

JOINT FLEET MAINTENANCE MANUAL
VOLUME VII
CONTRACTED SHIP MAINTENANCE
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VOLUME VII
FOREWORD
CONTRACTED SHIP MAINTENANCE

LISTING OF APPENDICES.

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| B | Glossary of Terms |

1.1 **PURPOSE.** This volume provides information relative to the procurement, oversight and execution of ship maintenance and modernization work performed in the private sector. **Supervisor of Shipbuilding (SUPSHIP)** Operations Manual (0910-LP-012-7750 Rev 1) has served as the primary source for information contained in this manual.

1.2 **SCOPE.** This volume applies to all ships and shore activities under the cognizance of **United States Fleet Forces Command**, Commander, Pacific Fleet (COMPACFLT), and Commander, Naval Reserve Forces (COMNAVRESFOR). Additionally, although new ship construction is the primary mission area for the remaining SUPSHIPS, this volume is also applicable to those SUPSHIPS that continue to have repair and modernization responsibilities for submarines and aircraft carriers. These SUPSHIPS should familiarize themselves with appropriate sections of this manual as it applies to the repair and modernization contracts that they procure and administer. This volume is not intended to be all encompassing, since the guidance for many elements of the maintenance programs and their execution are promulgated by higher operational, contracting and technical authority (e.g., Office of the Chief of Naval Operations Instructions, Naval Ships Technical Manuals, and Federal Acquisition Regulations (FAR)).

- a. This volume contains general topics, applicable to all ships and units under the cognizance of COMLANTFLT or COMPACFLT. In those cases where chapters are not applicable to certain Forces, an applicability statement has been used for clarification.
- b. Equipment under the cognizance of the Strategic Systems Project Office or Naval Sea Systems Command Nuclear Propulsion Directorate (NAVSEA 08) is maintained in accordance with Strategic Systems Project Office and NAVSEA 08 directives, respectively.
- c. In relation to contractual matters, where a policy or requirement is not established by FAR, Defense Federal Acquisition Regulation Supplement (DFARS), Navy and Marine Corps Acquisition Regulation Supplement (NMCARS), Naval Sea Systems Command Contracts Handbook (NCH), or other Navy or DoD directive, this manual contains the procedural requirements for compliance. Otherwise, the FAR, DFARS, NMCARS, NCH, and other Navy and DoD Directives take precedence over this manual. When a new or revised policy or requirement is promulgated by FAR, DFARS, NMCARS, NCH, or other Navy and DoD Directives that is not consistent with this manual, the new or revised policy and requirements will be followed. Material required to be submitted to higher authority by the NMCARS or NCH will be forwarded via the Regional Maintenance Center Contracts Department Head or Chief of the Contracting Office at SUPSHIP to NAVSEA 02.
- d. Appendices A and B of this chapter contain a list of acronyms and a glossary of terms used throughout all chapters of this volume.

1.3 **CHANGES AND CORRECTIONS.** Changes and corrections will be issued as required. Comments and suggestions for improving or changing this volume are invited. Address comments, recommendations and requested changes to Submarine Maintenance Engineering, Planning and Procurement Activity utilizing the change request form located in the front of this manual. If changes are submitted in electronic format, facsimile or e-mail, each change request shall contain the information required on the change request form.

1.4 REQUEST FOR COPIES OF THE MANUAL. Activities on distribution for the Joint Fleet Maintenance Manual (JFMM) that require additional copies, or activities wanting to be added to distribution, should submit a letter to their applicable Type Commander, identifying CD-ROM/paper requirements along with justification for the request. To the maximum extent possible, technical publication libraries at each activity will receive copies of the manual for that activity and coordinate local distribution and updates.

APPENDIX A
LIST OF ACRONYMS

2-Kilo	3-M Maintenance Action Form
3-M	Maintenance and Material Management
AAA	Authorized Accounting Agency
AAR	Advisory Audit Report
ABM	Acquisition and Business Management
ABR	Agreement for Boat Repair
ACO	Administrative Contracting Officer
ACWP	Actual Cost of Work Performed
AIT	Alteration Installation Team
ASN	Assistant Secretary of the Navy
ASR	Availability Status Report
BAC	Budgeted Availability Cost
BCWP	Budgeted Cost of Work Performed
BCWS	Budgeted Cost of Work Scheduled
BOA	Basic Ordering Agreement
BSR	Bid Specification Review
BVC	Best Value Contracting
CAM	Contract Audit Manual
CAO	Contract Administration Office
CAQAP	Contract Administration Quality Assurance Program
CAR	Corrective Action Request
CAS	Contract Administration Services
CAS	Cost Accounting Standards
CASREP	Casualty Report
CDA	Contract Disputes Act
CER	Cost Estimating Relationships
CFM	Contractor Furnished Material
CGC	Contracts Governance Council
CIRS	Contractor Inventory Redistribution System
CIS	Commercial Industrial Services
CMAV	Continuous Maintenance Availability
CMP	Class Maintenance Plan
CNO	Chief of Naval Operations
CNRMCC	Commander, Navy Regional Maintenance Center
CO	Commanding Officer
COAR	Customer Order Acceptance Record
COFD	Contracting Officer's Final Decision
COMNAVRESFOR	Commander, Naval Reserve Forces
COMNAVSEA	Commander, Naval Sea Systems Command
COMNAVSURFLANT	Commander, Naval Surface Forces Atlantic
COMPACFLT	Commander, Pacific Fleet
CONUS	Continental United States
COR	Contracting Officer's Representatives
CPARS	Contractors Performance Appraisal Reporting System

CPI	Cost Performance Index
CPM	Critical Path Method
CPMS	Contract Property Management System
DAWIA	Defense Acquisition Workforce Improvement Act
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DL	Direct Labor
DoD	Department of Defense
EA	Executing Activity
EF	Early Finish
EP	Environmental Protection
EPA	Environmental Protection Agency
EPCP	Expanded Process Control Procedure
ES	Early Start
ESH	Environmental Safety and Health
ESR	Engineering Support Request
FAR	Federal Acquisition Regulation
FEO	Facilities Engineering Office
FFP	Firm Fixed Price
FLC	Fleet Logistics Center
FLTCOM	Fleet Commands
FMBOD	Fleet Maintenance Board of Directors
FMR	Field Modification Request
FMS	Foreign Military Sales
FP	Fixed Price
FPRA	Forward Price Rate Agreement
G&A	General and Administrative
GAO	General Accounting Office
GCQA	Government Contract Quality Assurance
GFI	Government Furnished Information
GFM	Government Furnished Material
GFP	Government Furnished Property
HAZMAT	Hazardous Material
HCA	Head of Contracting Activity
HW	Hazardous Waste
IDIQ	Indefinite Delivery, Indefinite Quantity
IFB	Invitation For Bid
ISO	International Organization for Standardization
JFMM	Joint Fleet Maintenance Manual
LF	Late Finish
LOA	Letter of Authority
LOA	Light-Off Assessment
LOD	Letter of Delegation

LS	Late Start
LWT	Local Work Template
MIL-SPEC	Military Specification
MIL-STD	Military Standard
MMBP	Maintenance and Modernization Business Plan
MOU	Memorandum of Understanding
MSMO	Multi-Ship Multi-Option
MSRA	Master Ship Repair Agreement
MT	Maintenance Team
NAICS	North American Industry Classification System
NAVAIRSYSCOM	Naval Air Systems Command
NAVCOMPT	Navy Comptroller
NAVFAC	Naval Facilities Engineering Command
NAVOSH	Navy Occupational Safety and Health
NAVSEA	Naval Sea Systems Command
NAVSEA 02	NAVSEA Contracts Directorate
NAVSEA 021	NAVSEA Contract Policy Office
NAVSEA 024	Fleet Support Contracts Division
NAVSEA 08	Naval Sea Systems Command Nuclear Propulsion Directorate
NAVSEASYSYSCOM	Naval Sea Systems Command
NAVSUPSYSCOM	Naval Supply Systems Command
NCH	NAVSEA Contracts Handbook
NDT	Nondestructive Testing
NMCARS	Navy and Marine Corps Acquisition Regulation Supplement
NMD	Navy Maintenance Database
NMP	Navy Modernization Process
NSA	Naval Supervisory Authority
NSI	NAVSEA Standard Item
NSSA	Norfolk Ship Support Activity
NSY	Naval Shipyard
O&MN	Operation and Maintenance, Navy
O&MNR	Operations and Maintenance, Naval Reserve
OB	Operating Budget
ODL	Other Direct Labor
ODLF	Other Direct Labor Factor
OF 336	Optional Form 336
OFPP	Office of Federal Procurement Policy
OH	Overhead
OSH	Occupational Safety and Health
OSHA	Occupational Safety and Health Administration
PCB	Polychlorinated Biphenyls
PCD	Production Completion Date
PCN	Project Control Number
PCO	Procuring Contracting Officer
PE	Procedures Evaluation
PEC	Predicted-End-Cost
PEO	Program Executive Office
PMS	Planned Maintenance System

PNS	Portsmouth Naval Shipyard
PQA	Process Quality Audit
PR	Procedure Review
PVI	Product Verification Inspection
PY	Planning Yard
QA	Quality Assurance
QAR	Quality Assurance Representative
QDE	Quality Data Evaluation
QMS	Quality Management System
QPL	Qualified Products Lists
RD&A	Research, Development & Acquisition
REA	Request for Equitable Adjustment
RFS	Readiness for Sea
RMC	Regional Maintenance Center
SARP	Ships' Alteration Repair Package
SC	Ship Change
SCN	Shipbuilding and Conversion, Navy
SF 30	Form SF 30, Amendment of Solicitation/Modification of Contract
SHIPALT	Ship Alteration
SI	Standard Items
SPAWARSSYSCOM	Space and Naval Warfare Systems Command
SPD	Ship Project Directive
SPI	Schedule Performance Index
SPM	Shipbuilding Program Manager
SSR	Ship's Selected Records
SSRAC	Standard Specification for Ship Repair and Alteration Committee
STARS	Standard Accounting and Reporting System
SUPSHIP	Supervisors of Shipbuilding, Conversion and Repair
SWLIN	Ship Work List Item Number
SWT	Standard Work Template
SYSCOM	Systems Command
TAR	Technical Analysis Report
TIP	Test and Inspection Plan
TM	Technical Manuals
TMMP	Technical Manual Management Program
TOB	Technical Operating Budget
TYCOM	Type Commander
USFF	United States Fleet Forces
WPIC	Work Package Integration Conference

Effective Date	<p>Effective date has one of the following meanings, based on the circumstances in which it is used:</p> <ol style="list-style-type: none"> (1) For a solicitation amendment, change order or administrative change, the effective date will be the issue date of the amendment, change order or administrative change. (2) For a supplemental agreement, the effective date will be the date agreed upon by the contracting parties. (3) For a modification issued as a confirming notice of termination for the convenience of the Government, the effective date of the confirming notice will be the same as the effective date of the initial notice. (4) For a modification converting a termination for default to a termination for the convenience of the Government, the effective date will be the same as the effective date of the termination for default. (5) For a modification confirming the termination contracting officer's previous letter determination of the amount due in settlement of a contract termination for convenience, the effective date will be the same as the effective date of the previous letter determination.
Estimating System	<p>A contractor's policies, procedures and practices for generating cost estimates which forecast costs based on currently available information. An estimating system includes the organizational structure; established lines of authority, duties and responsibilities; internal controls and managerial reviews; flow of work, coordination and communication; and estimating methods, techniques, accumulation of historical costs and analyses used to generate costs estimates and other data included in proposals.</p>
Government Furnished Property	<p>Property which the Government has possession of and provides to a contractor or directly acquires to provide to the contractor, including related data and information requested or furnished to the contractor that is reasonably required for the intended use of the property.</p>
Growth Work	<p>Any additional work that is identified after contract award or definitization that is related to a work item included in the contract award. Growth does not include pre-priced options or reservations that were specifically identified in the solicitation or defined package.</p>
Indirect Appeal	<p>Assertion by the subcontractor of the prime contractor's right to appeal or the prosecution of an appeal by the prime contractor on the subcontractor's behalf.</p>
Inspection	<p>The act of measuring, examining, testing, gauging or otherwise comparing of supplies or services with requirements to determine conformity.</p>
Inspection Record	<p>Recorded data concerning inspection results.</p>
International Organization for Standardization (ISO)	<p>A worldwide federation of national standards bodies.</p>
Lead Auditor/Team Leader	<p>A person who is qualified to perform and designated to lead/manage a quality audit team.</p>

Major Nonconformity (Method B)	A nonconformance that judgment and experience indicate could impair the performance or life of the product and/or result in hazardous or unsafe conditions for the user.
Minor Nonconformity (Method A)	A nonconformance or flaw that will probably not impair the performance or life of a product, nor result in unsafe conditions for the user (previously referred to as Method A corrective action).
NAVSEA Standard Item (NSI)	Those items written to describe procedures and general requirements for the Item performance of work to be accomplished under the job order. The Standard Specification for Ship Repair and Alteration Committee approves NSIs. NSI numbers are assigned in a 009-XX series.
New Work	Any additional work identified after contract award or definitization that is not related to a work item that was included in the original contract award.
Nonconformance	A departure of a quality characteristic from its intended level or state that occurs with a severity sufficient to cause an associated product or service not to meet a specification requirement.
Objective Quality Evidence (OQE)	Any statement of fact, either quantitative or qualitative, pertaining to quality of a product or service based on observations, measurements or tests that can be verified.
Observation	An action that occurs when one attribute is verified to one unit of product.
Preventive Action	An action taken to eliminate the causes of a potential nonconformity, or other undesirable situation, to prevent occurrence.
Process	A set of interrelated resources and activities that transform inputs into outputs with the aim of adding value.
Process Quality Audit	An analysis of elements of a process and appraisal of completeness, correctness of conditions and probable effectiveness.
Product Quality Audit	A quantitative assessment of conformance to required product characteristics.
Products	The results of activities or services; a generic term that denotes goods and/or services.
Quality	The composite of all features and characteristics of a product or service that bear on its ability to satisfy given needs.
Quality Assurance	A planned and systematic pattern of all actions necessary to provide adequate (QA) confidence that the product or service conforms to established technical requirements.
Quality Audit	A systematic and independent examination to determine whether quality activities and related results comply with planned arrangements and whether these arrangements are implemented effectively and are suitable to achieve objectives.
Quality Management System	The organizational structure, responsibilities, procedures, processes and resources for implementing quality management.

VOLUME VII

CHAPTER 1

CONTRACTED SHIP REPAIR FUNCTIONS, TASKS AND STANDARDS OF CONDUCT

REFERENCES.

- (a) FAR Part 14 - Sealed Bidding
- (b) FAR Part 15 - Contracting by Negotiation
- (c) FAR 42.201 - Contract Administration Responsibilities
- (d) FAR 42.302 - Contract Administration Functions
- (e) FAR 42.2 - Contract Administration Services
- (f) FAR 42.3 - Contract Administration Office Functions
- (g) 5 CFR 2635 - Standards of Ethical Conduct for Employees of the Executive Branch
- (h) DoD Directive 5500.7 - Standards of Conduct
- (i) U.S. Navy Regulations Article 1115
- (j) SECNAVINST 5430.92 - Assignment of Responsibilities to Counteract Fraud, Waste and Related Improprieties within the Department of the Navy
- (k) OPNAVINST 4700.7 - Maintenance Policy for U.S. Naval Ships
- (l) NAVSEA SL720-AA-MAN-030 - Navy Modernization Process Management and Operations Manual (NMP-MOM)
- (m) DoD Directive 5000.1 - The Defense Acquisition System
- (n) SECNAVINST 5400.15 - Department of the Navy Research, Development and Acquisition, and Associated Life Cycle Management Responsibilities
- (o) OPNAVINST 4780.6 - Policy for Administering Service Craft and Boats in the Navy
- (p) FAR 203
- (q) NAVSEAINST 5730.1 - Legislative and Congressional Matters
- (r) NAVSEAINST 7500.1 - Audits of NAVSEA by External Audit Organizations

1.1 CONTRACTED SHIP REPAIR FUNCTIONS AND TASKS OVERVIEW. This chapter provides an overview of the Regional Maintenance Center (RMC) functions, responsibilities, standards of conduct and organizational relationships.

1.2 CONTRACTED SHIP REPAIR FUNCTIONS AND TASKS.

1.2.1 Functions. This section outlines RMC responsibilities for ship repair and modernization work that is contracted to the private sector for accomplishment. These may include:

- a. Performing functions of Procuring Contracting Officer (PCO) and Administrative Contracting Officer.
- b. Developing specifications necessary to solicit contract proposals and bids for assigned PCO functions and Naval Sea Systems Command (NAVSEA) procurements.
- c. Providing planning and estimating, workload forecasting and oversight for planned and unplanned availabilities.
- d. Conducting engineering, technical and design oversight, evaluation and surveillance.
- e. Performing engineering and design services in support of waterfront (emergent) technical issues.
- f. Budgeting, administering and accounting for funds.
- g. Providing management coordination and oversight of contracts to ensure requisite quality, schedule attendance and cost propriety.
- h. Monitoring and evaluating integrated logistics support and procurement of Government Furnished Material.

1.2.1.1 Mission Tasks. Other mission tasks include the following:

- a. Providing guidance to area Commanders and RMCs.

- b. Ensuring a comprehensive security program.
- c. Performing mobilization logistics planning.
- d. Training Navy reserve units for mobilization requirements.
- e. Administering facilities contracts covering Government-owned materials in private shipyards as assigned.
- f. Administering real property and Navy facility leases as assigned.
- g. Administering Government-owned drydocks leased to private shipyards as assigned.
- h. Performing berthing and messing program administration during contract execution.
- i. Executing civilian personnel services as assigned.
- j. Performing planning responsibilities.
- k. Performing Ship Availability Planning and Engineering Center Planning Activity responsibilities as assigned.
- l. Providing Contracting Officer's Representative support.
- m. Developing standard specifications.
- n. Performing annual inspection on Navy ship memorials as assigned.
- o. Provide oversight of demilitarization and stripping of ships programmed for disposal or for sale to private concerns.

1.2.2 Procurement and Contract Administrative Functions of the Regional Maintenance Center.

- a. The RMC performs the functions of the PCO for purposes of placement of job orders under the Master Agreement for Repair and Alteration of Vessels, Master Ship Repair Agreement or the Agreement for Boat Repair as described in Chapter 3 of this Volume by sealed bidding, by negotiation, reference (a) or reference (b). The RMC also exercises the options under Multi-Ship Multi-Option contracts and other contracts as assigned.
- b. The RMC is responsible for performing all of the contract administration services listed in references (c) and (d) to the extent applicable to Master Ship Repair Agreement job orders, Multi-Ship Multi-Option contracts and to other contracts assigned at commercial shipyards under RMC cognizance.
- c. With respect to the administration of contracts other than shipbuilding, conversion and repair, the RMC will perform contract administration functions listed in references (e) and (f) when requested by the PCO. When resources are not available to perform such functions, the RMC will advise the activity awarding the contract which functions cannot be performed and why.

1.2.3 Relationship with Contractors.

- a. In official transactions with contractors, the RMC Contracting Officer is the direct representative of the U.S. Government and Commander, Naval Sea Systems Command as Head of Contracting Agency. Therefore, contractors will address any correspondence on such matters directly to the RMC Contracting Officer who, if deemed advisable, may discuss it with or refer it to NAVSEA for resolution. When making referrals to NAVSEA, the RMC will include definitive recommendations for action. NAVSEA, after resolving referrals, should keep the RMC informed of the proposed resolution prior to initiating discussions with or instructions to the contractor.
- b. The RMC shall ensure that contractors are not given access to Navy files, even when requested under the Freedom of Information Act, unless approved by counsel. Neither should contractors be furnished copies of correspondence or included as an addressee on correspondence pertaining to a claim, controversial subject matter or any subject matter on which it may become necessary for the command to issue instructions or render decisions.

- (4) Naval Supply Systems Command (NAVSUPSYSCOM).
- (5) Naval Facilities Engineering Command (NAVFAC).
- b. The Navy SYSCOMs establish technical requirements and meet logistics, maintenance and support requirements of Fleet Commanders in the area of new construction and ship maintenance. In addition, these SYSCOMs provide technical requirements for maintenance and conduct analyses to determine the proper balance between design improvement and logistics support to achieve the required operational availability.

1.3.4 Naval Sea Systems Command.

- a. For procurement purposes, Commander, Naval Sea Systems Command (COMNAVSEA) is Head of Contracting Agency with delegated authority in the Federal Acquisition Regulation to enter into and administer contracts for materials and services for which the Commander is responsible. COMNAVSEA, in turn, has delegated this authority to the Deputy Commander for Contracts (NAVSEA 02). Delegation of authority to the RMC Contracts Department Head is addressed in the NAVSEA Contracts Handbook and in subsequent chapters of this volume. Only COMNAVSEA and individuals designated by NAVSEA 02 who are duly authorized and acting within the limits of their written delegated authority can commit the Government to any contractual action.
- b. Specific NAVSEA mission functions include the provision of material support to the Navy and Marine Corps for ships and craft, shipboard weapons systems and components, ammunition, guided missiles, mines, torpedoes and all other surface and underwater ordnance expendables. Material support encompasses the complete life cycle from research and design through sustained technical direction and acquisition in support of Fleet readiness. These responsibilities include ships, submarines and other sea platforms, except service craft assigned to the NAVFAC and ships administratively assigned to the Military Sealift Command.
- c. As the agent of the CNO, NAVSEA maintains the **Maintenance and Modernization IT Systems** and develops documentation for all authorized alterations. NAVSEA also authorizes and funds all program alterations not authorized and funded by the cognizant Type Commander (TYCOM). The maintenance, repair and modernization of ships, submarines, craft and boats assigned to the operating forces may be carried out by assignment of work to Naval Shipyards (NSY) or by procurement of services and material from private industry through the RMCs or Supervisors of Shipbuilding, Conversion and Repair, USN (SUPSHIP).
- d. Under the CNO, NAVSEASYSCOM's basic mission as related to ship modernization, repair and maintenance is to provide acquisition, engineering, logistic and material support for the Navy. As the technical and engineering authority for ships of the Navy, NAVSEA, in support of the designated Program Executive Office (PEO), is responsible for the life cycle management of Navy ships, submarines, craft and boats, including the following:
 - (1) Developing Maintenance Plans for each ship class.
 - (2) Supporting Fleet Maintenance Officers in scheduling ships for availabilities.
 - (3) Managing alteration development and executing the NMP.
 - (4) Providing acquisition, engineering and technical authority, Occupational Safety and Health, environmental support, and Contract Administration Quality Assurance Program assistance to the Fleet Maintenance Officers and RMCs.
 - (5) Operation of the NSYs, SUPSHIP, and RMC Contracting Offices.
- e. NAVSEA provides direct support to the PEOs who report directly to Assistant Secretary of the Navy (Research, Development and Acquisition) (ASN (RD&A)).
- f. Developing, validating and maintaining Organizational, Intermediate and Depot-level maintenance requirements and tasks in the Planned Maintenance System.

1.3.5 Program Executive Office Program Offices. The Navy Acquisition Executive Responsibilities assigned to the ASN (RD&A) are contained in references (m) and (n) and include supervision of the SYSCOM Commanders (NAVSEA) and PEOs relative to Research, Development and Acquisition matters. In most cases, PEOs function in matrix type organizational structures with reporting responsibilities to both ASN (RD&A) and the Commanders of the respective SYSCOMs. The PEOs are tasked with acquisition and life cycle management of their assigned programs. Within the PEO organizational structure are the Program Management Offices that report directly to the PEO. Within each program office, an individual manager is assigned as the Ship Program Manager and is responsible for a specific ship class. The Ship Program Managers provide centralized management for assigned ship classes. This assignment may be for ship conversion, modernization, repair or life cycle maintenance.

1.3.6 Logistics, Maintenance and Industrial Operations Directorate (SEA 04). The consolidation of the Fleet Logistics Support Directorate (SEA 04) and the Regional Maintenance and Industrial Operations Directorate (SEA 07) as well as several functions of other NAVSEA Directorates into the Logistics, Maintenance and Industrial Operations Directorate (SEA 04), was designed to strengthen and improve important headquarters functions. The organization is constituted to closely support the requirements and functions of the Deputy Chief of Naval Operations (Logistics) (N4) and Fleet Maintenance Officers as customers. The Directorate will develop policy and infrastructure associated with ship maintenance, logistics support, environmental and safety programs and related efforts.

1.3.7 The Atlantic and Pacific Fleets. The Commander, United States Fleet Forces Command and the Commander, Pacific Fleet are responsible for the readiness condition of their assigned ships. The Commanders must balance the competing needs of the operational Fleets with the need for maintenance and modernization of the Fleet. Ships and craft under their cognizance comprise the largest portion of the repair and overhaul workload. Fleet Commanders, through their respective Fleet Maintenance Officers, are responsible for the budgeting, scheduling and execution of CNO-scheduled ship maintenance and modernization availabilities plus emergent maintenance requirements. Fleet Commanders and COMNAVSEA are actively developing new ship maintenance procedures and processes, and initiatives that are being integrated into this manual that support the concept of Continuous Maintenance. The Fleet Commanders determine ship deployment schedules and, within guidelines published by the CNO, approve changes in scheduled maintenance availability dates for their assigned ships. Through the respective TYCOMs, the Fleet Commanders provide funding for advance planning and execution of scheduled ship maintenance availabilities. In the area of new construction, Fleet activities provide input to the development of ship characteristics and become involved in final trials, delivery, Post Shakedown Availabilities and guarantee periods of newly delivered ships.

1.3.8 Type Commanders.

- a. TYCOMs and RMCs are responsible for budgeting to support modernization, repair and maintenance availabilities and for the material readiness and training of their assigned ships. Under guidelines established by the CNO and Fleet Commanders, the TYCOMs and RMC manage funds for advance planning for repairs and some selected alterations, and execution of the availabilities. Within guidelines established by the CNO and Fleet Commanders, the TYCOMs in concert with the numbered Fleet Commanders (Commander, Second Fleet, Commander, Third Fleet, etc.) schedule ships for deployment and other operational assignments. In this regard, the TYCOM is one of the most important activities involved in scheduling ship repair planning activities that directly involve the ship or the ship's crew.
- b. TYCOMs provide advanced planning funding to the respective ships Maintenance Team for availability planning. After the availability work package has been identified and documented, the TYCOM provides funding for accomplishment of repairs and some of the alterations. The Ashore Ships Maintenance Manager, working with their respective Maintenance Team, is responsible for management of all TYCOM advance planning and works closely with the contract administrative team to execute the terms and conditions of contracts for their assigned ship(s). The CNO has delegated authority to RMC COs to assign unscheduled availabilities for ships under their cognizance. In support of new construction, TYCOMs have a primary mission to provide input to the development of ship characteristics and become involved in trials, delivery and guarantee periods of newly delivered ships as outlined in Volume I of this manual.

2.2.4.2 Department of Defense Federal Acquisition Regulation Supplement. The Defense Federal Acquisition Regulation Supplement (DFARS) is issued by the Secretary of Defense and establishes uniform policies and procedures that implement and supplement the FAR for Department of Defense (DoD). The DFARS contains guidance and direction to DoD personnel as to which provisions, clauses, cost principles and cost accounting standards are authorized for DoD contracts and what other procedures and actions must be followed in awarding and administering DoD contracts. The DFARS contains material that implements the FAR, as well as supplementary material that is unique to the DoD. This supplement is not a stand-alone document and must be read in conjunction with the FAR. The DFARS can be electronically accessed at <http://www.acq.osd.mil/dpap/dars/>.

2.2.4.3 Navy Marine Corp Acquisition Regulation Supplement. The Navy Marine Corp Acquisition Regulation Supplement (NMCARS) implements and supplements the FAR and the DFARS and establishes uniform policies and procedures for the acquisition of supplies and services for the Department of the Navy. The NMCARS is not a stand-alone document and must be read in conjunction with the FAR and DFARS. The NMCARS can be electronically accessed at <https://acquisition.navy.mil/rda/home/policyandguidance/nmcars>.

2.2.4.4 NAVSEA Contracts Handbook. The NAVSEA Contracts Handbook (NCH) is the Naval Sea Systems Command (NAVSEA) supplement to the FAR, DFARS, NMCARS and other acquisition policy and procedures for contracts, other transactions, cooperative agreements and grants. The NCH is not a stand-alone document. The NCH is authorized by reference (a). The NCH applies to NAVSEA Headquarters, Program Executive Officers and NAVSEA field organizations and representatives including the Regional Maintenance Center (RMC) Contracts Department Head and warranted Contracting Officers, for which Commander, Naval Sea Systems Command (COMNAVSEA) is the Head of Contracting Activity (HCA). In the event of a conflict, the FAR, DFARS or NMCARS shall take precedence over the NCH. Additionally, the NCH takes precedence over the guidance provided in this manual on contractual matters. The NAVSEA Contract Policy Office (NAVSEA 021) maintains the NCH and issues changes as required. Requests for deviations from the NCH must be submitted to NAVSEA 02B via NAVSEA 021.

2.2.4.5 Other Navy Publications. Although the NMCARS is the basic procurement publication issued at the Navy departmental level, procedures are further refined in directives, instructions, notices and other publications issued by direction of the Secretary of the Navy. Distribution of these publications may differ from the distribution of the NMCARS because of security considerations and other reasons. Accordingly, they are generally not made available to organizations outside the Government.

2.2.4.6 Command Publications. Subject to the provisions of references (b) and (c), procuring activities may issue procurement and related directives, instructions and other publications to implement and supplement FAR, NMCARS and other departmental publications. Each Command issues directives, instructions, notices and other publications that are necessary for the efficient performance of procurement operations.

2.2.4.7 Joint Fleet Maintenance Manual Relationship to Other Directives.

- a. This volume is issued in accordance with Memorandum of Understanding (MOU) between Commander, United States Fleet Forces Command, Commander, Pacific Fleet, Commander, Fleet Logistics Centers, Commander, Naval Supply Systems Command and COMNAVSEA. Additionally, reference (a) permits procuring activities to issue directives, instructions and other publications to supplement the FAR, DFARS, NMCARS, NCH and other Navy instructions.
- b. To the extent that a policy or a procedure is not addressed by the FAR, DFARS, NMCARS, NCH or other Navy and DoD Instructions, this manual provides the NAVSEA, United States Fleet Forces Command and Pacific Fleet policy and procedures concerning the contracting processes that are to be used by individual RMCs and Supervisors of Shipbuilding for procurement or administration of contracts for the conversion, modernization, repair and maintenance of ships, submarines, boats and craft, that are assigned to the respective RMC or Supervisor of Shipbuilding as the Naval Supervisory Authority (NSA). Where a policy or requirement is not established by FAR, DFARS, NMCARS, NCH or other Navy and DoD directives, this manual contains the procedural requirements for compliance. Otherwise, the FAR, DFARS, NMCARS, NCH and other Navy and DoD Directives take precedence over this manual. When a new or revised policy or requirement is promulgated by FAR, DFARS, NMCARS, NCH or other Navy and DoD Directives that are not consistent with this manual, the new or

revised policy and requirements shall be followed. Material required to be submitted to higher authority by the NMCARS or NCH shall be forwarded via the RMC Contracts Department Head or Chief of the Contracting Office at Supervisor of Shipbuilding to NAVSEA 02.

- c. Appendix A definitized the alignment of contracting responsibility among their subordinate commands.

2.2.4.8 Field Instructions and Notices. Each RMC is authorized to issue instructions and notices pertaining to contracting procedures that govern the internal operations of the office. Instructions may be issued to establish or explain organization, policy and procedures affecting more than one department of the RMC office and may remain in effect up to seven years. Notices may be issued to provide information of temporary interest and application to more than one department of the office. Each notice shall state its period of effectiveness up to a period of one year.

2.2.4.9 Waiver of Regulations and Directives. Reference (d) identifies policy for submitting requests for deviation from the FAR and reference (e) identifies policy for implementation of the Waiver and Reinvention Laboratory Programs within NAVSEA. Fleet personnel are encouraged to identify any regulation, directive, policy or procedure that can be modified, waived or eliminated in improving or streamlining business operations.

2.2.4.10 Impact of Statutes and Regulations. Regulations are issued by many offices in the agencies of the executive branch. There is frequently a substantial question as to their legal effect. When a board or court rules that a regulation is legally binding on either a contractor or the Government, that regulation is characterized as having the "force and effect of law". In such cases, the regulation is treated in the same manner as a statute. Generally, regulations shall have the force and effect of law if they are promulgated pursuant to specific statutory authority or formulated to implement a fundamental procurement policy and are appropriately published. RMCs should obtain the assistance of legal counsel in all such matters.

2.3 BUDGET/APPROPRIATIONS/ALLOCATION PROCESS. In order for any contract with the Government to be enforceable it must comply with certain legal requirements that apply to all Federal Government contracts.

2.3.1 Constitutional Authority. The Federal Government must be authorized by the Constitution to engage in the activity that is the subject of a contract.

2.3.2 Statutory Authorization. Before a contract can be entered into, there must be statutory authorization for the work being performed. Most agencies have a continuing grant of general authority to work in designated areas as a part of their basic mission. The Constitution also provides that "No money shall be drawn from the Treasury, but in consequence of appropriations made by law". Using this constitutional authority, Congress has prohibited the executive branch from entering into contracts prior to the appropriation of funds or in greater amounts than contained in appropriations.

2.3.3 Budget Authority.

- a. Budget authority may be provided either in the form of an appropriation act or by a grant of contract authority. Contract authority is permitted by the last phrase of reference (f) and shall usually be found in specific language in statutes authorizing programs and permitting the contracts prior to the passage of an appropriation act. Most contracting actions of the Federal Government are not based on contract authority and absence of appropriation legislation shall result in the contract not being enforceable against the Government. Leases made for periods longer than that covered by appropriated funds, and contracts made for amounts greater than appropriations, are not binding on the Government.
- b. In some cases, the executive agencies enter into agreements with contractors in advance of or in excess of appropriations, making the Government's obligation contingent on the passage of an appropriation. Since such agreements are not binding obligations of the Government until the passage of the appropriation, they do not violate the restrictions of reference (e).

2.3.4 Authorization of Appropriations.

- a. Prior to the passage of an appropriation act, funds for agency programs are usually "authorized" by special "authorization acts," which annually fund programs with dollar limitations. By the process of authorization legislation, the congressional committees with legislative jurisdiction over the agency conduct their initial review of the scope of agency programs and decide on the amount of funds that should be provided. This assures that these committees shall retain their prerogatives of control over the programs under their jurisdictions, and limits the appropriations committees to providing funds up to but not exceeding the authorized amounts. Since the authorization process is a working rule of

Congress, it would seem that an appropriation, even without the required authorization, would provide the necessary authority to enter into contracts. The courts have held, however, that an appropriation is not valid if there has been no authorization legislation because Congress may not legislate through appropriations laws. Authorization may also be in the form of provisions in the general legislation of the agency authorizing expenditures up to specified limits for designated programs.

- b. The legislative committees also retain control of this area in cases where “contract authority” is contained in the statute authorizing the undertaking of a program. In such cases, there is no process for review of the matter by the appropriations committees, yet the agency is authorized to enter into contracts. Of course, subsequent appropriations are necessary before the contractor can be paid, but it is assumed that such appropriations shall be forthcoming without contest.

