

II. CAPITAL INVESTMENT METHODOLOGY

A. OVERVIEW

The intention of the Departmental capital planning process is to lay the foundation at the beginning of the capital decision-making process (i.e., when needs, goals, objectives, and proposal are first assessed) so the remaining data structure can be assembled much more logically and easily. This *Guide* provides a blueprint for decision-making across the Department – the field level where most capital proposals originate; the Administration level (VHA, VBA, and NCA) and staff offices, where program and technical oversight exists; the expert level (Construction Advisory Board (CAB), Information Technology Board (ITB), and other subject matter expert boards and councils); and at the Department level, where strategic oversight and vision occur. The aim is to provide sufficient guidance such that each proposal submitted for approval will contain all of the elements required by various acts, Executive orders, and Congressional mandates, and to ensure data necessary for making sound business decisions are present.

Throughout the years the decision-making process for the budget formulation cycle has evolved to include 3-tiers of data. The first tier is a concept paper (CP) that is developed to introduce the need of a capital investment to senior management. Next a planning application can be submitted to request funds for a pilot or for other planning activities. The third tier is a full acquisition application, which is a request for full funding of a capital investment. The initial data from an approved concept plan is expanded for the planning application. This information is more detailed and can be used to develop the acquisition application that includes even more detailed data. These levels of data are used in the formulation phase of the Departmental capital investment planning and budgeting.

The process and the use of application data continue into the execution phase where new projects and previously funded investments are evaluated for their continued viability. During the execution phase, the Department revalidates the planning assumptions that were made 18 to 24 months earlier on capital proposals that have already been selected for funding. Earned value analysis is used to enhance the Department's monitoring capabilities.

To further enhance the Department's asset planning and portfolio management capabilities the Capital Asset Management System (CAMS) is being developed for VA-wide implementation. For formulation activities, CAMS will enable staff to complete forms for concept papers, planning, and acquisition applications in a web-based form. For execution functions CAMS will provide the capability to track the performance of capital assets throughout their life cycle, including the monitoring of project progress and performance. The emphasis of this *Guide* is the FY 2005 formulation phase and the planning and acquisition applications.

B. BACKGROUND

Prior to 1997 VA's capital budgeting process was characterized as "stove-pipe planning." Planning was nearly vertical within each of VA's major divisions with limited integration among the different organizations (i.e., VHA, VBA, NCA, and staff offices). Each year, the prior year's budget was adjusted by the rate of inflation as well as any special projects that might be required, and then submitted to Congress. Individual projects were identified and planned at lower organizational levels, and passed along to upper management for approval.

Most planning did not typically include analysis of risks or costs and benefits of investments. Also lacking was justification in relation to strategic planning and any assessment of alternatives outside the Department and the federal government. OMB directed VA and all federal agencies to address each of these points in capital planning.

OMB, in collaboration with VA and other major agencies and departments, developed *The Capital Programming Guide* (a supplement to Circular A-11). The *Capital Programming Guide* was intended to assist federal agencies in planning, budgeting, procuring, and managing capital assets. The *Capital Programming Guide* integrated the requirements of GPRA, the Clinger-Cohen Act, FASA, and other federal initiatives, providing a comprehensive reference that agencies can use in all phases of capital investment decision-making. The *Capital Programming Guide* expedited VA's pursuit of a comprehensive asset plan and investment policy.

On June 7, 1997, VA's Deputy Secretary established the VACIB (now the Strategic Management Council (SMC)). One purpose of the SMC is to issue policy to produce a comprehensive system-wide integrated capital investment planning process in concert with the Department's mission and goals. The fundamental goals of the SMC are to ensure that capital investments are based on well-established business investment practices; promote the One VA vision by linking diverse but complimentary objectives; conform to the overall strategic goals and objectives of VA; address the Secretary's priorities by emphasizing program objectives in support of internal goals; and support the President's Management Agenda. For CARES projects the CARES SRG has the same authority as the SMC, both are chaired by the Deputy Secretary.

The SMC\SRG oversees the approval of all capital investment proposals that exceed certain threshold requirements, represent a high risk or high visibility, or are crosscutting. Approved proposals constitute the VA Capital Plan and support annual budget requests. Those proposals that meet or exceed the established threshold are required to undergo SMC\SRG approval. See Table 1 for capital investment thresholds by asset category and by organization.

Table 1: Thresholds for Capital Investments Requiring SMC Approval

Total Acquisition Costs				
Categories	VHA	VBA	NCA	Staff Offices
Infrastructure Proposals ¹	\$4M	\$4M	\$4M	\$1M
Medical Equipment	\$1M/piece	N/A	N/A	N/A
Non-Medical Equipment	\$500,000/piece	\$500,000/piece	\$500,000/piece	\$500,000/piece
Information Technology: Total acquisition cost or Life-Cycle Costs	\$10M or \$30M	\$2M or \$6M	\$1M or \$3M	\$1M or \$3M
Enhanced-Use Leases ²	\$4M	\$4M	\$4M	\$4M
Enhanced Sharing Agreements ³	\$4M	N/A	N/A	N/A
Leases/GSA Space	\$600,000	\$600,000	\$600,000	\$600,000
Energy Savings Performance Contracts ³	\$4M/Facility or \$10M/Multiple Facilities	\$4M/Facility or \$10M/Multiple Facilities	\$4M/Facility or \$10M/Multiple Facilities	\$4M/Facility or \$10M/Multiple Facilities

¹Includes the Construction and Medical Care (NRM) appropriations.

²Total value of proposal exceeds \$4 million in NPV over the term of the proposal (both VA and developers).

³Enhanced Sharing Agreements provide the flexibility for VA to share (buy or sell) health care resources with other community health care providers. Enhanced Sharing Agreements for space will use the E-U threshold. For all other VHA categories, existing thresholds will apply.

⁴EPSCs – Multiple facilities means more than two facilities, with not one of the involved facilities value in the task order exceeding \$4.0M.

At the same time the SMC was established a support group, the VA Capital Investment Panel (VACIP) was also established. The Panel is comprised of senior staff in VHA, VBA, NCA, and the Offices of Policy and Planning, Management, and Information and Technology. The Panel's role is to assess and review capital investment proposals, evaluate, score, and prioritize proposals, and make recommendations to the SMC. Their role also includes serving as liaison between representative board members and the Administrations, as well as assisting in improving or defending capital investment proposals during the review process.

