommodate the growth in the cost of the program
- **Actions if program not terminated**
 - Restructure that addresses root cause and ensures mgt structure is acceptable
 - Rescind most recent Milestone (MS) approval
 - Require a new Milestone approval
 - Include in the next annual SAR, a description of all funding changes made
 - Conduct program reviews (at least semi-annually until 1 year post MS approval)
- **Actions if program terminated (submit a report to Congress)**
 - Reasons for termination
 - Alternatives considered to address program problems
 - The course the Department plans to pursue to meet any continuing joint military requirements

Reporting Timeline for Critical Breach

Determination Date (by Service Secretary)	SAR Reporting Breach Information	SAR Submitted to Congress	Certification Due Date (SAR + 60 Days)
October 1 – President's Budget	December SAR	President's Budget (PB) + 45 Days (late March)	Late May
President's Budget – March 31	March SAR	May 15	July 14
April 1 – June 30	June SAR	August 14	October 13
July 1 – September 30	September SAR	November 14	January 13

- Notes:**
1. Nunn-McCurdy Breaches must be reported via UCR/Program Deviation Report (PDR) submitted by the PM to the SAE. Congressional notifications of Nunn-McCurdy breaches must be submitted to Congress within 45 days of the UCR/PDR date.
 2. Certifications are required for critical Nunn-McCurdy breaches (≥ 25% to current APB, ≥ 50% to original APB), **unless breach was the result of program cancellation.**
 3. FY 12 NDAA changed SAR due date to 45 days after PB

Definition of Major Automated Information System (MAIS)

(10 U.S.C. 2445a)

- Program for the acquisition of an automated information system* (either as a product or a service) if:
 - (1) designated by the SecDef or designee; or
 - (2) estimated cost exceeds (FY2014 constant dollars)—
 - (A) \$ 40M for all program costs in a single fiscal year;
 - (B) \$165M for total acquisition costs; or
 - (C) \$520M for the total life-cycle costs of the program.
 - Full Deployment plus 10 years operations and sustainment
 - Includes all increments, so to cover entire IS
 - Includes unbaselined and baselined programs/ increments
- * Important AIS definition in DoDI 5000.02 Encl 1 Tbl 1 Footnote 4

Definition of Automated Information System (AIS)

(DoDI 5000.02 Enclosure 1 Table 1 Footnote 4)

- **Note that this key definition is not based in statute!**
- **A system of computer hardware, computer software, data or telecommunications that performs functions such as collecting, processing, storing, transmitting, and displaying information.**
- **Excluded are:**
 - “**embedded**” computer resources, both hardware and software, that are an integral part of a weapon or weapon system;
 - “**national security systems**” used for highly sensitive classified programs (as determined by the Secretary of Defense); used for other highly sensitive information technology (IT) programs (as determined by the DoD CIO); or
 - “**non-developmental systems**” determined by the DAE or designee to be better overseen as a non-AIS program (e.g., a program with a low ratio of RDT&E funding to total program acquisition costs or that requires significant hardware development).

MAIS Annual Report (MAR)

(10 U.S.C. 2445b)

- **Due annually to Congress 45 days after submission of the President’s Budget (PB)**
- **The annual report must include the following**
 - Development schedule with major milestones
 - Implementation schedule including estimates of milestone dates, full deployment decision, and full deployment
 - Estimates of total acquisition and total life-cycle costs
 - Summary of key performance parameters
 - **Business Case information**
- **The initial MAR constitutes the Original Estimate for determining significant and critical changes in the program**
 - Original Estimate can only be changed when a Critical Change is reported
 - It cannot be changed by an updated Acquisition Program Baseline

Significant & Critical Change Summary

	Significant	Critical
Cost - total acquisition cost - total life-cycle cost	15 to 25% increase	≥ 25% increase
Schedule	>6 month to <1 year delay	≥ 1 year delay
	Former 5-year development clock deleted; now must justify excess time in MAIS Annual Report if (MS A*) to Full Deployment Decision exceeds 5 years * statute says “program initiation” but we think Congress meant “MS A or equivalent”	
Performance	Significant adverse change in expected performance	Undermine the ability of the system to perform mission as originally intended (miss KPP threshold)
Report to congressional defense committees	Notification due 45 days after DAES was due in the office of Senior Official	Program evaluation and Report due 60 days after DAES was due in the office of Senior Official

Prohibition on Obligation of Funds

(10 U.S.C. 2445c(g))

- **If the Senior Official does not submit the Critical Change Report within 60 days of receiving the PM’s report, appropriated funds may not be obligated for any major contract under the program**
 - **For Chapter 144A purposes, the term “major contract” means any contract under the program that:**
 - Is not a firm-fixed price contract,
 - Has target cost exceeding \$17M (FY00 constant dollars), or
 - Is the largest contract under the program.
 - **Programs should not obligate funds during Critical Change Report (CCR) preparation**
- **The prohibition ceases to apply on the date on which Congress receives a report in compliance with the law**

Reporting for MAIS that are also MDAPs

(10 U.S.C. 2445d)

- **If a MAIS that is also an MDAP reports under the provisions of 10 U.S.C. Chapter 144A, no reports under Chapter 144 of Title 10 are required**
 - **i.e., MAIS-MDAPs are not subject to Nunn-McCurdy reporting as long as they comply with Chapter 144A requirements**