



DEPARTMENT OF THE NAVY
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MEMORANDUM FOR DISTRIBUTION

Subj: LIMITATIONS ON CONTRACTORS ACTING AS LEAD SYSTEM
INTEGRATORS

Encl: (1) Director, DPAP memo dated January 18, 2007

Enclosure (1) is forwarded for immediate implementation and action, as appropriate. The Director of Defense Procurement & Acquisition Policy (DPAP) has issued enclosure (1) to implement Section 807 of the DoD Authorization Act for FY07. Pursuant to Section 807, effective for contracts entered into after December 31, 2006, no entity performing lead system integrator functions in the acquisition of a major system by the Department of Defense may have any direct financial interest in the development or construction of an individual system or element of a system of systems. The Director, DPAP has provided detailed guidance to be followed when the acquisition strategy calls for the use of a system integrator for a major system. It is requested that contracting officers under your cognizance be made aware of the policies contained enclosure (1).

The policies contained in enclosure (1) are effective immediately and remain in effect until incorporated into the DFARS or until rescinded. My point of contact for this issue is Mr. Clarence Belton, who can be reached at (703) 693-4006 or via e-mail at clarence.belton@navy.mil.


M. E. Jagard

Chief of Staff/Policy
for Deputy Assistant Secretary of the Navy
(Acquisition Management)



ACQUISITION,
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JAN 1 8 2007

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

SUBJECT: Limitations On Contractors Acting as Lead System Integrators

This memorandum implements section 807 of the John Warner National Defense Authorization Act for Fiscal Year 2007, Public Law 109-364. Effective for contracts entered into after December 31, 2006, no entity performing lead system integrator functions in the acquisition of a major system by the Department of Defense may have any direct financial interest in the development or construction of an individual system or element of a system of systems. This applies to lead system integrators as defined in section 805 of the National Defense Authorization Act for Fiscal Year 2006:

“Lead system integrator with system responsibility” means a prime contractor for the development or production of a major system if the prime contractor is not expected at the time of award to perform a substantial portion of the work on the system and the major subsystems.

“Lead system integrator without system responsibility” means a contractor under a contract for the procurement of services whose primary purpose is to perform acquisition functions closely associated with inherently governmental functions with regard to the development or production of a major system.

When the acquisition strategy calls for use of a lead system integrator for a major system, contracting officers shall address whether the contractor has a direct financial interest in the development or construction of an individual system or element of a system of systems when making the responsibility determination. The offeror may be considered eligible for award of a contract if it has no direct financial interest in development or construction of an individual system or element of a system of systems. If the offeror has such a direct financial interest, the contracting officer may request an exception from the Secretary of Defense. The request will be submitted to the Deputy Director, Program Acquisition and International Contracting, and it must explain that:

1. The offeror was selected to develop or construct the system or element concerned through the use of competitive procedures and that appropriate steps were taken to prevent any organizational conflict of interest; or



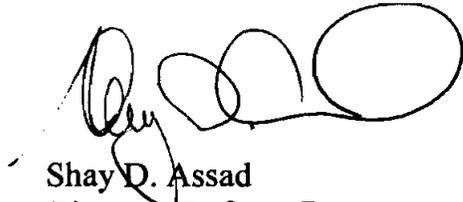
ENCLOSURE(1)

2. The offeror was selected by a subcontractor to serve as a lower-tiered subcontractor for the system or element concerned, through a process over which the offeror exercised no control.

A contract may not be awarded to an offeror with a financial interest in development or construction of an individual system or an element of a system of systems until after the Secretary of Defense provides the required certification to the Committees on Armed Services for the Senate and the House of Representatives.

In addition, the contract shall include a provision that limits the contractor performing lead system integrator functions from acquiring a direct financial interest in development or construction of an individual system or element of a system of systems during the performance of the contract for the major system. The contracting officer may request an exception from the Secretary of Defense, following the procedures outlined above.

My point of contact is Mr. Verne McKamey (OUSD(AT&L)DPAP/PAIC, verne.mckamey@osd.mil; 703-614-1255). This memorandum constitutes an update of DoD's acquisition regulations, which shall be revised accordingly.



Shay D. Assad
Director, Defense Procurement
& Acquisition Policy

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INTEGRATORS

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