2.4 **CONTRACTS.** A contract is an agreement between two or more parties that is enforceable by law. It may be agreed to either orally or in writing either as bilateral (two promises) or unilateral (promise for an act or forbearance of an act). Reference (g) contains a specific definition of a contract.

2.4.1 **Types of Contracts.** The Government enters into many types of contracts. Reference (f) lists the factors to consider when making a determination of what contract type best suits the specific procurement. In addition, Appendix A definitizes the contract authority for each activity’s subordinate commands. Reference (f) authorizes the use of various basic types of contracts (e.g., fixed-price, cost-reimbursement, etc.). Of these, the following are most commonly used by NAVSEA and RMCs for repair and modernization work:

- a. Firm Fixed Price (FFP).
- b. Fixed Price Incentive.
- c. Cost Plus Incentive Fee.
- d. Cost Plus Award Fee.
- e. Cost Plus Fixed Fee.
- f. Indefinite Delivery Type Contracts.
- g. Federal Acquisition Regulations also authorizes the use of any combination of the approved contract types. A fixed-price-award-fee contract may also be used when appropriate.

2.4.2 **Contract Selection.** The Government’s cost of an acquisition can be influenced substantially by the type of contract selected and the manner in which the contract is administered. Contract type and administrative practices can substantially influence quality and delivery. For the contractor, the improper use of contract types can result in financial setbacks or excessive profit.

2.4.2.1 **Fixed Price Contracts.** Fixed Price (FP) contracts usually stipulate a firm price. Under some circumstances, it may leave portions of the price open and provide for a later adjustment. The degree of risk assumed by the contractor shifts from the contractor to the Government when any variation of the FP type contract is used other than the FFP. In an FFP contract, the contractor bears the entire risk of both cost and performance. In the FP contract with economic price adjustment, the contractor bears all cost risks except that portion which is covered by the adjustment provisions. A Fixed Price Incentive contract provides for adjusting profit and establishing the final contract price by a formula based on the relationship of final negotiated total cost to total target cost, with the contractor bearing any costs in excess of ceiling price.

2.4.2.1.1 **Administration.** Market conditions cause contractors to submit bids well under what the work can reasonably be expected to cost in order to be the successful bidder. This “buy in” situation causes the winning contractor to aggressively seek every opportunity for contract growth and claims, and often at significantly higher cost than would normally be expected. The pre-award survey, reference (h), should screen out bids from contractors that are not responsible, meaning the contractor does not possess the managerial, financial and technical or facilities capabilities and capacities to comply with the terms and conditions of the contract. Non-responsive contractors are those that do not respond to the Invitation For Bid (IFB) in a timely manner or address the specific items of the contract in their bids. Contractors who do not have the capabilities required should not be awarded FFP contracts.

2.4.2.2 Cost Reimbursement Type Contracts.

- a. Cost reimbursement contracts, discussed in reference (i) are used when the estimate of costs is as reasonable as the circumstances permit, but because of the magnitude of uncertainties involved in the procurement, the risk is too great to expect a contractor to accept a FP arrangement of any type. In the Cost Plus Fixed Fee type, the Government agrees to pay all allowable costs that are incurred under the contract, plus a fixed-dollar amount of fee. A Cost Plus Incentive Fee type contract provides for an initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs. Under the Cost Plus Award Fee, the allowable costs are paid plus a fee. The fee typically consists of two parts, a fixed amount that does not vary with performance, and an award amount. The award amount is based upon a subjective evaluation of contractor performance by the Government, judged in light of criteria set forth in the contract. The criteria and rating plan should be tailored to the specific procurement in order to provide the most positive way to motivate a contractor toward improved performance.
- b. In a cost reimbursement type contract actual cost, plus fee, equals price.

2.4.3 Time and Materials Contract. This contracting method provides for payment to the contractor of direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses and profit and materials at cost. A labor-hour contract is a variation of the time and material contract, differing only in that materials are not supplied by the contractor.

2.4.4 Indefinite-Delivery Indefinite-Quantity Contracts. These contracts are used when there is a recurring demand for an item and the timing and extent of demand cannot be determined at the time of award. The contract establishes all terms and conditions except those to be included in orders issued there under.

2.4.5 Letter Contracts. Letter contracts are used to authorize urgent work when work must be started immediately and negotiating a definitive contract is not possible in sufficient time to meet the requirement.

2.4.6 Basic Agreements. Basic agreements are umbrella-type arrangements to affect time savings for recurring requirements. While they are not contracts, they establish ground rules for the required and applicable clauses that shall be incorporated in contracts at future dates. The Master Ship Repair Agreement and Agreement for Boat Repair are examples of agreements and are discussed in Chapter 4 of this volume.

2.4.7 Basic Ordering Agreements. Basic Ordering Agreements (BOA) resemble the basic agreement. They go further by including a description of the supplies and services to be ordered and provide methods for pricing, issuing and determining future orders under the basic ordering agreement.

2.4.7.1 Description. A BOA is a written instrument of understanding, negotiated between an agency, contracting activity or contracting office and a contractor, that contains terms and clauses applying to future contracts between the parties during its term, a specific description of supplies or services to be provided, and methods for pricing, issuing and delivering future orders under the BOA. A BOA is not a contract.

2.4.7.2 Background. BOAs may be used to accomplish procurement for research and development, studies, services and shipbuilding post shakedown availabilities and hardware. Formal current internal instructions or procedures on effective field management control are required in conjunction with the responsibilities and authority delegated to the assigned RMC. Reference (i) provides additional information on BOAs.

2.4.8 Other Contracting Methods.

- a. Multi-Agency Contract means a task-order or delivery-order contract established by one agency for use by Government agencies to obtain supplies and services, consistent with the Economy Act. Contracts for information technology services are often procured as multi-agency contracts.
- b. Multi-Ship Multi-Option (MSMO) contracts enhance the Procuring Contracting Officer's (PCO) flexibility by allowing the PCO to package several ship repair availabilities spanning several fiscal years into one procurement package. The cost-type contract awards the initial availability with options to execute the remaining availabilities, provided the contractor's cost and performance are satisfactory. MSMO contracts are routinely procured as cost-type contracts, although they could be procured as FP contracts.

- c. Differences in interpretation of contract provisions.
- d. Delay and disruption of contractor effort.
- e. Changes in method of sequence of work.
- f. Late or defective Government-furnished material, property or information.
- g. Rejections, rework, waivers and deviations.
- h. Planned versus actual performance milestones.
- i. Delays in Government actions such as processing engineering change proposals, consent to subcontracts and review of technical data.
- j. Contractor error and noncompliance with contract terms.
- k. Any other Government or contractor actions or inactions which have the effect of requiring the contractor to perform work different from the work prescribed by the original terms of the contract.

2.18.6 Significant Events Data. Data that should be generated for each significant event should include as a minimum:

- a. The nature and pertinent circumstances of the event.
- b. The date of the event and the identification of Government and contractor personnel involved, including the name and function of the respective individuals.
- c. Identification of any relevant documents involved.
- d. The substance of any oral communications related to the event.
- e. A statement concerning the possible consequences or effects of the event described upon the contract cost, schedule or technical performance, including manner or sequence of performance.

2.19 RESOLUTION OF DISPUTES. NAVSEA policy is that a dispute between a contractor and NAVSEA should be resolved by the assigned CAO. NAVSEA does not serve as a higher level of appeal for contractors in the event of disagreements between the contractor and the CAO.

2.19.1 Appeals. When a contractor's appeal of a Contracting Officer's decision is received by the ACO, the appeal shall be forwarded immediately to NAVSEA 00L and NAVSEA 024 with a copy to the Litigation Office, Contract Appeals Division of the Office of the General Counsel of the Navy. On notification of an appeal, the ACO shall compile all documentation and files applicable to the matter appealed.

2.19.2 Negotiations with Appeal Pending. While the Navy is not precluded from seeking further agreement with the contractor after an appeal is filed, all such attempts are to be in accordance with Regulatory Requirements.

2.19.3 Third Party Lawsuits. If a third party enters a suit against a contractor who holds a cost-reimbursement or other type of contract under which the judgment of litigation fees might be reimbursable, the ACO should immediately inform NAVSEA counsel and the PCO, forwarding copies of the summons and complaint.

2.20 CONTRACT TERMINATIONS. Reference (y) grants Contracting Officer the authority to suspend or terminate contracts when it is in the Government's interest. Terminations may be either a Termination for Convenience or a Termination for Default depending on the nature of the termination. A contract may be terminated for convenience for any reason that the Contracting Officer determines would be in the best interest of the Government. Terminations for Default are also performed when it is in the Government's best interest, but the reason for the termination is based on the contractor's actual or anticipated failure to perform contractual obligations.

2.20.1 Extent of Termination. Terminations can be either partial or complete. A partial termination means the termination of a part, but not all, of the work that has not been completed and accepted under the contract. A complete termination means the termination of all of the work that has not been completed and accepted under the contract.

2.20.2 Effect of Termination. Terminations are very serious matters. Depending on factors such as the dollar amount of the contract, the contractor's financial condition and the availability of other work to the contractor, a termination can severely impact a contractor's financial condition or even drive the contractor into bankruptcy and out of business. The contractor is not the only one hurt, however, as the contractor must terminate any subcontractors under the contract. Further, the contractor must lay off employees unless the contractor has other work to assign to employees working on the terminated contract. Such circumstances frequently result in political involvement.

2.20.3 Termination Contracting Officer. After the Contracting Officer has issued a notice of termination, a Termination Contracting Officer shall be assigned to handle the termination actions. Refer to reference (u) for the details of these actions, required notifications, and procedures for negotiating settlements with the contractor.

- a. Fortunately, termination of ship repair and modernization contracts is a rare occurrence. It has been necessary to terminate a ship repair contract for convenience of the Government in order to meet unplanned operational commitments. Because of the need to support impending operations, availabilities for these ships may be cancelled or completion dates were greatly accelerated. Contracts can be terminated completely for availabilities that have not begun or can be partially terminated for those availabilities where planned work has to be stopped in order to meet the revised completion date.
- b. It should be noted that in the case of MSMO contracts, it is not necessary to terminate the entire contract in order to cancel work on a single availability. In this situation, it is usually a matter of not invoking the option for that availability, or if work has already begun, canceling any remaining work.

2.21 OVERTIME AND MULTI-SHIFT WORK.

2.21.1 Labor. Reference (z) prescribes contracting policy and procedures for implementing pertinent labor laws and contract clauses. References (aa) and (p) also address the application of labor laws to Government acquisitions. Significant terms, as utilized in this section, are defined in reference (z) and include:

- a. "Normal work week" generally means a work week of 40 hours. Outside the United States, its possessions and Puerto Rico, a work week longer than 40 hours is to be considered normal if the work week does not exceed the norm for the area, as determined by local custom, tradition or law and if the hours worked in excess of 40 in the work week are not compensated at a premium rate of pay.
- b. "Overtime" is time worked by a contractor's employee in excess of the employee's normal work week.
- c. "Overtime premium" means the difference between the contractor's regular rate of pay to an employee for the shift involved and the higher rate paid for overtime; it does not include a shift premium.
- d. "Shift premium" is the difference between the contractor's regular rate of pay to an employee and the higher rate paid for extra-pay shift work.

2.21.2 Overtime. Contractors shall perform all contracts so far as practicable without using overtime, particularly as a regular employment practice, except when lower overall costs to the Government will result or when it is necessary to meet urgent program needs. Any approved overtime, extra-pay shifts and multi-shifts should be scheduled to achieve these objectives. **Funds must not be obligated for contingencies that may or may not occur during the performance of the associated contract. Only overtime hours included in the definitized amount for availability are those which both parties agree will be used in executing known and defined work items.**

2.21.3 Procedures. Solicitations shall not specify delivery or performance schedules that may require overtime at Government expense. In negotiating contracts, Contracting Officers should, consistent with the Government's needs, attempt to ascertain the extent that offers are based on the payment of overtime and shift premiums, and negotiate contract prices or estimated costs without these premiums or obtain the requirement from other sources.

2.21.3.1 Pre-Award Considerations. Regardless of contract type, when cost or pricing data has been submitted, the parties have an opportunity to negotiate the contractor's planned use of overtime. The price or estimated cost agreed to should include appropriate amounts for overtime only when it is required. If cost or pricing data has not been submitted (e.g., when sealed bidding has been used or where competitive negotiation is used, adequate price competition is expected, and the evaluation is to be based solely on price and price related factors), the Government generally does not know, nor does it need to know, what amount of overtime the contractor has planned to use.

When it becomes apparent during negotiation of a cost-reimbursement contract, the amount of which is expected to be over \$100,000, that overtime will be required in contract performance, the Contracting Officer shall secure from the contractor a request for all overtime to be used during the life of the contract so the overtime can be estimated with reasonable certainty. The contractor's request is to contain the information required by reference (ab). Based on this and other information, NAVSEA and the NSA will consider the justification for the overtime. Necessary determinations regarding premium payments to be included in the contract price shall be made. These determinations are provided to the contractor and to the RMC to administer the contract. The previous requirement does not apply to a cost-reimbursement contract for the operation of vessels or a cost-plus-incentive-fee contract that will provide a swing from the target fee of at least plus or minus 3 percent with a contractor's share of at least 10 percent being contemplated.

2.21.3.2 Fixed-Price Contracts. DoD overtime and multi-shift premium regulations have been established to limit the amount of premium overtime and shift compensation that the Government may allow or consider in pricing. Overtime or shift premiums may not be authorized at Government expense when the contractor is already obligated to meet the required delivery dates without the right to additional compensation. Thus, a contractor performing under a fixed-price contract generally is not entitled, under the overtime regulations, to obtain any compensation for overtime or shift pay in addition to the original contract price. Changes under NAVSEA fixed-price contracts are not subject to FAR requirements for overtime approval. The responsible RMC has authority to approve overtime work with adjudication of such changes.

2.21.3.3 Cost-Reimbursable and Letter Contracts. Cost-reimbursable and letter contracts require Government approval of contractor overtime and multi-shift premium payments. This contractual control is necessary since the premium payments are subject to audit and reimbursement. The contract provisions may require that all overtime and multi-shift premiums be approved by the Contracting Officer or the duly authorized representative. The terms of individual contracts shall be examined to ascertain exact requirements and the applicability of the requirements to overtime and multi-shift premium work by subcontractors. When forwarding any contractor request for overtime or multi-shift premium approvals to NAVSEA, the NSA shall ensure that all information necessary to make a determination is included, comment on the accuracy of the facts in the contractor's request and advise whether or not the request should be approved. The responsible Defense Contract Audit Agency office shall be requested to provide advice to the RMC with respect to the contractor's request.

- a. NAVSEA may authorize the ACO to make determinations and approve overtime under reference (v). When such authority is granted, the NSA is to submit a monthly report of overtime.
- b. For changes under cost-reimbursement contracts requiring overtime, the amount of overtime is limited to the ceiling established by NAVSEA for the contract. Any increase in ceiling required due to the change must be authorized by NAVSEA.
- c. For repair and overhaul contracts, the responsible RMC accomplishes the NAVSEA functions described above, unless NAVSEA 02 has retained responsibility for these functions.

2.21.4 Approval of Overtime.

- a. The Contracting Officer shall review the contractor's request for overtime. Approval of the overtime may be granted by an agency approving official after determining in writing that overtime is necessary to:
 - (1) Meet essential delivery or performance schedules.
 - (2) Eliminate foreseeable extended production bottlenecks that cannot be eliminated in any other way.
- b. Refer to references (z), (ac) and (p) for additional information regarding approvals.

2.22 SUBCONTRACTS.

2.22.1 Subcontracting.

- a. This section prescribes policies and procedures for consent to subcontract and for review, evaluation and approval of contractor's purchasing systems. Subcontracting policies and procedures addressed herein are based upon references (ad), (ae) and (p). Subcontract consent for repair and overhaul contracts under evolving maintenance strategies require an increased effort by the Contract Administration staff due to:
 - (1) Even though over 50% of the dollars associated with repair and overhaul contracts are for labor, in many cases the emerging contract strategies have significantly increased the level of subcontracting by the prime contractor.
 - (2) Many repair and overhaul contracts are MSMO or multiple award contracts wherein the subcontractors' are often parties to the Basic Agreements and Terms and Condition established in the original solicitation. For Headquarters procured MSMO contracts, the prime contractor is required to subcontract at least 40 percent of the work to small business.
- b. Contractors generally attempt to award at least the major subcontracts shortly after receiving award of the prime contract. For this reason the NSA should expect and be prepared to provide prompt service in order to avoid delaying the contractor.
- c. Subcontract consent is not the sole responsibility of the Contracts Department. Other departments within the NSA should be involved to ensure that all pertinent aspects for which they are responsible are adequately covered in subcontracts. All departments involved in subcontract consent shall develop and use checklists to assist in their reviews.

2.22.2 Consent Requirements. If the contractor has an approved purchasing system, consent is required for subcontracts specifically identified by the Contracting Officer in the subcontracts clause of the contract. The Contracting Officer may require consent to subcontract if the Contracting Officer has determined that an individual consent action is required to protect the Government adequately because of the subcontract type, complexity or value, or because the subcontract needs special surveillance. These can be subcontracts for critical systems, subsystems, components or services. Subcontracts may be identified by subcontract number or by class of items (e.g., subcontracts for engines on a prime contract for airframes).

- a. If the contractor does not have an approved purchasing system, consent to subcontract is required for cost-reimbursement, time-and-materials, labor-hour or letter contracts, and also for un-priced actions (including un-priced modifications and un-priced delivery orders) under fixed-price contracts that exceed the simplified acquisition threshold, for:
 - (1) Cost-reimbursement, time-and-materials or labor-hour subcontracts.
 - (2) DoD, fixed-price subcontracts that exceed the greater of the simplified acquisition threshold or 5 percent of the total estimated cost of the contract.
- b. The Contracting Officer's written authorization for the contractor to purchase from Government sources constitutes consent.
- c. Refer to the specific contract clauses actually included in each contract to ascertain specific subcontract consent requirements.

2.22.3 Additional Regional Maintenance Center Consent Procedures. The RMC shall prepare a local instruction that delineates the field activity organizational responsibilities for conducting required subcontract consent reviews.

- a. ACOs shall give the contractor's request for consent equal review, whether the ACO has consent authority or must endorse the request(s), to the PCO. The ACO endorsements to the PCO shall contain all necessary information and recommendations for PCO action.
- b. The Subcontract clauses permit the ACO to ratify a subcontract that has been placed by the contractor even though prior consent was required. ACOs shall not ratify subcontracts as a routine procedure in lieu of granting consent prior to their placement. Ratification should be the exception to the rule and should be granted only on a case-by-case basis. If it appears that the ultimate cost to the Government may have been increased by the placement of the subcontract without consent, the ACO shall consult

with counsel about placing the contractor on notice that the Government shall not be liable for such an increase. If it appears that a change in the contractor's procedures is required to preclude further placement of subcontracts prior to consent, the ACO shall direct the contractor to take corrective action.

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VOLUME VII

CHAPTER 3

PRIMARY CONTRACTING STRATEGIES - MASTER AGREEMENT FOR REPAIR AND ALTERATION OF VESSELS AND MULTI-SHIP MULTI-OPTION

REFERENCES.

- (a) DFARS Part 217 - Special Contracting Methods
- (b) NAVSEAINST 4280.2 - Master Agreement for Repair and Alteration of Vessels, Master Ship Repair Agreement (MSRA) and Agreement for Boat Repair (ABR)
- (c) NAVSEA Contracts Handbook (NCH) - Master Agreement for Repair and Alteration of Vessels
- (d) DFARS 217-7104 - Clauses
- (e) The North American Industry Classification System (NAICS)
- (f) DFARS 217.71 - Master Agreement for Repair and Alteration of Vessels
- (g) FAR 9.1 - Responsible Prospective Contractors
- (h) FAR 6.302-2 - Unusual and Compelling Urgency
- (i) DFARS 206.302-2 - Unusual and Compelling Urgency

LISTING OF APPENDICES.

- A Master Ship Repair Agreement
- B Agreement for Boat Repair

3.1 PURPOSE. The purpose of this chapter is to describe the two primary contracting methods generally employed by the Navy for the procurement of ship repair and modernization work in the private sector.

- a. Procurement of individual contracts for each ship repair availability through the use of firm fixed-price contracts awarded under a Master Agreement for Repair and Alteration of Vessels. These agreements exist as either a Master Ship Repair Agreement (MSRA), Appendix A, or an Agreement for Boat Repair (ABR), Appendix B.
- b. Procurement of a single contract for multiple availabilities on multiple ships through the use of cost reimbursable contracts. These Multi-Ship Multi-Option (MSMO) contracts are usually procured to support several ships of the same class within a specific port.

3.2 POLICY.

3.2.1 Policy Sources. Basic policy is established by references (a) and (b). Reference (a) addresses only the MSRA, while reference (b) addresses both the MSRA and the ABR. Reference (c) provides additional policy established by Naval Sea Systems Command (NAVSEA) 02.

3.2.2 Defense Federal Acquisition Regulation Supplement 217.7102 Policy.

- a. The MSRA shall be entered into with all prospective contractors, located within the United States, that request ship repair work and possess the organization and facilities to perform such work satisfactorily. Issuance of the MSRA does not indicate approval of the contractor's facilities for any particular acquisition. Activities may also use the MSRA in selected work with prospective contractors located outside the United States, its possessions or Puerto Rico.
- b. The Government may issue job orders referencing or by attaching the MSRA for repairs, alterations or additions to vessels belonging to foreign governments, however, there are specific directives that should be referred to concerning repairs to foreign vessels. When repairs and alterations to foreign government vessels are to be acquired under the MSRA, the contracting officer will comply with the Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS), addressing foreign military sales regulations, or other governing provisions of law. The solicitation and job order will identify the vessel and the foreign government.

3.3 AGREEMENTS.

3.3.1 Master Agreement for Repair and Alteration of Vessels. The Master Agreement for Repair and Alteration of Vessels, in accordance with reference (a), provides the authority for the Navy and other agencies to utilize special contracting methods for the repair and alteration of vessels. The authority and prerequisites related to obtaining special agreements are identified in reference (a), Sub-part 217.71. It is a written agreement, negotiated between a contracting activity and a contractor containing contract clauses, terms and conditions applying to future contracts for repairs, alterations and/or additions to vessels. The agreement contemplates separate future contracts that will incorporate, by reference or attachment, the required and applicable clauses agreed upon in the master agreement. It is not a contract.

3.3.2 Job Order. A “job order” is a fixed price contract incorporating, by reference or attachment, a Master Agreement for Repair and Alteration of Vessels. It may include clauses pertaining to subjects not covered by the master agreement, but applicable to the job order being awarded. It applies to a specific acquisition and sets forth the scope of work, price, delivery date and other appropriate terms that apply to the particular job order.

3.3.3 Clauses. Appendices A and B are identical in form and content except for the cover sheet and preface. Each must be approved by NAVSEA 02. Appendices A and B are agreements, not contracts, and contain no specifications or statement of work. These two agreements are primarily a compilation of required clauses which are peculiar to ship repair and modernization work and certain general terms and conditions under which the Navy or any other Department of Defense agency can issue firm-fixed-price job orders for efforts involving repairs, alterations or additions. The clauses which are to be included in each agreement are listed in reference (d). Only firm fixed-price job orders may be awarded in conjunction with these agreements, and the associated job orders may only be issued to contractors who hold a current NAVSEA approved “Agreement”. The job order applies to a specific acquisition and describes the scope of work, price, delivery date and additional matters peculiar to the requirements of the specific acquisition. The job order incorporates the clauses from the applicable agreement as well as all the other contract clauses and terms and conditions which are appropriate for the specific contract effort by reference or appendage. The Deputy Commander for Contracts, NAVSEA 02, has issued and maintains a standard solicitation package that is mandatory for use by the NAVSEA Designated Certifying Official and by the Contracting Officer at the Regional Maintenance Centers (RMC) when processing an application for the agreements. Contracting Officers shall ensure that the applicants’ responses to the standard solicitation package are prepared in accordance with NAVSEA 02 direction.

3.4 ELIGIBILITY REQUIREMENTS FOR MASTER SHIP REPAIR AGREEMENT AND AGREEMENT FOR BOAT REPAIR PROGRAM.

3.4.1 Major Requirements for a Master Ship Repair Agreement Certification.

- a. The most significant eligibility requirements set forth in reference (b) are that a Contractor must:
 - (1) Be capable of accomplishing a Selected Restricted Availability on a FFG 7 class ship or larger.
 - (2) Have the capability to perform at least 55% of a Selected Restricted Availability on a FFG 7 class ship using their own facilities and their own workforce.
 - (3) Possess or have access to a pier with the requisite support and technical services available. (There is no requirement for a dry dock.)
- b. While it is not a specific requirement for obtaining an MSRA, the contractor must be capable of providing a “Remote Site Work Performance Plan” to the Contracting Officer prior to issue of the job order that permits the start of the work performance period.

3.4.2 Master Ship Repair Agreement Requirements. The complexity of ship repair and the conditions under which work is performed require that NAVSEA contract only with ship repair companies that are fully capable of conducting most aspects of shipboard work. The compact arrangement of machinery and systems aboard ship, the sophistication of systems installed in Navy ships and the Navy’s absolute requirement for reliable operation create a unique repair environment that demands special experience and capability.

- b. If NAVSEA cancels an Agreement, NAVSEA 02 will issue notification of cancellation upon approval by NAVSEA 00. Likewise, if a contractor cancels an Agreement, NAVSEA will acknowledge the cancellation by letter. (Originals will be sent directly to the Contractor.) NAVSEA 024 will provide copies of letters to the cognizant RMC and NAVSEA 04Z. The RMC will make additional distribution to notify all other interested parties.

3.6.2 Solicitations for Job Orders Outside of Existing Contracts. In accordance with reference (f), when a requirement arises that is determined to be beyond the intended scope of an existing MSMO or similar contract, and the requirement is determined to be for the type of work covered by the MSRA/ABR within the United States, bids, proposals or quotes will be solicited by the RMC Contracting Officer from prospective contractors who have previously executed an MSRA or ABR. If time permits, solicitations can be issued to prospective contractors who have a pending application for an MSRA or ABR, who potentially possess the necessary qualifications to perform the work, and who has requested to participate in the solicitation process.

- a. The RMC Contracting Officer will ensure that solicitations are prepared in the Uniform Contract Format and that they comply with reference (c), Sections 14 and 15, and the NAVSEA Standard Solicitation package, as applicable. When the Government invites a contractor to submit a bid or proposal for the repair, conversion, alteration of, or addition to a vessel, the RMC Contracting Officer will include in the solicitation the nature of the work, the date the vessel will be available to the contractor and the date the work is to be completed. The notice will state when bulk ammunition is aboard the vessel.
- b. Where practical, the contractor will be given an opportunity to inspect the items of work to be accomplished on the vessel. The contractor will submit a bid, proposal or quotation as requested by the RMC Contracting Officer for the performance of the work described in the solicitation.

3.6.3 Pre-Award Survey for Job Orders and Determination of Eligibility. The Contracting Officer at the RMC will apply the standards set forth in reference (g) for making the determination of responsibility. A pre-award survey of the contractors' operations including any analysis of the contractors' proposed subcontractors, may be directed before making a responsibility determination. A pre-award survey should be used if there is a concern with the adequacy and suitability of facilities, contractors' management, financial capability and Quality Assurance system, including safety standards, fire protection, hazardous materials and waste control, adequacy of facilities for the health, comfort and welfare of the crew and sufficient plant protection to safeguard the vessel and government property plus other issues at the discretion of the Contracting Officer. To be determined responsible, a prospective contractor must possess the following capabilities under reference (g):

- a. Adequate financial resources to perform the contract, or the ability to obtain contracts.
- b. Ability to comply with required or proposed delivery or performance schedule, taking into consideration all existing commercial and governmental business commitments.
- c. Satisfactory performance record. A prospective contractor shall not be determined responsible or non-responsible solely on the basis of a lack of relevant performance history, except as provided in reference (g).
- d. Satisfactory record of integrity and business ethics.
- e. Necessary organization, experience, accounting and operational controls, and technical skills or the ability to obtain them (including, as appropriate, such elements as production control procedures, property control systems, quality assurance measures and safety programs applicable to production of materials or performance of services by prospective contractor or subcontractor).
- f. Necessary production, construction, and technical equipment and facilities or the ability to obtain them.
- g. Other qualifications and eligibility to receive an award under applicable laws and regulations.

3.6.4 Award of a Job Order. Per reference (f) Job Orders are to be awarded in accordance with reference (g) Subpart 14.4 or 15.5. After the receipt and evaluation of bids or proposals and selection of the contractor, the price for the work and other pertinent data will be set forth in a job order. This job order is subject to the provisions of the MSRA/ABR. When the acquisition solicitation process has been made under sealed bid procedures, issuance/award of a job order may be accomplished by a warranted contracting officer's signature. When discussions have been held on a negotiated procurement, the job order must be signed by the contractor and returned to the contracting

officer for signature prior to award. NAVSEA 02 has determined that all of its purchase activities will use the Uniform Contract Format. When using sealed bidding procedures, RMCs will use Form SF 33, Solicitation, Offer and Award as an award sheet for job orders issued under the MSRA and ABR. Electronic copies of SF 33, along with instructions for completing these forms, are available at the FAR and DFARS web sites.

3.6.5 Emergency Work. As outlined by section 6.302-2 of reference (c), the RMC Contracting Officer may issue a written order for work to a contractor who has previously executed an MSRA without inviting bids or proposals when a vessel, its cargo or stores would be endangered by delay in performing necessary repair work or when military necessity requires immediate work on a vessel. As soon as practical after the issue of such an order, the parties are required by the MSRA to negotiate a price for the work. When agreement is reached upon a price, the responsible contracting officer will issue a job order pricing the work.

- a. When emergency work or voyage repairs are necessary and fully justified by the Type Commander, reference (h) exception allows a waiver from the requirements of full and open competition "because of unusual and compelling urgency". Reference (i) states that the urgency exception may be cited for essential equipment or repair needed at once to comply with orders for a ship when such equipment or repair is required to meet the operational commitment/deployment message of the ship.
- b. The procuring activity must prepare a Justification and Approval. The standard format is reference (c) section 53.6-1, Justification and Approval to Approve Other than Full and Open Competition and it can be tailored to local requirements. The requiring activity must certify the requirement and provide data, estimated cost or other rationale on the extent and nature of the harm to the Government if the number of sources is limited due to urgency. The Justification and Approval may be written and approved after contract award when preparation and approval prior to award would unreasonably delay the acquisition. For contract actions over \$1 million to be performed under the urgency exception, authorization to proceed will be obtained from NAVSEA 00, Head of Contracting Activity, through NAVSEA 02.

3.6.6 Modification of Master Agreements. Each Master Agreement will be reviewed per reference (f) at least annually before the anniversary of its effective date and will be revised to incorporate all changes made necessary by the revision of the FAR or DFARS. Statutory or other mandatory changes may require review and revision earlier than one year. The agreement, however, may be modified only by mutual agreement of the parties. The Government has the right to cancel the agreement on 30 days written notice when the parties fail to agree on a modification to the Agreement, which is required by statute, Executive Order, FAR or DFARS. A modification to a Master Agreement will not affect any job order issued before the effective date of the modification.

3.6.7 Resolving Inconsistencies Between Master Agreements and Job Orders. The rights and obligations of the parties to a Master Agreement will be subject to and governed by the provisions of the Master Agreement, the provisions of job orders issued under the Agreement and the drawings, designs, plans and specifications. To the extent of any inconsistency between the Agreement and a job order, including any drawings, designs, plans and specifications, the provisions of the Agreement will govern.

3.6.8 Transfer of Master Agreements. Master agreements are not transferable when a repair yard is sold or undergoes a transfer of title regardless of whether a name change occurs or not. When such a sale or change of title takes place, the Master Agreement may be canceled. If the new owner desires a Master Agreement, the new owner may make application to NAVSEA 04 via the RMC in their geographic region. Previous qualifications of a repair yard for a Master Agreement do not always indicate that the shipyard will be qualified under the new ownership, since different financial and management considerations may be present.

3.7 MULTI-SHIP MULTI-OPTION CONTRACTS.

3.7.1 Multi-Ship Multi-Option Contract. This specific cost reimbursable contract strategy is addressed in a stand-alone discussion primarily because it is a component of the evolving Fleet Maintenance Strategy and is the contractual instrument that has been approved by higher authority to meet the long-range maintenance and modernization requirements and Force surge requirements to response to Request for Procurement objectives. The goal of the MSMO contract is to provide a maintenance alternative and readily available qualified resources from the Maritime Industrial Base that can be rapidly activated to respond to Fleet surge requirements in addition to supporting scheduled availabilities and continuous maintenance objectives. The MSMO Contractor and approved subcontractors are key "team players" in improving depot level work scheduling, maintaining qualified production

skills while focusing on production efficiency through proper work loading. The MSMO Contract is coupled with the End to End Maintenance and Modernization Process for sustaining the level of readiness of the Force as directed by Commander, United States Fleet Forces Command and the Commander, Pacific Fleet.

3.7.2 Requirement. Surge maintenance requirements and the Fleet Response Plan required re-evaluation of the Fleet maintenance and modernization strategy to meet National Strategy Tasking. Evaluation of the multiple options available to obtain the services of the Nations ship repair base led to the decision that a Navy and Contractor “teaming arrangement” to meet fleet readiness goals should have significant benefits for all parties in addition to contributing to the benefits that are derived from the learning curve process while reducing the overall cost for maintaining the Force. To achieve these goals, MSMO Contracts are being awarded.

3.7.3 General Contract Structure. The MSMO Contract is typically awarded as a Cost Reimbursable, Incentive Fee (or similar) Contract, as the preferred most responsive contractual document that can be used to achieve the Fleet Response Plan surge requirements (it can also be a fixed price contract). The MSMO Contract consists of a pre-selected grouping of ships by class that is awarded, using the best value basis, to a single contractor for a base year with several year options. Additionally the contract contains Contract Line Item Numbers for numerous scheduled availabilities plus Continuous Maintenance and Emergent Maintenance on several different ships. The contract is used to obtain as a minimum: the Contractors advice on depot level work item scheduling to maximize efficiency to reduce cost, provide ship specific technical expertise, perform work item planning support, provide production support services including material management and assist in effectively work loading depot level maintenance trade skills. The MSMO Contractor, with qualifications in line with those required of a MSRA holder, teams with each ship’s Maintenance Team (MT) to provide long-term support and commitments to meet Fleet Maintenance and Modernization Strategic Plans.

3.7.4 Pre-Availability Planning. The advanced planning processes in Volume II, Part II and Volume VI, Chapter 31 of this manual detail the planning requirements in preparation for repairs and modernization when the work is to be performed using the resources available through the private sector industrial base for Chief of Naval Operations scheduled availabilities plus Continuous Maintenance Availabilities. Through the MSMO Contract the government engages the contractor to plan the work, write detailed specifications and proposals and takes advantage of the best available and appropriate level of repair capabilities. The Contractor also establishes relationships with proven vendors on a long-term basis to assist in reducing costs because the contract requires that 40 percent of the work must go to subcontractors. The Contractor prepares specifications for the work candidates that are brokered for inclusion in the work item package. The ship’s MT validates the Contractor prepared work item specification packages in relation to the Technical Analysis Report that is prepared for each work item (developed by RMC Technical Analyst) that is developed in response to the contractor’s proposal(s). The terms and conditions as agreed upon in the MT authorized work package and the scheduled performance period are solidly defined by the warranted RMC Contracting Officer who authorizes the Contractor to proceed with the repair and modernization work as approved and outlined in each work item specification.

