



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

OFFICE OF THE ASSISTANT SECRETARY

SEP 07 2004

MEMORANDUM FOR SEE DISTRIBUTION

FROM: SAF/AQ
1060 Air Force Pentagon
Washington DC 20330-1060

SUBJECT: Selection of Contractors for Subsystems and Components

I believe the Air Force benefits from a robust competitive environment at the prime and subcontractor level. Therefore, I am directing the following actions to implement policy on selection of contractors for subsystems and components. All Single Acquisition Management Plans (SAMPs) for ACAT I-II programs shall address make-or-buy programs as stated in FAR 7.105 (b)(11). The acquisition strategy should describe the Program Manager's approach (e.g. requiring an open systems architecture, make-or-buy plan, etc.) to establish and maintain access to competitive suppliers for critical areas at system, subsystem, and component level. I look forward to discussing make or buy plans in all Acquisition Strategy Panels that I chair.

When analysis indicates a make-or-buy plan is in the Air Force's best interest, the solicitation should require offerors to submit a plan in accordance with FAR 15.407-2. The plan should explain how the offeror would compete major items and ensure the Air Force receives the best value. Furthermore, the plan must outline the offeror's evaluation criteria for selecting subcontractors. The acquisition team should consider the offeror's make-or-buy plan in selecting the best value for the Air Force. DCMA is available to review make-or-buy plans in both the pre-award and post-award environment. Additionally, use of contract incentives should be considered when structuring contracts to foster competition at sub-tier levels.

Establishing a competitive environment at prime and subcontract levels is key to assuring the Air Force receives the best value for the warfighter and I appreciate your support in this initiative. The AQ points of contact regarding this policy are Lt Col Roger Westermeyer, SAF/AQCP, (703)588-7073, and J. Michael McWilliams, SAF/AQXA, (703)588-7111.

MARVIN R. SAMBUR
Assistant Secretary of the Air Force
(Acquisition)

Attachment:
OUSD(AT&L) Policy, 12 Jul 04

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THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

JUL 12 2004

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS ATTENTION: SERVICE ACQUISITION EXECUTIVES DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Selection of Contractors for Subsystems and Components

The Defense Acquisition System is built on the premise that the government benefits from innovation, flexibility, reduced life cycle costs, and increased quality when Major Defense Acquisition Programs provide for competition at the prime contractor and subcontractor levels. Meeting this objective requires prime contractors foster a robust competitive environment for the selection of major and critical products and technologies as major systems are designed and developed. As the defense industry consolidated, large defense conglomerates are faced more often with the choice of selecting either one of their own divisions or an unaffiliated company to furnish subsystems or components on Department of Defense (DoD) contracts. Because of the potential for bias in such decisions, government insight into the subcontractor selection process may be necessary to ensure fairness and the best value for DoD.

When developing acquisition strategies, program managers and contracting officers shall establish insight into a prime contractor's plan for assembling a team to deliver the required system capability, as well as foster competition. For example, when establishing the contract fee structure, credit should be given for a contractor's effective use of competition to assemble its team. If the weighted guidelines method is used to establish the negotiation objective for profit, the value assigned to performance risk with respect to management/cost control is an appropriate location for providing the appropriate credit.

When an offeror or prime contractor proposes to use its own capability without considering other sources, it should demonstrate why this is in the government's best interest, particularly where similar capabilities exist in outside sources. For example, as a program design proceeds through the system engineering process, close attention should be paid to challenging designs that unnecessarily restrict subsystem or component choices. Also, consideration should be given to investing in alternate capabilities to increase the material choices available for the system design.



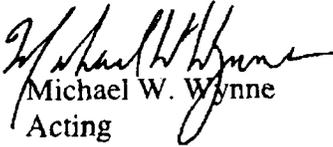
When another division of a potential offeror might be a competitor for a potential subsystem, the subcontractor selection process should be subject to government oversight. The solicitation should ask offerors to submit a plan explaining how they will ensure that the subcontractor competition will be conducted fairly and result in the best value for DoD. The government shall review these plans to determine if the offeror has taken adequate steps to ensure that a fair competition will be conducted for a specified subsystem, not to act as a surrogate source selection official or to approve the selection of a particular source. The Defense Contract Management Agency, which is in a position to provide insight into the full range of contractor capabilities, is available to assist with the review of these plans. The plan should address:

- How the offeror will ensure the subcontractor selection process results in the best value to DoD (e.g., the subcontractor selection criteria or evaluation process should not provide any benefit to a company merely because it is another division of the same company as the offeror);
- How the offeror will protect intellectual property rights of unaffiliated companies competing for a specified subcontract;
- Whether any independent advisors will be used in the subcontractor selection process;
- Whether any measures (commonly referred to as firewalls) will be implemented to isolate the source selection personnel from any other personnel in the company that could influence a subcontractor selection for reasons other than obtaining the best value; and
- An assessment of whether the benefits of having two sources for a specified subsystem outweigh the costs.

Similar review of the subcontract selection process after contract award can be accomplished pursuant to Federal Acquisition Regulation (FAR) subpart 44.2, "Consent to Subcontracts," which permits the government to reserve the right to consent to specified subcontracts. This avenue is available if the Components believe that DoD management review at the Acquisition Executive or other appropriate level is necessary for determining consent to significant subcontracts. FAR section 44.202-2 provides that particularly careful consideration of subcontracts is necessary when close working relationships or ownership affiliations between the prime contractor and the subcontractor may preclude robust competition or result in higher prices.

If, after reviewing an offeror's plan for ensuring the best value during the source selection for a particular subsystem or component, government personnel conclude that it is likely that the offeror will show bias in the selection of a subcontractor, they should seek appropriate revision of the plan. If bias cannot be mitigated adequately, then they

should consider procuring the subsystem or component and furnishing it as Government Furnished Equipment (GFE). Furnishing a subsystem as GFE, however, should be a last resort because of the adverse impact of GFE on the total system responsibility assumed by a prime contractor.


Michael W. Wynne
Acting