



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

Office Of The Assistant Secretary

21 MAY 2003

Contract Policy Memo 03-C-12

MEMORANDUM FOR ALMAJCOM/FOA/DRU (CONTRACTING)

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

SUBJECT: OUSD (AT&L) Memo, Changes in Acquisition Business Rules, 14 April 2003

This memorandum directs all buying activities to take immediate action to comply with new OSD guidance regarding source inspections by DCMA's quality assurance (quality assurance) staff on contracts less than \$250K. The OUSD (AT&L) memo dated 14 April 2003 (copy attached) outlines DCMA's new practices and directs the Military Services to implement them immediately. The new policy intends to reduce source inspections required on DoD contracts less than \$250K. The memo establishes specific criteria that buying activities must consider when justifying DCMA source inspection on low dollar value contracts. The criteria are depicted in matrix format. One matrix applies to FY03 and earlier contract awards. Another matrix applies to FY04 and later contract awards.

These changes are necessary because of significant reductions in DCMA's quality assurance staffs. Additionally, the Military Services and Defense Agencies have historically requested QA support on many low-dollar, technically uncomplicated products where QA source inspection added little or no value to the end product. Some contracting officers included source inspection for the sole purpose to speed up the payment process. These practices waste precious QA resources that could be deployed to more worthwhile endeavors.

As a minimum, MAJCOM contracting staffs and field buying activities must take action to comply with the attached OSD memorandum by:

(a) MAJCOMs analyzing current contract workload data (spreadsheet provided separately) and ensuring supply criticality designator codes are assigned and accurate. MAJCOMs must establish appropriate policies/procedures to implement this memorandum and help ensure contracts under \$250K requiring source inspection by DCMA: (1) meet their three source inspection decision criteria (see matrices); and, (2) where source inspection is desired, but all three criteria are not met, document the rationale for the source inspection requirement and obtain an approval one level above the Contracting Officer.

(b) Buying activities implementing this memorandum and MAJCOM direction to help ensure contract awards under \$250K do not require source inspection except where: (1) fully warranted in accordance with DCMA's "PCO Source Inspection Decision and DCMA Reaction Matrix;" or (2) fully justified and approved by one level above the contracting officer if all three criteria cannot be met.

Although the new criteria are specifically applicable to contracts less than \$250K, they could be applied to higher dollar value contracts to help ensure quality assurance inspections are requested only where absolutely needed.

This policy memorandum is in effect for one year or until implementing guidance is published in the Defense Federal Acquisition Regulation Supplement, whichever is sooner.

My action officer for contracting issues is Lt Col Stephen Smith, SAF/AQCP, (703) 588-7058, DSN 425-7058. Questions regarding quality assurance standards and procedures should be directed to Mr. John Heliotis, SAF/AQRE, (703) 588-7848, DSN 425-7848.



CHARLIE E. WILLIAMS, JR.
Deputy Assistant Secretary (Contracting)
Assistant Secretary (Acquisition)

Attachment:
OSD (AT&L) Memo, 14 Apr 2003

cc:
AFPEO/AT/FB/C2&CS/WP/SP/SV
SAF/USAP
SAF/AQXA
SAF/AQRE



ACQUISITION,
TECHNOLOGY AND
LOGISTICS

PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE
3015 DEFENSE PENTAGON
WASHINGTON, DC 20301-3015

APR 14 2003

MEMORANDUM FOR SERVICE ACQUISITION EXECUTIVES

SUBJECT: Changes in Acquisition Business Rules

My memorandum of September 13, 2002 (attachment 1) proposed changes in business rules and asked for your comments. The Services' responses and several subsequent joint-Service meetings highlighted some significant concerns. Based on those concerns, I decided that in lieu of immediate implementation, additional joint discussions and the pilots required by MID 909 (attachment 2) should be conducted. I know that each Service is working a pilot effort in conjunction with DCMA, to develop implementing procedures. The resulting discussions have proved valuable.

I certainly appreciate all of your inputs; they caused significant adjustments in our approach to the proposed new business rules:

Change 1: This change limiting source inspection requirements originally indicated that exceptions would require Head of the Contracting Activity (HCA) approval. The approval requirement will be changed to one level above the Contracting Officer.

Change 2: This change eliminating DCMA production surveillance on criticality designator "C" contracts is the subject of an ongoing DFARS case, so there is no need to pilot that proposed business rule as MID 909 directs.

Change 3: This change discontinuing source inspection and production surveillance on OEM spares has been abandoned because it substantially overlaps the anticipated impact of Changes 1 and 2.

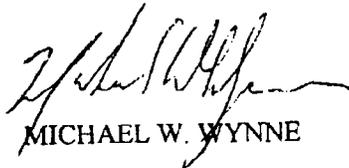
In view of the above adjustments, we can now narrow our focus to the implementation of Change 1, which limits source inspection. I know the Services still have some issues to grapple with here. But at some point, in order to make this change happen, we need to fully commit to implementation. Given the continuing decline in resources available for in-plant quality assurance, it is my judgment that we must make that commitment now.

I asked DCMA to prepare a time-phased plan (attachment 3) that would start us on that path, while allowing the Services some additional time to make the necessary adjustments in their procedures. You will notice that DCMA will continue to support



source inspection requirements on FY 2003 and earlier contracts, but practices must change significantly beginning with FY 2004 contracts. Please make sure that all buying activities are made aware of this new source inspection business rule, and that they are working diligently to comply. I have directed DCMA to follow the time-phased plan beginning immediately.

After the completion of the ongoing pilot efforts, we will consider the results and make any necessary adjustments. I will then direct DCMA to prepare and submit a DFARS case to institutionalize this business rule transformation.