C. UPDATES TO THE CAPITAL INVESTMENT PROCESS

When VA began to implement the principles of the *Capital Programming Guide* in 1997, a main goal was to ensure that investments were based on well-established business investment practices. Economic Systems, Inc. (ESI) was contracted to conduct a study of best practices. For this study, ESI examined the capital programming needs of VA and provided analyses of exemplary practices found in private industry and in other government agencies. ESI selected and recommended to VA applicable practices in its report entitled *Capital Investment Best Practices Survey*. VA Incorporated 20 of the 28 recommendations and developed a new Departmental capital investment planning process that was operationalized in the *Capital Investment Guide* dated May 1998.

In November 1999, PricewaterhouseCoopers, LLP (PwC) was contracted to conduct a survey of best practices in capital investment planning processes, to make recommendations on improving the process first developed with the assistance of ESI. The result was the introduction of standardized electronic

templates for cost-effectiveness, alternatives, risk, and earned value analyses. The recommendations made by PwC streamlined the process making it more efficient and effective.

For the FY 2003 planning cycle several improvements were made in the cost-effectiveness analysis template, a streamlined application was developed for over threshold medical equipment purchases, the decision-making criteria model was updated to meet current needs, and new guidance on the application and process was developed. In addition to those improvements the Panel agreed to investigate a tiered approach to the application process for FY 2004. The tiers would act as filters for capital investment concepts that do not have appropriate management support. These tiers would save countless staff hours of research, analysis, and preparation on a project that was not destined for funding.

Continuous quality improvement has been a benchmark of the capital investment process. Following the FY 2003 formulation phase, feedback from multiple sources encouraged additional improvements to the process. In March 2002 the following updates were made for the FY 2004 process:

- The tiered approach became three tiers. First a concept paper is completed for initial review and approval. Second a planning application is developed revealing more detail about the investment. Third an acquisition application is completed for full funding of the investment.
- At the request of OMB, the format of the application changed to mirror Circular A-11's Exhibit 300, which is the format preferred by OMB.
- The cost-effectiveness analysis template was once again updated. The template now provides automatic calculations for return on investment (ROI), internal rate of return (IRR), payback period (PP), and hurdle rate. These calculations are delivered in an executive summary format.

Quality improvements have been implemented annually as part of the capital investment process. As such, it is an evolving and dynamic process. Each year the process is critiqued during field and Administration training workshops, VHA Planning Conferences, Information Technology Conferences (ITC) in Austin, TX, and other national workshops. In addition, stakeholder concerns and other feedback from proposal developers are communicated to the Panel via telephone queries and e-mails throughout the year.

The strength of the capital investment planning process is that it encourages continual improvement and refinement as a response to customer needs. Along with stakeholder suggestions, the Panel monitors changes to the Department's strategic goals and adapts the decision model to address those changes. Any recommended changes to the process are reviewed and validated by the Panel. Subsequently, the SMC reviews and approves the modified decision model annually. This process ensures that both the Administrations and staff offices have an opportunity to review the changes before they are implemented.

D. FY 2005 UPDATES TO THE CAPITAL INVESTMENT PLANNING PROCESS

As part of VA's continuous quality improvements additional activities to maintain the leading edge in capital planning practices were pursued. The next logical step for VA was to expand the scope of planning, execution, and tracking of new and existing capital investments. The following updates are being incorporated into the process and methodology for the FY 2005 cycle.

- 1. The Capital Asset Management System (CAMS)** will allow the Secretary and select executive staff access to timely and reliable data on the performance of VA's capital assets. CAMS also provides web-based electronic forms for completing concept papers, planning and acquisition applications for CARES and Non-CARES projects.
- 2. Concept Paper** updates provide preliminary data during this feasibility assessment stage (the first tier). Criteria were updated and revised based on recommendations of the VACIP and CARES Senior Resources Group (SRG). The concept paper is completed on-line in CAMS.
- 3. Updating the Non-CARES/ IT Decision Model:** The decision model was augmented to include the decision criteria of Safeguard Assets, and Capital Asset Portfolio Goals. The Financial Priorities criterion was also modified.
- 4. Application format changed with the addition of Part III, VA-Specific Decision Criteria.** The addition of Part III results in a more user-friendly application for both applicants and reviewers.
- 5. Develop a CARES Decision Model.** Capital Asset Realignment for Enhanced Services (CARES) is an assessment of veteran's health care needs within each network. VHA is developing market plans to provide a blueprint for how the health care needs of veterans will be met over the next 20 years. Planning Initiatives (PI) will be developed that identify a gap or overlap in healthcare services for a specific market area. VHA has developed a decision model to assist in evaluating and prioritizing the numerous PIs that will come out of the CARES process. The CARES process for FY 2005 mirrors the Departmental capital investment planning process but also includes three CARES-specific criteria. This allows for CARES projects to be reviewed at the strategic review phase easily and without unnecessary reformatting of data.

E. CAPITAL INVESTMENT PLANNING PROCESS – FORMULATION PHASE

For the FY 2005 budget formulation cycle, the 3-tier process is in full swing. The intent of this approach is to reduce the level of up-front effort and documentation required by the proposal developer. By using the 3-tiered process, proposals are built progressively, increasing in the level of detail and substantiating documentation at each step. Capital investment proposals begin as a concept paper (CP). After the CP is approved by the SMC it can be more fully developed into a planning application, ultimately culminating in an acquisition application. Proposal developers can forgo the planning application tier and go straight to the acquisition application tier if so desired.

OMB requires an application be completed for all proposed above-threshold capital asset investments that are included in VA's budget submission. An abridged version of the OMB Exhibit 300 (the planning application) is used to request planning/design funds for FY 2005. A complete acquisition application should be completed to request full funding for an investment for FY 2005. Projects that receive planning/design funds for FY 2005 will subsequently submit an acquisition application during the FY 2006 budget formulation cycle.

Planning and acquisition applications will receive an initial review by the VACIP. This initial review, called the validity assessment is conducted to determine if the data submitted is complete and reasonable. Projects must receive a minimum score in order to pass validation. Applications that do not pass validation are not scored by the VACIP and are not included in the annual budget submission. The data validation form is the primary tool used to document deficiencies and provide recommendations to improve capital investment applications. This feedback can be used by the proposal developers to improve their applications, which increases their chance of earning the highest possible score and getting funded. Feedback is inherent in the decision-making flow. Decision-makers provide constructive feedback to Administration and staff office levels, which will then be used in the development of current and future proposals.

If an application fails to meet the minimum requirement of the validity check, proposal developers can resubmit it. All applications that pass the validity check will be scored by the VACIP. To score a project the Panel members enter judgments into Expert Choice decision software on how well they feel the application addressed each decision criterion. The Panel member's judgments are combined with the priority weights assigned each criterion and sub-criterion and result in a score. The final product of the scoring session is a prioritized list of investments to be reviewed and approved by the SMC and possibly included in the Department's annual budget submission.