3.7.5 Availability Oversight. After defining the work package between the government and the MSMO Contractor, the Project Manager and Contracting Officer are charged with the responsibility and authority associated with their positions to perform Contract Administration with their assigned Availability Management Team. Project Management Team representation and responsibilities are as outlined in Chapter 7 of this Volume.

3.7.6 Growth and New Work. It is the responsibility of the **Project Team**, using the Maintenance and Modernization Business Plan as the guide, to authorize the Contracting Officer to commit funds for any growth and/or new work.

- a. Growth Work is defined as any additional work that is identified after contract award or definitization that is related to a work item included in the contract award or definitization. Growth does not include pre-priced options or reservations that were specifically identified in the solicitation or defined package.
- b. New Work is defined as any additional work identified after contract award or definitization that is not related to a work item that was included in the original contract award or definitization.

3.7.6.1 Growth or New Work Proposals. The MT will evaluate the Technical Analysis Report prepared by the Technical Analyst for each work item submitted by the contractor. The Technical Analysis Report examines and evaluates the contractor’s proposal to determine the reasonableness of the contractor’s estimates and overall proposal. The Analyst examines all aspects of the proposal including labor, material and subcontractor or teaming members’ pricing.

3.7.6.2 Business Case Analysis. A cost/benefit-based evaluation may be performed by the MT to determine if growth and new work should be accomplished in an ongoing availability as required by Volume VI Chapter 31 of this manual. The Business Case Analysis performed by the MT is not a specific, formatted process but rather a deliberate, thoughtful decision process used whenever growth and new work is identified. This thought process should weigh the additional costs (premiums) against operational requirements. In some cases, it may be advantageous to complete the growth or new work during the availability; in other cases, it may make more sense to defer the work to a follow-on Continuous Maintenance period. The MT should consider all premiums associated with adding the work to the availability including the effect on the contractors' workload and the premium associated with the late addition of work.

3.7.6.3 Maintenance Figure of Merit. In addition the MT will utilize the Maintenance Figure of Merit to validate that new work most critical to mission accomplishment receives priority when allocating maintenance resources. Maintenance Figure of Merit does not apply to modernization items.

3.7.6.4 Option Items. In some cases the added work may have been covered by an option item that was included in the contract as a stand-alone work specification with a defined work scope that is not to be accomplished unless specifically invoked. Option items are used when there is uncertainty at the time of availability package lock as to whether or not specific, defined work is required. Requirements for use of option items are the same as those for Firm Fixed Price Contracts as defined in Volume VI Chapter 31 paragraph 31.5.3 of this manual.

- b. To achieve the contract objectives of obtaining satisfactory performance and full and open competition, certain basic standards in drafting specifications must be observed. They must be drafted in a clear, well-defined manner. Less than clear provisions may limit full and open competition in the acquisition process by preventing those making offers from competing on a “common” or equal basis. This occurs when those making offers interpret the specifications and arrive at different reasonable conclusions about what kind of performance they will be required to render. The result is that they submit offers reflecting different kinds of performance. In sealed bid acquisitions, bidding on an equal basis has generally been considered to require bidding documents that are so clear and precise that all bidders are offering essentially the same product or service. The outcome is that bids can be compared and selection for award made solely on the basis of price and other price-related factors. In negotiated acquisitions, which sometimes involve a balancing of technical merit and price, those making offers may submit markedly different technical proposals to meet the Government’s needs. Competition on an equal basis generally means that specifications must be sufficiently clear and complete to afford all potential bidders an equal basis to understand the Government’s basic requirements.

4.1.5 Restrictive and “Brand Name or Equal” Specifications. Specifications also must be written in an “unrestricted” manner. Specifications are “restrictive” if they include requirements that limit competition and are not necessary to ensure satisfaction of the Government’s basic needs. This kind of restrictiveness of competition may favor one contractor over another and it may also prevent the Government from getting the kind of performance which can best satisfy its needs at the most reasonable price. Where the contractor supplies ship repair materials or equipment, the work item planner should not specify the products of individual manufacturers. Instead, the work item planner should describe the technical specifications which the material or equipment must meet to obtain satisfactory performance. This will ensure free and open competition among suppliers and subcontractors and, ultimately, will result in lower costs for the Navy. If it is difficult or impossible to give suitable specifications for materials or equipment, the work item planner may stipulate that the contractor supply a specific manufacturer’s model “or equal” and state the salient characteristics that make it “equal” pursuant to reference (e).

4.2 WORK PACKAGE DEVELOPMENT.

4.2.1 Work Packages for Non-Multi-Ship Multi-Option Contracts. In writing work item specifications, the Executing Activity (EA) planner(s) may frequently include requirements from multiple Ship Work List Item Numbers (SWLIN) in a single work item. Conversely, work requirements of a single SWLIN may be included in multiple work items; however, the most common and most desirable practice is to prepare a single work item to include all work requirements of a single SWLIN. During review, the specification must be checked to ensure that each SWLIN work requirement authorized for shipyard accomplishment is contained in the Specification Package. Appendices A through D provide formats that should be used by the planner when writing specifications and assembling solicitation/work packages for projects that are not covered by the Multi-Ship Multi-Option Contract. Work items normally specify only what the contractor is to do rather than how to perform the work. There may be instances when adherence by the contractor to a specific manner of accomplishing the work will be required because of a requirement in a Navy document or manual. The procedures must be clearly defined for the performance of the work. Specifications must be written in a logical sequence of work operations (i.e., remove, disassemble, inspect, report, repair, reassemble, shop test, reinstall and ship test). Each specification shall clearly define the work requirements and be as self-contained as possible to enable the contractor to understand the requirements without having to research referenced data. Specifications must never upgrade equipment and installations to exceed the existing configuration of the ship. Furthermore, material requirements will be equal, as a minimum, to the original installation and service requirements. Appendix E provides guidance for work item planners charged with development of ship repair and modernization specifications.

4.2.2 Work Packages for Multi-Ship Multi-Option Contracts. Work Package Preparation is discussed in Volume II, Part II, Chapter 2 of this manual.

4.2.3 Naval Sea Systems Command Standard Specification Program.

- a. Under reference (f), the Standard Specification for Ship Repair and Alteration Committee (SSRAC) is responsible for the generation, revision and control of Naval Sea Systems Command (NAVSEA) Standard Items (SI) commencing with SI -009-01 and Standard Work Templates. The SSRAC meets annually to review and approve changes to NAVSEA Standard Items, Standard Work Templates, and procedures for preparation and use of work templates. Specification improvement recommendations are welcomed and shall be provided to the SSRAC.

- b. Work items shall be written consistently so that identical work activities and requirements are specified at the same time they are included in a contract specification. Consistent language throughout a contract makes it easier to understand. Through continuous use, the phrases used take on a special meaning and gain acceptance within the industry. The SSRAC develops and publishes Standard Phraseology yearly. Specification writers should become familiar with the material in Appendix E. It shall be consulted frequently to ensure Standard Phrases are used properly. Like Standard Items, Standard Phrases are published by fiscal year designation. Specification packages shall be prepared using the standards when they are issued by the SSRAC chairman regardless.

4.2.4 Standardization Usage. Once a work item specification has been prepared, as is the case with the Master Specification Catalog, to address a specific set of SWLIN requirements, it shall be used whenever the same requirements are authorized for accomplishment on another ship of the class. In most cases, an original work item has the greatest chance of resulting in a contract change. The fundamental thrust of the NAVSEA standardization program is that tried and proven contract requirements are generally superior. Standardization and consistent usage of approved standards tends to strengthen the quality of specification packages over time by improving the ship repair industry acceptance of the standards used.

4.2.5 Expanded Process Control Procedures (EPCP) for Surface Force Ships Critical Systems. Contractor work accomplished during Depot (D) level or post delivery work executed inside a CNO, Continuous Maintenance Availability or Continuous Maintenance maintenance period on Critical Systems will require the use of an EPCP as specified in reference (g).

- a. For systems outlined in reference (g), an EPCP will be developed by the Prime Contractor and approved by the local Regional Maintenance Center (RMC) Engineering Department, unless a previously approved EPCP is used.
- b. EPCP will provide the tasking to be performed and the sequence in which it will be accomplished (similar to a Controlled Work Package).
- c. Navy Objective Quality Evidence will be utilized by the contractor to document steps accomplished during the work process. Navy Objective Quality Evidence may be found in Volume V of this manual.

4.3 SPECIFICATIONS.

4.3.1 Preparation of Specification Work Items. All specification work items must conform to the same basic format and will comply with the requirements and policies established by reference (f) and amplified by Appendix E. These documents establish the organization and responsibilities for development, revision and control of standard specifications. Specification work items are written to convey the Government's requirements to the contractor. They are extremely important for several other reasons. The specifications are the heart of the contract and serve as the basis for the formation of offers by the shipyards, the baseline for the evaluation of offers and, after award, the means for binding the contractor to required performance. In judging acceptable performance, the Government is bound by the contents of the specifications when testing or inspecting the contractor's work results. The specifications serve as the basis for determining whether desired work is a change to the contract or is already required.

4.3.2 The Specification Package. The specification package may consist of applicable NAVSEA Standard Items, Standard Work Templates and unique templates, as discussed in Chapter 2 of this Volume, that are contained in the Master Specification Catalog, resident in the Navy Maintenance Database (NMD) in the Planning Module. These Items and Templates are written to standardize the requirements across the Maritime Industry to specify action that is required by the contractor to accomplish the intent of the work authorized for shipyard accomplishment. The requirements for planning products and the specification package are identified in reference (h). This directive provides detailed guidelines on turning over work package products from the Planning Activity to the Procuring Contracting Officer (PCO) for solicitation and from the PCO to the Administrative Contracting Officer after contract award.

4.3.3 Master Specification Catalog. Master Specification Catalog is discussed in Volume II, Part II, Chapter 2 of this manual. Planning Activities/Executing Activities Planning who are responsible for the preparation of work item solicitation packages shall use the Master Specification Catalog databases to the maximum extent possible when

- f. Can the Government representative who accepts the required supplies or services tell whether the contractor has complied with contract requirements (e.g., are standards for measuring performance clearly stated)?
- g. Is the specification sufficiently detailed to permit the Government and the contractor to identify manpower resources, special facilities, equipment, subcontracts and similar requirements?
- h. Is information differentiated so that background information, suggested procedures, etc. are clearly distinguishable from contractor responsibilities? (Statements that do not directly contribute to an understanding of requirements should normally be avoided since they may create ambiguities, confusion and greater costs.)
- i. Are reference documents (e.g., specifications, standards and exhibits) properly shown and cited? Are they pertinent to the task(s)? Do they fully apply or only partially?
- j. Are milestone completion or delivery dates appropriately established? If “elapsed” time is used, is it clear concerning calendar days or workdays?
- k. Are proper quantities shown?
- l. Have data requirements (e.g., technical, financial and progress reports) been properly identified for such things as frequency, content, format and place of submission?

4.5.2 Review and Editing by Someone Other Than the Writer. Once the writer has completed the preceding step, it is a good practice to have someone else who has the necessary technical qualifications or editing skills, review, edit and critique the draft specification. The technical review and editing functions may be performed by different individuals.

4.5.3 Team Review and Modification. The last step is team review and modification. In many cases this will be performed by the Ship’s Maintenance Team and other government representatives as appropriate. The completed draft may be routed for review by contracting, legal and other personnel, as appropriate, and depending in part on the complexity or government’s and contractor’s liability or risk associated with the contractor’s performance in complying with the specification. Contracting and legal personnel often identify language or other aspects of the specification they know from prior experience will cause problems. The technical content must not be adversely affected by recommended changes to the specification. The process of team review and modification may be required a number of times before all recommendations and comments are adequately resolved. Once all necessary modifications to the specification are made, it is finished and ready for insertion into the solicitation work package and for the PCO’s action.

4.6 OTHER FUNCTIONS OF THE WORK ITEM PLANNER. In addition to writing work items and preparing cost estimates for them, the planner is responsible for starting other actions for successful performance of proposed modernization and repair work.

- a. The work item planner must determine the drawings and technical instructions (e.g., manufacturers’ TMs) which will be required for preparation of the work items and for the contractor’s guidance in accomplishing the required work. The planner must initiate requisitions for these publications sufficiently far in advance of the specifications’ cut-off date to permit their use.
- b. The work item planner is responsible for determining the ship repair materials and the GFM provided as alteration materials, if any, which the Government will provide the contractor. The purpose is to initiate requisition actions for these materials sufficiently far in advance of the overhaul period to allow for their timely receipt by the contractor.
- c. After award, a work item planner (or other cognizant RMC personnel) may have to secure for the contractor certain items of GFM which, because of changes to the job order, were not set forth in the original specifications. In addition, certain items that were available from commercial channels at the time the job order specifications were prepared may not be available when the contractor actually attempts to procure them. In such cases, the material may be obtained from Navy supply channels. However, it is preferable that the contractor procures the material from the Navy on a cash sale basis rather than the RMC provide it to the contractor as GFM. In a cash sale, the contractor maintains

complete responsibility for procuring the items from the appropriate Navy supply activity. The RMCs' only function is to certify that the material is not, in fact, available to the contractor through commercial sources and that it is required for accomplishing the job order.

- d. To obtain material from the Navy Supply System, the contractor is required to submit a request to the RMC procurement personnel for requisitioning the material in accordance with reference (k). Detailed instructions for the assignment of a priority to a requisition are in reference (l).

4.7 PLANNING REVIEW. After completion by work item planners, the work items and cost estimates are assembled and reviewed by the Technical Analysis Report Analyst. The work items should be subjected to a close "technical and contract review" to ensure that:

- a. Coverage of work conforms to that authorized for the availability or project.
- b. All technical aspects of the work are itemized and conform to requirements established by NAVSEA technical instructions and other publications.
- c. All necessary drawings and instructions are referenced.
- d. Identical work (such as cleaning and painting in identical areas) is not set forth in two or more work items.
- e. Work items are definitive, clear and explicit, and conform to quality assurance requirements.
- f. Work items meet the requirements of Appendix E.
- g. The Government will provide the proper documentation to support the contractor's preparation of the proposal. The PCO will designate the method and number of drawings and specifications for distribution. Ensure that the Ship's Force and Maintenance Team is provided with a set of specifications and references as soon as possible and in no case later than the date the solicitation is issued.
- h. The planning coordinator may summarize the budget estimates for the required work on a form similar to that in Appendix C. Appendix D is used to transmit the completed work specifications when the package is prepared by a planning activity that is other than the PCO or the RMC. The Planning Department transmits the proposed package to the RMC Contract Department. Appendix F provides the Work Package Integration Conference Agenda and Checklist. This conference may be performed as the Work Package Integration Review for Multi-Ship Multi-Option Contracts.

4.8 NON-SCHEDULED AVAILABILITIES. One of the RMC's most important functions is to provide a process for performance of emergency work on Navy ships or work which cannot be delayed until the ship's next scheduled availability. This work may be accomplished during any of the availabilities listed in Volume II, Part I, Chapters 3 and 4 of this manual.

4.8.1 Special Planning Procedures. While some non-scheduled availabilities can be handled the same way as scheduled availabilities, others present severe planning problems for RMC personnel. For example, the Maintenance Team and work item planner will frequently not have an opportunity to make a planning inspection of the work on the ship but will have to prepare work items or estimated costs solely on the basis of the ship's work requests or from descriptions of the work contained in dispatches from the ship. Where it is not possible to perform an inspection of the work item, the port engineer may find it necessary to telephone the RMC technical codes and describe the work to be set forth in the work items in order to minimize planning time. At this time, the planner should also begin priority procurements, if required, for GFM and drawings. In addition, the planner should check to see if the job or similar work descriptions already exist in the technical library. Unscheduled maintenance requirements mandate the establishment of special procedures. Frequently, the first notice of a non-scheduled availability will come in the form of a telephone call from the cognizant TYCOM or Operational Commander. If time is short, the available members of the ship's Maintenance Team together with the RMC representatives and planner should obtain the following information during this call:

- a. As complete a description as possible of the nature of the difficulties.
- b. Present location of the ship.
- c. Nature and urgency of the ship's current operating commitments.

VOLUME VII
CHAPTER 5
COST ESTIMATING

REFERENCES.

- (a) DCAAM 7640.1, July 2004 Edition - DCAA Contract Audit Manual (CAM), Chapter 9-1004.2
- (b) SWT 857-01 - Temporary Galley and Messing Facilities; provide
- (c) SWT 857-011 - Temporary Off Ship Berthing Equivalent to BOQ/BEQ; provide
- (d) Standard Work Template (SWT) 077-01 - Hazardous Waste Produced on Naval Vessels; control
- (e) NAVSEA SL720-AA-MAN-030 - Navy Modernization Process Management and Operations Manual

LISTING OF APPENDICES.

- A Standard Cost Estimate
- B Estimating Check-Off List
- C Category I Standard Item Hard-Core Labor Considerations
- D Excaliber Contractor Other Direct Labor Factor Calculation (6 Month Period)

5.1 INTRODUCTION. The Federal Acquisition Regulation establishes the requirements for **proposal evaluations**. An independent Government cost estimate **is one method that can** be used in the evaluation of bids and proposals. Cost estimates form the basis for management decisions by Fleet and Naval Sea Systems Command (NAVSEA) customers in the planning, programming and budgeting of repair and modernization work, including repair work brokering decisions, and in determining the developmental costs for ship alterations. Contracting activities require cost estimates for new procurements prior to issue of a solicitation, for modifications to a contract after award, for resolution of entitled claims and to close out contracts that have been terminated.

5.2 TYPES OF ESTIMATES. There are five types of estimates that Regional Maintenance Centers (RMC) commonly produce in conjunction with ship repair and modernization contracts. These include Pre-Contract Award, Post-Contract Award, Preliminary Costs, Contract Costs, Predicted End Costs and Costs for Contract Modifications.

5.2.1 Pre- and Post-Contract Award Estimating. Pre-award estimating can be associated with either competitive or noncompetitive procurements. Estimating non-competitive procurements is less complex because the identity of the contractor is known prior to award. Estimating for competitive awards can be more complex because of the uncertainty associated with the identity of the contractor. Estimates prepared for either competitive or noncompetitive procurements will be made using the Standard Government Estimating System. In both cases, the approach to preparing the labor hours and material estimate is the same.

5.2.2 Preliminary Cost Estimate. The preliminary cost estimate is the estimate prepared in terms of labor and material quantities required, without reference to labor rates or the cost of materials. This is the estimator's fully refined estimate, normally expressed in terms of man-hours and material required to accomplish the specific work identified in the work item. Contingencies for growth and other uncertainties are not considered in the estimate. To get the contract cost estimate, labor and material costs must be incorporated into the preliminary estimate. Material rates to be applied to material quantities required should be based on current prices. The rates to be applied to the labor estimate are dependent on the competitive environment. In the case of noncompetitive procurements, the rate used is that applicable to the contractor who will do the work. In the case of competitive procurements, a composite rate must be determined.

5.2.3 Contract Cost Estimate. Prior to award of a contract, the Contracting Officer must be satisfied that the contract price is fair and reasonable. An integral part of this process is comparing and analyzing the contractor's price to an independent estimate prepared by the Government. This estimate is referred to as the Government estimate for the contract or the "Contract Cost Estimate" and is determined by adjusting the composite rate to reflect current market conditions. The Contract Cost Estimate is determined by applying the appropriate composite rate to the preliminary labor estimates and current material prices to required material quantities. The composite rate must be adjusted to reflect current market conditions as discussed above. The sum of the labor and material estimates is the Contract Cost Estimate.

5.2.4 Final Cost Estimate. The original Contract Cost Estimate is retained as a part of the contract file. After contract award, the Contract Cost Estimate is adjusted to reflect the successful contractor's current labor rates. The contracting officer will determine the current Other Direct Labor Factor (ODLF) applicable to the contractor and apply it to the contractor's current forward pricing rate to determine the labor rate to be used in establishing the Final Cost Estimate. This labor rate, in lieu of the competitive composite rate, is applied to the Preliminary Cost Estimate to calculate the Final Cost Estimate. The difference between the Final Cost Estimate and the contract award price represents the potential profit or loss of the contractor that should be maintained throughout the performance period, as stated in the Doctrine of Equitable Adjustment. A contractor that "buys-in" to a contract should not be allowed to recover the loss through excessive prices in contract modifications after award. Likewise, the Government must not attempt to reduce the contractor's potential profit by allowing insufficient consideration for changes after award.

5.2.5 Predicted-End-Cost. The Predicted-End-Cost (PEC) is the RMC's estimated cost of all ship work, which consists of several factors. PEC equals the Award Price/Base Cost plus the estimated cost of other items that are not covered by the Award Price/Base Cost. Other items can include such elements as fees, growth, new work, Government Furnished Material (GFM), messing and berthing and boat repairs, if these were not included in the Award Price/Base Cost. Advance planning funds or funds that are provided to other activities should not be included in the estimate. The PEC does not establish financial obligations on customers, but rather is the RMC's estimate of what the availability is most likely to cost. The RMC may be required to adjust the PEC when it is obvious that circumstances (i.e., buy-ins, potential for major growth/new work, etc.) exist that would inhibit the determination of a realistic PEC. These extenuating conditions shall be clearly reported, documented, assigned a dollar value and considered in the computation of a realistic PEC.

5.3 CLASSIFICATION OF COST ESTIMATES. There are five classifications of cost estimates: Class A, C, D, F and X.

5.3.1 Class A - Detailed Cost Estimate. An extensive cost estimate based on detailed engineering drawings, material lists and man-hours by required skills and trades. The level of detail addressed in a Class A estimate should be to the maximum extent feasible. It is comparable to a fixed-price offer developed by a Naval Shipyard (NSY) or a manufacturing estimate prepared in private industry. Variance is not expected to exceed 10 percent.

5.3.2 Class C - Budget Quality Estimate. Class C estimates are considered to be the best-cost estimate attainable for ship repair. It is the recommended level of estimates of cost developed by a field activity to be used in budget submissions. They are normally prepared for ship repair work prior to the start of availability. Variance is not expected to exceed 15 percent. Class C estimates are the expected level of estimation by both the Multi-Ship/Multi-Option contractor and the Government Planning and Estimating Teams supporting the Independent Government Estimate, Continuous Execution Increment Planning and Review Process, Technical Availability Repair and Definitization processes. As a result, the Multi-Ship/Multi-Option planning floor, Shipbuilding Specialists and Planning Yard Representatives shall provide Class C estimates.

5.3.3 Class D - Feasibility Estimate. Class D estimates are required prior to completion of the design or preparation of detailed specifications, reflecting the uncertainty associated with having incomplete information available for estimating purposes. It is usually exploratory in nature and is prepared to perform trade-offs and cost effectiveness analysis. Variance is not expected to exceed 20 percent.

5.3.4 Class F - "Ballpark" Estimate. Class F estimates are known as "ballpark" estimates. This is a quick cost estimate prepared in the absence of minimum design and cost information and is based on gross approximations. It is calculated by escalating previous costs to current dollars, using empirical costs for similar work and adding factors for expected changes in design, processes procedures and other economic considerations. Acceptable when higher-level estimates are not possible due to insufficient time or incomplete information. Variance is not expected to exceed 40 percent.

5.3.5 Class X - Directed or Modified Estimate. An estimate provided by other Government activities or as directed by higher levels of authority. It is generally a total cost restriction without a developed design, engineering or a detailed cost estimate. A directed estimate is also a modification of any previous cost estimate, Classes A through F, to conform to budget reductions or restrictions on cost which is not based on a change in the scope of work required.

5.4 STANDARD ESTIMATING.

5.4.1 Average Contractor. In a competitive procurement, the identity of the contractor cannot be determined until after contract award. Therefore, some assumptions must be made about the contractor in order to define the estimating environment. For estimating purposes, the planner assumes that an average contractor under average conditions will perform the work. This assumption, however, also leads to problems since it is difficult to define an “average” contractor; i.e., one that possesses average facilities, equipment, tools, work force, etc. To address this problem, United States Fleet Forces Command has directed that estimates for competitive procurements be prepared on Appendix A. This chapter, together with the “average contractor” and “average condition” assumptions, defines the framework for Standard Estimating for competitively awarded ship repair work. To ensure the validity of estimates, labor rates applied to labor estimates must be consistent. This requirement derives from the basic accounting requirement that estimating systems be consistent with applicable accounting systems.

5.4.2 Elements of Standard Estimating. Appendix A requires that estimates be prepared for only 13 labor elements and quality assurance personnel. These labor elements can be categorized as “hard-core” direct labor elements. These labor category titles, as shown in Table 5-1, are general descriptions of labor categories that would be found in any ship repair facility. The titles in the formal contractor chart of accounts will vary from contractor to contractor. However, the work performed by personnel in those labor categories is always charged as direct labor. For this reason, these labor elements are defined as “hard-core” labor elements in all discussions regarding estimating systems. In Standard Estimating, the hard-core labor elements are the only labor elements estimated by the estimator. All other labor required to perform the work being estimated is considered to be overhead labor or “other direct labor.” Neither overhead nor other direct labor is ever estimated by the estimator. These two elements, “overhead” and “other direct labor,” are accounted for by applying factors for overhead and other direct labor to the total hard-core labor estimate. See section 5.10 of this chapter for an example of the labor rate determination process.

5.4.3 Standard Estimating Example. Contractors are required to estimate work requirements using a method or system consistent with their accounting system. It has been shown through audits of contractors’ accounting systems that the hard-core labor elements identified in Appendix A are always charged as direct labor. It is also true that all contractors have other direct labor elements in the chart of accounts that must be considered in estimating work to be performed. Table 5-1 shows two sample charts of accounts for contractor direct labor. In these two samples, an asterisk notes those direct labor elements that are comparable to the Standard Estimating hard-core labor elements. The determination of which labor categories are hard-core is a matter of judgment. Any contractor labor category judged to be comparable to a labor category listed in Table 5-2 is designated as a hard-core labor element. The remaining labor categories are included in the term “other direct labor.” The factors to be applied to Government estimates are based on actual audit of contractors’ accounting systems. For example, based on past accounting data for all direct labor charges in a contractor’s accounting system, other direct labor requirements are computed as a percentage of the direct labor charges covered by the hard-core direct labor elements. Typically, a Government estimate of 100 man-hours would be comparable to 140 man-hours in the contractor’s estimating system where the other direct labor factor was computed to be 40 percent of the hard-core charges. The key to achieving equity in estimating for a particular estimating system is to determine the appropriate factors to be applied to the Government estimate. The fundamental principle of estimating in Standard Estimating is for the estimator to estimate only those direct labor elements necessary to satisfactorily complete the task requirements, such as those listed on Appendix A.

Conversely, consideration of overhead and other direct labor is accounted for by applying the proper factors for overhead and other direct labor. It would be improper to estimate the cost of supervision, scheduling, material handling, fire watches and the like when those labor elements are properly accounted for in the labor rate applied to the labor estimate.

Table 5-1

SAMPLE CONTRACTOR CHARTS OF ACCOUNTS OF DIRECT LABOR			
Contractor A		Contractor B	
*Machinist	Mechanical Engineering	*Inside Machinist	Estimating
*Shipfitter	Marine Engineering	*Outside Machinist	Purchasing
*Chipper and Burner	Program Planning	*Pipe Covering	Contract Administration
*Crane Service	Program Management	*Pipefitting	Planning
*Welder	Financial Analysis	*Sheetmetal	Temporary Services
*Carpenter	Graphic Services	*Electrical	Material Support
*Painter	Technical Illustrators	*Carpentry	Laboratory Services
*Installation and Testing	Plant Protection and Safety	*Paint	Industrial Engineer
*Pipefitting and Covering		*Laborer and Sandblaster	Progressing
*Sheetmetal Worker		*Welding	Clerical Support
*Quality Assurance		*Cleaning Services	Program Management
Material Handler		*Staging	Accident Prevention
Procurement Personnel		*Shipfitting	Production Support
Change Control		*Mold Loft	Material Receipt
Cost Estimator		*Nondestructive Testing (NDT)	Scheduling
Secretary and File Clerk		*Inspection	Production Control
Naval Architecture		Technical Support	Material
Electrical Engineering		Drafting	

*Hard-core labor elements

Table 5-2

STANDARD COST ESTIMATE FORM LABOR CATEGORIES	
Shipfitter	Pipefitter
Sheet metal	Insulation/Lagger
Welder/Burner	Carpenter/Shipwright
Inside Machinist	Electronics/Ordnance
Outside Machinist	Painter/Sandblaster
Boilermaker	Rigger/Laborer
Electrician	Quality Assurance and NDT

5.5 ESTIMATING ENVIRONMENT.

5.5.1 Environment Defined. An estimating environment is defined as the estimating system and that collection of facilities, tools, equipment, materials, labor, skills, procedures, environment and other factors that may impact on the cost of performance of the activities estimated. Knowledge of the estimating environment as a frame of reference for the estimator is one of the fundamental prerequisites for estimating. In a NSY, this requirement is met as a natural consequence of the way business is conducted, while in the RMCs the estimator may be estimating for work that will be awarded competitively to a contractor whose identity is not known. Where contracts are sole-sourced, the estimator does have the opportunity to adjust the estimating to match the contractor's estimating environment.

5.5.2 Cost Accounting Standards. Most contractors will prepare cost estimates using an estimating system consistent with the contractor's accounting system. For large commercial contractors subject to the Cost Accounting Standards (CAS), the contractor is required under reference (a) to use an estimating system consistent with the methods used for recording or accounting for costs and to submit a formal CAS Board Disclosure Statement showing the chart of accounts used for all direct and indirect costs and the methods used to account for those costs.

- a. Small contractors and those not subject to CAS are required to use an accounting system which meets generally acceptable accounting standards. The Defense Contract Audit Agency (DCAA) periodically audits contractor's records to determine that the actual practices of estimating costs are consistent with the accounting system.
- b. Contractor estimates are generally consistent with the contractor's accounting system. In the case of businesses where the company owns two or more contractors, the estimating systems used in all contractors are similar since all use the same accounting system. The charts of accounts used to identify direct and indirect cost centers and accounting practices are essentially the same at all of the company's contractors. However, estimates from one of the contractors may not be valid in any of the other company contractors, since estimating is a function of more than the accounting system. For example, estimating is also a function of facilities, tools and equipment available to the work force for performance. If one contractor uses a state-of-the-art end-prep machine to machine piping joints for welding and another uses a hand grinding tool, the estimates of labor hours required may vary by as much as 400 percent for the exact same scope of work. Likewise, the use of precise numerically controlled machine tools is more efficient than the use of manually operated machine tools. Generally speaking, the use of new, modern facilities improves performance when compared to performance in older, obsolete facilities. In a contractor's accounting system, however, the cost of new, modern facilities and state-of-the-art machinery and tooling will increase the indirect cost factors used to determine the billing rate applied to direct labor hours. No two contractors have the same collection of facilities, tools or equipments available for performance and, therefore, there may be differences in estimates among contractors owned by the same company.

5.5.3 Other Factors Affecting the Contractors' Estimating Environment. Contractor estimating is a function of the labor skills available, the experience of the work force and the workload. Highly skilled employees can perform more efficiently than unskilled employees, but at a higher wage rate. A contractor work force experienced in overhaul of a particular ship class benefits from the learning experience and can perform more efficiently on subsequent ships of the same class. Other considerations, such as the ship repair market and level of work backlog, also play an extremely important role in estimating for competitive procurements. For example, market conditions may dictate a contractor estimate that can be significantly at variance with the estimate of actual costs. If the market is saturated, that is all contractors are at capacity or are operating with a significant backlog of work, the contractor does not need additional work. The addition of more work under these conditions may be very disruptive to ongoing work and the disruptive effects would have to be considered in estimating the costs of more work. Under these conditions, contractors may also seek higher profits to compensate for the added disruption. Therefore, any precise estimate of total costs based on work scope and labor rates would be overridden by an increase to account for the market being at, or in excess of, capacity. Conversely, when there is not enough work to keep all contractors busy, the marketplace becomes more competitive. Under this condition, contractor management will normally undercut well-conceived estimates in order to remain competitive. A basic principle of estimating is that an estimate prepared for any one contractor will not be valid for any other contractor. The estimator must know the estimating environment that is used and estimates must be prepared to reflect the total environment of where the work is to be performed.

5.5.4 Regional Maintenance Center Estimating Instructions. For each contractor actively performing a Master Agreement Job Order, the Administrative Contracting Officer (ACO) will identify to RMC estimators the set of direct labor categories to be estimated. No other estimates for labor will be provided. Indirect labor costs (overhead) and all other direct labor required for performance will be accounted for in the labor rate to be applied. The ACO/Procuring Contracting Officer (PCO) will determine through understandings with contractors, and as audited by DCAA, the appropriate rates and factors to be applied to ensure that Government estimates and rates are consistent with the contractor's accounting and estimating system. To the maximum extent possible, RMC estimates will be prepared using Appendix A. Where changes in the labor categories to be estimated are required, the ACO will provide written direction as to the changes to be made. Once the changes are made, all estimates for changes with that contractor will be made using the modified Appendix A. No other direct labor will be estimated. In all cases, independent Government estimates for changes will be prepared by consistently estimating direct labor only for the direct labor categories identified by the ACO/PCO. All other labor required for performance will be accounted for as a subcontracted effort or in the labor rate overhead applied to the direct labor cost estimate. Individual estimators are not authorized to change the labor categories on the Cost Estimate Sheet except as directed by the ACO/PCO.

- a. For those contractors who do not establish an understanding with the ACO about the contractor's estimating system, the ACO will establish appropriate rates and factors for use in Standard Estimating. If time and resources are available, this can be achieved by RMC examinations of the contractor's chart of accounts to identify hard-core and other direct labor categories, and then requesting audit by DCAA to establish the other direct labor factor as addressed earlier and in reference (a).
- b. If audit resources are not readily available, the ACO will establish in advance, from the contractor's chart of accounts, a listing of all hard-core and other direct labor categories as defined earlier. The ACO may request the contractor to prepare accounting records detailing the actual man hour expenditures in specific direct and other direct labor categories to support DCAA audits. Accounting records may be requested for periods not less than the preceding six months nor greater than the preceding three years. From this data, DCAA will compute and recommend to the ACO an appropriate ODLF. Labor rates used for pricing changes must be consistent with the factors determined.
- c. The contractor's estimating system must provide for reaching work scope understandings with the RMC when required. The parties must have a common understanding of the work requirements in order that the contractor's estimates and subsequent analysis by RMC will be made on the same basis. That portion of the estimating system dealing with the definition of work scope should cover the disposition of material made obsolete or excess as the result of the change.
- d. The understanding to be reached with the contractor must include provisions for the contractor to submit proposed revisions to procedures and practices which involve an understanding previously reached, in order that they may be evaluated and a new understanding reached. Periodic reviews will be made by the ACO and the audit office to see that the contractor's written procedures and practices are current.
- e. Any deviation from the estimating system must be clearly supported. Any estimate based on standards is designed to give reasonable figures on the average. To argue in any given case that a standard results in too many or too few man hours will probably open up arguments on other standards or other cases. There is one important exception to the need for consistency; if actual costs, hours, overhead, etc. are known, they must be used.
- f. The contractor's estimating system should provide for periodic adjustments in the labor and overhead rates to be applied in establishing estimated costs. The system should also provide a means for the contractor and the ACO to reach an understanding on the rates to be applied for work performed or to be performed during specified periods. Such rate understandings and the consistent use of the rates by the contractor in preparing change proposals will expedite proposal evaluations and negotiations.
- g. In establishing rates, factors and percentages to be used in estimating systems, it is essential to remember that the mix of overhead and direct labor skills will change with different kinds of work. Contractors that perform a variety of work for the Navy may require that multiple rates, factors and

percentages be prepared for each type of work performed by the contractor. For example, a contractor that builds and repairs ships would require different rates, factors and percentages for construction, repair and for each type of ship (e.g., submarines, aircraft carriers or surface force ships).

