



Department of Veterans Affairs

Financial Policy

Volume III

Chapter 12

Life Cycle Cost Estimating

Approved:

A handwritten signature in blue ink, appearing to read "Edward J. Murray", is written over a horizontal line.

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Acting Assistant Secretary for Management
And Acting Chief Financial Officer

5-4-2017

Date

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1201 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures for performing Life Cycle Cost Estimating (LCCE). The objective of the policy is to improve stewardship of public funds by providing the standards that will be used to develop LCCEs, discussing the relevancy of LCCEs in decision making process, defining the competencies necessary to lead the development of an LCCE, identifying how and where the LCCEs are to be reported and registered, and define the VA’s Administrations and Staff Offices roles and responsibilities related to this policy. This chapter is effective October 1, 2017.

A Government Accountability Office (GAO) audit in 2012 found that the VA, along with other agencies, lacks enterprise-level policies that require cost estimates. The VA Cost Estimating Policy responds to this finding and establishes the requirements and standards for a cost-informed decision structure at the VA for all programs or sub-programs that meet the thresholds identified in Appendix A.

1202 REVISIONS

Section	Revision	Office	Reason for Change	Effective Date
Various	New Chapter	OAES (044)	New	Oct. 2016
Sections 1202 (Revisions) and 1203 (Definitions)	Modification to definition of “Sufficiency Review” and Revision table added.	OAES (044)	004 requested change	May 2017

1203 DEFINITIONS

Cost Effectiveness Analysis (CEA) – Utilized in the Strategic Capital Investment Planning (SCIP) process, it is a detailed life cycle cost analysis (including Net Present Value) and comparison of viable alternatives (Construct, Renovate, Lease, Contract out, etc.) that are used to compare the cost effectiveness of various alternatives for construction and leasing programs in the VA SCIP process.

Independent Cost Estimate (ICE) - A complete and fully documented LCCE for a system that is developed external of, and independent from, the program management office. The ICE is used to test the reasonableness of the program manager’s cost estimate.

Independent Review - This is a review of the program's cost, methodologies, assumptions, and work break down structure completed by an organization independent of the assigned program office.

Life Cycle Cost Estimate - A LCCE includes all costs incurred during the total life (from project initiation through termination) of a system or aggregation of systems. This includes costs for both government labor and contractor support, equipment, facilities, training, direct and indirect costs for research and development, production, construction, deployment, and operation and support and disposal. It is used to acquire funding for a system throughout its lifespan.

Program - Generally, an organized, directed, funded acquisition, project, activities, and processes that provide new, improved, or continuing systems or services in response to an approved validated requirement.

Sufficiency Review - A review of all documentation by an independent cost team, meeting with staff responsible for developing the program ICE to analyze whether the estimate is sufficient with regard to the validity of cost and schedule assumptions, cost estimate methodology rationale, estimation of cost drivers, and whether it is complete.

Work Breakdown Structure (WBS) - The Project Management Body of Knowledge (PMBOK) 5th Edition defines the WBS as a "hierarchical decomposition of the total scope of work to be carried out by the project team to accomplish the project objectives and create the required deliverables." A WBS element may be a product, data, service, or any combination thereof. A WBS also provides the necessary framework for detailed cost estimating and control along with providing guidance for schedule development and control.

1204 ROLES AND RESPONSIBILITIES

The VA Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309: Veterans' Benefits. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

The VA Administrations and Staff Offices are responsible for building organizational capability to conduct high quality LCCEs by qualified Cost Analysts/Estimators, establishing operating procedures that produce LCCEs in accordance with the VA Cost Estimating policy, ensuring that all LCCEs are signed at the Senior Executive Service

level, and uploading all LCCEs and their backup data onto the [VA Cost Estimate Registry](#) within 30 days of their review and signature.

The Office of Programming, Analysis and Evaluation (PAE) is responsible for performing an ICE of all major and SECVA priority programs, conducting a Sufficiency Review of all Minor Programs, conducting an Independent Review of all Significant Programs, and maintaining the VA Cost Estimate Registry and database for easy access to inform future cost analysis. Reviews of major construction and leases are subject to PAE staff availability and review timeline constraints.

The Acquisition Executive Council (AEC) will ensure that LCCEs are developed in accordance with the VA Cost Estimating policy and reviewed by PAE before an acquisition program is allowed to proceed with funding decisions. AEC was established as an enterprise advisory body to assist the VA Chief Acquisition Officer (CAO) in fulfilling his statutory responsibilities as outlined in the Service Acquisition Reform Act (SARA) (41 U.S.C. 414).

The Strategic Capital Investment Planning (SCIP) Board – is comprised of nine SES-level representatives from across VA who presents findings and recommendations on a final list of capital investments to include in the annual budget request, and related policy through the VA governance process. The SCIP Board will ensure appropriate projects are submitted through the LCCE process.

1205 POLICIES

This policy applies to all programs as defined in section 1203 that are managed and funded, by VA Administrations and Staff Offices.