Capital investment proposals actually move through a variety of decision checkpoints. At any point, if information is inadequate, the proposal is sent back to the proposal developers for additional work. Timing and budget considerations can effect a proposal's movement through the process. At any tier and at any

phase a project may be sent back to the proposal developers for more work or may be declined by management altogether. Being included in the budget submission does not assure Congressional funding of a project. This is the reason why some projects are submitted through this process multiple times.

The decision-making process set forth in this *Guide* aims to measure all capital proposals against overall Department strategic plans and objectives. This results in selecting a mix of investments that meet VA strategic goals and maximize the return to the taxpayer.

The formulation process flow is shown in Figure 1. It is clear that documentation at all tiers of the capital investment planning process must receive approval by the SMC before being able to proceed to the next level. See inset box below for a description of the three phases of formulation.

FIGURE 1: FORMULATION PROCESS



Figure 2 provides a matrix of the capital planning phases against the three tiers of information required.

FIGURE 2. FORMULATION PHASE OF THE CAPITAL INVESTMENT PLANNING PROCESS

		TIERS		
		Concept Paper	Planning Application	Acquisition Application
Phases	Functional Development	Concepts are conceived and initially developed. This tier is mandatory	Approved CPs continue to be developed into planning applications. This tier is optional.	Approved CPs or planning applications are further developed into an acquisition application. This tier is mandatory.
	Technical Development		Planning Applications received technical and financial scrutiny from Department-wide councils or Administration boards. Prioritization by asset category occurs here.	Acquisition Applications received technical and financial scrutiny from Department-wide councils or Administration boards. Prioritization by asset category occurs here.
	Strategic Review	Validity Assessment completed. SMC\SRG reviews CPs. Approved CPs can be developed into planning or acquisition applications	Validity Assessment completed. SMC\SRG reviews and approves planning applications. Funds are included in the annual budget request.	Validity Assessment completed. SMC\SRG reviews and approves acquisition applications. Funds are included in the annual budget request.
OMB			OMB approves projects to be included in the President's budget.	

F. PRIORITIZATION PROCESS

Prioritization takes place across asset types (strategic) once a technical review has been completed. At the strategic review level, investment proposals use multi-attribute decision modeling techniques. Standard methods of cost-benefit analysis typically will not capture all of the true values and costs of a proposed investment. Such benefits as increased accessibility or improved workforce morale, for example, may be difficult to quantify in dollar terms. A multi-attribute decision methodology can be used to accommodate the more judgmental factors and impose a disciplined approach to the decision-making and prioritization process. A hierarchical approach helps to structure the problem and break it down into specific components.

1. Specify Decision Criteria

Selection criteria should be addressed in detail. A hierarchical structure lends itself well to this effort where lower levels in the hierarchy show greater detail in criteria or attributes. Decision-makers' judgment on the relative importance of competing criteria and alternatives then can be expressed at these different levels.

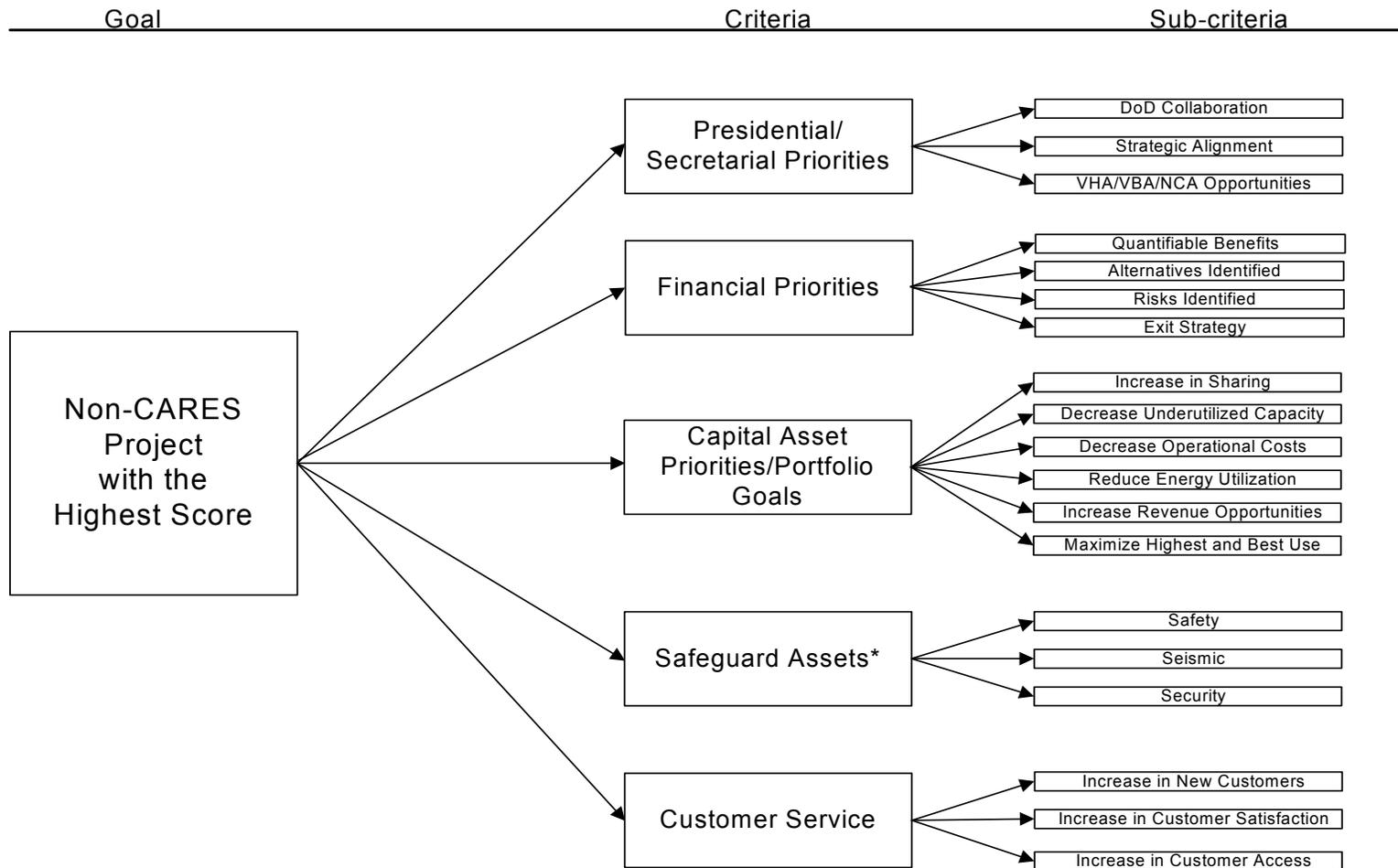
Table 2 illustrates the break down of the decision hierarchy and specific sub-criteria for each of the major criteria for CARES and non-CARES projects. Department-wide criteria are required for all asset types. The non-CARES criterion is to be addressed by non-CARES projects only; and the three additional CARES criteria are to be addressed by CARES projects only. VA continues to review and assess the decision model on an annual basis and modifies the hierarchy as necessary in an effort to better align the Capital Investment Methodology with current VA strategic goals. Information requirements need to be linked directly to specific decision criteria so that the decision-makers or evaluators have sufficient and appropriate data.

