

Department of the Army
Headquarters, U.S. Army
Industrial Operations Command
Rock Island, Illinois 61299-6000

IOC Regulation 15-4

7 Jan 2000

Boards, Commissions, and Committees

MAKE OR BUY DECISIONS

Applicability. This memorandum applies to HQ, IOC elements defined in paragraph 4 and all IOC installations involved in the acquisition and manufacturing of conventional ammunition and other supplies, as defined below, that are within the production capability of the IOC. This includes the mission assigned to the IOC by DoD Directive 5160.65 to act as the principle operating agency for the Single Manager for Conventional Ammunition (SMCA) for acquiring conventional ammunition for all Services.

Decentralized printing. IOC installations are authorized to locally reproduce this memorandum.

Supplementation. Supplementation is prohibited without prior approval from the proponent.

Proponent. The proponent is the Director, HQ IOC Munitions and Armament Center (MAC). Users are invited to send comments and suggested improvements to Commander, HQ, IOC, ATTN: AMSIO-MAP-P, Rock Island, IL 61299-6000, e-mail amsio-map-p@ioc.army.mil.

Distribution. Distribution is determined and made by the proponent.

Supersession. None

FOR THE COMMANDER:

Official:

//SIGNED//
ROBERT A. BENSON
Colonel, CS
Chief of Staff

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1. Purpose. The policies, responsibilities, and procedures for establishment and operation of the Component Breakout/Make or Buy (CBO/MOB) process are prescribed herein. Also, identified are the approving authorities for all decisions made by the CBO/MOB Committee.

2. Explanation of Terms:

a. "Supplies". End items, components, subassemblies, spare parts, or services.

b. "Arsenal Act". Statutory authority, Title 10 U.S. Code 4532, by which a determination is made on whether to procure supplies from private industry or make them in-house, i.e., Government-owned arsenals/factories. For the purposes of this regulation, this refers to IOC's installations with a manufacturing mission. The Act is intended for the benefit of the Government. It is not intended to provide an unfair competitive advantage to the contractor operating a Government-owned facility.

c. "Make Decision". A decision to acquire supplies from Government-owned arsenals/factories.

d. "Buy Decision". A decision to acquire supplies from private industry.

e. "Breakout". Breaking out components and subassemblies from end items/system requirements for separate analysis and procurements to be provided as Government Furnished Material.

f. "System Buy". An acquisition strategy whereby a contract for an end item is awarded to a prime contractor(s) who is then responsible for procuring all components, subassemblies, etc., required for the end item, integrating them and assuring the end item functions as required.

g. "Out-of-Pocket Costs". (Note: Contractors operating a Government facility will not utilize out-of-pocket cost bids without express written approval from the Head of the Agency holding a facility use contract.) For Army Working Capital Fund (AWCF) installations' out-of-pocket costs includes all costs attributed to an order for products or services and which would not be incurred except for such work order. These costs should not include any amounts which do not represent actual expenditures directly or indirectly attributed to production for such product or services in the Government arsenal/factory. Out-of-pocket costs include all direct labor, direct material, and other direct costs; and all "within shop" mission overhead costs.

h. "Fixed Production Costs." This term refers to AWCF costs which indirectly support production costs necessary to accomplish orders but do not vary substantially with changes in the quantity of orders for products or services from the Government arsenal/factory. These costs include "above shop" mission overhead and the base operations indirect expense (as identified in Defense Finance and Accounting Service (DFAS) Regulation 37-1, AWCF Indicator 2).

i. "Fixed Installation Costs." This term refers to AWCF fixed installation costs. It includes all costs that will occur independently of changes in the quantity of orders for products or services from the Government arsenal/factory. Fixed installation costs include general and administrative expense (as identified in DFAS Regulation 37-1 - AWCF Indicator 3) plus unutilized and underutilized plant capacity costs.

j. "Customer Price." This term describes the stabilized price the AWCF installation will charge the customer. Until Fiscal Year 2002, it will be a fully burdened price that includes all out-of-pocket costs, fixed production costs, and fixed installation costs. Beginning in Fiscal Year 2002, the customer price will not include fixed installation costs. In addition to these costs, the customer price will include adjustments for Net Operating Results and any cash surcharges approved in the AWCF budget.

k. "Emergencies". Facilities/equipment retained for readiness requirements to assure a controlled and ready source for assigned replenishment items and any other items with a critical shortage.