- h. In achieving understandings with contractors, the ACO must consider that many contractors will not have established estimating systems, nor can small businesses be required to establish formal estimating systems. Therefore, the ACO will be required to provide guidance and suggestions to the contractor to establish a mutually agreeable and beneficial system for both parties.
- i. Estimates developed on the basis of judgment without any analytical support must be reconciled with historical costs. Therefore, contractors should be encouraged to develop procedures for comparing estimates to the cost of performance as a basis for assessing the accuracy and reliability of their estimating practices.
- j. For pricing actions exceeding \$700,000, the Federal Acquisition Regulation requires that the contractor certify that his or her proposal is current, accurate and complete. If a contractor's estimating system, procedures and practices are inadequate, the proposal will be considered unacceptable. The ACO will require the contractor to correct the unsatisfactory elements or performance prior to completing the work package negotiations. For pricing actions less than \$700,000, the ACO should require that the contractor correct the unsatisfactory performance and revise the estimating system in order to resolve the problems prior to completing work package negotiations.
- k. The RMC estimator is responsible for the preparation of the following cost estimates, either concurrently with or subsequent to the preparation of the work item;
 - (1) Direct labor hours.
 - (2) Direct labor overtime hours.
 - (3) Direct material cost, including subcontracts which the prime contractor will have to procure. Subcontractor costs will not be estimated for competitive procurements except where a directed subcontractor is specified in the work item.

5.6 COST ESTIMATING METHODS, STANDARDIZATION AND STANDARDS.

5.6.1 Variables. A number of estimating methods and techniques have evolved which are applicable only under particular conditions. Cost estimates must take into consideration the current estimating environment, market conditions, weather, and any other factors that influence the labor hours and material costs associated with a cost estimate. In preparing detailed cost estimates for work activities, the estimator shall always use the best information available. Where standards are available and applicable, they shall be used. Where the estimator lacks experience or knowledge of the work being estimated, it is essential that other sources of information be examined. These sources include the following:

- a. Master Specification Catalog.
- b. Other estimators who have longer service or experience.
- c. Engineered labor standards prepared by naval or private contractors.
- d. Material catalogs from industry vendors.
- e. Contract files for similar work packages.
- f. Personal records made from past jobs or negotiations.
- g. Other Government agencies that have performed similar work.
- h. Personal observations made during job execution.
- i. "Rules of Thumb".
- j. Historical data.

5.6.2 Standardization of Cost Estimates. Original work items customized by a planner frequently result in contract changes. For this reason, planners should utilize the proven Standard Work Templates (SWT) found in the Navy Maintenance Database (NMD)/Master Specification Catalog whenever possible. Standardization of work items is coordinated by the **Standard** Specification for Ship Repair and Alteration Committee described in reference (b). The planner shall use an applicable Class Standard Work Template if possible to prepare a work item addressing an authorized Ship Work **List** Item **Number** (SWLIN). If an applicable Class Standard Work Template is unavailable, an applicable SWT should be tailored to the SWLIN item requirements. If an SWT is unavailable, a Local Work Template (LWT) should be tailored to the SWLIN requirements. As a last resort, the planner should develop an original work item, using current standard phraseology and applicable Category II NAVSEA Standard Items (SI). Estimates should be standardized to the maximum extent possible. When estimating work items to be used in a competitive environment, previous estimates used for the same item should be modified only after a careful justification and then only to reflect changes in scope or changes in the estimating system. When a previously used work item is tailored to meet a new SWLIN item requirement, the previously used estimated should also be tailored to meet the new requirements.

5.6.2.1 Estimating Standards. Estimating standards are established by relating labor and material costs to specific characteristics of products or services delivered. The use of estimating standards is designed to save time in estimating and is particularly effective in estimating the costs of recurring work. Estimating standards are used to estimate the cost of a single material item required for the work in question or the cost of a single labor operation, (e.g., welding rods per ton of steel, labor hours per linear foot of weld, gallons of paint per square feet or surface area, etc.). More complex estimating standards may also be used to estimate the costs of groups of materials or components or broader classes of labor operations. Estimating standards used must be consistent with the estimating system used to develop estimates. Standards derived from industry-wide statistics are generally applicable industry-wide. Standards that include contractor-specific procedures are applicable only in that contractor's estimating system. The use of such standards is limited to the environment where the standard was developed. When estimating for changes where the contractor is known, any approved engineering standards applicable at the contractor's plant should be used by both the contractor and the Government in developing estimates for the work. Large numbers of Engineered Standards and other standards have been developed by both naval and private contractors. Many of these standards contain basic charts and tables that depict labor and material allowances for various work elements. These allowances are then modified by unique factors to reflect skill levels of workers, facilities and tools available, etc. Some of these standards can be adapted for use in any contractor's facility, provided appropriate factors are used to modify the standard allowances.

5.6.2.2 Naval Shipyard Labor Standards. Standards applicable to all NSYs are categorized as Uniform Engineered Methods and Standards, while yard-specific standards are categorized as Engineered Methods and Standards. Estimating standards must be changed whenever any prime element affecting the standard changes. Engineered Standards are developed using industrial engineering techniques to estimate a repetitive item of work in a stable environment. Development of such standards involves such things as time and motion studies, application of fatigue and lost time factors, etc. The prerequisites for an engineered standard are:

- a. Specific method.
- b. Actual time for accomplishing the task or operation must be observed and recorded.
- c. Performance of the individual(s) is leveled by a performance rating technique applicable to the contractor.
- d. Allowances for personal needs and any special circumstances must be identified.

5.6.3 Detailed Estimating Techniques. Inherent in the concept of detailed estimating is a requirement that the estimator know how the work being estimated is to be accomplished. The "how" of work accomplishment is always unique at any contractor and it may also vary with time, workload and other considerations. The method of accomplishing the work must be consistent with the applicable estimating system. Detailed estimating requires that an estimate for hard-core labor and material for each activity of work required be developed and summed to obtain the total hard-core item estimate. This type of estimate can be referred to as a detailed estimate because the work required is broken down into as many detailed activities as needed to facilitate the estimating. A detailed estimate is built from the bottom up, starting with the lowest element of work required and building on it until the total job is estimated. The greater the level of detail, the greater the refinement is possible.

necessary to suit particular situations. Using the check-off list will prevent inadvertent omissions of incidental support requirements for the major activities of work required, (e.g., assist trades, rigging, staging, temporary lighting and ventilation).

- c. In developing the estimate activity list, examine each major activity in the repair sequence, shown in Table 5-3, to determine whether or not a further breakdown is needed and to identify the sublevel activities. Each of the new activities identified may also require further breakdown until the level of activities is detailed enough to develop a reasonable estimate.
- d. Once all of the activities to be estimated have been identified, the estimator has to assign labor-hours for each trade and support craft needed to accomplish each activity. The cost of material to support required work is also estimated for each activity. The work item estimate is the sum of all labor-hours and material cost estimates. Work item estimates of labor are normally expressed in terms of man-days rather than man-hours (one man-day being equal to eight man-hours). Labor estimates for contract modification are normally expressed in man-hours vice man-days.

Table 5-3

TYPICAL REPAIR SEQUENCES				
WORK ACTIVITY	SEQUENCES			
	A	B	C	D
1	REMOVE	OPEN	PREP AREA	RIP OUT
2	DISASSEMBLE	INSPECT	MASK	FOUNDATION
3	INSPECT	REPAIR	PAINT	LAND EQUIP
4	REPAIR	CLOSE	CLEAN	HOOK UP
5	TEST	TEST	TOUCH-UP	COLD CHECK
6	REINSTALL		CLOSE OUT	HOT CHECK
7	TEST			TEST

5.7.3 Quantification of the Labor Estimate.

- a. Most work activities are estimated on the basis of the estimator’s judgment and experience. Even in the absence of experience, the estimator can still assign reasonable estimates based on good judgment and knowledge of the work being estimated. By mentally going through each step of the work required, the estimator can assign a labor estimate based on judgment of the time required to accomplish each step of the work process. Such detailed estimating can parallel the industrial engineering methods used to develop estimating standards for repetitive type work. Industrial engineering standards are the result of comprehensive time and motion studies of a work process. The time required to perform each operation is measured repetitively. Through analysis, a standard is developed for each step, allowances are made for distractions and rest periods and a standard allowance is made by summing the standard for each step plus other applicable allowances. In mentally paralleling this process, the estimator is providing the time for each step or motion required. The estimates for each step are summed and additional allowances are added for distractions, rest periods and other possible considerations. The other considerations include such items as the following:
 - (1) Location of Work: Estimates for a work operation should be greater when the operation is performed in a congested area. For example, repairs to a water fountain in a congested machinery space with other work in progress would be more time-consuming than the same repairs to a similar water fountain located on the mess decks, in the absence of other work. Work operations of any kind are more time-consuming when performed in conjunction with other work (mutual interference) or when performed in a cramped or congested area.

Likewise, estimates should be escalated for work performed in a hostile environment such as in tanks or voids, in poorly ventilated spaces, in hot or cold spaces, in contaminated atmospheres, etc.

- (2) Ship's Force Work: When work is being performed on the same equipment or system by both the contractor work force and the Ship's Force, there is normally an added degree of mutual interference to be considered. Even when the two work forces are not in the same space, the mutual interference may lead to inefficiencies that should be considered in estimating the contractor work.
- (3) Prevailing Weather: When the geographic area for an assigned availability is known, the geographic weather pattern should be considered. Likewise, if the time of year is known, the seasonal weather should be considered. For example, it is normally more costly to blast and paint the underwater body of a ship hull in below freezing weather than in milder weather. Similarly, the weather may also impact paint curing times and other time factors considered.
- (4) Ship's Material Condition: Estimating Standards, historical estimates, "Rules of Thumb" and other estimating tools available for use are generally applicable under "average" conditions. Estimates for many work operations should be factored to reflect the material condition of the ship. If the ship is in average condition the standards need not be factored. If the ship is new, then the standards should be reduced to reflect the better than average material condition. If the ship is in very poor material condition the estimate should be increased. Not all work operations are affected by the ship's general material condition; however, many are, such as surface preparations, painting, insulation and lagging, structural repairs, etc.
- (5) Category I Standard Items: The NAVSEA Category I SIs are invoked in work packages in accordance with the guidance provided by the **Standard Specification for Ship Repair and Alteration Committee**. When invoked in a job order, the provisions of the Category I SI apply for the duration of the availability without further reference. The estimator must know which Category I SI is applicable for the work and what the direct, hard-core labor cost impact of each SI is on the work required. Each time the provisions of the Category I SI are applicable in a work item, an allowance should be made to accomplish the hard-core labor requirements of the SI. An SI will be invoked if any work in the areas addressed in the SI is likely in the work package. Not all Category I SIs will have a direct hard-core labor cost impact. Those that do are discussed briefly in the following sections.
 - (a) SI 009-04: Quality System; provide. Invoked for all significant availabilities. This item requires the contractor to develop and use an inspection system acceptable to the Government. The contractor must develop an inspection plan for each item and record inspection results. This plan must provide for a corrective action program to correct defective or non-conforming work, maintain a calibration system for test equipment, control non-conforming material, conduct periodic quality reviews and provide notification to the Government for each CHECKPOINT. When this SI is invoked, nearly every work item should have approximately 10 percent of the effort allocated to Quality Assurance and NDT.
 - (b) SI 009-07: Fire Prevention and Housekeeping; accomplish. Invoked for all manned vessels, unless the Type Commander (TYCOM) requests SI 009-35. This item requires the contractor to provide acetylene or gas supply manifold systems off the ship with shutoff valves to gas supply on the pier. This requirement should be considered in each instance of gas use. When SI 009-07 is invoked, approximately 25 percent of the hot work effort should be allocated for estimating fire watch requirements.
 - (c) SI 009-10: Shipboard Asbestos-Containing Material; control. Invoked when any machinery, piping and compartment insulation and lagging may be removed. Under this item, the contractor is required to provide a process control procedure for the control of asbestos-based insulation and lagging materials. All insulation and lagging

materials are assumed to be asbestos-based until shown to be otherwise. Work accomplished must conform to Occupational Safety and Health Act requirements regarding insulation removals, work zones, protective equipment and clothing, and disposal of insulation. Compliance with these requirements is a labor-intensive operation that must be considered for each time and place the work is required. When SI 009-10 is invoked, approximately 33 percent should be added to the insulating and lagging estimate of the work item.

- (d) SI 009-24: Isolation, Blanking and Tagging Requirements; accomplish. Invoked when equipment, systems, piping or circuits require isolating, blanking and tagging for safety or cleanliness and to prevent operation of a system or equipment while work is being accomplished. Under the requirements of this item, the contractor is required to comply with the Ship's Force system for isolation, blanking and tagging of equipment or systems in the performance of required work. The contractor has to notify Ship's Force in each instance of starting or completing work and a contractor representative must sign the ship's tag out log. Further, the contractor has to provide, install and remove blanks on piping, valves, equipment and components that are isolated or removed during performance. Items removed must be tagged with metal tags. Electrical cables disconnected must be insulated and taped. Each of these requirements requires hard-core labor for accomplishment and must be considered as part of the work activity even though not specifically spelled out in the work item (2-Kilo). When invoked, approximately 5 percent of the trade hours should be added to the estimate to cover the requirements of SI 009-24.
- (e) SI 009-61: Shipboard Use of Fluorocarbons; control. Invoked for all specifications. Under this item, the contractor is required to develop and use a process control procedure to govern control of shipboard use of fluorocarbons. The contractor must notify the Government in each instance of use of fluorocarbons and must provide ventilation and telephonic communications for transfer operations, suspend hot work in spaces affected by atmospheric fluorocarbons, use at least two people for quantities in excess of 10 pounds and vent gases to ship exterior atmosphere. These requirements must be considered in all estimates involving the use of fluorocarbons. Approximately 20 percent should be added to the estimate to cover the requirements of SI 009-61.
- (f) SI 009-65: Polychlorinated Biphenyls (PCB); control. Invoked for all specifications. Under this item, the contractor is required to develop and use a process control procedure for control, clean up and disposal of PCBs. The contractor must inspect each equipment or component containing PCBs and make a report. These requirements must be considered in any work estimate where PCBs are involved.
- (g) SI 009-73: Shipboard Electrical/Electronic/Fiber Optic Cable; remove, relocate, repair and install. Invoked for all specifications requiring electrical work. Under this item, the contractor is required to remove completely all electrical cables no longer necessary due to work required in the job order. Work required includes blanking bulkhead and deck penetrations, removal of unused hangers and installation of new banding for remaining cables. Relocation of existing cables and installation of new cables requires banding, installation of hangers, deck and bulkhead penetrations and connection of cable leads to components or equipment. These requirements must be included as work activities in all work on shipboard electrical cables.
- (h) SI 009-106: Work Authorization and Control Process; accomplish. Invoked for all specifications. This requires the contractor to comply with Volume IV, Chapter 10 of this manual regarding work authorization. Specifically, the contractor is required to submit a Work Authorization Form to the designated representative of the ship's Commanding Officer for authorization to start work on each Work Item in the Job Order. This is considered an overhead/indirect charge so no direct labor charges are included in any estimates.

- b. References (b), (c) and (d) also can have significant labor impact. Appendix C is provided as a check-off list to assist the estimator in properly considering the impact of Category I Standard Items. Each of these SIs must be fully understood before an estimator can properly allow for the cost impact in performance of the work required. Those items characterized as “labor intensive” must have detailed estimates prepared to reflect the scope of work required. The scope of work will vary significantly from job to job.

5.7.4 Material Estimating.

- a. The material estimate usually receives the least attention of all the estimates provided. This may not significantly affect a small job, but the accumulation of small errors on a large package can affect the total estimate considerably. When estimating material costs, the following shall be considered:
 - (1) The kinds and quantity of each material required to accomplish the work.
 - (2) Whether the materials are procurable or will be manufactured.
 - (3) The “lead time” for procuring the material.
 - (4) Is the material commercially available?
 - (5) The current or future price for the material.
- b. The estimator is not expected to be as familiar with the material pricing as a purchasing agent, but should be familiar with the market, should know what is scarce and what is not available from commercial sources and should keep up with current prices and availability. The estimator should also use drawing material lists, equipment technical manuals and Allowance Parts Lists to determine material requirements. Cost estimates are then based upon records of previous recent purchases, current Government and vendor catalogs and consultation with Government and commercial sources.

5.7.4.1 Contractor vs. Government Furnished Material. In estimating material costs, no distinction is made between CFM and GFM. All material will be priced the same way using either Government or commercial prices, whichever is most readily available and appropriate. Generally speaking, because the Government purchases supplies in large lot quantities, the cost to the Government will be less than it would be to a private contractor making single item or small lot purchases. For this reason, Government prices should not be used when estimating costs for CFM in a work item, however, because the allowable variance in Class F estimates is 40 percent, it is permissible to use either commercial or Government material prices for Class F material estimates. This estimate should not include the cost of material to be provided as Special Program Material or Centrally Procured Material in support of the Navy Modernization Process (NMP). Likewise, the cost of repairable items under special turn-around programs should not be included in the work package. In developing estimates for work items, a decision about CFM vs. GFM must be made before the estimate can be finalized. CFM estimates are provided on the reverse side of Appendix A. It is general Department of Defense policy that contractors provide all material necessary for performance. That means simply that all material should be CFM except where it is in the best interest of the Government to provide material as GFM. Exceptions to the CFM policy include:

- a. Items in long supply in the Navy Supply System (i.e., items stocked far in excess of expected item demand) should be provided as GFM since it would be wasteful to require contractors to buy such materials.
- b. Items with a set shelf life that will expire before normal draw down in the supply system should be issued as GFM if such usage remains within the shelf life requirements.
- c. Long Lead Time Material should be provided as GFM. In Government procurements, items that are not commercially available within the time period after contract award and the time the contractor needs the material for production should be considered as Long Lead Time Material.
- d. Standardization material should be provided as GFM. This material is the Special Program Material and the Centrally Procured Material purchased in support of the NMP.
- e. Material requiring Provisioning Technical Data should be provided as GFM. Normally, repair material does not require Provisioning Technical Data because it is already stocked in the supply system.

- f. Material items to be changed out under special turnaround or repairable programs should be provided as GFM.
- g. Material for contractor work performed outside of the U.S. Overseas contractors may not have ready access to materials meeting Navy specifications and are often procured as GFM.

5.7.4.2 Sources of Pricing Information. The most important source of pricing information for ship repair material is the Navy price list for stocked supplies and repair parts. This pricing information, when used in estimating, is adequate for pricing material requirements. Navy stock prices should not be used for estimating the cost of CFM in work items because the cost to industry for the same repair parts and supplies can be considerably higher. When the use of Navy pricing information is not appropriate or when the required pricing information is not available, the best source of current pricing information is the manufacturer or dealer who is in the business of distributing the materials or parts needed. Every estimator should maintain a listing of vendors, manufacturers, distributors, etc., that can be consulted to obtain current pricing information. Where available, catalogs of pricing data should be ordered and maintained in a central repository for reference by all estimators who may require the pricing information. Each RMC should maintain a library of current material pricing data for materials frequently required in typical ship repair activities estimated by the RMC.

5.8 ESTIMATING FOR CONTRACT MODIFICATIONS.

5.8.1 Contractor Modifications. For contract modifications, including Master Agreement Job Order modifications and for noncompetitive procurements, estimates must include allowances for known conditions in the estimating environment. The scope of the modification estimate must include consideration of additions and deletions required by the change, the impact on completed work by the change and the current status of materials made obsolete by the change. The cost estimate must consider the means of performing the work, the completion date and other factors impacting on performance such as delay, disruption or acceleration. These cost elements must be identified, quantified and included in any cost estimate. In considering the means of performance, due consideration must be given to the contractor's normal operating procedures. The estimate should be prepared based on the methods, procedures, facilities, equipment and employees available to the contractor. In such a sole source environment, it is unfair to the contractor to negotiate changes on any basis other than those that impact on the costs of performance by the contractor. Estimates for changes must be prepared based on the way the contractor would perform the work, considering current workload as well as contractor inefficiencies and disruptions that may result from the change. The estimate must also consider the timing of the work to be done. Change work authorized early in availability is less costly than change work authorized later. For example, work in a propulsion space, authorized three weeks prior to a Light Off-Examination by the **Afloat Training Group** could easily be three to four times the cost of the same scope of work authorized a week or two after the start of an availability.

5.8.2 Acceleration. Acceleration should be considered in developing estimates for contract modifications that increase the scope of work. Simply defined, acceleration is a speeding up of the work in an attempt to complete performance earlier than otherwise anticipated. Acceleration consists of such items as increased manning, added shift work, overtime, rescheduling of work force, new hires, new subcontracting, etc. Acceleration, when required, must be considered in any estimate for changed work in a job order. Acceleration costs will nearly always be incurred when significant growth or new work is added to a work package that is to be completed in the original contract performance period. A contract is also "accelerated" if the original performance period is decreased without an accompanying decrease in the scope of work. When acceleration is required, it must be identified in the contract modification (scope of work) and estimated as any other work element is estimated.

5.8.3 Disruption. Disruption costs should also be considered in developing cost estimates for contract modifications. It is the cost of the man-hours, materials and other costs that are expended to offset inefficiencies experienced as a result of Government-caused or contractor-caused changes or other departures from the original schedule that includes the effect of changed work on unchanged work. It is also the process by which the above inefficiencies in the performance of contract work are created. Disruption, when it can be identified, must be quantified and accounted for in any contract modification estimate prepared. As with most estimating, quantifying disruption is an inexact process and there are few official guidelines to draw on for assistance. The real requirements to be kept in mind are that it must be considered in determining the scope of work and, if present, the contractor must be compensated for disruption attributable to the change. Disruption attributable to the contractor's past performance, without regard for the change, must not be considered.

5.8.4 Delay. When a contract change affects the completion of the contract, a contractor may request additional compensation for this “delay”. Delay can also be an element of the contractor’s cost estimate when other Government action or inaction causes a delay to the contractor’s efforts. Delay is defined as that period of time a contractor is required to perform beyond the planned delivery or completion date, due to contractually remediable Government action or inaction (e.g., changes, stop work orders, suspension or late or defective GFM). Delay must also be considered whenever any time-oriented event affects the length of or causes a suspension in scheduled contract work. As with any other cost element, if present, it must be identified, quantified and accounted for in any estimate provided. Delay attributable solely to the contractor’s execution of the job order is not considered in any estimate for a contract modification.

5.9 SHIP CHANGE ESTIMATES.

5.9.1 Navy Modernization Process. Reference (e) defines policies and procedures and assigns responsibilities for the establishment and revision of man-day estimates, man-day cost estimates and material cost estimates for Ship Change (SC) installations. Realistic estimates of required man-days and correct application of man-day rates are important in programming and budgeting for the NMP. Additionally, capturing post-availability return costs for SCs, particularly when available in terms of both labor hours and material costs (as in the case of Cost Reimbursable contracts), provide a valuable resource to NMP managers in refining cost estimates for future installations.

5.9.2 Classification of Ship Change Estimates. SC estimates are usually prepared at either the Class F or Class C level. When Class C estimates have been previously prepared for a specific SC, that estimate, or the historical average of the estimate, should be used as the estimate for that work when it is authorized in future SCs. Recall that Class F estimates are “ballpark” estimates prepared in the absence of detailed design or engineering data, repair instructions and detailed material requirements. Before preparing such an estimate, all other sources of estimating data shall first be exhausted.

5.9.3 Sources of Ship Change Estimating Data. The preferred way to estimate a SC is to use the historical estimate for that item if it has been previously estimated. Generally, historical estimates are preferred over actual return costs. In both cases, differences in ship conditions (e.g., docking vs. non-docking availability) and the nature and location of other repair and modernization work performed on the ship during a given availability can significantly influence the return costs of the work performed. Selection of the best estimate source is a matter of good judgment based on the pertinent facts. If historical estimates or return costs are not available, the next preferred approach is to examine the estimates or return costs for similar work. By making adjustments to account for the differences in the actual work required, those estimates can be used as the basis for a new estimate.

5.9.4 Ship Change Estimating Techniques. When historical estimates or return costs are not available for use in SC documents, a Class F or Class C estimate must be prepared based on the SC work scope descriptions and estimating data available. All of the techniques available for estimating repair work items are also applicable in developing SC estimates. The basic difference between developing a SC estimate and an estimate for a repair work item is that repair work generally has more detailed information available in the work statement. In estimating a SC, the work scope statement is often a relatively simple direction to install in accordance with drawings. Particularly in the case of a first-time SC, the challenge for the estimator comes from a detailed review of what is required to accomplish the requirements of the SC drawings and any associated technical manuals and bills of material. The approach to estimating and the techniques used should still closely parallel those that would be used to estimate repair work. The work scope should be broken down into logical elements that can be estimated readily. The estimates for each element are then added together to obtain the total estimate.

5.9.5 Prorated Cost Estimates.

- a. In the preparation of total availability budgets and cost projections, as well as preliminary and final review estimates for SCs, it is necessary to identify each funding activity’s (e.g., TYCOM and NAVSEA) share of the prorable costs associated with the availability. Proration costs will vary between availabilities depending upon the relative magnitude of the work package under each customer funding account. Only those general type services that apply to more than one customer and are performed during an availability are prorable, (e.g., temporary services, crane services, docking services, guarantee engineer, etc.). Services that are performed in support of a specific job are not prorable. As an example, consider an access cut for removals in a machinery space where both repairs and alterations require removals. In this case, the cost of the access should be prorated. In the case of an access cut solely to support repair work, the cost of the access cut is not prorable and the

cost would be borne by the TYCOM. Labor elements and other direct costs not estimated in the Government estimating system should not be considered in the cost to be prorated. These elements are accounted for in the Overhead (OH) or Other Direct Labor (ODL) categories of the labor rate used for the cost estimate. These costs include such items as the costs associated with scheduling, material handling, fire watches, etc.

- b. In general, the actual Direct Labor (DL) hours charged to the Government and attributable to a benefiting customer should be used as the basis to prorate service costs. In those cases where these costs are not available, it is appropriate to use the estimated labor hours to be funded by a benefiting customer as the proration basis.

5.10 LABOR RATE ESTIMATING.

5.10.1 Projections. Each fiscal year within the Department of Defense Planning, Programming and Budgeting System, the Navy is required to submit proposed changes to the Future Year Defense Plan that represent the proposed pricing of approved programs. This process forms the basis for the Navy budget. Each year in support of this budget request, NAVSEA will issue a call to the RMCs for projections of private contractor labor rates for the current fiscal year and five future fiscal years. The TYCOMs and NAVSEA Project Managers use this data in developing maintenance budgets. The following discussion related to labor rates addresses the importance and variability of labor rates used in estimating for ship repair:

5.10.2 Labor Rates. The term “labor rate(s)” is not used to denote just wage rates, but all costs except material (and profit, in the case of private contractors).

5.10.2.1 Private Contractor Labor Rates. Reference (e) directs RMC Contracting Officers to identify labor rates for the current fiscal year and to project labor rates for the next five future fiscal years for each active ship repair contractor. NAVSEA publicizes this information for use by Office of the Chief of Naval Operations sponsors, NMP sponsors, Fleet Maintenance Officers, TYCOMs, RMCs, Supervisors of Shipbuilding, Conversion and Repair, United States Navy (SUPSHIP) and Ship Availability Planning and Engineering Center planning activities. The information should be used in advance planning work definition and authorization, in pricing of solicitation work packages and in budgeting for pricing of approved maintenance projects.

5.10.2.2 Other Direct Labor Factor. ODLF is that factor which accounts for all direct labor charged by the contractor that is not identified and accounted for on Appendix A. A sample calculation is described in paragraph 5.10.2.4 of this chapter.

5.10.2.3 Labor Rate Determination.

- a. In determining private contractor labor rates, the RMCs and SUPSHIPS obtain accounting data from DCAA and each contractor. This data is analyzed to compute the ODLF required to make estimates prepared in the Standard Government Estimating System comparable to estimates prepared in the contractor’s estimating system. The ODLF will range from 10 percent to as much as 80 percent or more, with the average being between 30 percent and 40 percent. What this means is that for the same scope of work, the Government estimate will always be less than the contractor’s estimate because the contractor’s estimate will contain labor hours for the ODL categories that are not estimated in the Standard Government Estimating System. To account for the differences in the estimating systems, two approaches can be taken. The Government man-hour estimate can be inflated by the ODLF and be used with the contractor’s current forward pricing labor rate or the contractor’s labor rate can be inflated by the ODLF to obtain a new labor rate which is used with the Government man hour estimate to obtain costs. For budgeting purposes, the latter course of action is directed by NAVSEA. This method of equating the estimating systems is also recommended for other Government estimating. In any case, it is inequitable to apply the contractor’s labor rate to the Government estimate to project expected costs. This method will always result in understated costs.
- b. For a variety of reasons, including the many variations and complexities in contractors’ accounting systems, there are many different approaches to labor rate determinations. Indeed, the terminology varies as well with local customs and the vernacular. Labor rate determinations for contractors can be very simple or very complex, depending on such things as the size of the contractor’s work force and the sophistication of the contractor’s accounting system. The contractor’s labor rate is a function of many things related to the contractor. For example, the efficiency and skill of the work force, the mix

of trade categories required to perform the work, the facilities and tools available and other factors will impact the rate. Further, the rate will differ for different kinds of work. For example, work on nuclear power plants requires more inspection and verification than conventional power plant work. For this reason, the factors developed must be applicable to the type of work contemplated. Some contractors will require that factors be developed for each category of work performed (i.e., submarines, surface force, aircraft carrier or barge and boat work). An example of a typical rate determination follows:

Accounting data for a representative period, usually the firm's accounting year, is examined and after elimination of non-allowable costs, the costs in the various categories are computed. In this example, the cost categories are identified as DL, OH, and General and Administrative (G&A). The total DL hours computed to be worked are divided into the total wages computed to be paid for DL (excluding overtime premium) to determine the average DL wage rate. The OH and G&A rates are determined essentially the same way. However, DCAA may make other recommendations. The OH rate is divided into variable and fixed components. The variable portions such as certain fringe benefits vary with changes in the DL base hours worked, whereas the fixed portion does not change (within certain limits). The DCAA examines the contractor's rate proposal in conjunction with the ACO, discusses issues with the contractor and forwards the rate proposal to the ACO with recommendations for approval or partial approval where some data is unacceptable. The ACO then establishes a labor rate based upon the DCAA audit report results and discussions with the contractor. This composite rate is the sum of DL, OH, and G&A.

5.10.2.4 Sample Other Direct Labor Factor and Labor Rate Determination. A sample computation of a contractor's labor rate determination follows:

- a. For simplicity, assume this contractor does not have G & A and melds those costs into OH such that variable and fixed costs for the OH associated with 130,000 DL hours worked are:

Variable	\$700,000
Fixed	<u>\$600,000</u>
Total	\$1,300,000

The OH rate is then $\frac{\$1,300,000}{130,000 \text{ hr}} = \$10.00/\text{hr}$ (assuming the contractor allocates OH on a direct labor hour basis)

- b. The direct labor wages paid are \$2,600,000 and the average DL rate is $\frac{\$2,600,000}{130,000 \text{ hr}} = \$20.00/\text{hr}$.
- c. The rate then becomes: DL Rate + OH or $20 + 10 = \$30.00/\text{hr}$.
- d. Now using the sample figures shown in Appendix D, we calculate the ODLF, which when applied to the contractor's forward pricing rate will make the rate applicable to estimates prepared in the Standard Estimate. The ODLF is ODL expressed as a percentage of the Total Direct Labor or:

$$ODLF = \frac{ODL}{TDL} \times 100$$

- e. The contractor's forward pricing rate is increased by this percentage to make it applicable to Government estimates prepared on the Standard Cost Estimate Sheet. According to the totals in Appendix B, the TDL is 130,090 man-hours. The total hard-core labor is 101,010 man-hours. The ODL is 29,080 man-hours. Therefore, the ODLF is:

$$ODLF = 29,000 / 101,000 \times 100 = 28.71\%$$

- f. Thus, the forward pricing rate of \$30.00/hr is factored by 1.2871 to yield \$38.61/hr. Add to this a profit factor of 10 percent to yield \$42.48/hr. This hourly rate converts to a daily rate of \$339.80, which is the rate applicable to estimates prepared by the Government. It is also the rate reported by the RMCs and SUPSHIPs to NAVSEA 017 for use in the Planning, Programming and Budgeting System. Where contractors apply variable OH rates for different kinds of work, a labor rate must be established for each different category of work performed. For example, it is usually true that factors for new construction

5.11 FORWARD PRICING RATES. A forward pricing rate is a written agreement negotiated between a contractor and the Government to make certain rates available during a specified period for use in pricing contracts or modifications. Such rates represent reasonable projections of specific costs that are not easily estimated or identified. Generally, the RMCs and other administrative contracting officers will annually (or more frequently as needed) negotiate a forward pricing rate with contractors awarded Government contracts. Contractors and the Government can facilitate forward pricing of contract modifications by reaching an understanding regarding the estimating system and forward pricing rates to be used. Reference (e) allows contractors to propose forward pricing rate agreements or formula pricing agreements to incorporate cost estimating relationships which will reduce proposal documentation efforts and enhance the ease with which Government personnel can understand the contractors' estimating system. The RMC Contracting Officers normally negotiate with the ship repair contractors at least every six months to determine forward pricing rates. As with competitive labor rates discussed in earlier sections, forward pricing rates for labor calculations generally include projected work-load (direct labor), total overhead, labor costs and profit. An example of the calculation is shown in Table 5-7.

Table 5-7

FORWARD PRICING RATE CALCULATION	
DIRECT LABOR (HOURS)	100,000.00
FIXED OVERHEAD (\$)	200,000.00
VARIABLE OVERHEAD (\$)	800,000.00
TOTAL OVERHEAD (\$)	1,000,000.00
OVERHEAD RATE (\$/HOUR)	\$10.00
DIRECT WAGES (\$)	\$1,400,000.00
DIRECT LABOR RATE (\$/HOUR)	\$14.00
TOTAL HOURLY RATE (\$/HOUR)	\$24.00
PROFIT @ 10 PERCENT	\$2.40
HOURLY RATE W/PROFIT (\$/HOUR)	\$26.40
	x 8
FORWARD PRICING LABOR RATE (Man-day)	\$211.20

*For simplicity, it is assumed that G&A is included in OH and ODL is included in DL.