Table 2: FY 2005 Decision Criteria*
(Planning and Acquisition Applications)

DEPARTMENT-WIDE DECISION CRITERIA		
MAJOR CRITERIA	SUB-CRITERIA/300 PLANNING	SUB-CRITERIA/300 ACQUISITION
PRESIDENTIAL/SECRETARIAL PRIORITIES	DoD COLLABORATION	DoD COLLABORATION
	STRATEGIC ALIGNMENT	STRATEGIC ALIGNMENT
	VHA/VBA/NCA OPPORTUNITIES	VHA/VBA/NCA OPPORTUNITIES
FINANCIAL PRIORITIES	QUANTIFIABLE BENEFITS	COST-EFFECTIVENESS ANALYSIS
	ALTERNATIVES IDENTIFIED	ALTERNATIVES ANALYSIS
	RISKS IDENTIFIED	RISK ANALYSIS
	EXIT STRATEGY	RISK CONTROL PLAN
		SAVINGS/COST AVOIDANCE
		EXIT STRATEGY
CAPITAL PORTFOLIO GOALS	INCREASE IN COMMUNITY BASED SHARING	INCREASE IN COMMUNITY BASED SHARING
	DECREASE UNDERUTILIZED CAP.	DECREASE UNDERUTILIZED CAP.
	DECREASE OPERATIONAL COSTS	DECREASE OPERATIONAL COSTS
	REDUCE ENERGY UTILIZATION	REDUCE ENERGY UTILIZATION
	INCREASE REVENUE OPPORTUNITIES	INCREASE REVENUE OPPORTUNITIES
	MAXIMIZED HIGHEST AND BEST USE	MAXIMIZED HIGHEST AND BEST USE
SAFEGUARD ASSETS	SAFETY	SAFETY
	SEISMIC	SEISMIC
	SECURITY	SECURITY
NON-CARES DECISION CRITERIA		
CUSTOMER SERVICE	NEW CUSTOMERS/INCREASE IN CUSTOMERS	NEW CUSTOMERS/INCREASE IN CUSTOMERS
	CUSTOMER SATISFACTION	CUSTOMER SATISFACTION
	CUSTOMER ACCESS	CUSTOMER ACCESS
CARES DECISION CRITERIA		
RESEARCH AND EDUCATION	YES OR NO	YES OR NO
SPECIAL EMPHASIS	YES OR NO	YES OR NO
HEALTH CARE SERVICE DELIVERY ENHANCEMENTS	REALIGNMENT/MISSION CHANGE	REALIGNMENT/MISSION CHANGE
	SIZE OF GAP/DEMAND	SIZE OF GAP/DEMAND
	VOLUME OF VETERANS SERVED/SERVICES PROVIDED	VOLUME OF VETERANS SERVED/SERVICES PROVIDED
	ACCESS TO HEALTH CARE	ACCESS TO HEALTH CARE
	VISN PRIORITY	VISN PRIORITY
	QUALITY - INFRASTRUCTURE ENHANCEMENTS	QUALITY - INFRASTRUCTURE ENHANCEMENTS

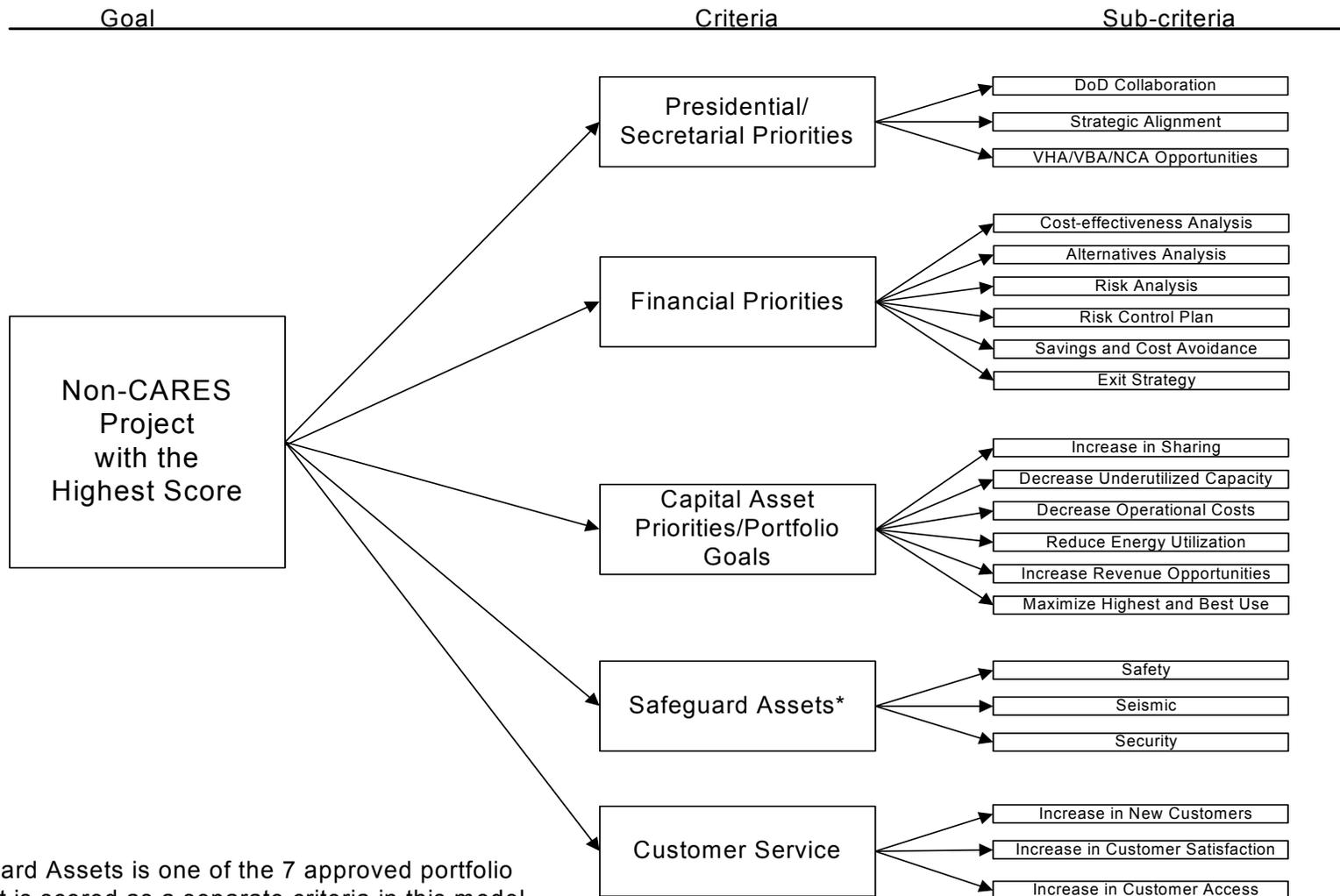
*SEE FIGURES ON THE NEXT FOUR PAGES.