3. Policy.

a. This policy is for two statutory authorities, the Army Arsenal Statute/Act, Title 10 U.S. Code 4532, and Section (j) of the Working Capital Fund Statute, Title 10 U.S. Code 2208. It describes how manufacturing work is obtained by AMC'S Army-owned arsenals/factories that have approved manufacturing missions in accordance with AMC Regulation 10-series.

b. This policy is not intended to limit other ways IOC-owned arsenals/factories may obtain other work.

c. The IOC will comply with the requirements of the Army Arsenal Act in executing sound "Make or Buy" decisions. To summarize the 1920 House Committee interpretation, the Government has made a significant investment in the Government-owned arsenals and factories. The purpose of the Arsenal Statute is, "... to compel the executive officers of the Government to have Government work done at arsenals/factories and to cease handing out appropriations to private manufacturers. It is perfect nonsense to allow such an investment as this go to waste and at the same time turn over work to be done by contract by private manufacturers". The two provisions of the Act are:

(1) Secretary of the Army shall have supplies needed for DA made in factories or arsenals owned by the U.S., so far as those factories or arsenals can make those supplies on an economical basis.

(2) Secretary may abolish any U.S. arsenal that he considers unnecessary.

d. An IOC arsenal/factory may be considered to have Arsenal Statute capability and capacity for manufacture of supplies when the following conditions are present.

(1) The supplies to be produced are consistent with the general capabilities of the arsenal/factory.

(2) Creation of substantially new or duplicate capabilities has approval of the CG, AMC.

e. The IOC will consider participation by small business concerns when acquiring products and services from the private sector.

f. The IOC will control the acquisition process relative to component breakout for purposes of achieving military readiness from commercial and organic base sources.

g. The IOC will use the breakout guidelines, as applicable, in the Department of Defense Federal Acquisition Regulation Supplement (DFARS), Appendix D.

h. Customers directing programs to AWCF facilities must identify these programs on the Schedule 31 during their POM submission. This action will allow funding adjustments to finance AWCF prior-year operating losses and cash replenishment surcharges.

i. In accordance with DoD 7000.14-R, Volume 2B, 090103F, the Army shall fully fund mobilization/surge costs. Army Working Capital Fund activities will not include these costs within customer rates. The Army shall fund these costs (including unutilized/underutilized capacity) through direct appropriations.

j. Effective in Fiscal Year 2002, arsenals/factories will no longer include non-production (general and administrative) costs in the prices charged to customers. The intent is for Army to separately fund these items IAW 22 October 1999 Army policy.

k. The IOC shall assist Army with reprogramming dollars in support of a "make" decision to cover the delta between a customer's budgeted program dollars and the additional dollars that may be needed to fund the full cost of production.

4. Responsibilities and Approval Authorities. The following outlines the decision-makers and their approval authority. Decisions are made by vote of the CBO/MOB Committee based upon the Acquisition Integrated Product/Process Team (AIPT) recommendation. If agreement by the decision-maker(s) is not reached, the Commanding General, Industrial Operations Command (CG, IOC), has final approval authority.

a. The AIPT: The AIPT will be used within IOC for every acquisition or family of acquisitions over \$100,000. When appropriate, they will be used for acquisitions under \$100,000. The AIPT will be comprised of, as a minimum, functional experts from the commodity area(s), installations which have potential capability, and customer representation when addressing SMCA items.

b. Approval Authorities:

(1) 1st Level - The CBO/MOB Committee members shall attend all scheduled meetings. The Committee, as a minimum, will consist of both voting and non-voting members from the applicable HQ, IOC, functional offices, the other Services' Liaison Offices, and the U.S. Army Tank-automotive Command's Armament Research, Development and Engineering Center (Rock Island). The Production Directorate, MAC, will chair the meetings.

The CBO/MOB Committee members are, as a minimum:

(a) Voting members:

AMSIO-AC	AMSIO-MAP	NVLNO
AMSIO-MA	AMSIO-MAS	AFLNO
AMSIO-SB	AMSIO-MAI	MCLNO-LMA
ARDEC(RI)		

(b) Non-voting members:

AMSIO-CA
AMSIO-GC
AMSIO-BR

(2) 2nd Level - MAC QMB: Civilian Executive, MAC (AMSIO-MA-EXEC); Director, MAC Production Directorate (AMSIO-MAP); and Director, Acquisitions Center (AMSIO-AC).

(3) 3rd Level - Deputy to the Commander, Industrial Operations Command.

(4) Final Level - CG, IOC.

c. For non-contested or resolved recommendations/decisions on acquisitions determined to be routine, approving authority is voting members of the CBO/MOB Committee.

d. Decisions for acquisitions of a highly visible or sensitive nature, or for contested decisions or unresolved disputes among voting members, the CBO/MOB Committee approving authority is the primary members from the MAC QMB, or their designated alternates.

e. Unresolved decisions/disputes will be elevated through the various levels for resolution. Each level has ten working days to resolve decisions/disputes or elevate to the next higher level for resolution.