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6.4.1.2 Operation and Maintenance, Naval Reserve. This appropriation is for expenses, not otherwise provided for, necessary for the operation and maintenance of the Navy Reserve Fleet, as authorized by law. Equipment purchases under this appropriation are limited to a unit price of less than \$250,000. Operation and maintenance funds are authorized on an annual basis.

6.4.1.3 Shipbuilding and Conversion, Navy. The funds finance the construction of new ships and conversion of existing ships, including all hull, mechanical and electrical equipment, electronics, guns, torpedo and missile launching systems and communications systems. This appropriation is a multiyear appropriation and normally remains available for obligation for five fiscal years.

6.4.1.4 Weapons Procurement, Navy. Weapons Procurement, Navy is used to finance the procurement of missiles, torpedoes, guns, munitions and the installation of modernization equipment. This appropriation is a multiyear appropriation and remains available for new obligations for three fiscal years.

6.4.1.5 Other Procurement, Navy. Other Procurement, Navy finances the procurement, production and modernization of equipment not otherwise provided for. Such equipment ranges from the latest electronic sensors to training equipment and spare parts. The unit price of this equipment must be in excess of \$250,000. This appropriation is a multiyear appropriation and remains available for obligation for three fiscal years.

6.4.1.6 Research, Development, Test and Evaluation. Is used for expenses necessary for basic and applied research, development, test and evaluation, including maintenance, rehabilitation, lease and operation of facilities and equipment as authorized by law. This appropriation is a multiyear appropriation and remains available for obligation for two fiscal years.

6.4.1.7 Foreign Military Sales. Foreign Military Sales provides military assistance through the sale of defense articles and services to eligible foreign Governments and international organizations. The United States normally receives full reimbursement for costs associated with these sales.

6.4.2 General Classifications of Funds Transactions. All expenditures must be preceded by an authorization to expend from the available funds. In theory, every transaction progresses through the following four stages:

- a. **Initiations.** An administrative action that identifies funds set aside (reserved) for planning purposes before establishment of commitments or obligations related to the purpose of the reservation. Initiations will not be maintained as a part of the official fiscal records.
- b. **Commitment.** A firm administrative reservation of funds based on solid procurement directives, orders, requisitions, authorizations to issue travel orders or requests which authorize the recipient to create obligations without further recourse to the official responsible for certifying the availability of funds. A commitment is generally recorded when the comptroller signs the document to certify that the funds are available and properly cited for the effort. This is mandatory in the Standard Accounting and Reporting System (STARS) per reference (p).
- c. **Obligation.** Incurred when an order is placed, contract is awarded, service is received, orders are issued directing travel and similar transactions are entered into during a given period requiring future payment of money in an agreed amount. By law, obligations must be supported by documentary evidence of a mutual agreement in writing. Each individual transaction must meet the test of the following principles:
 - (1) A determination that the specific goods, supplies or services required according to contracts entered into or orders placed obligating an annual appropriation are intended to meet a bona fide need of the fiscal year charged.
 - (2) Contracts entered into or orders placed for goods, supplies or services will be executed only with a bona fide intent that the performing activity will commence work and perform the contract without unnecessary delay.
- d. **Disbursement.** Made when the bill is paid. This, plus accounts payable transactions processed by the RMC or disbursing office, as applicable, result in a reflection of expenditures.

6.4.3 Repair Funds.

- a. The Fleet Commanders budget, (based mostly on the ship's Maintenance Team proposed annual Maintenance and Modernization Business Plan), and fund repairs from O&MN and Operation and Maintenance, Naval Reserve (O&MNR) appropriations, as applicable. The funds are normally

provided to the RMC for specific use by the Type Commanders (TYCOM). These funds pay for contractual costs of authorized repairs and modernization of ships and for the incidental costs which include:

- (1) Naval Supervisory Authority material.
 - (2) Travel and salary cost for overseas ship check.
 - (3) Ship Change and preparation of drawings or sketches to be contracted out.
 - (4) Sustainment Type One or Sustainment Type Two Fleet or Program Ship Changes on installed equipments.
- b. Repair funds are received by the RMC from Fleet Commands (FLTCOM) on reference (q) based on quarterly or monthly phasing plans approved by the TYCOMs. An Operating Budget (OB) is subject to the statutory limitations of reference (e). OBs pass funds for the execution of centrally managed procurement programs. Details on ship repair and modernization funds, including current year and prior year availabilities, may be found in reference (r).

6.4.4 Navy Modernization Process Funds. This program is covered in detail in Volume VI, Chapter 36 of this manual. Effective in Fiscal Year 90, the Navy Modernization Process was transferred from the O&MN and O&MNR appropriations to the Other Procurement, Navy appropriation. The transfer shifted the emphasis from ship alteration to equipment orientation. Installation of equipment is now funded with the same appropriation and fiscal year funds that procured the Government Furnished Equipment. Naval Sea Systems Command (NAVSEA) provides Project Directives for the accomplishment of Program and Fleet Alterations (Ship Changes). This funding covers expenses incidental to the accomplishment of alterations such as:

- a. Preparation and reproduction of alteration drawings contracted out.
- b. Travel costs, other than local, for overseas ship checks of alterations.

6.4.5 Berthing and Messing Funds. FLTCOMs provide berthing and messing funds using an Operating Budget Form, reference (q), to the Project Manager. In addition, NAVSEA may provide funds for this purpose through project directives. Fleet Commander's directives concerning the berthing and messing of crews undergoing scheduled availabilities should be reviewed.

6.4.6 Commercial Industrial Services Contracts. The Commercial Industrial Services Program, when utilized and funded, provides work or services to ships by use of Indefinite Delivery Indefinite Quantity Contracts, likewise there are also standalone Indefinite Delivery Indefinite Quality Contracts for selected service or productive capabilities awarded by a Fleet Logistics Center or the RMC Contracts Department. Orders are placed for repair of individual items for a predetermined price and performance period. The TYCOM authorizes the repairs to be included in these contracts. O&MN and O&MNR funding is provided to RMCs on OBs.

6.4.7 Environmental Compliance Oversight. This function is funded by FLTCOMs and NAVSEA (travel and training) and includes hazardous waste and shore environmental protection. This section is addressed further in Chapter 10 of this volume.

6.5 LEGISLATED RESPONSIBILITIES FOR CONTROL OF PUBLIC FUNDS.

6.5.1 Commanding Officer Responsibility. Reference (g) provides that the CO of an activity is solely responsible, per reference (e), for the administration of all authorizations of funds granted to the CO. The responsibility cannot be delegated in whole or in part within the Command. The CO will be held personally responsible for any act or an act of a subordinate within the activity that causes an over-commitment, over-obligation or over-expenditure of an authorization of funds. COs shall take all necessary action to establish accountability and enhance the administrative control of funds, including:

- a. Establish and maintain adequate fiscal controls to prevent the over-authorization, over-commitment, over-obligation or over-expenditure of funds made available to the activity.
- b. Issue an activity instruction providing for the authority, responsibility and procedures required in the administrative control of funds.

- c. Delegate funds administration authority to individuals at the appropriate level to ensure that the individuals are personally aware of the necessary detail to establish total accountability. Funds administrators shall be enabled to provide absolute technical input to funds control. Financial management remains the responsibility of the activity comptroller.
- d. Ensure that subordinates delegated the authority to act as funds administrators are authorized in writing, by name, clearly specifying the extent of the authority and the responsibility delegated.
- e. Ensure that designated funds administrators are familiar with the statutory responsibilities inherent in the administration of funds, including the provisions of the Administrative Control of Funds addressed in references (h) and (i). These individuals must also be knowledgeable of principles concerning the administration of the appropriations as contained in reference (i), Chapter 2, understand the administration of allotments and operating budgets as contained in reference (i), Chapter 3, reference (j) and the principles and procedures concerning the use of various requests for work and services contained in reference (k).

6.5.2 Comptroller. The activity's Comptroller has the responsibility for financial management and shall report directly to the CO of the Activity. Depending on the activity, the senior person in the finance office is normally the Comptroller or the Budget Officer. The Comptroller shall obtain guidance to resolve any questions on the interpretation of these laws.

- a. The Comptroller is the allocation holder who has three basic functions:
 - (1) Budget Formulation including those actions performed in development, review, justification and presentation of the budget estimates.
 - (2) Execution encompassing budgetary actions required to effectively and efficiently accomplish the programs for which funds were requested, as authorized by appropriate authority.
 - (3) Managerial Accounting providing management with financial information necessary to support the preparation of budget estimates and facilitate the budget execution process. The process shall ensure all funds are administered in accordance with the law, administrative policies and regulations of higher authority.
- b. The Comptroller shall be responsible for recording commitment and obligation transactions in the designated accounting system (STARS) chargeable to OBs, Project Directives or Work Requests, performing periodic reviews of un-liquidated obligations and unmatched disbursements, validating expenditures and advising the funds grantor of excess funds available for recapture.

6.5.3 Fund Administrators/Funds Managers. Individuals who are delegated authority in writing by the CO to authorize, commit, obligate and expend specific funds related to a specified authority and responsibility are agents of the Comptroller. These individuals provide technical input to financial management and can be held accountable and personally liable for over-commitment, over-obligation or over-expenditure of the funds administered.

- a. Any individual who is duly authorized by the CO as a Funds Administrator will familiarize themselves with the policies directives that are outlined in paragraph 6.3 of this chapter. In particular:
 - (1) Clearly understand the statutory responsibilities inherent in the administration of funds, including the provisions of the Administrative Control of Funds addressed in reference (h) and (i), Appendix A.
 - (2) Be informed of principles concerning the administration of the appropriations as contained in reference (i), Chapter 2.
 - (3) Understand the administration of allotments and operating budgets as contained in reference (i), Chapter 3, reference (j) and the principles and procedures concerning the use of various requests for work and services contained in reference (k).
- b. Funds Administrators will manage the funds, in whole or in part, as specified by the Comptroller and that have been allocated to individual projects in accordance with the delegated authority for the CO.

- c. Duly authorized individuals are required to request additional funds from the grantor of funds. Likewise, the individual will advise the grantor of funds when funds in excess of requirements are available for recapture.

6.6 RESPONSIBILITIES FOR SHIP MAINTENANCE FUNDING MANAGEMENT BUSINESS RULES. The goals of the Entitled Funding process are to reduce premiums paid for maintenance while at the same time improving the ability to respond to maintenance and operational requirements. The funding business rules for the Maintenance Team in managing the controls required to support all maintenance for a given ship are established in Volume VI, Chapter 31 of this manual.

6.6.1 Maintenance Team Funding Business Rules Responsibilities. The Maintenance Team identifies budget needs based on requirements in the Current Ship's Maintenance Project, Class Maintenance Plan, the Baseline Availability Work Package and historical data. The Maintenance Team identifies the total funding requirement to support the ship during the execution year, along with advance and availability planning and funding requirements for availabilities to be executed in future years. It also establishes the allocation of the "controls" or "phasing" plan that the team will utilize to support the ship.

- a. The Maintenance Team, with TYCOM N43 concurrence, has the ability to shift controls between the Chief of Naval Operations (CNO) availability and Continuous Maintenance budget lines in order to most efficiently accomplish required maintenance and modernization.
- b. The Maintenance Team, with TYCOM N43 concurrence, has the ability to adjust the Maintenance and Modernization Business Plan in response to changes in ship operations, planned maintenance periods and other business case reasons provided the intended distributions do not exceed the total remaining annual budget requirement allocated for that ship. This redistribution will be documented via a revised quarterly phasing plan, which will be submitted to the RMC, for approval and adjustment of the Maintenance Team controls. If funding controls permit, the Maintenance Team is permitted to accomplish maintenance that falls below the Maintenance Figure of Merit threshold provided the maintenance is accomplished during the most cost effective maintenance period available.
- c. Depot level maintenance will normally be screened to the Multi-Ship Multi-Option (MSMO) contractor. The Maintenance Team may go to other contracting vehicles when there is no MSMO contract in place or:
 - (1) The contractor and Government cannot agree on cost and scope.
 - (2) The contractor does not have the capability or capacity.
 - (3) Indefinite Delivery, Indefinite Quantity/Commercial Industrial Services (or Simplified Acquisition Purchases and a qualified vendors list) is available.
 - (4) Other organic RMC assets are available and have the capability for the work.
 - (5) Work is to be accomplished outside of homeport area.
 - (6) Work is to be accomplished by an Alteration Installation Team.
- d. When work deferral reduces the total cost of the job or maintenance completes with a cost under-run and funds can be recaptured, the funding controls will normally remain under the control of the respective Maintenance Team. If the funds are needed for critical work on another ship or to cover a funding shortfall at the TYCOM/Fleet level, the RMC, with TYCOM concurrence, may redistribute or recapture controls from all or selected Maintenance Teams. The change will be documented in a revised quarterly phasing plan and the Maintenance Team(s) should provide to the RMC, and TYCOM, an impact statement and recommended plan to mitigate the effects of the plan change.
- e. MSMO contractors normally submit cost reports to Maintenance Teams on a bi-weekly basis. The Maintenance Team will utilize these reports to assess the cost performance of the MSMO contractor and address items of concern to the RMC.

6.6.2 Regional Maintenance Center Funding Business Rules Responsibilities.

- a. Based on input from the Maintenance Teams and the TYCOM regarding modernization requirements, the RMC Commander will develop a consolidated spending plan for the execution year.

VOLUME VII
CHAPTER 7
AVAILABILITY AND PROJECT MANAGEMENT

REFERENCES.

- (a) NAVSEAINST 5370.1 - Standards of Conduct and Statements of Affiliations and Financial Interests
- (b) NMCARS 5233.9000 - Documentation of Significant Contract Events
- (c) NAVSEA SI 009-04 - Quality Management System
- (d) NAVSEA SL720-AA-MAN-030 - Navy Modernization Process Management and Operations Manual
- (e) NAVSEA Technical Specification 9090-100 - Planning Yard (PY) Representatives
- (f) NAVSEAINST 4710.8 - Cost and Performance Reporting for CNO Scheduled Ship Maintenance Availabilities
- (g) NAVSEA OP-4 - Ammunition Afloat
- (h) NAVSEA SI 009-01 - General Criteria; Accomplish
- (i) NAVSEA SI 009-08 - Fire Fighting and Fire Prevention
- (j) NAVSEA SI 009-07 - Procedures and Equipment Required for the Prevention of Fire
- (k) DFARS 252.217-7015 - Compliance With OSHA Regulations
- (l) NAVSEA S9086-7G-STM-000 - NSTM Chapter 997 (Drydocking of Naval Vessels)
- (m) 10 USC 7311 - Repair or Maintenance of Naval Vessels: Handling of Hazardous Waste
- (n) FMP Manual Section 4-11 - Procedures for Ships Selected Records
- (o) FAR 4.802 - Contract Files
- (p) NAVSEA SI 0009-60 - Ship Repair Scheduling
- (q) FAR 52.232-16 - Progress Payments Clause
- (r) 31 USC 1517 - Prohibited Obligations and Expenditures
- (s) 31 USC 1301(a) - Application
- (t) DFARS 252.217-7012 - Master Ship Repair Agreement (MSRA) and MSMO Liability and Insurance Clause

LISTING OF APPENDICES.

- A Arrival Conference Agenda
- B Fire Fighting and Fire Prevention Conference Agenda
- C Drydocking Conference Agenda
- D “Activity” Progressing Method Example
- E Progress Guidelines

7.1 **PURPOSE.** This chapter provides general guidance concerning the statutory and contractual requirements for management of availabilities and emergent work on Fleet units. In this chapter, the term Project Manager refers to the individual that has been assigned the administrative and statutory authority for the management of an availability or an assigned project that is to be or has been awarded as a contract. This chapter focuses on the management team and in particular addresses the fact that the Project Manager and the Contracting Officer (Procuring Contracting Officer (PCO) and Administrative Contracting Officer (ACO)) for the assigned project or availability must have a strong communications network through various commands and individuals who assist them in exercising their responsibility.

7.2 **GENERAL.**

- a. The awarded contract establishes the rights and obligations of the contractor and the Government. The Government’s actions or inactions in performing responsibilities such as providing Government Furnished Information and Government Furnished Material (GFM) to support the contractors’ schedules, approving or disapproving of contractors’ requested contractual actions, responding to contractor reports and participating in conferences to discuss technical and contractual issues as well as performance, could have a significant impact on the contractors’ ability to perform contract requirements. These responsibilities make the Government an active participant in the management of the contract.

- b. The execution of any availability or contract with the private sector requires personnel with special training in their select area of responsibility when it applies to the administration of contracts.

7.2.1 Areas of Responsibility. Two of the more important general areas of responsibility are:

- a. Personal conduct in working with the contractor to ensure that the terms and conditions of the contract are complied with.
- b. The necessity to validate observations and maintain accurate records of these observations in “significant events” logs that include action that was taken to resolve the issues.

7.2.2 Standards of Conduct in Availability Management. All personnel engaged in matters related to contractual action must be familiar with and comply with the Standards of Conduct, avoiding not only situations involving an actual conflict of interest, but also any appearance of such a conflict. Personnel performing certain functions in the Regional Maintenance Centers (RMC) must submit the Status of Filing Report, RCS NAVSEA 5370-2, by 15 November of each year in accordance with reference (a).

7.2.3 Improper Actions. While participating in the management of a contract, personnel must avoid certain actions even if not specifically prohibited. Command instructions provide in-depth guidance on personal conduct including regulations concerning fraud, waste and abuse. Personnel involved in Contract Administration or Availability Management shall avoid any actions that might create the appearance of:

- a. Using a Government office for private gain.
- b. Giving preferential treatment to any person or entity.
- c. Impeding Government efficiency or economy.
- d. Losing complete independence or impartiality.
- e. Making a Government decision outside official channels that might affect public confidence in the integrity of the Government.

7.2.4 Documenting Significant Events. This is one of the most significant actions that every member of the availability management team shall comply with. Significant events are personal observations of conditions or actions by or to any party to the contract which would affect the performance of the contract.

- a. Reference (b) requires that “significant events” be recorded to assist in maintaining adequate documentation to be used to verify, qualify or refute matters relating to a contractor’s claim or Request for Equitable Adjustment (REA). The documentation of “significant events” is required for all contracts in excess of \$5 million or for which a claim is expected. A claim can be expected against any contract associated with ship modernization and repair. All Government personnel who are responsible for observing a contractors’ performance, production processes, observing “G” check points and monitoring operational tests and evaluations shall document their observations and maintain a continuous real time notebook of significant events. Notebooks shall be turned over to the ACO, via the Project Manager, at the completion of the availability.
- b. The contracting officer retains this documentation in the “Significant Events” file. All Government personnel involved in the performance of such contracts shall maintain this continuous real time notebook to record significant events that occur during the contract period.
- c. The significant events file and related documentation allows the Government to support or refute claims, terminations of contracts, settlements and determinations or to provide evidence for litigation to investigative bodies, as required. They also include written records of nonconformities in work progress and accomplishment. Contract related documentation such as correspondence, meeting minutes, labor records, material purchase orders, project schedules, schedule updates, productivity data and project monitoring information form the basis for the assertion or rebuttal of a claim. This information is beneficial in documenting the contractors’ performance reported in the Contractors Performance Appraisal Reporting System (CPARS) submitted at the conclusion of the performance period.

- d. The individual's significant events notebook should be a ledger-type, bound notebook having sequentially numbered pages. Events shall be recorded in black ink as they occur. Each recorded event shall indicate the date, time and a brief but complete description of the event. No page shall be removed. Mistakes shall be deleted with only a single line through the text and initialed, permitting an unobstructed view of the mistake. This notebook and related memoranda will become a part of the "Significant Events" file and will be marked "FOR OFFICIAL USE ONLY."

7.3 PROJECT MANAGEMENT.

7.3.1 Project Management Team. The Project Management Team as defined in Volume VI, Chapter 41 of this manual is included in the advanced planning processes as well as the contract type to be awarded. The Project Team for availability must be designated well in advance to preserve the continuity of the planning and execution phases of the acquisition process. The Project Manager, Comptroller, Support Staff and the Contracting Officer and their assigned teams shall coordinate their actions. The overall Project Management Team is accountable, and in some cases liable, for administering the contract and associated contractor and Government actions following award and throughout the contract execution phase as specified in the period of performance. The Government's Project Management Team shall insure that the contractors' performance complies with the specific terms and conditions of the contract and that the services are provided at a fair and reasonable price.

7.3.2 Project Manager. The Project Manager is the individual who is responsible for the management of the Project Team during an availability or emergent unscheduled work. The Project Manager is assigned by the Commanding Officer (CO) of the RMC and is the coordinator of the on-site shipbuilding specialist team. The authority of the Project Manager shall be clearly defined, identified to all concerned, and in particular the Contractor in relation to contract administration. Duties of this position include but are not limited to the following:

- a. Acts as business agent with other activities on availabilities and contracts assigned that includes ensuring that **Type Commander (TYCOM)** funds are utilized properly.
- b. Maintains liaison with customers, the ships Maintenance Team, Ship's Force Representatives, RMC functional departments, financial/accounting personnel and contractor.
- c. Acts as assistant funds administrator (when designated in writing from the RMC CO) for assigned availabilities and contracts.
- d. Coordinates planning and cost estimating and design specification preparation and scheduling.
- e. Reviews specifications to ensure completeness and conformance with authorized work.
- f. Arranges and conducts the Arrival Conference, weekly progress conferences and attends or arranges for RMC representation at all conferences pertaining to assigned availabilities and contracts.
- g. Evaluates all Technical Analysis Reports (TAR) and supports the Contracting Officer in contract negotiations.
- h. Evaluates and acts on the reports received from other members of the availability management team.
- i. Manages ship repair and modernization work items, job orders and contracts assigned by progressing and evaluating all work to anticipate, prevent and minimize delays, resolving all problems that affect the end cost, quality, schedule and performance of assigned availability or contract.
- j. Prepares reports on current status of assigned project or contract.
- k. Coordinates the on-site work effort in observing the contractor's in process production performance and operational testing events for projects assigned to the team.
- l. Acts as the availability management team point of contact for outside agencies seeking information relating to the project, the contractors performance or technical issues under review.
- m. Attends on-site meetings to provide comprehensive information to all concerned and to remain current in all aspects of the project.
- n. Reviews all work accomplished by assigned Shipbuilding Specialists to ensure compliance with regulations, directives, instructions and policies as well as to ensure that intended work is practical and necessary.

- o. Identifies and initiates action to correct, prevent and minimize delays, resolving all problems that affect quality, schedule and contractor performance.
- p. Reviews contractors work schedules, manning curves, material ordering/receipt schedules and special tasking/equipment requirements. Evaluates contractors' proposals prior to and during contract execution. Takes corrective actions to eliminate conflicts and prevent work stoppages.
- q. Performs all administrative duties and actions normally assigned to a supervisor.
- r. Maintains a Significant Event Log.
- s. Participates in the "Hot Wash Up/Lessons Learned Conference" following the completion of a major availability and in support of availability planning, execution and close out.
- t. Provide written reports to the Contracting Officer for Award Fee Evaluations Multi-Ship Multi-Option (MSMO) contracts.
- u. Prepares CPARS for Chief of Naval Operations (CNO) Availabilities.
- v. Project Manager records to be passed to the Contracting Officer should include but are not limited to the following:
 - (1) Correspondence files containing copies of all correspondence to the Contracts Office both internal and external.
 - (2) Work authorizations for growth and new work. Work authorizations may be in the form of naval messages, Speed Letters, letters, other transmittals or documents. In the case of growth work, the authorization may be verbal, a memo at a meeting or a telephone call. Verbal authorizations should be documented with a Memorandum for the Record.
 - (3) The Project Manager shall maintain a ledger notebook to assist in funds administration. For each contract modification initiated in the work package, the Project Manager shall show the title of the item, cite the proper funding authorization and account and show the Government estimate. The ledger shall show funds committed and obligated for each contract modification and other financial transactions and provide an indication of funds available for future use. When changes occur during the negotiation process, the funds reserved or obligated shall be changed to reflect the current funding status. Periodically, at least monthly, the Project Manager shall reconcile ledger accounts with the Contracting Officer and Comptrollers' accounts to ensure that funds are not over obligated or expended.
 - (4) Material requisitions for GFM with prices.
 - (5) Project orders and economy act orders issued to other Government activities.
 - (6) Completion reports.
 - (7) Departure reports including summary costs of individual work items.
 - (8) All significant events logs from the shipbuilding specialist.

7.3.2.1 Material Expediter. The RMC will normally assign a material expediter to monitor the GFM that has been ordered for an availability or project. The material expediter, working with the RMC Material Personnel, Fleet Logistics Center (FLC) Representatives and contractor should be able to provide the current status of GFM, but will challenge the system to improve delivery dates or identify alternative sources to satisfy production schedule requirements.

7.3.3 Ashore Ships Maintenance Manager. As defined in Volume VI of this manual, the Ashore Ships Maintenance Manager for each ship is responsible for **identifying** the extent of modernization and repair to be addressed in the specification package to be awarded to a private contractor. The Ashore Ships Maintenance Manager **works with the Project Manager** in the day-to-day activity of work execution that is being performed on the ship by all activities. The Project **Manager and the TYCOM** shall approve new work items that have the potential to impact the schedule, finances or other aspects of the progression of the availability and the completion date. Generally, the Project Team supports accomplishing additional work items or contract modifications through the contracting

officer only when on-site inspection of actual material conditions supports a need for repairs to meet the established operational performance criteria following the availability. During contract performance, contractors are not to accomplish new work or growth work without authorization from the Contracting Officer. **For Surface Force ships only, the Naval Supervisory Authority Chief Engineer will review requested growth and new work items for technical compliance. The Systems Command/TYCOM will authorize or reject each new work candidate submitted.** The Ashore Ships Maintenance Manager's primary input on all matters related to Combat System integration, modernization and Combat Systems Light-off and testing schedules will be from the AEGIS Combat Systems Project Engineer, as assigned.

7.3.4 Shipbuilding Specialists. Shipbuilding Specialists are individuals that possess a primary trade background but effectively perform across trade lines in two or more trade skill disciplines. Team assignments are made to balance trade expertise appropriately with the type of work in the project. A wide variety of comprehensive duties and responsibilities are assigned to these individuals who are expected to act as decision makers with comprehensive knowledge of each work item assigned. Typical assignments include the following duties and responsibilities (as with Project Managers, this may vary depending on the supporting organization):

- a. Provides current information relating to assigned work items to the team leader who is usually a Project Manager.
- b. Attends meetings, resolves production problems, develops scope of work requirements, assists in the development of Government TARs and negotiation positions, assesses contractor capabilities, work progress and performance, provides technical support to the ACO, participates in claims avoidance and provides other technical support as required.
- c. Interfaces with members of the Ship's Force to provide current project information, notifies responsible personnel of scheduled evolutions and solicits required or desirable Ship's Force.
- d. Receives and investigates contractor reports, assists with the development of the Government's technical response, requests engineering support, prepares necessary contract modifications, develops the Government cost estimates, estimates the delay and disruption that may occur because of a contract modification, assists with negotiation preparation relative to TARs and contract modifications (as authorized by the ACO), provides the ACO support in negotiations and maintains records of actions taken.
- e. Perform/witness Government "G" notification points, identified in the work specifications, when the contractor calls them out. Accomplish random Product Verification Inspections (PVI) utilizing checklists or an attribute system to determine contractor compliance with the quality and technical requirements of the work specifications/contract. Write a Corrective Action Request when nonconformities are detected in accordance with Chapter 11 of this volume.
- f. Participates in various Government evolutions such as boat inspections, hull inspections, combat systems inspections, drydocking and undocking, habitability inspections, pre-Light Off Assessments and other evolutions that may require or benefit from technical trade expertise.
- g. Determines the physical progress, as a percentage of work completed, of each work item and each contract modification assigned. This information is updated weekly in a comprehensive progress report that is used in calculating the contractor's entitlement to progress payments as well as in evaluating the contractor's schedule performance.
- h. Monitors the GFM and Contractor Furnished Material (CFM) report to anticipate actions that may be necessary to preclude schedule impact by unsatisfactory material delivery dates and initiates material orders to replace unsatisfactory GFM or to provide items with unique Government control and confirms the necessity for the contractor to make cash purchases from the Naval Supply system when it is in the best interest of the Government.
- i. Monitors the contract guarantee period to help determine whether failure of equipment or systems covered by the guarantee clause is the responsibility of the Government or the contractor, ensures that the work determined by the ACO to be the responsibility of the contractor, whether it is covered by guarantee or was an exception to the completion of the contract, is repaired in accordance with the

specification requirements and provides cost estimates for incomplete work so that the ACO can ensure that appropriate contract funds are retained in the event that the work must be deleted from the contract requirements or be procured from another contractor.

- j. Provides positive lessons learned along with feedback related to deficient or inefficient work specifications or work authorizations to the appropriate planning group for use in improving future procurements.
- k. Conducts oversight coordination and inspection of work-related environmental issues associated with Ship's Force and contractor's operations. This effort includes but is not limited to hazardous material (HAZMAT) and hazardous waste (HW) handling, removal, storage, transportation and disposal.
- l. Conducts safety inspections jointly with the contractor, Ship's Force and Government Environmental Safety and Health (ESH) Representative(s).
- m. Maintains a Significant Events Log.
- n. Provides written reports to support Award Fee Evaluations and CPARS.
- o. Shall maintain the following records:
 - (1) Work item specifications, references and estimates for the work package, updated to reflect all modifications.
 - (2) Contractor condition reports including Government replies.
 - (3) New work identified and not authorized.
 - (4) GFM delivery status.
 - (5) Quality Assurance (QA) records.
 - (6) Records relating to the contractor's capabilities and capacity.
 - (7) Contractor performance evaluations.

7.3.5 Quality Assurance Manager. The RMC QA Manager will administer the Contract Administration Quality Assurance Program outlined in Chapter 11 of this Volume to evaluate the effectiveness of the Contractor's Quality Management System on work being performed both shipboard and in the contractor's/subcontractor's plant. Shipbuilding Specialists and/or Quality Assurance Specialists will conduct and document in-process inspections (PVI) of the contractor's/subcontractor's work, attend "G" point call outs and, if appropriate, document a Corrective Action Request when the contractor fails to satisfy contractual quality and technical requirements. In addition, Shipbuilding Specialists/Quality Assurance Specialists on site maintain a significant events log and provide written documentation that supports Award Fee Evaluations and CPARS.

7.3.5.1 Contractor Quality Management System. The contractor is required by the contract to have a government approved Quality Management System that meets the requirements of reference (c). The Quality Management System is an ISO 9001 based quality system that includes a staff and an inspection system with procedures to ensure that all of the terms and conditions identified in the work specification/contract requirements are adequately met. The goal is to ensure the contractor inspects its own work and inspects and accepts the work of subcontractors before presenting it to the Government for acceptance.

7.3.5.2 Alteration Installation Teams. Alteration Installation Teams (AIT) are activities tasked by a Naval Sea Systems Command (NAVSEA), Program Executive Office or TYCOM to accomplish an alteration under Government authorization and supervision. Reference (d) provides requirements for the planning, estimating, programming, budgeting, scheduling, funding, design and accomplishment of alterations as well as the Quality System to be used during accomplishment of such work. Whenever an alteration, to be accomplished by an AIT, is scheduled for an availability, AIT coordination with the RMC and Project Manager is required from planning through installation and testing.

7.4 CONTRACT ADMINISTRATION TEAM. The Contracts Administration Team assists the Project Manager and consists of the Administrative Contracting Officer, Contract Program Managers, Contracting Specialists, Cost Monitors and others as are necessary for a specific project. The main types of contracts administered are cost reimbursable contracts and fixed price contracts.

- a. Cost reimbursable contracts require functional expertise and sufficient contract administration staffing to monitor the contractor's actions and validate that the terms and conditions of the contract have been complied with. The level of effort shall include frequent and unscheduled observations to preclude incurring unnecessary costs by inefficient or excessive performance of contract requirements. This action is required since the contractor is reimbursed for cost of labor expenditures based on the accounting documented in the contractors performance measurement system (time keeping documentation) and material costs incurred during the execution phase of the contract. The Defense Contract Audit Agency audit results shall be utilized to assist with validating observations of manpower utilization. The accounting for labor and material charges is essential when a contractor is working both cost reimbursable and fixed priced contracts in their facility. Any proposed change by the contractor should have a TAR prepared with all details of the Contractors proposed change available for Project Managers and Contracting Officer to use in the negotiation process. Since the contractor will be reimbursed for all allowable costs incurred, most of the risk in a cost type contract is on the Government.
- b. Firm Fixed Price contracts, particularly those with short durations, may require more technical personnel during the performance period because contract modifications that may be essential to the accomplishment of the intent of the contract must be quickly identified and resolved to minimize costly delay and disruption to the contractor's schedule. After award, changes are negotiated on a sole source basis. These contractor-developed reports require time-consuming investigation and a timely written response to the contractor and each could result in a contract modification. In this situation significant effort must be expended by Government technical personnel to develop a reasonable Government position and, when required, a TAR for negotiation of the cost of the change. Under these conditions, the contractor's negotiation position is significantly strengthened. It may be difficult to reach an equitable position on the cost of the change. Government's action or inaction has the potential to create increased costs to the Government. Additionally, because of the risk on the contractor, efforts to minimize costs associated with a fixed price contract could result in poor compliance with requirements of the contract that in turn will require more contract supervision and performance monitoring.

7.4.1 Administrative Contracting Officer. Chapters 1 and 2 of this Volume provide extensive coverage on contracting and the contract administration responsibilities. After a contract has been awarded for ship repair or modernization, only the assigned warranted ACO, within the designated limit of the warrant, may change the terms or conditions of the contract or make a contractual commitment on behalf of the Government. In RMCs, the Contracts Department Head, Code 400, is the senior contracting officer within the Command with the inherent authority and responsibility for the day-to-day administrative contracting functions. The Contracts Department Head may appoint subordinates to perform some or all of the functions of administering a specific contract whose authority is contingent upon the individuals warranted authority from NAVSEA. Typically, the ACO is assisted by a Contracts Specialist and Cost Monitor who reside in close proximity to the location where the availability is being performed. Administrative functions may be delegated to individuals with special technical or trade skill backgrounds who will obtain or have received additional training in the relevant contract administration areas including the Defense Acquisition Workforce Improvement Act (DAWIA) process so that they can function as a Contracting Officers Representative. The complex technical requirements of ship repair and modernization require the assignment of trade skill and technical personnel from a variety of functional disciplines who must work closely with the Project Manger and Contracting Officer to ensure that the specified terms and conditions of the contract are complied with and that upon final closure of the contract there are no non-conformant or exceptions to the work items except those that have been approved for deviation or waiver by the Contracting Officer.