FIGURE 3: FY 2005 NON-CARES CAPITAL INVESTMENT DECISION CRITERIA – PLANNING MODEL



* Safeguard Assets is one of the 7 approved portfolio goals but is scored as a separate criteria in this model.

FIGURE 4: FY 2005 NON-CARES CAPITAL INVESTMENT DECISION CRITERIA – ACQUISITION MODEL



* Safeguard Assets is one of the 7 approved portfolio goals but is scored as a separate criteria in this model.

FIGURE 5: FY 2005 CARES CAPITAL INVESTMENT DECISION CRITERIA – CONCEPT PAPER MODEL

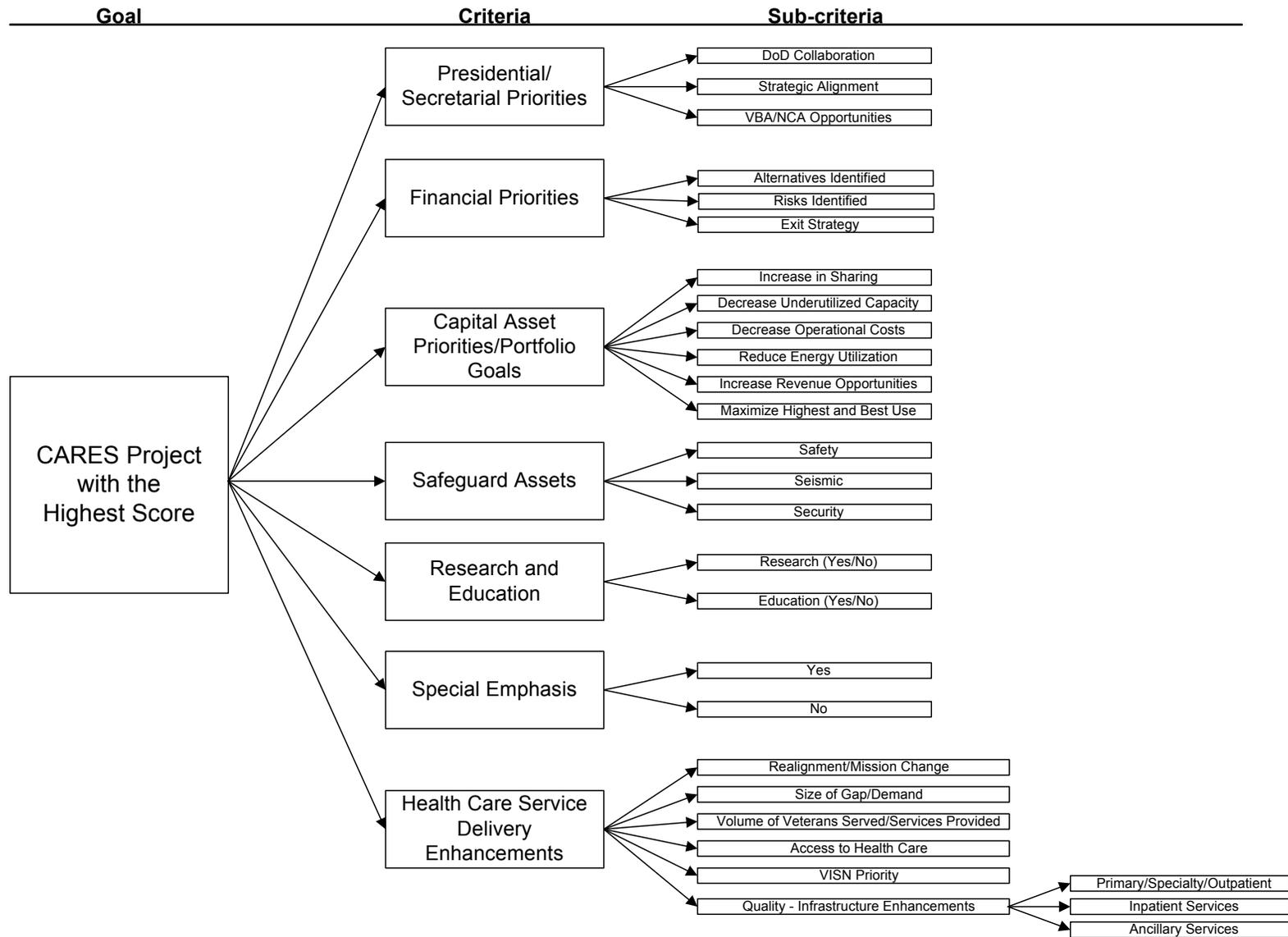


FIGURE 6: FY 2005 CARES CAPITAL INVESTMENT DECISION CRITERIA – PLANNING MODEL

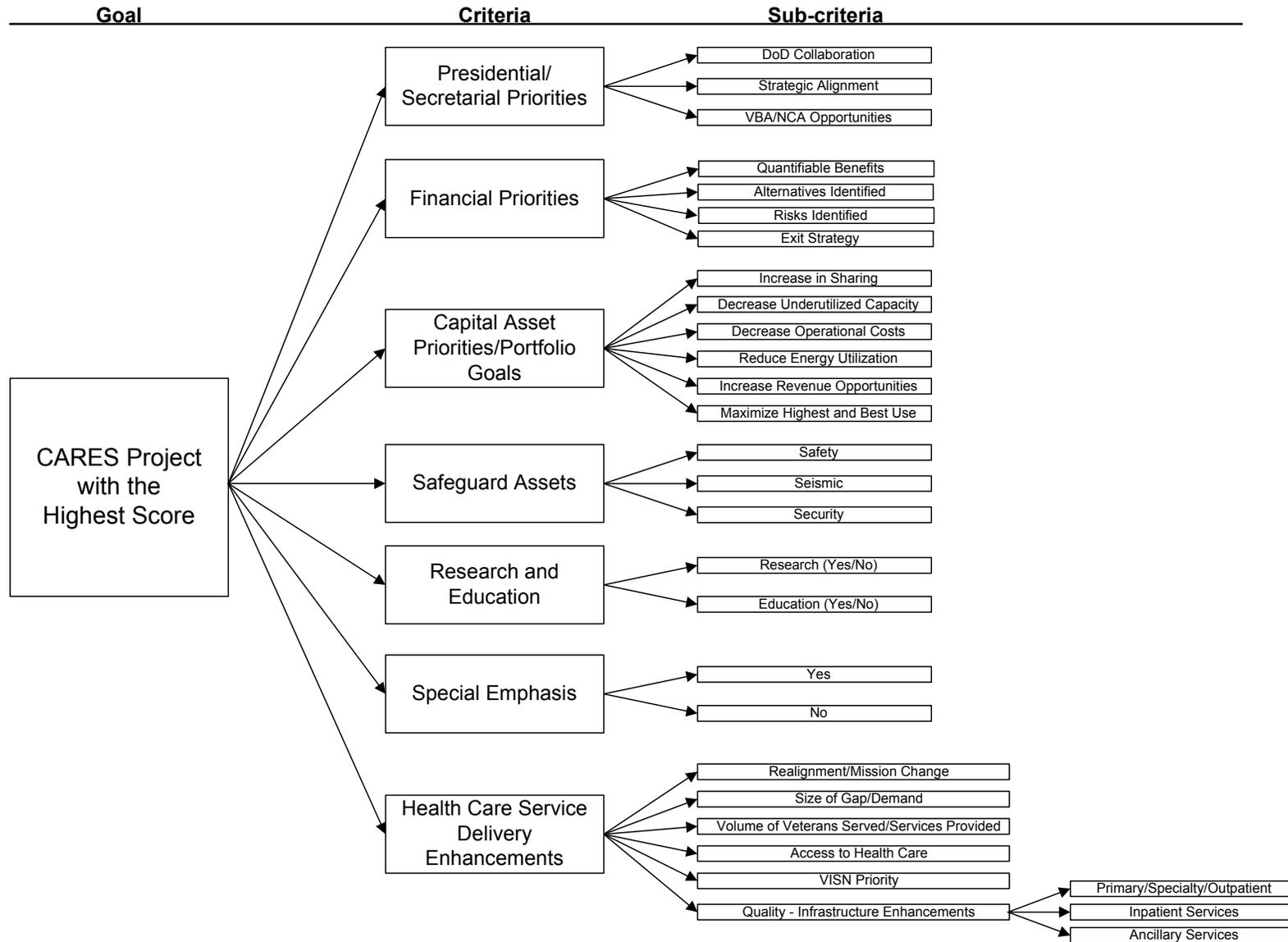
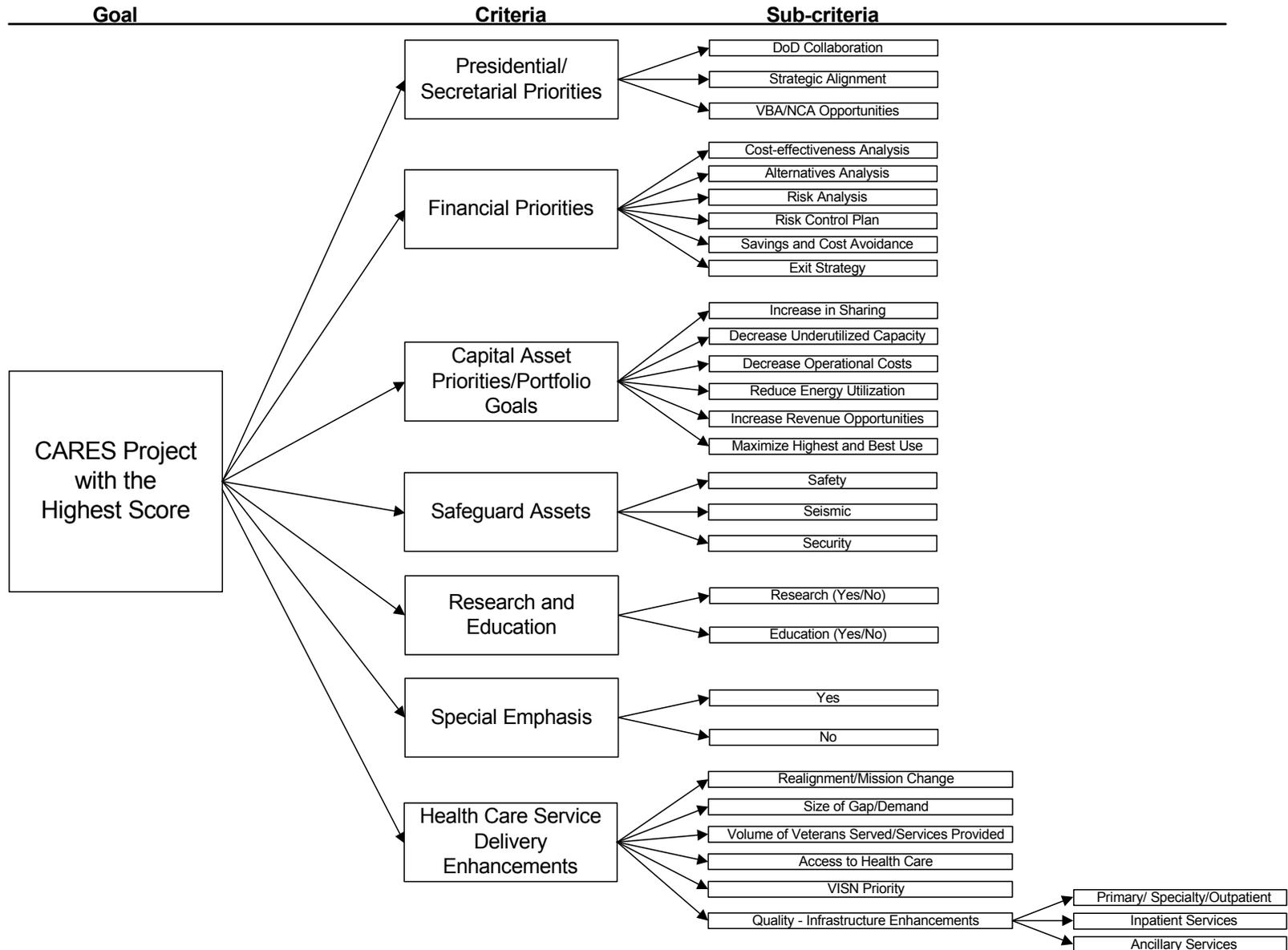


FIGURE 7: FY 2005 CARES CAPITAL INVESTMENT DECISION CRITERIA – ACQUISITION MODEL



2. The Multi-Attribute Decision Model

Multi-attribute decision modeling is a technique that allows evaluators to consider a number of diverse criteria in reaching a decision. Such models combine evaluations or decisions using both quantitative and qualitative criteria. Rather than using fixed weight scoring techniques, requiring the decision-maker to rank alternatives using arbitrary scales, the methodology allows decision-makers to make a series of much simpler, pairwise decisions. The multi-attribute decision model is self-weighting and self-scoring, and produces numeric values automatically as decisions are aggregated mathematically.