MICHAEL W. WYNNE

Attachments



PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE

3015 DEFENSE PENTAGON
WASHINGTON, DC 20301-3015

SEP 13 2002

Charles, John, Martin

MEMORANDUM FOR SERVICE ACQUISITION EXECUTIVES

SUBJECT: Changes in Acquisition Business Rules

The Defense Contract Management Agency (DCMA) made their final Program Objective Memorandum (POM) briefing to me on August 22, 2002. In summary, it is clear that DCMA's contract management workload is growing at the same time that budget pressures are forcing significant reductions in resources. If we let that trend continue, we would experience a general deterioration in the quality and timeliness of the support that DCMA provides. This is not an acceptable outcome, especially as we are moving forward on the important acquisitions we are relying on to help us transform the military

I am considering three significant changes in business practices that could help us better align our shrinking contract management resources with the workload:

Change 1: Revise DFARS Part 46 to limit Government source/origin inspection on contracts under \$250,000 to those situations where the head of the contracting activity has approved and verified that all three of the following conditions are satisfied: (1) there are significant contract technical requirements (e.g., drawings or test procedures), and (2) critical product features/characteristics or specific acquisition concerns have been identified, and (3) the contract is awarded to a manufacturer/producer, or contract is awarded to a dealer/distributor and specific government verifications have been identified as necessary and feasible to perform. On contracts failing one or more of these conditions, product quality assurance will be limited to destination inspection and/or user determinations of item fitness for use.

Change 2: Discontinue DCMA production surveillance on contracts assigned Criticality Designator "C" (not major systems or urgent needs see FAR 42.1105), unless contracting/program offices identify specific concerns to DCMA and request specific production surveillance.

Change 3: Discontinue all DCMA production and quality assurance surveillance/reporting on any follow-on spares contracts placed with original equipment manufacturers (OEMs) with continuing production capability, unless contracting/program offices identify specific concerns to DCMA and request specific production and/or quality assurance surveillance.



Attachment 1

The thrust of these changes is to focus our diminishing contract management resources where they can provide the most benefit. These changes do that, while providing the flexibility needed to address those situations where special attention is necessary. Before enacting these proposals, I would like your feedback by October 4, 2002 on any potential implementation issues or risks.

A handwritten signature in black ink, appearing to read "M. Wynne", is centered on the page.

MICHAEL W. WYNNE

PCO Source Inspection Decision & DCMA Reaction Matrix

Contracts < \$250K, FY 03 and Earlier Awards

Contract Items		3 Source Inspection Decision Criteria			DCMA Reactions	
	# 1	# 2	# 3			
Contract Items 	Significant Product Technical Requirements (e.g., drawings and/or performance) in Contract:	Critical Characteristics Identified or DCMA is Provided Guidance on How to Identify, or Specific Acquisition Issues Identified	Contractor is Manufacturer or Producer, Not a Distributor or Dealer	DCMA Reaction When Contracts Satisfy 3 Criteria for Requiring Source Inspection	DCMA Reaction When Contracts Fail to Satisfy 1 or More of the 3 Criteria for Requiring Source Inspection	1
Contract Identifies Contract Items as Critical Safety Items, NNPP, NPM, NPP, Level I, or SUBSAFE	Required for source inspection	Required for source inspection	Required for source inspection	DCMA will perform source inspection	DCMA will contact PCO, work with PCO to resolve deficiencies. If deficiency cannot be resolved within 14 days, DCMA will perform source inspection, as practicable.	
Other Items	Required for source inspection	Required for source inspection	Required for source inspection	DCMA will perform source inspection	DCMA will inform the PCO which of the 3 criteria are not satisfied, but perform minimal source inspection, based primarily on contractor representation of conformance.	

NOTE: 1 DCMA encourages PCOs to require and rely on contractor qualifications (e.g., QSL, QML) and/or contractor CoC instead of source inspection when any of the 3 source inspection criteria cannot be satisfied.

PCO Source Inspection Decision & DCMA Reaction Matrix

Contracts < \$250K, FY 04 and Later Awards

Contract Items	3 Source Decision Inspection Criteria			DCMA Reactions	
	# 1 Significant Product Technical Requirements and/or performance (e.g., drawings and/or requirements) in Contract	# 2 Critical Characteristics Identified or DCMA is Provided Guidance on How to Identify, or Specific Acquisition Issues Identified	# 3 Contractor is Manufacturer or Producer, Not a Distributor or Dealer	DCMA Reaction When Contracts Satisfy 3 Criteria for Requiring Source Inspection	DCMA Reaction When Contracts Fail to Satisfy 1 or More of the 3 Criteria for Requiring Source Inspection
<p>Contract Identifies Contract Items as Critical Safety Items, NNPP, NPM, NPP, Level I, or SUBSAFE</p>	Required for source inspection	Required for source inspection	Required for source inspection	DCMA will perform source inspection	DCMA will contact PCO, work with PCO to resolve deficiencies. If deficiency cannot be resolved within 14 days, DCMA will request that contract be modified to require inspection at destination. DCMA will not perform source inspection unless mandated by agency level regulation/MOA.
<p>Other Items</p>	Required for source inspection	Required for source inspection	Required for source inspection	DCMA will perform source inspection	DCMA will inform the PCO which of the 3 criteria are not satisfied, but DCMA will not perform source inspection

DCMA encourages PCOs to require and rely on contractor qualifications (e.g., QSL, QML) and/or contractor CoC instead of source inspection when any of the 3 source inspection criteria cannot be satisfied.

DCMA CMO personnel should escalate chronic problems through the chain of command for resolution, up to and including HQ DCMA.

- NOTES:
- 1**
 - 2**