7.4.2 Commercial Industrial Services Contract Program Managers. The Commercial Industrial Services (CIS) Program/Indefinite Delivery, Indefinite Quantity (IDIQ) Contract Managers administer the CIS program or IDIQ Contracts. The managers are part of the availability management organization due to technical determinations required and the need to recognize and coordinate interfaces to preclude contract delay and disruptions. Consolidation in one office provides the most efficient organization. Duties and responsibilities of a CIS/IDIQ Program Manager are:

- a. Represents the command and acts as the command point of contact in all matters pertaining to the contract.
- b. Chairs the IDIQ Contract Advance Planning Committee to review current contracts and to determine the need for and propriety of additional contracts.

- c. Coordinates daily program operations.
- d. Manages and coordinates requirements with Project Managers to resolve schedule conflicts and interface problems with other contracts and activities.
- e. Performs the duties and responsibilities of the Assistant Funds Administrator for all IDIQ Contracts.
- f. Accepts or rejects the request for work based on the scope of work required, the necessity of the work requested, the appropriateness of the contracts or program and the capacity of the contractor.
- g. Determines the scope of the actual work requirements to develop the Government position.
- h. Makes ordering decisions such as grouping the work with other requests, assessing the time available and time required to accommodate the contracted performance period, determining other work to be scheduled in the area, identifying interface requirements with other scheduled work, assessing how the work will impact the contractor's capacity to complete other work ordered and deciding whether to order against an existing IDIQ contract, propose the use of an appropriate Master Ship Repair Agreement (MSRA)/Agreement for Boat Repair (ABR) job order or initiate a one-time procurement with FLC or the RMC Contracts Department.
- i. Coordinates preparation of the specification package to provide to the appropriate procurement office.
- j. Authorizes and initiates contract changes with the ACO to accomplish growth within the scope of the work authorized.
- k. Performs contract department duties in the acceptance of work.
- l. Provides support to the ACO in negotiations and the resolution of contractor claims.

7.4.3 Contract Specialist. The ACO duties parallel the responsibilities of the Contracting Officer but their authority is limited as specified by the level of their DAWIA qualifications level of authority, specific limitations of their warrant and specific assignments made by the Contracting Officer. The ACO is assisted by warranted, DAWIA qualified personnel, who are assigned specific responsibilities for processing contractual issues and to assist with the management and administration of a contract.

7.4.4 Cost Monitors. Working directly for the Contracting Officer and administratively with the RMC Comptroller, these personnel primarily function in the capacity of "keeping the books" that track the financial status of each project. Following contract award, all contract changes shall be reviewed by the assigned cost monitor who will work directly with the Contracting Officer who is designated as the Funds Administrator and who is accountable for financial management and obligating the Government funds that are provided to the contractor.

7.4.5 Navy Property Administrator for Contracts. The Navy Property Administrator, assigned by official appointment from the RMC Contracting Officer, is responsible for all Government property related to a specific contract including GFM, CFM for which the Navy claims title and material removed from the ship by contract requirements. The disposition of salvage and scrap material is determined by the Property Administrator in accordance with Chapter 9 of this Volume. The Property Administrator screens work specification clauses to determine the contractor's responsibility for Government property. Generally, the contractor is responsible for the proper care and protection of all Government property in the contractor's custody. The contract will not be closed until the contractor has accounted for all Government property or the Government has received acceptable consideration.

7.4.6 Allowance Specialist. The Allowance Specialist is responsible for allowance list corrections made necessary by modifications to existing equipment or the substitution of new for old equipment during an availability. The Allowance Specialist screens work specifications and identifies necessary changes.

7.4.7 Accounting Technician. The Comptroller assigns specific accounting responsibilities to an Accounting Technician knowledgeable of the type of funds and cost codes applicable to each availability or project who works closely with the contract Cost Monitor, Project Manager and Contracting Officer. The Accounting Technician is the only official source for obtaining a balance for a given account. Delegated Funds Administrators for each availability should establish a close working relationship with their assigned Accounting Technicians.

7.5 SUPPORT STAFF.

7.5.1 Functional Support Staff. Typically the waterfront receives significant support from technical and functional specialists who support several availabilities and special projects.

7.5.2 Design Coordinator. When workload permits, an engineer or engineering technician, accountable to RMC Chief Engineer, will be assigned the responsibility of coordinating requests for all design assistance to resolve technical problems identified during performance of the contract that are not the responsibility of the Planning Yard (PY). The waterfront design coordinator assigned to the availability or project arranges for the appropriate engineering discipline to investigate the identified problems and provide engineering guidance. Maintains a significant events log and when appropriate provides reports to support Award Fee Evaluations and CPARS.

7.5.3 Planners and Estimators. Government trade skilled and technical personnel are assigned to prepare work specifications, in accordance with Chapter 4 Appendix E of this Volume (4E specification procedures), and planning estimates. They are also responsible to identify material requirements for a solicitation when responsibility for this task is not assigned to a contractor as in the case with the MSMO contract. They may also be tasked to assist with the preparation of TARs for work items to support the Contracting Officers negotiations. These personnel may be required to prepare work specifications for essential growth and new work authorized during the performance of an existing contract or may be required to perform work on-site in order to resolve production problems.

7.5.4 Combat Systems Managers/Representatives. Electronics Engineers or Electronics Technicians with experience in the various disciplines involved in combat systems are assigned to availabilities that include significant combat systems requirements. These specialists monitor the contractor's performance of work and testing in the combat systems work package. The combat systems representative provides expert advice in the anticipation, identification and resolution of problems that may occur during the maintenance, repair and alteration installation phases, as well as during the grooming and complex systems level testing phases. RMCs may assign Electronics Engineers or Technicians as Combat Systems Managers for the availability. The Combat Systems Managers take a more active role by accomplishing duties similar to those of Production Controllers/Ship Surveyors/Shipbuilding Specialists in addition to those of Electronics Engineers or Technicians for combat systems work items during an availability or project. Combat Systems Managers responsibilities include the following:

- a. Provide current information relating to assigned work items to the Project Manager. This may also include reports to the ship's assigned Port Engineer for Combat Systems.
- b. Attend meetings to resolve production problems, develops scope of work requirements, assists in the development of TARs to support the Government negotiation positions, assesses contractor capabilities, work progress and performance, provides technical support to the ACO, participates in claims avoidance and provides other technical support as required.
- c. Interface with members of the Ship's Force to provide current project information, notifies cognizant personnel of scheduled evolutions, solicits required or desirable Ship's Force participation and provides technical advice.
- d. Receive and investigate contractor reports, writes and receives answers to Liaison Action Reports, provide interim answers to Test Problem Reports, assist in developing the Government's technical response to contractor requests, assist the TAR writer by providing engineering support and in developing the Government cost estimates, assist in preparing necessary contract modifications, estimate the delay and disruption that may occur because of a contract modification, provide the ACO support in negotiations and maintains records of actions taken.
- e. Observes "G" POINTS for electronic systems and equipment identified in the work specifications when they are presented by the contractor, witnesses required equipment or system tests and accomplishes random in-process inspections (PVI) at the work sites to determine contractor compliance with the requirements of the specification. Documents the contractor's failure to satisfy contractual responsibilities.
- f. Determine the physical progress, as a percentage of work completed, of each work item and each contract modification assigned. This information is updated weekly in a comprehensive progress report that is used in calculating the contractor's entitlement to progress payments as well as in evaluating the contractor's schedule performance.

- g. Monitor the GFM and CFM report to anticipate actions that may be necessary to preclude schedule impact by unsatisfactory material delivery dates. Assist the FLC or RMC Material Department in visually identifying and verifying receipt of GFM. Initiate material orders to replace unsatisfactory GFM or to provide items with unique Government control and authorizes the contractor to make cash purchases from the Naval Supply system when it is in the best interest of the Government.
- h. Monitor the contract guarantee period to help determine whether failure of equipment or systems covered by the guarantee clause is the responsibility of the Government or the contractor. Ensure that the work determined by the ACO to be the responsibility of the contractor, whether it is covered by guarantee or was an exception to the completion of the contract, is repaired in accordance with the specification requirements. Provide cost estimates for incomplete work so that the ACO can ensure that appropriate contract funds are retained in the event that the work must be deleted from the contract requirements or be re-procured.
- i. Provide lessons learned and feedback related to deficient or inefficient work specifications or work authorizations to the appropriate planning group for use in improving future procurements.
- j. Maintains a Significant Events Log.
- k. Coordinate the efforts of the MSRA/ABR and each combat systems related AIT.
- l. The Combat Systems Manager is the primary point of contact for combat systems technical issues during the availability that arise with other technical organizations.
- m. Participate in the “Hot Wash Up/Lessons Learned Conference” following the completion of a major availability and in support of availability advanced and pre-planning, integration, execution and close out.
- n. Provide written reports to support Award Fee Evaluations and CPARS.

7.5.5 Manager - Environment Compliance and Occupational Safety and Health Act. The Manager for ESH may have subordinate Safety Inspectors and Environmental Compliance Representatives in addition to the Shipbuilding Specialist who also perform similar observations. The ESH Manager assists the availability management team in understanding and recognizing obligations of the contractor and the Government. The Safety Officer shall be the first point of contact in matters relating to the safety of people and equipment; environmental issues, such as oil spills or other contamination of the water; asbestos and ceramic fiber insulation control and all HW control. Any personnel injuries occurring at the work site (whether Government or contractor, military or civilian) shall be immediately reported to the Safety Officer. Unresolved issues noted in the daily safety and housekeeping walk-through or as required by contract shall be referred to the Safety Officer for assistance or resolution as appropriate. All observed or suspected safety or environment violations or any related issue shall be brought to the immediate attention of the Manager for ESH. The Manager for ESH reports directly to the CO of the RMC on safety-related matters and on environmental and other related matters. The Manager for ESH maintains a significant event’s log and provides written reports to support Award Fee Evaluations and CPARS. Detailed information on this subject is contained in Chapter 10 of this Volume.

7.5.6 Technical Representatives from Other Activities. Throughout the availability there are typically a large number of other Government activities that are participants in the execution phase of a contract. It is essential that these activities be identified prior to commencement of the performance period and they must comply with all of the contractor’s security requirements prior to gaining access into the production facility. These activities should designate one individual as the Point Of Contact to facilitate coordination of their work or involvement with the contractor’s production, to interface with the RMC Contracting Officer, Project Manager and Ship’s Maintenance Team/Maintenance Manager, and for coordination and attendance at appropriate progress and production status meeting.

7.5.7 Planning Yard Technical Representative. The PY provides technical liaison services regarding PY drawings or technical documentation. The PY Technical Representative provides additional information or interpretation of PY drawings and technical documents, resolves requests for drawing changes, waivers or deviations and initiates drawing changes when the change is approved by the PY. PY liaison requirements are addressed in reference (e).

7.6 AVAILABILITY PERFORMANCE.

7.6.1 Preparation for a Contracted Availability. The Contracting Officer that is charged with the responsibility and accountability, in accordance with Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS), to assure that the contractor is prepared to execute the availability or project in accordance with any previous agreements and the specific terms and conditions of the specifications for the availability. The level of effort that is required to administer a contract depends on numerous factors that include the completeness of the advanced planning effort, the type of contract, level of effort and complexity of the modernization package, performance period versus size of the total work package including forces afloat work and key events and seasonal consideration during the production phase. Once the work package is defined and the contract solicited when required, outside of the MSMO concept, there is sufficient cause to involve the other participants in preparations for the availability at the earliest opportunity. Contract administration personnel should be assigned as early as possible. If the availability is not with a MSMO contract, the Project Manager and as many other key personnel as possible shall be assigned to the availability in time to participate in the contract award phase.

7.6.2 Pre-Award Survey. In some instances the PCO may direct a full or modified pre-award survey to assess areas where past performance has been less than satisfactory as noted in previous CPARS or other documents. When the PCO directs a full or limited Pre-Award Survey of the apparent low bidder, RMC personnel may be assigned to participate in the survey, particularly for those contractor(s) selected for award of Master Agreement for Repair and Alteration of Vessels job orders. An in depth Pre-Award Survey is most often not required for contractors who hold an MSMO Contract or MSRA or ABR due in part to their compliance with the Agreement Process plus the familiarity of the PCO and ACO with the capabilities and past performance of the contractor. This familiarity with a specific contractor does not relieve the PCO of the accountability attendant to making the award. The Project Manager shall participate as a minimum. In addition to being able to comment knowledgeably on the contractor's qualifications and readiness for performance of the work, the survey team members may gain additional insights about the contractor's approach to accomplishing the work which will facilitate the management of the contract.

7.6.3 Readiness to Start. A "Readiness to Start" report is required by reference (f) and shall be prepared by the assigned Project Manager. In some projects or availabilities it may be necessary to obtain written pre-availability agreement(s) initiated by the executing activity with the customer(s) or other Department of Defense activities and the status of any required agreement(s) should be addressed as well.

7.6.4 Work Specification Review. Where there is a MSMO contract, the Ship's Management Team/Ashore Ships Maintenance Manager and other personnel assigned for availability management shall review the work specifications as well as all references to understand the full scope of the work package details and to identify discrepancies and areas of concern. For non-MSMO contracts, the Planning Activity and other personnel, as required, should conduct the specification review procedures that are outlined in Chapter 4 of this Volume. The planning objective should be to have the executing activity participate in the pre-award specification review. If such participation is not possible, at the earliest opportunity personnel charged with administering the specifications of the contract shall review and familiarize themselves with the specification package. Every detail that could have a negative impact on the performance schedule, quality of work or cost must be identified early so that intelligent decisions can be made to remove work from the contract, modify work requirements in the contract or add essential work necessary to accomplish the intent of the work authorized. Personnel may be able to recognize potential contract deficiencies from familiarity with the contractor's practices or from experience with a class of ships or a particular ship. Early action on the part of the Government helps to minimize the impact of contract modifications on the contractor's schedule and the final contract price.

7.6.5 Ammunition Off-Load Prior to an Industrial Availability. In general, to obtain maximum safety during industrial work periods, all or most of the ammunition should be off-loaded prior to the commencement of work during a scheduled availability unless there is a specific waiver approved. The specific off-load requirements will be in accordance with the instructions of the TYCOM, the Senior Officer Present Afloat, the Commander of the Naval Base or Naval Station and local port regulations. Ships and crafts entering contractors' facilities for a period in excess of six weeks shall offload all ammunition and other explosive materials except for those for Anti-Terrorism Force Protection. Navy units entering contractor's or Naval Station facilities for industrial work periods of less than six weeks will provide data required for necessary waivers in accordance with reference (g). The message should identify appropriate work boundaries with respect to ammunition storage areas (e.g., ammunition

and other HAZMAT must be separated from hot work by one compartment, tank or void (two bulkheads or two decks), a minimum of 20 feet and when such work does not result in heating the exterior boundary surface of the separated compartment, tank or void).

7.6.6 Fuel Off-Load Prior to an Industrial Availability. Surface force ships and aircraft carriers should enter any significant availability with a maximum fuel load of 15-20 percent unless there is an approved waiver to enter with more fuel onboard. The extent of this requirement will be determined by the nature and magnitude of work to be accomplished. Tanks that will be directly involved or in known or anticipated hot work boundaries should be at low suction levels. It is difficult, very costly and disruptive to off-load and transport or even shift fluids during any availability, especially in a contractor's facility that has the potential to result in a REA or even a claim for delay and/or disruption. The RMC shall advise the ship of specific off-load or transfer requirements sufficiently in advance of the availability start to allow the ship to schedule and accomplish the required effort.

7.6.7 Berthing of Ship and Crew.

- a. Messing and berthing, transportation and other related issues that impact the quality of life of the crew must be anticipated during the availability planning period and provisions made to satisfy the requirements in accordance with current United States Fleet Forces Command instructions. The designated Planning Activity or **Maintenance Team (MT)** have the responsibility to determine if the authorized work package will render the ship or a part of the ship uninhabitable. If any off-ship berthing is authorized, the Project Manager must verify that there is adequate funding and consult with Ship's Force prior to making final arrangements for acceptable berthing and messing for the duration of the uninhabitable conditions.
- b. Any requirement to be satisfied by the contractor must be included in the specification work package. If the availability is to be conducted in the contractor's facility, arrangements must be made for a safe and timely transfer of the ship into the contractor's facility and for the immediate connection of utilities and services. The MSRA and MSMO Contract requires the contractor to make provisions for the personnel assigned to the ship to have access to the ship at all times. Contract requirements shall state that the contractor not interfere with the normal berthing and messing of personnel attached to the ship. If the crew will be berthed off of the ship, written agreements should be established clearly identifying what is being provided, the responsibilities of the provider of the facilities and the responsibilities of the crew. Normally, the crew will be responsible for all routine maintenance and housekeeping that would be accomplished on the ship. Conditions existing in the facilities prior to use by the crew must be carefully documented to resolve questions that may arise when the crew leaves the facility. It is the RMC's responsibility to ensure a smooth transition with a minimum loss of time for the crew during the move and to validate arrangements for transportation of the crew to and from the ship when the crew is berthed off of the ship or to and from meals when the ship is unable to prepare meals because of authorized contractor work in the messing facilities or support systems.

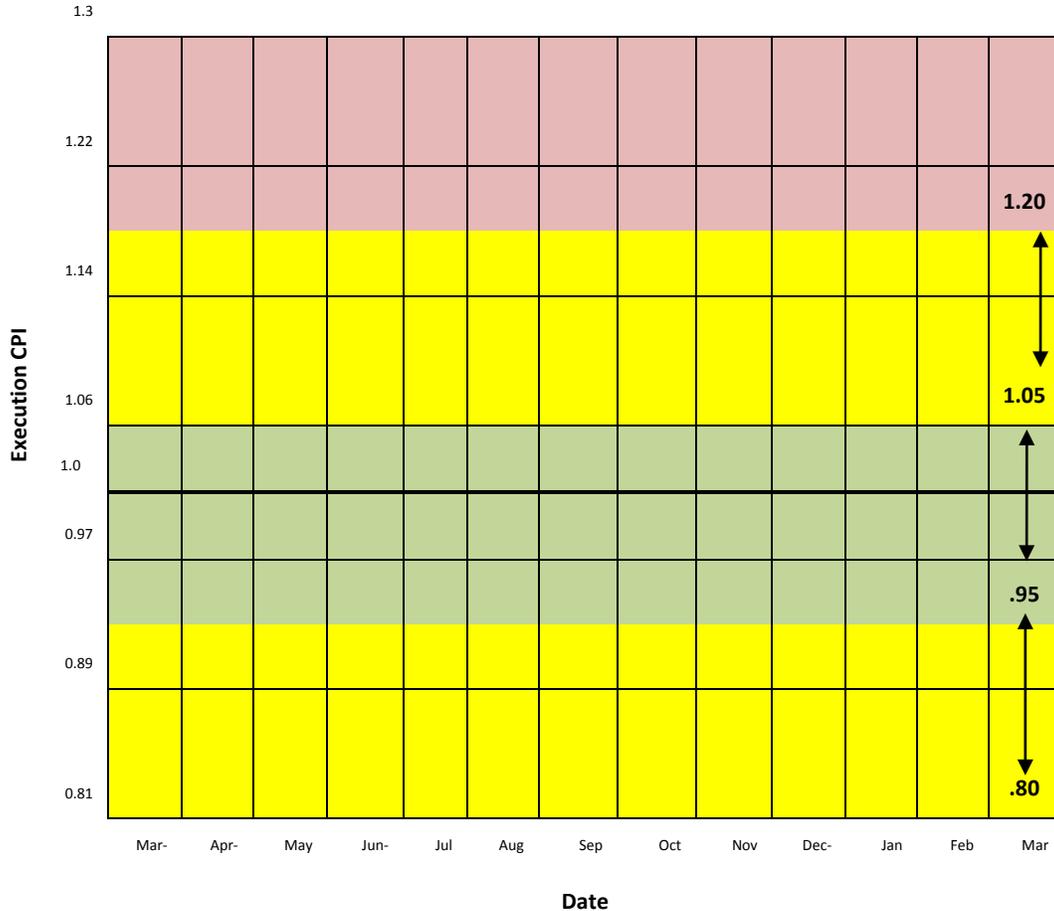
7.6.8 Contractor's Assumption of Responsibility. If availability is to be accomplished in a contractor's facility, the contractor's responsibility for the ship will commence when the contractor's tugs accept the ship's lines or the contractor's line handlers accept the ship's lines at the contractor's pier. Except as otherwise specified in the contract or job order, the contractor will furnish all necessary labor, material, services, equipment, supplies, power, accessories, facilities and other supplies and services as are necessary for accomplishing the work specified in the job order.

7.6.9 Security.

- a. Force Protection and physical security within the contractor's facility is the contractor's responsibility in accordance with the requirements outlined in the contract or job order. The contractor must establish and maintain a personnel identification system, control visitor access to the facility and control the receipt and removal of property from the facility. Government personnel, when in the contractor's facility, must comply with the contractor's security regulations. If the Government wants physical security arrangements other than those the contractor is required to provide, then the requirement must be authorized by the funds grantor, funded and added to the contract requirements. Additional security requirements could include such items as security guards in Ship's Force parking areas, barriers to preclude access to the ship by unauthorized waterborne craft or the patrol of water approaches to the contractor's facility.

- (c) In order for an availability to be referred to as RED, the SPI/CPI must be >1.20 or <.80.

Figure 7-1 SPI/CPI Metrics Chart



7.10 FUNDS ADMINISTRATION.

7.10.1 Over Obligation. Reference (r) establishes that Government funds may not be over obligated or over expended. Severe penalties may be imposed on the CO, RMC as well as any individual involved in such an infraction. Reference (s) establishes that funds must be obligated or expended only for the purpose for which the funds were authorized. Funds administration has been addressed further in Chapter 6 of this Volume.

- a. Personnel in Waterfront Operations must be involved in the funds administration process for the same reason that these personnel are involved in contract administration. The ACO is responsible for ensuring that the contract is properly funded and the Comptroller is responsible for proper financial management. Individuals in these positions will not normally be aware of the validity of the technical requirement for an obligation or expenditure. It is usually the waterfront staff that knows that the material ordered is actually required for the project that the funds grantor provided the funds to accomplish. It is usually the waterfront staff that is aware of the proper funds to apply to a project and shall not proceed until the Funds Administrator obtains the proper authorization to use the funds from the funds grantor.

- b. The Funds Administrator shall be assigned in writing by the CO of the RMC and will be held responsible for the use of funds granted as well as for technical accountability. The funds administrator is then responsible for identifying funding requirements to the funds grantors, apprising the Comptroller on the advisability of acceptance and returning excess funds to the funds grantor.
- c. Generally, the funds administrator is the only individual who can authorize the Comptroller to initiate, commit, obligate or expend the funds for an assigned availability or project. Requirements to increase work in an availability, no matter how critical, must be authorized by the funds administrator. Prior to the preparation of contract modifications, Shipbuilding Specialists must receive authorization from the funds administrator, who will cause the estimated funds to be committed. Funds must be available before negotiations can begin with the contractor or before the ACO can direct a change order, except in the case of impending disaster. In some cases, the funds administrator may be required to receive authorization from the funds grantor to authorize a modification, such as for growth work in excess of an established threshold. In the case of insufficient funds, the funds administrator must obtain additional funds before authorizing any obligation.

7.10.2 Growth and New Work.

- a. Contract clauses and NAVSEA Standard Items require contractors to submit reports identifying additional work or material procurement necessary to produce a reliable or complete repair. The contractor is additionally required in various work items to submit condition reports that identify additional work necessary to accomplish the intent of the work authorized. The contractor may also submit unsolicited reports that may generate additional work, increase the value of the contract and affect the scheduled completion of the contract.
- b. In the process of nearly continuous work identification, some new work may be identified that was not contemplated in the contract nor considered to be within the intent of the original work authorization. That work necessary to complete a satisfactory repair covered in the specifications will usually be authorized as growth within scope, or simply growth work by a contract modification if the funds can be made available. New work to be added to the contract should be the subject of a new work request. New work should not be added to the contract unless it is considered to be mission critical or a safety item **and it is reviewed by the Naval Supervisory Authority Chief Engineer for technical compliance.** Growth work should not be authorized except as necessary to complete the intent of the original work scope authorization. **Growth work, above budget controls, requires the same level of review by the Naval Supervisory Authority Chief Engineer and adjudication by the TYCOM as new work.** Any work, new work or growth work added to the contract after award will impact the contractor's scheduled requirements and will require additional resources, additional time or both.
- c. The contractor condition reports will normally be received by the Shipbuilding Specialist that is assigned responsibility for the trade area of concern who will review the work item and references, as well as all related work items, to determine whether or not the work is already covered in the basic specifications. If the work identified in the condition report is not already a part of the contract, the Shipbuilding Specialist and the ship's Port Engineer for surface force ships and the Maintenance Manager for aircraft carriers will go to the ship, inspect the work site and, if possible, discuss the problem with the individual who generated the report for the contractor. If in the judgment of the Shipbuilding Specialist and the Port Engineer or Maintenance Manager, the work is already required by the contract, is not necessary to accomplish the intent of the work authorized, or can be deferred for later accomplishment, the Shipbuilding Specialist will annotate the report with the appropriate disposition and return it to the contractor after review by the Project Manager. The timing of the condition report review process is critical. Reports shall be time stamped upon receipt from the contractor and returned within three days. When issues raised in a condition report require a longer processing time, the contractor should be advised as to the expected response time.

7.10.3 Contract Modifications.

- a. When the Shipbuilding Specialist and MT/Ashore Ships Maintenance Manager concludes that a condition report identifies an additional work requirement necessary to complete a reliable repair and accomplish the intent of the work authorized, the Project Manager will be notified that a contract

modification is necessary and a TAR will be necessary for the additional work. The ACO shall likewise be alerted that a contract action will be forthcoming. If the Project Manager, Ashore Ships Maintenance Manager and MT agree the contractors initial estimate is within the funds grantor's authorization and the necessary funds are available, the Project Manager should immediately request the ACO to commit the necessary funds and authorize the preparation of the work item specification and a TAR to support the negotiation process associated with a contract modification.

- b. In some cases, the activity providing funds may place a dollar limit on individual growth work changes which can be authorized by the Project Manager and the ship's MT/Ashore Ships Maintenance Manager without the grantor's prior approval. Changes for growth work under this established threshold can be authorized by the Contracting Officer to process the change. For other changes, the Project Manager must obtain concurrence from the MT/Ashore Ships Maintenance Manager and advance approval from the funds grantor before the change can be authorized and in some cases additional funds will be required. This requirement may cause delay in processing needed changes and increase the cost of the additional work. The Project Manager shall do all that can be done to expedite the funding authorization to minimize the potential delay impact.
- c. In some situations, problems may be identified which cannot be addressed adequately by the Project Team. When needed, the Shipbuilding Specialist will initiate a request for technical advice, assistance or direction from the RMC engineering department or the cognizant technical agent, as appropriate. For example, the local engineering department and Chief Engineer should be consulted first for any problem related to the repair work package. Additional consultation with other outside activities should be initiated only after local resources have been exhausted. Problems with the authorized alteration package should be referred to the on-site design liaison representative of the cognizant PY. Local engineering services and PY liaison services do not require funding from availability funds. However, requests for reimbursable services from other activities should be initiated only with the approval of the Project Manager, after consulting with the MT/Ashore Ships Maintenance Manager and Contracting Officer, who must be able to provide the required funding.

7.11 DELAYS IN PERFORMANCE.

7.11.1 Risk. Generally, the contractor bears the risk of both time and cost for delays which the contractor causes or which are within the contractor's control. This may be excused for delays caused by factors for which the contractor is not responsible.

7.11.2 Performance. Contractors are always responsible for providing plant, machinery, labor and finances required for the performance of contracts awarded. Failure to have the necessary machinery or other such means for performance, whether at the time of contracting or subsequently, generally is not a valid excuse for delay or failure to perform. For example, a breakdown of a contractor's machinery is not excusable unless the breakdown was caused by an excusable event.

7.11.3 Material. In a fixed price contract, the contractor assumes the risk of obtaining the materials necessary for performance and a subsequent market shortage is not an excusable cause for nonperformance. The fact that supplies cannot be obtained except at a cost in excess of the contract price is no excuse. Unwillingness to perform at a loss does not relieve the contractor from its contractual obligation. A contractor, even in a time of volatile prices, is deemed to have assumed the risks of increases in material cost. This does not apply in a cost type contract. The Government assumes the risk for providing GFM to meet the contract requirements and contractors production schedule as mutually agreed upon.

7.11.4 Excusable Delays.

- a. In most cases of excusable delay, the contractor must bear the cost impact of such delays. For excusable delay in a contractor's facility, the Government usually will compensate the contractor only for the cost of services provided for the benefit of the crew of the vessel and no other costs. The Government, however, will compensate the contractor for both the time and cost effect of delays caused by the Government.
- b. Most excusable delays involve temporary work interruptions. When the impediment is removed, the contractor is expected to resume performance. Generally, the contractor is not liable for any excess costs if failure to perform the contract arises from causes beyond the control and without the fault or

negligence of the contractor. "Fault or negligence" deals with acts or omissions of the contractor which cause delay. Examples of events beyond the contractor's control and without the contractor's fault or negligence may include:

- (1) Acts of God or of a public enemy.
- (2) Acts of Government in either its sovereign or contractual capacity.
- (3) Fires.
- (4) Floods.
- (5) Epidemics.
- (6) Quarantine restrictions.
- (7) Strikes.
- (8) Freight embargoes.
- (9) Unusually severe weather.
- (10) Terrorist Acts including bomb threats.

- c. In each instance, the delay must be beyond the control and without the fault or negligence of the contractor. The element of "foresee-ability" must be considered regardless of any specifically enumerated excusable factors in order for a contractor to be entitled to excusable delay. If a delay is caused by a subcontractor at any tier, and if the delay is beyond the control of both the contractor and subcontractor and without the fault or negligence of either, the contractor is excused for the delay unless the subcontracted supplies or services were obtainable from other sources in sufficient time for the contractor to meet the required delivery schedule. Generally, delay is not excusable if the supplies or services were obtainable from other sources in sufficient time to permit the contractor to meet the required delivery schedule. Delays caused by sole source subcontractors, even those designated by the Government, do not qualify for excusable delays if the subcontractor is at fault. When the Government directs the installation of a sole source item, it represents only that the requirements of the contract can be met by using that item. However, such representation is predicated upon the assumptions that the item has been properly manufactured and timely delivered by the vendor and that it will be installed properly and timely by the contractor. Excusable delay may result from:

- (1) Acts of God: Delays caused by "Acts of God" (such as delay caused by earthquake) or other naturally occurring events are generally excusable. An "Act of God" has been defined as a "singular, unexpected and irregular visitation of a force of nature."
- (2) Strikes: Delays caused by strikes are generally excusable. Strikes include job actions by a contractor's own employees and by a subcontractor's employees. Excusable delay may also be allowed for other job actions which have the effect of a strike against the contractor, such as organizational strikes, jurisdictional strikes, pickets protesting another contractor at a site, delays caused by impending strikes and wildcat strikes. In order to obtain an excusable delay for a strike, a contractor must prove that it acted reasonably by not wrongfully precipitating or prolonging the strike and took steps to avoid its effect. In the absence of a strike or other enumerated cause of delay, a contractor is generally not excused for labor difficulties. These difficulties usually involve either the loss of key personnel or an unexpected labor shortage. The boards have strictly adhered to the rule that the contractor assumes the risk of hiring and retaining a competent work force.
- (3) Weather: Generally, delay caused by unusually severe weather is excusable. Unusually severe weather is that weather which is abnormal compared to the past weather at the same location for the same time of year. Normally, proof that weather is unusually severe is accomplished through the comparison of the United States weather statistics for past periods in the area with those recorded during the period of performance. When weather conditions are not totally abnormal from a statistical or average standpoint, but are abnormal and unusually severe in

their effect on the particular type of contract work being performed, the contractor may be entitled to excusable delay. In cases where the nature of the work requires specific environmental conditions and when the work is delayed because of weather conditions, the delays are excusable to the extent that the weather conditions exceed the normal weather delays contemplated for the period of the performance.

- (4) Government Acts: Acts of the Government in either its sovereign or contractual capacity may be cause for excusable delay.
 - (a) Contractual Acts: For a contractor to be excused by an act of the Government in its contractual capacity, the contractor must show that delay resulted from the Government's failure to perform its express or implied contractual duties.
 - (b) Sovereign Acts: Sovereign acts which delay the contractor's performance may be grounds for excusable delays. In general, however, when the Government's acts are for the general public good and are indirect in nature, the contractor is not excused for any resultant delay.

7.11.5 Non-Excusable Delays. Even though it may be argued that the following delays occurred through no fault of the shipyard and were unforeseeable, the shipyard is typically held responsible and the resulting delays are not excusable.

- a. Subcontractor delay involves delay occasioned by a shipyard's own subcontractors. A shipyard assumes a non-delegable duty to perform a construction contract, and it is generally no excuse to allege that a shipyard has been delayed by its own subcontractors. The shipyard can, of course, look to the subcontractor for any damages incurred as a result of such delay.
- b. Lack of sufficient working capital does not constitute an excusable cause of delay. A shipyard is expected to have the financial ability to perform the contract. The shipyard's delay or failure to perform resulting from its inability to obtain money is ordinarily inexcusable regardless of the reason; whether due to an economic downturn, general financial distress or failure of a third party on whom it relied on in furnishing support.

7.11.6 Compensable Delays. A contractor's ability to recover increased costs resulting from delays will depend upon the cause of the delay, the nature of its impact on the contractor and the contractual provisions dealing with compensation for delays. Generally, compensable delays result from either changes in the work, the existence of a differing site condition, or an unreasonable suspension of work or failure of the Government to perform its duties under the contract.

7.11.6.1 Government Delay of Work. The contractor cannot be directed to stop work by anyone other than a warranted ACO with one exception. The only exception to this requirement is to protect the safety of personnel, environmental compliance or prevent the loss of or destruction of property and equipment. If the contracting officer orders the contractor to suspend or stop work, the contractor will always be entitled to an equitable adjustment in both contract price and delivery schedule to compensate for the impact on performance. In other situations, the Government will be at fault if it breaches its implied duty not to hinder or interfere with the contractor's performance or its implied duty to cooperate with the contractor. Generally, the Government will be at fault when it is responsible for:

- a. Delays in making the work site available.
- b. Delays caused by interference with the contractor's work.
- c. Delays in providing required Government reviews and approvals.
- d. Delays in providing funding.
- e. Delays in performing required inspection of work.
- f. Delays in issuing changes.
- g. Delays in furnishing Government Furnished Property.
- h. Delays which are unreasonable in duration.
- i. Delays caused by conflicting or defective Government specifications.

7.11.6.2 Excusable Delay Relief. A contractor is not entitled to relief upon the mere occurrence of an event that qualifies as an excusable delay. The contractor must show that the delay was caused by an excusable event and that the event caused delay to the overall completion of the contract, and the contractor must establish the number of days of relief to which the contractor is entitled. The event alone is insufficient to justify the granting of an excusable delay. Not every fire, quarantine, strike or freight embargo is an excuse for delay. Events may not be beyond the contractor's control if the contractor could have overcome the effects of the event, and further, when the event is considered foreseeable, the contractor may be held responsible for making alternative arrangements for performance. Even though a contractor can establish that an event or occurrence was unforeseeable, beyond its control and occurred without its fault or negligence, the contractor is not entitled to an excusable delay unless the contractor can prove that the time lost delayed the completion of the job. It is not sufficient to establish that some work was prevented. The work prevented must be work that will delay the overall completion of the job. When the CPM of schedule control is used, the delay must be on the critical path.