The Analytic Hierarchy Process (AHP) is the multi-attribute technique that VA uses for capital investment prioritization. AHP is well established in operations research literature. Numerous organizations in both government and the private sector use AHP. VA uses commercial off-the-shelf (COTS) software, Expert Choice, to operationalize the decision model.

AHP uses a hierarchical model comprised of a goal, criteria, sub-criteria, and alternative outcomes or conditions for each problem or decision. It is a general method for structuring intricate or ill-defined problems and is built around the three principles of:

- Constructing hierarchies
- Establishing priorities
- Logical consistency

The first principle involves constructing a hierarchy that incorporates the decision criteria or attributes associated with proposed capital investments. Building a hierarchy allows AHP to simplify otherwise complex sets of choices.

The second principle is to establish priorities, which is accomplished by making pairwise comparisons among different decision criteria at each level in the hierarchy and rating the relative importance of each criterion. When the pairwise comparisons are complete, the model uses those comparisons to calculate prioritization weights. Decision-makers or evaluators do not directly specify the weights themselves; rather, the model calculates the weights using decision-maker inputs.

Addressing the third principle, of logical consistency, the model also produces a measure of evaluator consistency. Consider the classical decision paradox wherein an evaluator prefers A over B and B over C, but also prefers C over A. Logically, such a preference series is inconsistent. AHP measures and reports on this inconsistency ratio as a useful output to the evaluation panel. By performing pairwise comparisons on the decision criteria, it is possible for the model to derive quantitative values (or weights) for the criteria and alternatives. The criteria and sub-criteria that could be used in running AHP can be numerous and

extend across several levels in the hierarchy. The model derives priorities based on qualitative information from the experience and intuition of the raters, and tangible information including hard data. By incorporating both subjective judgments and hard data into the decision-making process, decision-makers are much more likely to arrive at a solution that is acceptable to everyone. In particular, the multi-attribute decision model can help decision-making within VA:

- Incorporate quantitative information as well as knowledge, intuition, and experience
- Consider trade-offs among competing criteria
- Synthesize from the goal to determine the best alternatives
- Communicate the rationale for decisions to others
- Incorporate group judgments

3. Ranking Investment Proposals

The Panel uses the capital investment decision model and decision software to perform necessary calculations to evaluate investment proposals, based on the effect a particular proposal has with respect to each sub-criterion. The Capital Investment Decision Criteria Guide contains instructions with examples of specific information, documentation, and completeness for each sub-criterion. Incompleteness in the data would cause evaluators to downgrade their assessments for a particular criterion and possibly reject the proposal completely.

Responses to the 300 Acquisition application should contain specific quantitative data that the evaluators can use to assess the degree of projected outcome in terms of, for example, very significant effect, significant effect, some effect, or no effect.

The Panel scores each capital investment proposal that has passed the validity assessment. The scores are generated by the decision software and result in a list of investments ranked in priority order. The SMC recommends approval to scored proposals, and then submits them to the Secretary for final approval. Upon approval from the Secretary, proposals are incorporated into the VA Capital Plan, which is sent to OMB as part of VA's budget submission.

G. DATA VALIDATION

In the past, capital investment proposals did not always meet the requirements of OMB, especially in the areas of workload assumptions, performance measures, and the analytical comparison of alternatives. For this reason, the Data Validation Form was developed and will be used for all capital investment proposals reviewed by the VACIP during the Strategic Phase. This validity assessment is the first step in the two-step review process, and is intended to assist proposal teams and reviewers, at all levels, in developing sound business investments by:

- Ensuring projected workloads can withstand external audit by verifying that the data and assumptions used are valid and reliable
- Ensuring all data requirements, including OMB's, are addressed
- Ensuring proposed investments have passed technical review
- Providing comparable cost-effectiveness analysis for each alternative and financial analysis metrics
- Linking each alternative to VA's strategic goals and objectives, the Secretary's priorities, the President's Management Agenda, and/or identifying a legal requirement for the proposal
- Ensuring all viable alternatives are fully explored and compared against the chosen option

The second step is scoring the proposal using the Analytical Hierarchy Process (AHP). The VACIP uses this two-step process to verify assumptions and validate data prior to the application of any strategic analytical tools used for evaluating and scoring the proposals.

The Data Validation Form (Attachment D) addresses all sections of OMB's Exhibit 300 requirements and is organized to facilitate evaluation of VA's criteria and sub-criteria. Each item in the Data Validation Form corresponds to a specific section in the Planning or Acquisition application. During the validity assessment, items are given a score (0, 1, or 2) or answered Y/N to determine if the item is addressed, and whether sufficient supporting data is provided.

The VACIP sets a minimum score for applications to pass validity. If a proposal does not receive the minimum passing score it will be returned to the originating office with a validity assessment that consists of comments and guidance on how to improve the proposal. A proposal that addresses every item in the application form and provides primary source documentation to support information provided has the best chance of passing the validity assessment. A decision will be made on a case by case basis if missing information can be provided in time for the proposal to continue in the current review process or be postponed until the next review cycle. Proposals that do not earn the minimum score on the Data Validation Form will not be scored by the VACIP and will not be included in the budget submission.

H. APPLICATION PROCESS

It is critical that proposal writers follow the planning process identified in this *Guide* as well as the *OMB Capital Programming Guide*. The utilization of the planning process will result in better use of scarce resources and should decrease the risk of implementation difficulties. The process includes strategic and program performance linkage, baseline assessment and identification of the performance gap, functional requirements, and alternatives to capital assets. The proposal should investigate the opportunities available in the marketplace to satisfy project requirements. The availability, affordability, and cost-effectiveness of each alternative should be addressed.