5. Procedures. The CBO/MOB Committee will convene a formal meeting at least once a year to review all Make or Buy candidates. Any decision-maker outlined above may request additional Committee meetings, as needed.

a. The Stockpile/NICP Directorate, AMSIO-MAS will identify all planned procurement actions (known as requirements) for the Program Objective Memorandum period.

b. The Production Directorate in conjunction with the appropriate HQ functional offices and IOC installations will review and screen all requirements for Make or Buy applicability to the installation's manufacturing capabilities using historical files and the potential to perform all or part of the work required. Note: This will be conducted prior to a systems contract determination and will include an assessment of which components and subassemblies are potential Make or Buy candidates.

c. During the review/screen phase, an AIPT will form IAW CG Policy #47, to develop acquisition strategy for item(s) to include assessment of technical capability of IOC installations to satisfy all or part of the requirements within an acceptable level of risk. The AIPT will document its efforts for review/decision by the CBO/MOB Committee. In the case of a disagreement as to the applicability of a Make or Buy decision, a Capability Assessment, as described in the paragraph below, will still be conducted and presented to the Committee.

d. Assess capability, using acquisition strategies and plans, through joint effort among requirement owner and arsenal/factory proponent:

(1) No capability. Based on the outcome of the requirement review, if the installation(s) has no capability to produce the requirement(s), a Buy recommendation will be made. That is, procurement will be solicited from private industry to include the GOCO base. In the case of a disagreement, a Capability Assessment, as described in the paragraph below, will be conducted and presented to the Committee.

(2) Potential capability: If the potential exists that the installation(s) might be capable of producing the requirement(s), further study is required. A Capability Assessment must be performed using all applicable categories from Standard Form 1405 as determined by the AIPT conducting the assessment.

(3) Known capability. If the capability exists at the installation(s) based on past, present, or future known workload, a Risk Assessment (Appendix B) judging past performance will be performed prior to a final Make decision being made.

e. If capability exists at an installation, Comptroller General ruled in a 1960 decision that economical basis will be determined by a comparison of Government Out-of-Pocket costs estimate for the arsenal/factory to an estimate of costs for the supplies being furnished by the private sector. In absence of procurement history, the private sector cost estimate will be determined by an Independent Government Estimate (IGE). The AIPT is responsible for obtaining the IGE. Both the Out-of-Pocket cost estimate and IGE will be validated IAW AMC Regulation 37-4 by the Command's Cost Estimators, AMSIO-CA.

f. The AIPT will perform an analysis addressing capability, cost, and risk and make a Make or Buy decision recommendation to the CBO/MOB Committee with all supporting documentation, i.e., requirements list, breakout of Make or Buy candidates, Capability Assessment, Risk Assessment, Out-of-Pocket cost estimate, IGE, etc. Note: All minority positions shall be presented to the Committee.

(1) The decision making process outlined in paragraph 4 will be followed.

(2) The Command's Make or Buy proponent, AMSIO-MAP-P, will publish the CBO/MOB Committee's decisions and maintain files with all supporting documentation.

g. Buy Decisions:

(1) For all Buy decisions, Section A of solicitations shall include AWC facilities participation IAW Title 10 U.S.C. 2208(j) as follows: "This solicitation is open to competition between Department of Defense activities and private firms. Under the authority of 10 USC 2208(j), applicable working capital funded facilities are available as potential subcontractors."

(2) Participation of an IOC arsenal/factory in an Army supply contract at the subcontract level will be evaluated on the basis of production costs, that is, it must bid and charge all direct and overhead costs related to production. However, in no case will the economic analysis include the cost of production capacity retained solely for emergencies. Army shall fully fund

these costs by separate budget line item, i.e., unutilized plant capacity, underutilized plant capacity, maintenance of inactive industrial facility, layaway of industrial facility, industrial preparedness operations, etc. Working capital fund installations' rates will not be increased due to lack of funding in the above mentioned shortfall areas.

h. Make decision: Requirement will be issued to the IOC arsenal/factory to perform the work under review. The charge to the customer will include all direct and indirect costs associated with the cost of production of the work being performed. Under no circumstances will the customer be charged for costs to retain production capacity solely for emergencies.

APPENDIX A

APPLICABLE STATUTES, REGULATIONS AND POLICIES

1. 10 U.S. Code 4532, Arsenal Statute/Act.
2. 10 U.S. Code 2208(j), Sales of Articles and Services of Defense Industrial Facilities to Purchasers Outside the Department of Defense.
3. Department of Defense Regulation 7000.14, Volume 2B, July 1998.
4. Defense Federal Acquisition Regulation Supplement (DFARS), Appendix D, 1 October 1999.
5. Defense Finance and Accounting Service - Indianapolis Regulation 37-1, Finance and Accounting Policy Implementation, 18 September 1995.
6. Army Material Command Regulation 37-4, Validation of Cost and Economic Analyses, 25 January 1999.

APPENDIX B

RISK ASSESSMENT CRITERIA

1. Be able to comply with the required or proposed delivery or performance schedule, taking into consideration all existing commercial and governmental business commitments.
2. Have a satisfactory performance record. A prospective supplier shall not be determined responsible or non-responsible solely on the basis of a lack of relevant performance history.
3. Have the 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, environmental compliance, and safety programs applicable to materials to be produced or services to be performed by the prospective supplier).
4. Have the necessary production, construction, and technical equipment and facilities, or the ability to obtain them.