- a. Generally, the duration of the time extension is governed by the extent to which the excusable cause of delay either increases the amount of time required for performance of the contract work as a whole, or defers the date by which the last of the required work will be reasonably capable of completion. The extension granted may be longer, shorter or of the same duration as the delay period.
- b. Generally, the amount of equitable adjustment recoverable by a contractor is equal to the costs that were greater than those which would have been incurred but for Government caused delay. Generally, cost increases attributable to the delay, such as those associated with increased labor rates, time-related labor, equipment, insurance and overhead, if any, are accepted and negotiated. Acceleration costs are also recoverable against the Government if they are incurred in mitigation of the effects of a Government caused delay. When reviewing a contractor's request for delay or acceleration costs, particularly unabsorbed overhead, it is helpful to confer with responsible contracting personnel and legal counsel in order to ensure the appropriate criteria is applied to the specific alleged entitlement.

7.11.7 Concurrent Delay. Generally, in a case where the Government and the contractor are each responsible for delay in completing the work, the Government is barred from assessing liquidated damages against the contractor and the contractor is precluded from recovering delay damages. Concurrent delay does not bar extension of time, but it does bar monetary compensation for, among others, daily fixed overhead costs because such costs would have been on account of the concurrent delay even if the Government responsible delay had not occurred.

7.12 AVAILABILITY FINALIZATION.

7.12.1 Availability Completion Conference.

- a. After Sea Trials and before the scheduled availability completion date, the Project Manager will arrange for the Availability Completion Conference. Generally, the scheduling of the conference will be deferred until most of the contractor's deficiencies have been corrected. The Availability Completion Conference is chaired by the Project Manager and should be attended by the Project and Maintenance Teams, TYCOM Representative, ship's MT, NAVSEA (if significant NAVSEA alterations were accomplished), the ship's CO and the contractor's representatives including the ship superintendent. For major availabilities, the CO of the RMC shall also attend the conference.
- b. The purpose of the Availability Completion Conference is to establish the date and conditions under which the TYCOM and NAVSEA will accept redelivery of the vessel. To complete the availability and redeliver the vessel, the contractor's work must be completed or exceptions to completion must be documented and agreed upon by the parties concerned. For each exception permitted, a plan to complete the work must also be agreed upon and documented. Additionally, the RMC must ensure that Government responsible work is completed before redelivery or completed with exceptions.
- c. Exception items that the contractor is allowed to complete after the redelivery date must be monitored by Ship's Force and RMC Representatives to ensure contractor compliance with contract requirements. Additionally, the ACO will retain sufficient retention funds to cover the estimated value of the incomplete work. Final payment and release of other retained funds is made when the ACO is satisfied that the contractor has substantially complied with all contract requirements and documented exception agreements.

7.12.2 Exceptions to Completion of the Contract. The exception list developed at the Availability Completion Conference will be reviewed by the Project Manager and the ACO to determine if the contract should be declared complete with the exceptions remaining to be completed. The Project Manager reviews the list with the MT/Ashore Ships Maintenance Manager and Project Management Team to identify items that should be deleted from the contract. Items that should be deleted are those items requiring Long Lead Time Material for completion or items that cannot be completed because of factors beyond the control of the contractor. Work item specifications and TARs are then prepared to support negotiation of contract modifications to delete the work from the contract and reduce the contract value. The on-site team also provides estimates for the outstanding items on the exception list so that the ACO can ensure that adequate funding is retained to complete the outstanding items. The redelivery date of the ship is established by the ACO when agreement is reached by all parties on the disposition plan for all exception items.

7.12.3 Availability Completion. When the RMC considers the ship ready for redelivery to the Fleet, the TYCOM is notified. The TYCOM generally concurs if, in the TYCOM's judgment, the exception list does not include outstanding work which would prevent the ship from being fully capable of accomplishing its mission or an accumulation of smaller items which would seriously affect the ship's safety or operations. When agreements of the Availability Completion Conference have been met (if applicable for the class of ship), the TYCOM will accept redelivery of the ship to the Fleet, the contract is declared complete with exceptions and the availability is officially ended.

7.12.4 Contract Guarantee Period.

- a. When the ship is redelivered to the Fleet, the contract guarantee period begins. The MSMO contract guarantee period is typically 60 days. For fixed price contracts, the contractor must correct deficiencies in the work performed or in the materials supplied for a period of 90 days. The guarantee period on the items that were exceptions to the completion of the contract will start when the RMC accepts the completed work. Defective contractor work or material deficiencies identified after completion by Ship's Force or others must be reported to the RMC promptly. RMC Representatives investigate the deficiency, and, if it is determined to be a contractor-responsible deficiency, the ACO notifies the contractor in writing. If it is reasonable to do so, the Government must allow the contractor access to the ship to correct the noted deficiencies. If the ship is in port and accessible, the contractor has the option to accomplish the repairs or arrange for another contractor to accomplish the repairs. If the contractor corrects the defect directly or by the use of a subcontractor, then a new guarantee period begins when the repairs are accepted by the RMC. The total guarantee period for any item under a fixed price contract cannot exceed a maximum of 180 days.
- b. If the contractor fails to arrange for the correction of the deficiencies, then the ACO will arrange for the defects to be corrected by other means and execute a contract modification with the contractor for an equitable reduction in the contract value. The defects can be corrected by various Government resources, including Ship's Force or by another prime ship repair contractor. If the ACO contracts with another contractor to correct the defect, then the new contractor is responsible for a new contractor 90-day guarantee period when the repair is accepted by the RMC.
- c. In the case of split availabilities, the contract guarantee period may begin prior to redelivery of the ship to the Fleet if the Navy uses the equipment provided or the repaired item prior to redelivery.
- d. Throughout the guarantee period, the Project Manager must maintain contact with the ship and monitor the contractor's completion of exception items and the correction of guarantee defects. Disputes about guarantee work items must be resolved by the ACO.

7.12.5 Completion Reports. The RMC reviews the records and compiles a number of reports at the conclusion of the availability, the completion of the guarantee period and the closing of the contract.

7.13 INSURANCE.

7.13.1 Introduction. NAVSEA's insurance policy differs from most Government agencies since NAVSEA is basically a self-insurer beyond contractually specified deductibles for which the contractor is responsible. In general, there are two types of insurance coverage. The first covers loss, damage or destruction to the vessel, its equipment or materials; the second covers third party and collision, protection and indemnity liabilities. It is essential to remember that insurance claims are different from contract claims. Specifically:

- a. Require direct physical damage to vessel from external cause.
- b. Excludes delay, disruption, faulty work and materials, cost of sea trials and consequential damages.
- c. Excludes fixed overhead.
- d. Excludes overtime, unless authorized.
- e. Excludes cost of money.
- f. Can pay negotiated profit influenced by degree of contractor fault and based upon profit of all yard work.
- g. Reimbursement not to be based on estimates, but on return costs for labor performed and bills paid for material.
- h. Can settle outside contract price (targets).
- i. Deductible is not a contract cost.

7.13.2 Master Ship Repair Agreements/Multi-Ship Multi-Option Contracts - Loss or Damage to Government Property. Reference (t) does not refer to any Navy Syndicate Forms (i.e., the coverage is self-contained). The contractor is directed to exercise reasonable care and use best efforts to prevent accidents, injury or damage to all employees, persons and property in and about the work and to the vessel or part on which work is being done. The term "reasonable" is normally defined in terms of criteria established by the National Fire Protection Association. Of course, any specific contract requirements will govern. Issues regarding Insurance should be directed by the Contracting Officer and the Counsel for the RMC. For example, the requirements are very complex and the Department of Defense is self insured as noted in the following:

- a. The contractor will not, unless otherwise directed or approved in writing, carry or incur the expense of any insurance against any form of loss or damage to the vessels or to the materials or equipment to which the Government has title, or which have been furnished by the Government for installation by the contractor. The Government assumes the risks of loss or damage to the vessels and such materials and equipment. The Government does not assume any risk with respect to loss or damage compensated for by insurance or otherwise, or resulting from risks with respect to which the contractor has failed to procure or maintain insurance, if available, as required or approved.
- b. Further, the Government does not assume risk with respect to and will not pay for any costs of the contractor for the inspection, repair, replacement or renewal of any defects themselves in the vessel(s) or such materials and equipment due to the following:
 - (1) Defective workmanship or defective materials or equipment performed by or furnished by the contractor or subcontractors.
 - (2) Workmanship or materials or equipment performed by or furnished by the contractor or subcontractors which does not conform to the requirements of the contract, whether or not any such defect is latent or whether or not any such nonconformance is the result of negligence.
- c. In addition, the Government does not assume the risk of and will not pay for the costs of any loss, damage, liability or expense caused by, resulting from or incurred as a consequence of delay or disruption of any type; or willful misconduct or lack of good faith on the part of any of the contractor's directors, officers, and any of its managers, superintendents or other equivalent representatives who have supervision or direction of all or substantially all of the contractor's business or all or substantially all of the contractor's operations at any one plant. However, for such risk assumed and borne by the Government, the Government will be subrogated to any claim, demand or cause of action against third persons which exists in favor of the contractor, and the contractor will, if required, execute a formal assignment or transfer of claims, demands or causes of action. Moreover, nothing in the above will create or give rise to any right, privilege or power in any person except the contractor, nor will any person (except the contractor) be or become entitled to proceed directly against the Government or join the Government as a codefendant in any action against the contractor brought to determine the contractor's liability, or for any other purpose. In addition, the contractor will bear the first \$50,000 of loss or damage from each occurrence or incident, the risk of which the Government otherwise would have assumed under the provisions specified above.

- d. The Insurance Clause typically requires that the contractor will, at the contractor's expense, procure and maintain such casualty, accident and liability insurance in such forms and amounts as approved by the Government, insuring the performance of its obligations under paragraph (c) of the clause. Further, the contractor will procure and maintain Workers' Compensation Insurance (or its equivalent) covering employees engaged on the work and will insure the procurement and maintenance of such insurance by all subcontractors engaged on the work. The contractor will provide evidence of such insurance as required by the Government.

7.13.3 Administration of Insurance Requirements.

7.13.3.1 Responsibilities of the Assistant Secretary of the Navy Research, Development and Acquisition - Acquisition and Business Management. The Assistant Secretary of the Navy (ASN) Research, Development and Acquisition (RD&A) - Acquisition and Business Management (ABM) is available to contracting activities to provide guidance on insurance matters. The ASN (RD&A) - ABM is authorized by direction of the Secretary of the Navy, or the duly authorized representative of the head of a contracting activity, the contracting officer or any other naval official designated in such a contract, to do the following:

- a. Require or approve insurance when a contract provides that a contractor will procure such insurance.
- b. Execute, sign or endorse in the name of and by direction of the Secretary of the Navy any and all lost policy releases, proofs of loss, subrogation agreements, endorsements of policies for claims or return premiums, payment orders and insurance drafts made payable to the Secretary of the Navy and not affecting the obligating of appropriations.
- c. For risk pooling arrangements, confirm to the cognizant activity the amount of premium due and, if the funds allocated to the contract are not sufficient, the amount due shall be paid as an item of cost under the contract out of other appropriated funds.
- d. Advise and recommend to the Secretary of the Navy or other authorized interested officials of the Navy Department regarding insurance drafts that affect the obligating of appropriations and assignment, in order to assure payment of premiums found to be due after the completion of a contract.

ASN (RD&A) - ABM should be consulted if any assistance is required in determining Government responsibility. All matters concerning self-insurance covering any kind of risk will be submitted to the ASN (RD&A) - ABM.

7.13.3.2 Procuring Contracting Officer/Regional Maintenance Center Administrative Contracting Officer Responsibilities and Actions. Responsibilities outlined in the NAVSEA Contracts Handbook, Subpart 28.301, include:

- a. Establishing and maintaining adequate records on required contractor insurance.
- b. Expediting acquisition of the required insurance by the contractor.
- c. Reviewing insurance policies. The previous requirement to forward insurance policies to the ASN (RD&A) - ABM for review has been canceled. If problems exist with specific contractor insurance policies that the ACO cannot resolve, then NAVSEA 02 assistance should be requested.
- d. Ensuring the contractor maintains qualifying insurance under the annual Public Law 85-804, Secretary of the Navy Determination or individual authorization (see FAR Part 50.3).
- e. Establishing and maintaining adequate contract records of contractor claims when the Government assumes the risk or indemnifies the contractor under the contract, analyzing such claims to ascertain patterns of neglect or misconduct, and calling such matters to the attention of the contractor.
- f. Taking action on insurance as directed by NAVSEA.
- g. Ensuring that contract modifications for repairs to GFM are not issued when the need for corrective action results from damages of an insurance nature.
- h. Ensuring that any loss or damage that may be the subject of an insurance claim is promptly reported by the contractor in writing to the ACO.
- i. Take the following actions and record the specified information for loss or damage that may be the subject of an insurance claim:

- (1) Contractor's name and contract number.
- (2) Navy classification symbol and hull number, if appropriate (not the contractor's hull number).
- (3) Claim number or job order number.
- (4) Date of occurrence.
- (5) Full description of damage and of accident or event causing damage in simple, non-technical language.
- (6) Estimated or actual cost of repair in full detail.
- (7) Comment on any circumstances that make the contractor responsible for the loss, such as willful misconduct, with the Navy not having title to the material because the material was in the possession of a subcontractor, or where the damages were not accidental. The ACO's investigation concerning responsibility must be thorough (the contractor's investigation will not be the only investigation made). When the ACO considers that there are mitigating circumstances concerning the responsibility of either party, the ACO's comments should provide a full report of the circumstances.
- (8) Comment on any need to place the contractor on notice that, due to a repetitive pattern of claims, the Government would not be liable for any future claims.
- (9) Comment to the extent of the contractor's entitlement.
- (10) Legal review by activity counsel.

7.13.3.3 Notification of Legal Actions Against the Contractor. As required by the insurance clause(s) of job orders or contracts, a contractor will immediately, or as soon as practical, notify the ACO of any legal action filed against the contractor if the legal action arises out of the performance of the contract and if the cost may be reimbursable, the risk is uninsured or the amount claimed is in excess of the amount of insurance coverage. The ACO will then direct the contractor to immediately furnish copies of all pertinent papers received in connection with the claim, if not provided with the contractor's notification. The ACO will also promptly notify the NAVSEA contracting officer, or NAVSEA 02, and NAVSEA counsel of any such legal actions filed against the contractor and forward copies of all papers and statements of available facts concerning any action resulting from bodily injury, death or property damage and involving a member of the public or any employee of the contractor or subcontractor.

- e. Oversee disposition of excess government property as prescribed in the contract or direct disposition when required. This includes submitting a quarterly report per reference (k).
- f. Ensure the transfer of Government property between contracts when required.
- g. Certify that contractors annually, as required by contract, enter data in the **appropriate** contract property **information** system or submit information to Assistant Secretary of the Navy (Research, Development and Acquisition).
- h. With the Contracting Officer authorization, coordinate the repair or modification of Government Furnished Property when it has been received in a condition that is not suited for its intended use.
- i. Administer all facility contracts and leases for which Regional Maintenance Center (RMC) has been designated contract administrator, either by specific letter, contract document or by Naval Sea Systems Command (NAVSEA) instruction.
- j. When required, supervise the contractor's preparation and maintenance of property record cards for Class III property, maintaining individual equipment identification logos, ensuring that equipment is properly marked and identified and taking periodic inventories.
- k. Ensure that contractors use facilities in accordance with lease agreements and in the event that the involved contractor is using the facilities for commercial work when such work is not authorized, immediately direct the contractor, in writing, to cease the unauthorized use.
- l. Review and approve the contractor's program for the inspection, maintenance, repair, adjustment, protection and preservation of equipment under facilities contracts. Such reviews are conducted at the inception of a contract and at least annually thereafter, as long as the facilities remain in the contractor's possession.
- m. Monitor rental payments for facility contracts, floating drydock leases and production equipment leases to ensure payment in accordance with the agreements and report pertinent information to NAVSEA as required.
- n. For government-owned facilities, when required, verify that the contractor or lessee maintains the proper type of insurance in amounts acceptable to the Insurance Examiner of the Navy.
- o. Provide the annual inspection of civil works.
- p. Arrange for periodic inspections of fire protection measures at reserve plants under RMC's cognizance.
- q. Maintain Shore Facilities Planning System documents for facilities under RMC's cognizance.
- r. Administer the removal/transfer and disposal of facilities under RMC's cognizance.

9.2.2.3 Contractors.

- a. Annually, as required by contract, enter data in the **appropriate** contract property **information** system or submit information to Assistant Secretary of the Navy (Research, Development and Acquisition).
- b. Identify Government property when it is no longer needed to perform the contract, in accordance with reference (l), the terms and conditions of the contract, and report excess property to the Plant Clearance Officer.
- c. Coordinate the disposal of all government property with the Plant Clearance Officer as directed by contract or in compliance with Contractor Inventory Redistribution System (CIRS) or other Navy plant clearance programs designated for the reutilization and disposal of excess material.
- d. Coordinate the disposal of hazardous material and hazardous waste in accordance with the terms and conditions of the contract and in coordination with the Plant Clearance Officer and Environmental Coordinator.

9.3 PROVIDING GOVERNMENT PROPERTY TO CONTRACTORS.

9.3.1 Property. Under reference (m), contractors are ordinarily required to furnish all property necessary to perform Government contracts. If contractors are provided Government property, the Navy is required to ensure that the requirements of reference (m), concerning minimization of competitive advantage, use of Government property only as authorized, rental when appropriate, contractor responsibility and accountability, contractor justification for retention and reutilization of contractor inventory within the Government, are met.

9.3.2 Material.

- a. Contractors ordinarily furnish all material for performing Government contracts. The Navy provides material to a contractor when necessary to achieve significant economy, standardization, expedited production or when otherwise in the Government's best interest in accordance with references (a) and (b). These directives also provide guidance for economic utilization of available Government-owned material as GFM (in lieu of CFM).
- b. In repair and overhaul contracts, GFM is usually identified by the Planning Activity in the schedule of the contract or the specifications. In new construction contracts, GFM is usually identified in Schedule A of the contract, with Government Furnished Information identified in Schedule C. Outfitting material provided as GFM is usually identified (by the Navy Inventory Control Point - NAVICP, Mechanicsburg, PA) in the Consolidated Shipboard Allowance List, which is considered to be part of the contract.
- c. During the performance of the contract, if the contractor has difficulty in obtaining CFM for contract use, the Government has three options:
 - (1) Issuing a supplemental agreement authorizing substitute material (with no degradation or increase in contract price and appropriate reduction in price if substitution results in lower overall cost to contractor).
 - (2) Authorizing the contractor to obtain the required CFM through the "cash sales" procedure in accordance with Naval Supply Systems Command guidance.
 - (3) Issuing a supplemental agreement converting the CFM to GFM with a decrease in contract price and release of any government responsibility for delay or disruption if subsequent material is not received in a timely manner. This method should only be used as a last resort.
 - (4) The Property Administrator should ensure that contractor's approved Property Control Procedures address special considerations when any of the three options are used.

9.3.2.1 "Cash Sales" Procedures.

- a. Naval Supply Systems Command Manuals contain procedures to permit contractor purchase from Navy sources, as well as providing direction to the Administrative Contracting Officer for developing local instructions on use of the cash sales method. The Property Administrator must ensure that the contractor has specific procedures to address requests for cash sales purchases, as well as procedures for receiving and tracking of cash sales material to ensure that all Navy policies and requirements for control, use and return (if required) of cash sales material are met. The Property Administrator will include a review of the contractor procedures during the annual/biennial contractor property control surveys. The Navy Supply System considers all purchases from the supply system that are not Government requisitions to be cash sales because of the method of payment used. NAVSEA refers to cash sales only for unique circumstances where the Government is providing assistance to the contractor to meet contract requirements without the administrative burden of contract modification. Other contract clauses exist which allow contractor access to the supply system for purchase of material for particular purposes. The Property Administrator must review the individual contract upon award to determine if such a clause has been included.
- b. RMC monitoring of contractor access to the supply system for purchase of material, excluding the Navy cash sales procedure, should be kept to a minimum. Involvement will vary depending on the type of contract. In all cases other than cash sales, the supply system is another vendor for the contractor. The material purchased by the contract will be covered by reference (n) requirements if purchased under a

cost type contract or as a line item under a fixed price contract. If the material is purchased under a fixed price contract (and not defined as a line item purchase), reference (n) requirements do not apply. RMCs should still monitor contractor actions under fixed price contracts in order to ensure that no fraud, waste or abuse is occurring. The property is CFM (if not a line item purchase) and Government oversight of that material is limited.

9.3.3 Special Tooling. Reference (o) gives direction for providing special tooling to contractors both existing special tooling and special tooling purchased by the contractor under cost-reimbursement contracts (Government acquires title) and fixed price contracts (Government may or may not acquire title). Special tooling requirements and clauses may vary between contracts. Therefore, the Property Administrator must review each contract carefully to determine the requirements and clauses in effect.

9.3.4 Special Test Equipment. Reference (p) addresses requirements for providing existing Government-owned special test equipment as well as requirements for acquiring special test equipment. It also references applicable Federal Acquisition Regulation clauses.

9.3.5 Agency-Peculiar Property. Reference (q) notes requirements for providing the contractor with agency-peculiar property (i.e., military property).

9.3.6 Facilities. Contractors are required to furnish all facilities required for performing Government contracts except as provided under reference (r). Reference (s) addresses the requirements for facilities contracts when the Government does provide facilities. Additional facilities determinations and approval guidance is provided in reference (t). Reference (u) gives specific Navy guidance on determinations and approval for providing facilities.

9.3.7 Industrial Plant Equipment. Reference (v) relates requirements for providing industrial plant equipment with an acquisition cost of \$15,000 or more.

9.3.8 Automated Data Processing Equipment. Reference (t) provides guidance to Administrative Contracting Officers on processing acquisition of automatic data processing equipment to the Defense Information Systems Agency in accordance with reference (w).

9.4 CONTRACTOR USE AND RENTAL OF GOVERNMENT PROPERTY. Reference (x) prescribes policies and procedures for use and rental of Government production and research property. Generally Government use is on a rent-free basis. Non-Government use is on a rental basis. RMCs administer very few contracts that allow rental of Government property for non-Government use. The value of those administered is very small. The Government Property Administrator must be aware of any rental clauses, since utilization rates for the property must consider Government and non-Government utilization.

9.5 ADMINISTRATION OF GOVERNMENT PROPERTY.

9.5.1 Regulation and Contractual Requirements. The primary contractual clauses affecting the administration of Government property are the Government Property clauses of reference (y). They may be used in solicitations and contracts when a fixed price, time-and-material or labor-hour contract is contemplated where the acquisition cost of all GFP is \$100,000 or less.

9.5.1.1 Oversight of Contractor Operations. Reference (x) and its supplemental documents contain extensive and detailed administrative requirements regarding Government property. The most detailed guidance is provided in Chapter 5 of reference (e), which addresses special topics related to the property administration process that may be applicable to property administrators. The Property Administrator must ensure that all types of government property are considered in property administration oversight. Property to which the Government has acquired a lien or title solely as a result of advance, progress or partial payments is not subject to the requirements of reference (n). There are special provisions related to the disposition of excess Government property related to fixed price incentive contracts that are not applicable for other types of fixed price contracts as explained in paragraph 9.5.3.5 of this chapter. The property administrator may be involved in review of contractor furnished material for fixed price contracts under other contracts requirements related to areas such as Material Management and Accounting Systems, but not under reference (n) requirements.

9.5.1.2 Liens and Title Clause. Specific contractual provisions that affect the administration of Government property (e.g., the Insurance clauses and the Liens and Title clause) are usually included in contracts. The Liens and Title clause in fixed price contracts does not affect the reference (a) guidance that property to which the Government acquires a lien or title solely as the result of advance, progress or partial payments is not subject to the requirements.

9.5.1.3 Transfer of Government Property Between Contracts. The Property Administrator must ensure that transfer of Government property between contracts is accomplished in accordance with reference (c). Excess Government property from one contract should be transferred for use on another contract where a need is identified, but must not be transferred to another contract where a need for the property is not identified.

9.5.1.4 Annual Property Administration Plan and Report. At the beginning of each fiscal year, each RMC shall schedule analyses of the contractor's system for property administration to be conducted for all active contractors during the upcoming fiscal year.

9.5.1.5 Annual Reports. For contracts that require annual property reports, property administrators and contractors should enter data in the appropriate contract property information system no later than 15 November at <http://web1.dcmde.dema.mil/cpms/> or mail paper copies of the certified DD 1662s of reference (f) to:

Assistant Secretary of the Navy (Research, Development and Acquisition)
OASN (RDA)ACQ,
1000 Navy Pentagon BF992
Washington, DC 20350-1000

9.5.1.6 Additional Reports. In accordance with reference (b), each RMC will submit a DD Form 1638 report to NAVSEA on a quarterly basis. Reports are required at NAVSEA by 15 October, 15 January, 15 April and 15 July. The Remarks Block of the form should be used to explain major increases or decreases in value of excess property reported and/or dispositioned. Excess property reutilized on other Government jobs or contracts at the contractor facility should not be reported on the DD Form 1638.

9.5.2 Responsibilities and Duties. Whatever the organizational alignment, personnel designated as Government Property Administrators are primarily responsible for the administration of contractual provisions related to Government property.

9.5.2.1 Appointment and Duties of Property Administrators. The selection, appointment and termination of appointment of property administrators shall be made in writing by the Head of the Contract Administration Office or designee. Reference (h) addresses selection and appointment/termination requirements. Reference (e) addresses the duties and responsibilities of the Property Administrator.

9.5.2.2 Appointment and Duties of Plant Clearance Officers. The Plant Clearance Officer shall be appointed in writing by the Head of the Contract Administration Office or designee. The Property Administrator may serve as the Plant Clearance Officer. Reference (w) delineates Plant Clearance Officer duties.

9.5.2.3 Training Requirements for Property Administrators and Plant Clearance Officers. Property Administrators and Plant Clearance Officers will satisfy the mandatory training course requirements for their certification level as required by reference (j).

9.5.3 Plant Clearance.

9.5.3.1 Procedures. In accordance with reference (l), contractors are to identify Government property when it is no longer needed to perform the contract. The Plant Clearance Officer should work with contractors to ensure excess Government property is disposed of in a timely manner by established time frames for reporting excess Government property with contractors.

9.5.3.2 Disposal Methods. References (l) and (z) address the plant clearance process and reference (aa) stipulates the use of the CIRS. The Navy has established other plant clearance programs to expedite and increase reutilization and disposal of excess material that should be utilized prior to CIRS actions. New, ready-for-issue, standard stock-numbered material may be returned to the Navy supply system through the Material Turn Into Stores program. Non-standard, ready-for-issue material may be returned through the Material Returns Program for identification and reutilization screening. Other Navy programs that are appropriate for the particular type of excess material to be disposed may be utilized. Disposition of Automated Data Processing equipment, Industrial Plant Equipment and special test equipment should follow procedures in reference (z). CIRS may be utilized for disposal of excess material that cannot be handled by the Navy disposal program.

9.5.3.3 Disposing of Hazardous Material/Hazardous Waste. The distinction of hazardous material and hazardous waste is important, particularly regarding the disposal actions. Reference (ab) provides the following definitions:

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CHAPTER 11

CONTRACT ADMINISTRATION QUALITY ASSURANCE PROGRAM

REFERENCES.

- (a) Federal Acquisition Regulation - Part 46 - Quality Assurance
- (b) NAVSEA S9086-VD-STM-010 - NSTM Chapter 631 V3 (Preservation of Ships In-Service - General)
- (c) NAVSEA MS 6310-081-015 - Submarine Preservation
- (d) MIL-STD-1330 - Standard Practice for Precision Cleaning and Testing of Shipboard Oxygen, Helium, Helium-Oxygen, Nitrogen and Hydrogen Systems
- (e) NAVSEAINST 9304.1 - Shipboard Electrical Cable and Cableway Inspection and Reporting Procedures
- (f) NAVSEA T9074-AS-GIB-010/271 - Requirements for Nondestructive Testing Methods
- (g) NAVSEA 0900-LP-001-7000 - Fabrication and Inspection of Brazed Piping Systems
- (h) NAVSEAINST 4355.7 - Nondestructive Test (NDT) Examiner Qualification and Requalification
- (i) NAVSEA 250-1500-1 - Welding Standard
- (j) NSTR-99 - Qualification Examination Requirements for Nondestructive Test Personnel
- (k) NAVSEA SI 009-04 - Quality Management System
- (l) CNRMCIINST 4700.9 - **Availability** Quality Maintenance Plan (**QMP**) Standard Operating Procedure (**SOP**)
- (m) NAVSEAINST 4700.17 - Preparation and Review of Trouble Reports
- (n) NAVSEAINST 9210.31 - Government Procurement Quality Source Inspection Actions for Shipyard Procedure of Material Under NAVSEA 08 Cognizance

LISTING OF APPENDICES.

- A Preservation Departures from Specifications Process Decision Tree
- B Corrective Action Request
- C Letter of Delegation (Example Only)

11.1 PURPOSE. This chapter establishes the basic provisions for the Regional Maintenance Center (RMC) repair Contract Administration Quality Assurance Program (CAQAP) for hardware and technical data. This chapter includes provisions for tailoring the implementation of these programs to the particular need, based on contractual requirements. There are seven elements of the CAQAP that are designed to provide a systematic program for ensuring contractor compliance with contract requirements. These elements, which are based on the deliverable product and contractual requirements, are Planning, Document Review/Procedure Review (PR), Procedures Evaluation (PE), Product Verification Inspection (PVI), Quality Audits, Corrective Action and Quality Data Evaluation (QDE). The RMC will develop, apply and maintain an effective program for performing Government Quality Assurance (QA) actions consistent with the CAQAP. The elements of the CAQAP will be described by operating procedures that provide RMC personnel with specific direction in applying these to the local contracting environment. This chapter also includes the QA oversight requirements set forth by reference (a). Data related to PE, PVI, Quality Audits, and Corrective Action elements should relate to each individual availability to support Contractor Performance Appraisal Reporting System.

11.1.1 Scope. This chapter establishes the CAQAP requirements for repair and overhaul contracts and applies to all nuclear and non-nuclear areas, except as otherwise indicated.

11.1.2 Applicability. This chapter is applicable to repair and overhaul contracts administered by RMC activities.

11.1.3 Quality Assurance Directives. Fleet instructions, directives and policy letters not included in this chapter containing mandatory QA requirements will be incorporated into each CAQAP. Naval Sea Systems Command (NAVSEA) instructions, directives and policy letters not included in this chapter containing mandatory QA requirements will be incorporated into each CAQAP as directed in writing by the Fleet.

11.1.4 NAVSEA Evaluations. NAVSEA will conduct product-oriented evaluations of contractors and associated RMC contract administration activities as considered necessary. The purpose of these evaluations is to determine contractor conformance to specification requirements and RMC contract administration conformance to QA functions and responsibilities.

11.2 PROGRAM DIRECTION AND CONTROL.

11.2.1 Contractor Responsibilities. The contractor carries out the obligations as set forth in the terms and conditions of the contract and in the applicable specifications. The contractor is responsible for controlling product quality, offering to the Government for acceptance only those supplies and services that conform to contract requirements and, when required, for maintaining and furnishing objective evidence of this conformance.

11.2.2 Government Responsibilities. Government will determine the type and extent of CAQAP actions required based upon the particular procurement. These actions will include as a minimum:

- a. Inspection of the product or process.
- b. Adequacy Reviews and Audits of the contractor's Quality Management System (QMS) or of any other means employed by the contractor to control quality and to comply with contract requirements.
- c. Teaming with the contractor to establish and improve the QMS and associated processes.
- d. Maintenance of Government records to include:
 - (1) The number of observations/inspections made and the number and type of nonconformities detected.
 - (2) Corrective Action Requests (CAR).
 - (3) Records described in paragraph 11.2.4 of this chapter.
- e. Final acceptance of product, when required.

11.2.2.1 Compliance. The Government determines if the contractor's performance of work complies with the requirements of the contract. The contractual documents must provide the authority to require the contractor to maintain a QMS adequate for the work. The contractor must provide and maintain a QMS acceptable to the Government "as specified in the contractual documents." To implement this, cognizant Government personnel will determine the effectiveness of the contractor's quality effort, as well as perform the product inspections necessary to ensure contractor's conformance to the specification.

11.2.2.2 Quality. Government personnel shall be responsible to ensure that the contractor resolves quality issues and improves quality processes. Government personnel shall not serve as a replacement for the contractor's own QMS, nor shall Government personnel be used by the contractor as a progressive inspection device to determine end product acceptability.

11.2.2.3 Verification. If the product is repetitively not ready for inspection after Government services have been requested or items accepted by the contractor are found to be nonconforming during Government inspection, the Government representative will notify the contractor that contractual requirements have not been met. In addition, the Government representative shall discontinue verification actions and initiate corrective action identifying the specific nonconformities.

11.2.2.4 Evaluation. While evaluating the contractor's performance of work on a specific product, the Government representative shall require the contractor only meet those requirements set forth in the contractual documents. The Government representative will not require higher quality work than that set forth in the specifications. Doing so provides the contractor with grounds for requesting an increase in price to cover the higher costs of performance. The Government representative shall not accept lower quality work or work of a lesser scope than specified in the contractual documents. Work performed will only be accepted when the work conforms to the contractual documents and changes.

11.2.2.5 Preservation Oversight of Critical Coated Areas. The RMC is considered to be the third party inspector and shall be responsible for providing a qualified coating inspector in accordance with reference (b). The RMC third party qualified inspector is responsible for ensuring compliance with the requirements of references (b) and (c) before signing acceptance/witness for all Hold points, including (G) points in NAVSEA Standard Items (NSI)

during execution of the preservation process. The third party inspector may either perform the inspection or witness, by personal observation, a qualified contractor individual performing the required measurements. Hold points, including (G) points in NSIs (or key checkpoints) which the third party inspector must sign, are at a minimum, those items identified in reference (b), table 631-11-1 indicated by note 2. The RMC shall also provide for the retention of required preservation records. Any out-of-specification condition found is to be mitigated in accordance with Appendix A of this chapter and in accordance with Volume V, **Part I**, Chapter 8 of this manual.

11.2.3 Specification Review. Planning Activities, Executing Activities and contractors prepare and issue work specifications. Executing Activities will review these work specifications for adequate quality requirements and inclusion of all technical requirements. Modifications or sequences that are written to the original work specifications will also be reviewed for adequate quality and technical requirements. Specification review will include, as a minimum:

- a. The location of (I), (V) and (G) points are consistent with the procedure referenced in Chapter 4, Appendix E of this volume.
- b. There is adequate, written description of the technical requirements.
- c. Accept or reject criteria for inspections and tests is clearly stated and includes appropriate tolerances.
- d. The use of references in work specifications should be avoided unless the material is too extensive to quote or paraphrase.
- e. An (I), (V) and (G) point is not invoked in the work specification before a paragraph which references an NSI which invokes the same (I), (V) and (G) points.

Government will establish and maintain a feedback and corrective action process that formally reports specification problems and nonconformities to the preparing Government and/or contractor activity.