The Planning and Acquisition applications provide a standard format for summarizing information required by the Department and for the OMB form 300, and improves the comparison and review process. It is expected that the summary information in the Planning application will provide answers to the basic questions. However, information in the Acquisition application will refer the reviewer to specific sections or pages in the accompanying documentation. The accompanying documentation should include detailed information that supports all summary statements made in the application, especially any estimates that are developed. Data provided for each criterion should be concise and specific and provide as much information as possible that relates to the performance targets contained in the *Department of Veterans Affairs FY 2004 Budget Submission, Volume 5, Departmental Performance Plan*.

The process consists of six sequential steps. The following steps summarize the proposal application submission process:

1. Identify the Need

The first step in the application process involves identifying the need for the proposal. All proposals must establish a need within the Department that the proposal fulfills. The minimum requirements are to provide baseline data and target demands in future years (which will vary according to the project category) thereby completing a gap analysis).

To successfully establish the need, proposal teams should complete a gap analysis. This analysis should be supported by the collection and analysis of relevant data sources. The use of reliable data sources is paramount because this data will be used to establish the proposal need and support the final selection in later steps. A number of data sources are located throughout this *Guide* as well as in Chapter 4, Attachment B. The VA strategic plan should also be reviewed for guidance.

2. Identify Alternatives

Once the need has been established, viable proposal alternatives that fulfill the need must be identified. All possible alternatives should be evaluated, and those that are non-viable should be eliminated. See the Alternatives Analysis Guide for more information regarding the number and types of alternatives possible for each capital investment proposal category.

3. Evaluate Viable Alternatives

After identifying all of the viable alternatives, they should be evaluated against the Capital Investment Proposal Criteria. An Alternatives Analysis template is provided for this purpose. The template is simply a guide to evaluate each alternative against the criteria determined by the SMC.

Included in the Alternatives Analysis process is the completion of a cost-effectiveness analysis for each alternative. Completing the CEA, risk, and alternatives analyses for each alternative lays the groundwork for a successful proposal application.

4. Select Proposed Alternative

A complete Alternatives Analysis shows a comparison of viable alternatives, and assists in selecting the alternative that best meets the goals and mission of VA. An explanation should be included in the application if the chosen alternative is not also the most cost-effective option. This is determined by evaluating each alternative based upon its relevance to each criterion. The selected alternative will be submitted to and evaluated by the SMC as part of the Departmental Capital Planning Process.

5. Complete the Application

Once alternatives have been determined, the application can be completed for the 300 Planning funds application. This is a general assessment of scope and requirements for pilot projects. Developing a 300 Acquisition funds Application involves completing the:

Templates for risk, cost-effectiveness, and alternatives analysis for each alternative

Earned value template with accompanying project plan

Additional primary source documentation necessary to support data provided in the application.

6. Submit Proposal Applications

Completed proposals are submitted to the Veterans Health Administration, Veterans Benefits Administration, National Cemetery Administration, or staff offices. Administrations and staff offices will review the documents and provide completed capital investment proposal packages to the Office of Asset Enterprise Management (004B), via their respective Capital Investment Panel member. A complete proposal package consists of:

All items listed under section 5 above, Complete the Application

Concurrence from appropriate Department-wide, category specific council, Franchise Fund, or Administration board stating that a technical review has been completed and the proposal meets technical requirements established by the Department; and

Certification from the Deputy Under Secretary or equivalent stating that the proposal is an organizational priority.

Proposals are considered **incomplete** if the developers have not included all of the required information. Incomplete submissions will not be reviewed and will be returned to the submitting investment proposal team. Proposal teams should check to ensure that all required information is included in the proposal application.

I. PERFORMANCE MEASUREMENT

Overview of Performance Measurement

The Government Performance and Results Act of 1993 requires each agency to submit to OMB, beginning in fiscal year 1999, an annual performance plan. The plan is to include the annual performance goals the agency will use to gauge its progress toward accomplishing its strategic goals and identify the performance measures the agency will use to assess its progress. Once established, a current baseline will be used to determine whether the acquisition is meeting Congressional policy to achieve at least 90 percent of cost, schedule, and performance goals (OMB Circular A-11, Section 300). Performance measures can be defined as:

The assessment of effectiveness and efficiency of an investment in support of the achievement of an organization's mission, goals, and quantitative objectives through the application of outcome-based, measurable, and quantifiable criteria, compared against an established baseline, to activities, operations, and processes.

Efficiency and Effectiveness

Performance should be evaluated using two criteria: effectiveness and efficiency. **Effectiveness** demonstrates that an organization is doing the right things, while **efficiency** demonstrates that an organization is doing things optimally. Some identifiers of each include:

Effectiveness	Efficiency
Has the organization achieved its missions and goals?	Do obligation rates match the annual budget?
Are end users of the products/services satisfied customers?	Was the project completed on time and on budget?
Was the work of high quality?	How much of the product/service was produced? How many FTEs were required?

Developing Performance Measures

There are four major steps in developing project performance measures (the internal baseline):

1. Identify the project, its mission and objectives, functional baseline, the benchmark, and the project target positions.

- What is the project name and who are the users and customers?
- What kind of project is it and what are the work efforts?
- What are the mission and objectives?
- What are the functional objectives?

2. Define baseline performance measures.

- What are the benefit measures (e.g., adaptability, communicability, process time, speed, turnaround, understandability)?
- What are the cost measures (e.g., number of investment dollars needed to reach a milestone or the investment required to perform a function)?
- What are the schedule measures (e.g., receipt of deliverables required, design reviews and sign-offs, achievement of initial project capability, completion of construction or installation)?

3. Validate feasibility of performance measures.

- What data are necessary for calculation of the performance measure, when are the data collected, and who collects the data?
- How will the results be verified and validated to ensure that they are accurate?
- What is the cost of data collection?

4. Finalize performance measurement baseline and define a methodology to track “external” project results.

- Ensure set of performance measures determines the desired outcomes.
- Gain consensus for the performance measurement baseline.
- Establish data collection efforts to obtain periodic values of the measures in the baseline.

Earned Value Analysis (EVA) is one tool that can be used to track the progress of a project's schedule and budget. If the project experiences schedule overruns, then this will be reflected in the EVA. Consequently, the project manager can make decisions to correct the schedule as the problems arise. Utilizing tools like EVA will help control project costs and schedules and hedge against the same risks in future projects.

Accurately identifying and tracking performance measures will increase control of project outcomes as well as improve overall project management. In addition, this process will improve future project selection by understanding what types of projects will positively impact the targeted performance goals.

Data Sources

Data sources for VA performance measures can be found in:

- Department of Veterans Affairs Strategic Plan FY 2001-2006
- Administration Strategic Plans
- VA Departmental Performance Plan, Volume 5