- A. All programs meeting the thresholds in Appendix A will perform LCCEs in accordance with the [VA Cost Estimating Guide version 2.2](#). LCCEs will be submitted to the Office of Programming, Analysis and Evaluation (PAE) for quality control reviews no less than 60 days before the funding decision point. Exception applies to SCIP cost-effectiveness analysis (CEA) templates (see B. below)
- B. PAE will review cost-effectiveness analysis (CEA) templates for the capital projects meeting the thresholds in Appendix A through the SCIP process. PAE will serve as a SCIP Subject Matter Expert Team (SMET) for life cycle cost estimating and review SCIP business case CEAs during the SCIP validity review, which usually takes place during two weeks in April or May. The CEA will serve as the LCCE of record for potential VA SCIP investments. The SCIP Board will make recommendations to the Secretary on which projects should be included in the SCIP priority list and annual budget requests, as well as other related recommendations on capital investments.
- C. The VA Cost Estimating Guide version 2.2, in alignment with GAO Cost Estimating Standards, outlines characteristics of a reliable cost estimate. These characteristics are the standards that will help programs formulate LCCEs and are the framework by which VA LCCEs will be assessed. They include:

- Comprehensive – Programs will ensure that their LCCE accounts for all possible costs, is structured in sufficient detail to determine that costs are not omitted or double counted, and documents cost-influencing assumptions;
- Well Documented – Programs will ensure that their LCCE includes documentation that explains the process, sources, and methods used to create the estimate, contains the underlying data used to develop the estimate, and is adequately reviewed and signed by senior leadership;
- Accurate – Programs will ensure that their LCCE provides an estimate that is not overly conservative or optimistic, is based on an assessment of the costs likely to be incurred, and is regularly updated so that it reflects the current status of the project/program; and
- Credible – Programs will ensure that LCCE estimate limitations due to uncertainty or sensitivity surrounding data or assumptions are discussed, results are compared against any available independent data source, and an independent cost estimate produces similar results.

D. Using LCCE Data for Decision Making.

The statutes and directives listed in the reference section require the use of credible cost estimates in the management and budgeting of capital and other programs to make government operate effectively. VA Administrations and Staff Offices will ensure that LCCEs as well as project and acquisition decision criteria form the baseline for all budgeting and program management decisions.

E. Competency for LCCEs.

Every program that meets the minimum LCCE threshold level as established in Appendix A should appoint cost analyst/estimators to ensure LCCEs meets the minimum standards of Part C. Program managers must ensure that adequate resources are available to access highly qualified technical support via service contracts, as needed, to complete the LCCEs according to the VA Cost Estimating Guide version 2.2 standards. In addition, programs may strengthen their capability and knowledge in cost estimating through [LCCE Overview](#) courses offered by the VA Acquisition Academy ([VAAA](#)).

F. Registering and Reporting LCCEs.

Every VA program LCCE must be uploaded onto the [VA Cost Estimate Registry](#). This allows VA to maintain a central repository and knowledge base for LCCEs that can be leveraged for new programs. The Data Governance Council will determine if an LCCE can be available externally in support of Executive Order [13642](#), Making Open and Machine Readable the New Default for Government Information, May 2013.

1206 AUTHORITIES AND REFERENCES

[Federal Acquisition Regulation, September 19, 1983](#)

[The Federal Acquisition Streamlining Act of 1994](#)

[Clinger-Cohen Act of 1996](#)

[OMB Circular A-11, July 1, 2016](#)

[OMB Circular A-94, October 29, 1992](#)

[GAO-09-3SP, GAO Cost Estimating and Assessment Guide version 2.1, March 2009](#)

[GAO-12-629, Information Technology Cost Estimation, July 2012](#)

[VA Acquisition Regulation, January 1997](#)

[VA Cost Estimating Guide version 2.2](#)

Project [Management](#) Body of Knowledge (PMBOK), 5th Edition

1207 RESCISSIONS

None.

1208 QUESTIONS

Questions concerning this cost policy and procedures should be directed as follows:

PAE

VACO 004 049 Org All (Outlook)

APPENDIX A: Table 1 – VA LCCE THRESHOLDS

Programs	Quality Control
SECVA Priorities	
No dollar limits	Independent Cost Estimate
Information Technology Programs	
Major: > \$50M in any single year and/or > \$200M total life cycle cost, including sustainment (TLC)	Independent Cost Estimate
Minor: > \$25M and < \$50M in any single year and/or > \$100M and < \$200M TLC	Sufficiency Review
Significant: > \$10M and < \$25M in any single year and/or < \$100M TLC	Independent Review
Capital Programs (includes Major Construction, Minor Construction, Major Lease and Minor Lease projects)	
Major: All major construction and major lease projects submitted in SCIP will be reviewed by PAE Subject Matter Expert team during Business Case Validity (SCIP Board approval)	Independent Cost Estimate
Minor: Minor construction and minor lease projects submitted in SCIP or SCIP Out of Cycle process with estimated life cycle cost of (SCIP Board approval)	Sufficiency Review
All Other Programs	
Major: > \$100M in any single year and/or > \$300M TLC	Independent Cost Estimate
Minor: > \$10M and < \$100M in any single year and/or > \$100M and < \$300M TLC	Sufficiency Review
Significant: > \$10M <\$25M in any single year and/or < \$100M TLC	Independent Review

LCCE Thresholds identified in the Acquisition Program Management Framework (APMF) [Handbook](#) (Jan 2014)