11.2.4 Retention and Disposal of Inspection Records. Government records (i.e., inspections, qualifications/training, assessments, evaluations, audits, CARs, PVI and critical coat paint preservation) will be retained at the RMC for at least 3 years following the completion of work. After 3 years the records may be stored at a Federal Records Center in an auditable condition. Records stored at a Federal Records Center will be appropriately cataloged to allow prompt retrieval, if necessary.

11.3 PERSONNEL CAPABILITY REQUIREMENTS.

11.3.1 Quality Assurance Manager/Department Head.

- a. Is responsible for determining needed personnel requirements, initiating action necessary to obtain the required personnel and providing training necessary to ensure the skills are available for the performance of QA functions.
- b. Will ensure that the required skills are available to determine acceptability of products produced and services rendered by the contractor. Training must be provided to ensure personnel have the skills, techniques and knowledge necessary to comply with the requirements of this chapter. QA training opportunities must be extended to all appropriate personnel engaged in performing quality related functions. A training plan/matrix will be established and maintained current.

11.3.2 Training.

- a. Personnel providing in-process oversight of the contractors shall complete introduction/overview training of CAQAP elements internally prepared by the QA Manager. Personnel performing contractor QMS Audits shall receive both introduction/overview training of CAQAP elements internally prepared by the QA Manager and also introduction/overview of International Organization for Standardization (ISO) 9001 training as a minimum and may be internally prepared by an experienced auditor.
- b. Personnel performing quality audits of the contractor must satisfactorily complete ISO 9001 Internal Auditor training or equivalent (trained by a Lead Auditor) as a minimum. This training is optional if Lead Auditor training has been received.
- c. Personnel assigned as Lead Auditor/Audit Team Leader must satisfactorily complete ISO 9001 Lead Auditor training as a minimum.

11.3.2.1 Coating Inspection. Specialized training and certification in Coating Inspection is required for each individual performing verification of contractor coating processes on critical surfaces. Training, certification and recertification must be accomplished through a NAVSEA approved course (e.g., **International Coating Inspector Program Level 1**, NAVSEA Basic Paint Inspector). Requirements for critical surfaces are defined in reference (b).

11.3.2.2 Oxygen Cleanliness. Specialized training and certification in Oxygen Cleanliness is required for each individual performing verification of contractor cleaning, assembly or packaging of certified oxygen clean systems and components. Training and certification must be administered by a NAVSEA approved Certified Oxygen Clean Instructor in accordance with reference (d). Recertification of personnel is required every three years.

11.3.2.3 Electrical Cableway. Personnel performing inspection or acceptance of electrical cableway work on Navy ships shall be trained and qualified to reference (e).

11.3.3 Nondestructive Test Personnel Requirements. Specialized training, experience and certification in the applicable Nondestructive Testing (NDT) method is required for each individual performing PR, PE, PVI, Process Quality Audits (PQA) and actual accomplishment of the NDT method. Unless otherwise specified herein, NDT personnel shall be qualified and certified in accordance with references (f) and (g), as applicable.

11.3.3.1 Training/Qualification. Training programs may be developed by the RMC or attained from Portsmouth Naval Shipyard (PNS), other Naval Activities, Navy technical schools, chapters of the American Society for Nondestructive Testing or from private industry. Work-time-experience required as a qualification prerequisite for NDT inspector candidates shall be obtained by actual hands-on experience and performance of PR, PE, PVI and PQAs of a contractor's inspection functions in the applicable NDT method under the guidance of a certified Level II (Inspector) or Level III (Examiner). Formal classroom training and qualification testing shall be in accordance with reference (f) or (g), as applicable. Work-time-experience may be considered sufficient when the inspector candidate's experience is such that the qualification requirements as defined in paragraph 11.3.3.2 of this chapter are met.

11.3.3.2 Qualification. NDT qualifications are:

- a. NDT LEVEL II (Inspector): An individual qualified to set up and calibrate equipment and to interpret and evaluate results with respect to applicable codes, standards and specifications. The Inspector shall be thoroughly familiar with the scope and limitations of the methods for which the individual is qualified, exercise assigned responsibility for on-the-job training and guidance of trainees and prepare written instructions, and document/report NDT results.
- b. NDT LEVEL III (Examiner): An Examiner will be capable of establishing techniques and procedures; interpreting codes, standards, specifications and procedures; and designing the particular test methods, techniques and procedures to be used. The Examiner will be responsible for the NDT operations for which qualified and to which assigned and will be capable of interpreting and evaluating results in terms of existing codes, standards and specifications. The Examiner will have sufficient practical background in applicable materials, fabrication and product technology to establish techniques and to assist in establishing acceptance criteria where none are otherwise available. The Examiner will have general familiarity with other appropriate NDT methods and will be qualified to train and examine Inspector personnel for certification.

NOTE: RMC ACTIVITIES REQUESTING EXAMINER CERTIFICATION MUST PROVIDE EVIDENCE TO THE CERTIFYING ACTIVITY AS TO THE NEED TO FUNCTION AT THIS LEVEL AND THAT FACILITIES AND EQUIPMENT ARE AVAILABLE.

11.3.3.3 Certification. RMC Inspectors shall be certified or recertified at their activity under a program administered by a reference (h) certified Examiner or by PNS. Reference (h) provides the reference (f) and (g) Test Examiner certification requirements for all government-employed civilian and military personnel who are attached to Naval activities. Inspector certification is restricted to the oversight of contractor performed NDT and not for product acceptance inspections. Product acceptance inspections shall be performed by inspection personnel qualified in accordance with the applicable fabrication document and is not within the scope of this chapter. PNS can certify Inspector and/or Examiner personnel in any or all of the following methods:

- a. Visual Test (VT) Inspection.

11.5.2.2 Technical Data Review Criteria. Data review and evaluation will be performed on all deliverable technical data. Review of technical data means the detailed examination or review with the application of engineering judgment by engineers or technicians to determine if the data content and format conform to contract requirements. The RMC may use any local means of selecting characteristics or attributes of this technical data.

11.5.2.3 Acceptance of the Contractor's Documented Quality Management System. The collection of documents describing the contractor's policy and methods of implementing the specific requirements of reference (k) constitutes the contractor's documented QMS. The RMC will conduct an adequacy review and furnish the contractor written notice of the acceptability of the documented QMS.

11.5.2.4 Approval of Procedures. Approval of the written quality procedures will be based on full compliance with the contract provisions. When these written procedures are contractually required the contractor will be notified promptly on approval/disapproval.

11.5.2.5 Documentation. Documentation will include the identification number and title of the document(s), revision date, date reviewed, acceptability or unacceptability, the printed name and signature of the individual who accomplished the review.

11.5.3 Procedure Evaluation. PE is the CAQAP element that verifies that the contractor is compliant with contractually required quality procedures and that procedures are accomplishing the intended purpose of controlling product/process quality.

11.5.3.1 Conduct of Procedure Evaluation. PEs should be conducted utilizing the QA plan, checklists or an attribute system. Flexibility for adjustments in the frequency of inspections will depend on nonconformity rates and problem areas that develop based on contractor quality history. PQAs may be used in lieu of PEs.

11.5.3.2 Documentation. Documentation for PE/PQA will include:

- a. Developed checklists/attribute system for PE/PQA.
- b. PE/PQA results will include observations and nonconformities.

11.5.4 Product Verification Inspection. PVI (surveillance) is the CAQAP element that verifies that the product being produced by the contractor conforms to contract requirements. PVI is accomplished by the cognizant RMC representative by in-process inspections in the form of physical examination, verification, testing, concurrent witnessing or monitoring of critical aspects of the repair or overhaul process. Provide results to the QA manager.

NOTE WHEN GOVERNMENT (G) NOTIFICATION POINTS ARE NOT PERFORMED/WITNESSED, THE REASON WHY (E.G. CONFIDENCE IN THE CONTRACTOR'S INSPECTION, OVERTIME NOT AUTHORIZED, INADEQUATE MANPOWER, ETC.) SHALL BE DOCUMENTED IN THE COMMENTS SECTION OF THE (G) POINT LOG.

11.5.4.1 Conduct of Product Verification Inspection. PVIs should be conducted utilizing the QA plan, checklists or an attribute system. These checklists or attribute lists shall include Government (G) notification points, critical inspection points and those areas that may be concealed from further inspection. Flexibility for adjustments in the frequency of inspections will depend on nonconformity rates and problem areas that develop based on contractor quality history.

11.5.4.2 Documentation. Documentation for PVI will include:

- a. The reason why Government (G) notification points were not performed/witnessed.
- b. PVI results including observations/inspections and nonconformities.

11.5.5 Quality Audits. Quality audit is the CAQAP element that examines and evaluates products, procedures/processes, services, systems and elements thereof.

11.5.5.1 External Audit. External audits such as QMS audits (functional audit), and horizontal or vertical product quality audits are conducted to determine the effectiveness of the contractors QMS, analysis of the process and assessment of product conformance. The QMS audit may be conducted as a single audit or may be a combination of several audits. Targeted Process and Product Quality Audits shall be scheduled at least once every 12 to 18 months for each contractor, provided a complete QMS audit is performed every five years. Attributes for the accomplishment of the QMS audit shall be derived based on contractor performance and do not necessarily

encompass the entire ISO checklist but will target specific areas. Process and product quality audits are encouraged for detailed root cause analysis. Process and product quality audits may be prompted by significant changes in the contractor's QMS, processes or product quality.

11.5.5.2 Internal Audit. Internal audits shall be conducted to determine RMC contract oversight compliance by internal departments with quality related directives and operating procedures/processes. The RMC will schedule and conduct the following audits at least once every 12 to 18 months at a minimum:

- a. Contract Administrative Quality Assurance Program (CAQAP).
 - (1) Planning.
 - (2) Documents Review/PR.
 - (3) PE.
 - (4) PVI.
 - (5) Quality Audits.
 - (6) **Corrective** Actions.
 - (7) QDE.
 - (8) Work Specification Review:
 - (a) Location of (I), (V) and (G) points **is** consistent with the procedure referenced in Chapter 4, Appendix E of this volume.
 - (b) There is adequate, written description of the technical requirements.
 - (c) Accept or reject criteria for inspections and tests are clearly stated and include the appropriate tolerances.
 - (d) The use of references in work specifications should be avoided unless the material is too **extensive** to quote or paraphrase.
 - (e) An (I), (V) and (G) point is not invoked in the work specification before a paragraph which references **an** NSI which invokes the same (I), (V) and (G) points.
 - (9) Training:
 - (a) Personnel providing in-process oversight of the contractors shall complete introduction/overview training of CAQAP elements.
 - (b) Personnel performing contractor Quality Management System Audits shall receive both introduction/overview training of CAQAP elements and also introduction/overview of ISO 9001 training.
 - (c) Personnel performing quality audits of the contractor must satisfactorily complete ISO 9001 Internal Auditor or Lead Auditor training or equivalent.
 - (d) Personnel assigned as Lead Auditor/Audit Team Leader must satisfactorily complete ISO 9001 Lead Auditor training as a minimum.
- b. **Availability** Quality Management Plans for Chief of Naval Operations (CNO) **Availabilities and Continuous Maintenance Availabilities** (CMAV) requiring certification, reference (l).
 - (1) Navy Maintenance Database (G)-Point Tracking - G-Point completion recording is current with work progression and consistent with the contractor's Test and Inspection Plan (TIP).
 - (2) Population of Contractor's TIP - Is consistent with the corresponding (I), (V) and (G)-Points required by the individual work items and the associated NSIs.
 - (3) Maintenance **of** Contractor's TIP - Work progression is up to date and completed tests and inspections are in accordance with NSI 009-04 and 009-67.
 - (4) Objective Quality Evidence documents **are** captured and complete.

- (5) Closeout processing of completed Expanded Process Control **Procedures**.
- c. Additional items for internal audit consideration. Reports for CNO/CMAV availability certification.
 - (1) Required Reports:
 - (a) Submission.
 - (b) Compliance to content dictated by the Work Specification.
 - (c) Appropriate RMC routing and technical parameter review via Engineering Support Request (ESR).
 - (d) Appropriate response with technical direction via ESR.
 - (e) Contractual incorporation into the work package of resultant technical direction.
 - (2) Condition Reports (growth):
 - (a) Appropriate RMC routing and technical parameter review via ESR.
 - (b) Appropriate response with technical direction via ESR.
 - (c) Contractual incorporation into the work package of resultant technical direction.
- d. Additional items for internal audit consideration. Certification Process/Execution for CNO/CMAV **availabilities**.
 - (1) Undocking (if applicable).
 - (2) Production Completion Date.
 - (3) Combat Systems Production Completion Date (AEGIS Light-off for AEGIS Ships).
 - (4) Dock Trials.
 - (5) Fast Cruise.
 - (6) Sea Trials.
- e. Expanded Process Control **Procedures** program review.
- f. Total Ship Readiness Assessment program review.

11.5.5.3 Documentation. Documentation will include:

- a. Audit schedule, including the identification of the lead auditor/team leader.
- b. Audit reports including results/resolutions and follow-up actions.

11.5.6 Corrective Action. Corrective action is the CAQAP element that defines the methods for requesting the contractor to act to correct nonconformities. To achieve systematic assurance of compliance throughout all phases of the contractor's operation, the basic causes of nonconformities must be identified and the contractor must initiate prompt corrective action to correct assignable conditions that have resulted in generating nonconformities. The correction of the nonconformity alone does not satisfy this goal. Corrective action as described in this section employs the "closed loop" concept (i.e., appropriate measures must be taken to identify the cause and prevent the recurrence of nonconformities and the corrective and preventive measures must be accepted by the government). The contractor will be required not only to correct specific nonconformities but also to initiate preventive action to eliminate cause of nonconformities. RMC must determine the effectiveness of the contractor's action and will also determine the necessity for tighter control until ensured that the contractor's corrective action is satisfactory. A percentage of progress calculations should be withheld on the affected work item until the contractor has taken satisfactory corrective action. In addition to the CAR, Appendix B, a Trouble Report shall also be prepared and distributed in accordance with reference (m) for all significant problems encountered in the construction, repair and maintenance of Naval ships. Significant problems are those that affect ship safety, cause significant damage to the ship or its equipment, delay ship deployment or incur substantial cost increase or involve severe personnel injury. Trouble Reports should also identify systemic problems and issues that constitute significant lessons learned for other activities.

11.5.6.1 Corrective Action Request. When corrective action by the contractor is required, one of the following methods will be requested:

a. Minor Nonconformities (Method A)

- (1) A minor nonconformity is a defect or flaw that will probably not impair the performance or life of a product or result in unsafe conditions for the user. Generally, a minor nonconformity is administrative in nature or can be corrected on the spot; at most, the contractor can be reasonably expected to correct it within one day. Examples of minor nonconformities are non-docking related late reports, repeated housekeeping violations, potential safety discrepancies such as a hot work chit not posted on-site, minor repetitive administrative discrepancies with submittals of work specifications, Process Control Procedures, reports, etc., minor Objective Quality Evidence discrepancies and G-Points called out during normal working hours that are not ready for inspection at the designated time.
- (2) Minor nonconformities shall be presented to responsible contractor's personnel in writing for correction. Each minor nonconformity will be described in sufficient detail to allow the contractor to understand what contractual requirement is violated and to take appropriate corrective action. The RMC representative should not require contractor written response, however, the internal RMC process shall ensure that minor nonconformities are documented, corrected and date verified/cleared.

b. Major Nonconformities (Method B)

- (1) A major nonconformity is a nonconformance that judgment and experience indicate could impair the performance or life of a product or result in hazardous or unsafe conditions for the user. Examples of major nonconformities are late dry-dock related reports, repeated Method A nonconformities in the same area, safety discrepancies that pose an immediate threat or danger, serious injuries to personnel, damage to government property or ship's systems that impact the product or performance, contractor's actions that result in the issuance of a trouble report and technical authority violations such as unauthorized substitution of materials or unauthorized changes to ship's systems.
- (2) When major nonconformities are detected or a trend of recurring minor nonconformities are noted, a CAR will be initiated citing the specific contract, specification or contractor's procedural requirement and a description of the nonconformity, clearly indicating how the contract, specification or contractor's procedural requirement was violated. Additionally, the CAR shall include contract number/job order, ship, appropriate references, originator's signature, unique serial number, contractor's corrective action response and preventive action(s) taken to eliminate the causes of potential nonconformities in order to prevent their occurrence and the RMC representative's indication of acceptability and signature. Appendix B provides an example of a CAR form that may be used. The CAR should be forwarded to the appropriate level of the contractor's management for action. The actual time frame for completion of contractor corrective action may vary, however, prompt response to CARs is required. An interim reply may be acceptable, pending contractor's completion of corrective actions.

c. Systemic/Critical Nonconformities (Method C or Method D)

When the previous methods fail to obtain satisfactory results or when the severity of the situation warrants, a Method C letter shall be issued from the Quality Assurance Officer/Director/Manager or the appropriate department head notifying the contractor's appropriate level of management that a systemic or critical problem exists and immediate management action must be taken to comply with the provisions of the contract.

In addition, when a Method C letter fails to obtain satisfactory results or when the severity of the situation warrants, a Method D letter shall be issued by the Commanding Officer or the Contracting Officer notifying the contractor's top level of management that a systemic or critical problem exists and immediate management action must be taken to comply with the provisions of the contract. An electronic or hard copy of each Method C or D letter shall be furnished to the Contracting Officer.

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CHAPTER 12

CONTRACTED SUBMARINE PRESERVATION SYSTEM REPAIRS

REFERENCES.

- (a) NAVSEA Standard Item 009-32 - Cleaning and Painting Requirements Accomplishment
- (b) NAVSEA T9081-AD-MMO-010 & 020 - URO MRC SSN 21 Class
- (c) NAVSEA 0924-LP-064-8010 - URO MRC SSN 688 Class
- (d) NAVSEA T0700-AA-PRO-010 - URO MRC SSBN/SSGN 726 Class
- (e) NAVSEA T9081-AE-MMO-010 - URO MRC SSN 774 Class
- (f) NAVSEA MS 7650-081-091 - Submarine Hull Inspection
- (g) NAVSEA MS 6310-081-015 - Submarine Preservation
- (h) NAVSEA 0924-062-0010 - Submarine Safety (SUBSAFE) Requirements Manual

12.1 PURPOSE. To ensure compliance with the Unrestricted Operations (URO) Maintenance Requirement Cards (MRC) Program when accomplishing contract preservation work on submarines. Reference (a) provides standard preservation requirements whereas references (b) through (h) provide submarine specific preservation requirements. This Chapter provides information for the Supervisor of Shipbuilding (SUPSHIP) contracting work on Submarine Preservation Systems to ensure that specific submarine URO MRC requirements are met.

12.2 SCOPE. This chapter provides requirements for Intermediate Maintenance Activities and Navy Contractors to be used in maintaining, repairing, and replacing preservation systems on non-nuclear components and spaces of U.S. Navy submarines. Technical questions regarding the structural URO MRCs or Submarine Preservation shall be directed to Naval Sea Systems Command (NAVSEA) 07T12.

12.3 APPLICABILITY. This chapter is applicable when contracting maintenance on preservation systems of all submarines in service.

NOTE: SUPERVISOR IS RESPONSIBLE TO ENSURE COMPLIANCE WITH ALL URO MRC PROGRAM REQUIREMENTS AND TO ENSURE THAT A URO MRC MEASURED PARAMETER IS NOT VIOLATED.

12.4 SUBMARINE PRESERVATION REQUIREMENTS FOR CONTRACTING. Submarine preservation work has additional requirements to ensure continued safe unrestricted operations until the next inspection. The URO MRC Program contains these requirements. URO MRC inspections and repairs shall be accomplished in accordance with references (b) through (g). The URO MRC Program is invoked by reference (h) and the Submarine Class Maintenance Plans. Preservation system repairs are a URO MRC attribute and are to be accomplished in accordance with reference (g). It is the responsibility of the SUPSHIP to ensure that all URO MRC requirements are met when invoking reference (a) for contracts. Reference (a) has been updated to contain submarine specific painting requirements, however SUPSHIP shall review references (b) through (h) to ensure all submarine safety requirements are accomplished. This may involve requiring structural inspections, repair and reporting.

12.4.1 Structural Integrity. Maintaining the protective capability of the coating system applied to areas that are listed on the Equipment Guide List of the URO MRC inspection and monitoring program is critical to maintaining structural integrity during the periods between inspections. For this reason, complying with requirements for coating system application for all aspects of the preservation process is essential. Other systems that impact the URO MRC 003 program are Special Hull Treatment application process, including Mold-In-Place, maintenance of Impressed Current Cathodic Protection systems and anodes, and installation of various types of tiles (acoustic, damping, etc.).

12.4.2 Tanks. Preservation work in submarine tanks and enclosed spaces is usually scheduled to occur when the tanks are opened and entered to perform URO MRC 003 structural inspections. Any time a tank is entered, if the scheduled URO MRC 003 structural inspection is not being performed, a structural visual examination in accordance with reference (f) shall be performed. There are specific qualifications for performing these inspections; requirements are contained in references (b) through (f).

12.4.3 **Blasting.** Any URO MRC 003 and URO MRC 002 item being blasted and painted must have the URO MRC 003 hull survey inspection and URO MRC 002 inspection performed prior to blasting and prior to repainting. When blasting and repainting an item, ensure that URO MRC structural repair sites are not contaminated with paint overspray until repairs have been completed. Upon completion of structural repairs, the affected areas will be abrasive blasted to SSPC-SP-10 prior to paint application unless otherwise specified.

12.5 REPORTING.

12.5.1 **Existing Conditions.** Report existing paint conditions and all preservation work performed as required by reference (g). This report and all preservation in-process Quality Assurance and Quality Control documentation are considered URO MRC Objective Quality Evidence. Submarine as-arrived coating inspection requirements are per reference (g) Attachment 7.

12.5.2 **As Arrived Conditions.** Report as-arrived coating inspections on Submarine Tanks/Voids/Free floods, Sail, Superstructure, and Interior Miscellaneous Inspection Worksheet, reference (g) Form 1, or Submarine Underwater Hull Inspection Worksheet (3.0 Form 2) electronically using the Corrosion Control Information Management System (CCIMS) database located at the following web address: **Error! Hyperlink reference not valid.** ccims.supship.navy.mil or as a legible hard copy to SUPSHIP. Sample copies of preservation data forms and information on reporting requirements are provided in Section 8 of reference (h). Preservation feedback must be submitted for validation by email notification to preservation.SUBMEPP.ftc@navy.mil at the time the URO MRC report is due. This feedback is considered URO MRC 003 Objective Quality Evidence.

12.5.3 **SSN 21 and SSN 774 Class Submarines.** For SSN 21 and SSN 774 Class submarines, excessive use of mechanical tools (grinders, sanders, chippers, abrasive blasting, etc.) must be minimized to avoid metal loss due to lack of corrosion allowance. Overly aggressive blasting which causes metal thickness loss over the amount required for surface profile should be avoided. Any areas of potential metal loss by corrosion or mechanical means must be investigated in accordance with URO MRC 003. Mold-In-Place/Special Hull Treatment removal shall be accomplished only by water jetting. Removal by mechanical means is not allowed.

12.6 SUBMARINE PRESERVATION WAIVERS AND DEVIATIONS.

12.6.1 **Requirements.** Submarine Preservation Waivers and Deviations shall be in accordance with reference (g) section 9. URO MRC Program Waivers and Deviations requirements are as follows:

- a. Nonconformance requests that result in a change of the URO MRC inspection periodicity (not authorized by the URO MRC), a change in a URO MRC technical requirement, or deferral of required work during accomplishment of the URO MRC require NAVSEA approval. Local (Chief Engineer or Type Commander) approval is not authorized for these non-conformances.
- b. To support operational commitments, Commander, Submarine Force Atlantic (COMSUBLANT) and Commander, Submarine Force Pacific (COMSUBPAC) may authorize temporary periodicity extensions (not already authorized by the URO MRC) after consultation with SEA 07T. The periodicity extensions should be limited to the next availability or in port period, where a Submarine Fleet Maintenance Activity is available, and shall be documented by a Major Departure from Specification in accordance with Volume V, Part I, Chapter 8 of this manual. The Departure from Specification shall then be submitted to NAVSEA for approval.

12.6.2 **Notification.** The cognizant NAVSEA (SEA 07T) and Type Commander codes shall be notified in writing within two days of any URO MRC related decision made by an inspection activity that will result in a change of periodicity, a change of technical requirements, or deferral of required work.

- a. A copy of the notification shall also be forwarded to SUBMEPP (Code 1832). Any subsequent waiver or deviation requests shall be sent to NAVSEA for review and approval or disapproval.
- b. An official signed copy of all NAVSEA approved waivers or deviations shall be included with the Data Report Form when forwarding URO MRC inspection results to SUBMEPP and other addressees.

VOLUME VII

CHAPTER 13

SHIPBOARD CONTRACTING STRATEGY AND UTILIZATION

13.1 PURPOSE. This chapter provides guidance on contracting for shipboard maintenance and modernization work.

13.2 SCOPE. This chapter applies to all activities conducting shipboard maintenance or modernization work in Continental United States (CONUS) and Hawaii. Shipboard maintenance and modernization work includes repairs, modernization, installations, alterations or engineering technical services if there is a potential for system/boundary entry, testing or impact on other ship operations; or if there is a requirement for coordination and integration of multiple contractors and government activities.

13.3 APPLICABILITY. This chapter does not apply to:

- a. The reactor or primary plant systems under the cognizance of Naval Sea Systems Command (NAVSEA) 08.
- b. Fleet Ballistic Missile systems under the cognizance of Submarine Strategic Program.
- c. Space Systems under the National Security Space Acquisition Policy.
- d. Naval aircraft and avionics equipment.

13.4 OBJECTIVE. The objectives of the Comprehensive Contracting Strategy for shipboard maintenance and modernization are:

- a. Alignment of contracting actions amongst Navy requirements officials and contracting and technical warrants.
- b. Solicit contracts for shipboard work only via warranted Navy contracting officers, and ensure they include appropriate technical content.
- c. Improve maintenance contracting “situational awareness”, thereby reducing unnecessary contract proliferation, redundant or niche contracts by identifying existing contracts that could service the need or identify national contracting strategies for similar services.
- d. Coordinate and vector proposed contracting to the proper authorities for procurement, administration, task order management and oversight.
- e. Ensure proper utilization and balance of Alteration Installation Team, Indefinite Delivery/Indefinite Quantity (IDIQ) and Multi-Ship Multi-Option (MSMO) contracts to ensure the Navy has procurement options and leverage in the maintenance and modernization market place.
- f. Proper execution oversight.

13.5 BACKGROUND. The Fleets, Deputy Assistant Secretary of the Navy (Ships), and Naval Sea Systems Command have embarked on a joint initiative to develop a Comprehensive Contracting Strategy for shipboard maintenance and modernization that compliments the Navy’s use of MSMO contract vehicles as the primary means for accomplishing shipboard work in the private sector. This strategy is an effort to reduce the amount of coordination required during work execution on the waterfront and to reduce the inefficient use of available contracting resources in procurement and administration. This strategy emphasizes the four principles outlined in the paragraphs below.

13.5.1 Optimal Use of Surface Force Ship/Aircraft Carrier Multi-Ship Multi-Option Contracts. The first strategy is the optimal use of Surface Force Ship/Aircraft Carrier MSMO contracts to accomplish as much maintenance and modernization work within their organic capability in order to gain learning curve efficiencies, facilitate predictable contractor loading, reduce premium prices paid and spread contractor overhead across a larger business volume.

13.5.2 Indefinite Delivery/Indefinite Quantity Contracts. The second strategy is the determination of the right types and numbers of IDIQ contracts required to supplement MSMO contracts so that viable options are available if MSMO contractors are unable to provide suitable coverage, encounter capacity constraints, cannot meet required schedule or exhibit unreasonably high costs.

13.5.3 Industrial Capabilities. The third strategy is the identification of industrial capabilities where the Navy will exclusively use IDIQ contracts to accomplish maintenance and modernization work beyond MSMO capability and develop procurement strategies that most efficiently meet such needs.

13.5.4 Contracts Portfolio. The final strategy is the cataloguing of these contracts in a "Portfolio of Shipboard Production Contracts" managed at the local Regional Maintenance Center (RMC). The local RMC shall be the point of entry for servicing all shipboard maintenance and modernization production requirements, and shall match (whenever possible) requirements to an existing Portfolio Contract.

13.6 OVERVIEW. The elements of the Comprehensive Contracting Strategy for shipboard maintenance and modernization include:

- a. Breadth: any contracted shipboard work (maintenance, repair, modernization, or alteration) that requires system/boundary entry, testing or impact to routine shipboard system operations. Exceptions:
 - (1) Non-permanent change installations (Temporary Alteration, Engineering Development Model and prototype installation).
 - (2) Non-intrusive shipboard technical reviews (ship checks, design reviews, logistic reviews/audits, etc.).
- b. Contract types: MSMO, Original Equipment Manufacturer, IDIQ/Commercial Industrial Services, Alteration Installation Team contracts, Performance Based Logistics repair contracts.
- c. Contract access: The "Portfolio of Shipboard Production Contracts" maintained at RMCs to serve all organizations performing shipboard work.
- d. Shipboard production work execution only with Portfolio Contracts.
- e. Portfolio content managed through the Contracts Governance Council Process.
- f. The Contracts Governance Council (CGC) is the standing body that manages the Contracts Portfolio and provides maintenance and modernization procurement oversight for the Fleet Maintenance Board of Directors (FMBoD). The CGC works to continuously improve this process and the Contracts Portfolio.

13.7 RESPONSIBILITIES.

13.7.1 Fleet Maintenance Board of Directors. The Fleet Maintenance Board of Directors (FMBoD) shall:

- a. Charter the CGC and provide oversight to all processes associated with the Comprehensive Contracting Strategy for shipboard maintenance and modernization.
- b. Render final approval or disapproval for any contractual actions unresolved by the CGC.

13.7.2 Contracts Governance Council. The CGC shall implement the Comprehensive Contracting Strategy for shipboard maintenance and modernization by managing the approved Contracts Portfolio available for customers with shipboard work requirements.

13.7.3 Systems Commands and Program Executive Offices. The Systems Commands and Program Executive Offices shall use contracts in the Contracts Portfolio (including MSMO) for any maintenance or modernization work that is performed on board ships or crafts, or if the work will require substantial integration with other executing activities.

13.7.4 Fleet Maintenance Activities. All CONUS and Hawaii maintenance activities shall ensure all contracted shipboard maintenance and modernization work is done using a contract in the Contracts Portfolio (including MSMO).

13.8 CONTRACTS GOVERNANCE COUNCIL.

13.8.1 Structure. The CGC is a standing body co-chaired by Commander, Naval Regional Maintenance Center (CNRMC), NAVSEA 21 and NAVSEA 02. It is responsible for the continuous improvement of the Contracts Governance process and for providing strategic guidance for the Navy's overall ship maintenance and modernization contracting strategy.

13.8.2 Contracts Governance Council Process. The governance process encompasses shipboard maintenance and modernization contracts used on Fleet assets in CONUS and Hawaii (all customers and all locations). The focus of the CGC is non-nuclear work. Maintenance and modernization of nuclear propulsion systems and supporting sub-systems, as well as SUBSAFE systems and sub-systems, are not applicable under the CGC's cognizance.

13.8.3 Contracts Governance Council Membership. The CGC will consist of senior members representing the following government maintenance and modernization organizations:

- a. CNRMC (Co-Chair)
- b. NAVSEA 21 (Co-Chair)
- c. NAVSEA 02 (Co-Chair)
- d. NAVSEA 00L (Legal Council)
- e. NAVSEA 02A, 02B, 21A, 024, PMS 400F, PMS 470, PMS 505
- f. Naval Regional Maintenance Center (NRMC) Code 300 and Code 400
- g. RMC Code 300 and Code 400
- h. Additional members may include:
 - (1) Fleet Forces Command N43
 - (2) Commanders Pacific Fleet N43
 - (3) Other RMC personnel
 - (4) Submarine Force, Surface Force and Aircraft Carrier Type Commanders (N43)
 - (5) Warfare Centers
 - (6) Program Executive Offices
 - (7) Naval Space and Warfare Command (SPAWAR) 04
 - (8) Naval Supply Fleet Logistics Center

13.8.4 Contracts Governance Council Policy. The CGC seeks to implement and support policy from the Assistant Secretary of the Navy Research, Development and Acquisition and this manual for Comprehensive Contracting and Depot Work Integration for ship maintenance and modernization contracting as follows:

- a. Operate the CGC to oversee contracts that support, plan and execute shipboard maintenance, modernization and sustainment production work.
- b. Manage the portfolio of approved shipboard contracts maintained by CNRMC.
- c. Focus on RMCs to implement standard policy throughout the non-nuclear maintenance and modernization enterprise. This includes any repairs, modernization, installations or alterations where potential exists for systems or boundary entry, work control or tag-out procedures.
- d. Discuss acquisition strategy and how future spirals of MSMO Contracts will be developed.

13.8.5 Contracts Governance Council Products. The CGC will provide:

- a. Management of authorized contracts portfolio to optimize the number of contracts needed to complement MSMO contracts.

- b. A quarterly summary report to CGC Membership. The RMCs shall provide metrics to support the quarterly reports per the Basis for Measurement provided by the CGC.
- c. Business rules for implementing CGC governance at the RMCs.

13.8.6 Contracts Governance Council Expectations. The CGC expects to impact cost and benefits in the following manner:

- a. Increase standardization in the execution of contracts across all RMCs.
- b. Optimize the number of contract vehicles required for shipboard work.
- c. Improve waterfront work integration.
- d. Increase discipline in the contracting process.

13.8.6.1 Contracts Governance Council Monthly Meetings. USFF N431 (Fleet Maintenance Acquisition Manager) will chair the monthly meetings of the CGC. The CGC will render one of three possible actions:

- a. Option year renewal(s) of existing contracts.
- b. Solicitation and award of new contracts.
- c. Incorporation of existing contracts not yet in the Contracts Portfolio.

13.8.6.2 Contracts Governance Council Consideration. The CGC shall approve or disapprove the request(s), or return the request to the requiring agent for clarification or alternate sourcing consideration.

13.8.6.3 Contracts Governance Council Decision. CGC approvals and disapprovals shall be by unanimous decision. Any request for which a unanimous decision can not be achieved will be referred to the “expanded” FMBOD for resolution. The Expanded FMBOD includes the permanent FMBOD members as well as a flag officer or senior executive of the requiring agent’s organization. The Expanded FMBOD will resolve the request.

13.8.6.4 Meeting Administration. CNRMC Business Office will prepare the agenda for the CGC, coordinate all CGC actions, replies, and record the minutes of the meeting. USFF N431 will send a status report to the CNRMC’s Business Officer informing him/her of the disposition of each request for CGC action within five days of the monthly CGC meeting.

13.8.6.5 Quarterly Briefing. USFF N431 will brief the FMBOD quarterly of actions taken by the CGC, and present any unresolved contract action requests for disposition by the FMBOD. The quarterly summary report to the FMBOD will include:

- a. Any changes to the Contracts Portfolio.
- b. Summary statistics on CGC actions.
- c. Any changes made to the review process.
- d. Any problems encountered.
- e. Any recommendations for process improvement.