THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

DEC 22 2003

ACQ FYI 04-003

MEMORANDUM FOR SERVICE ACQUISITION EXECUTIVES
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Implementation of Changes in Acquisition Business Rules

By memorandum, dated April 14, 2003 (attached), I directed the Defense Contract Management Agency to proceed with a time-phased implementation of changes in business rules to limit Government source inspections for contracts valued below $250,000. We are now finalizing corresponding changes to the DoD Federal Acquisition Regulation Supplement to implement the business rules. These changes will focus our contract management resources where they can provide the greatest benefit.

A long-standing criticism of destination acceptance is the time it takes for the payment office to receive acceptance information causing potential payment delays. Wide Area Workflow (WAWF) is now available to deliver acceptance information electronically providing a capability for real time invoicing. Beyond the benefits described in Dr. Zakheim's and my memorandum dated February 6, 2003, full and rapid implementation of WAWF will ensure this change in acquisition business rules produces the positive benefit desired without a negative impact to contractors.

By January 31, 2004, I expect you to have procedures and performance measures in place to ensure only those procurement actions meeting the revised criteria will require source inspection. Please provide your Service/Agency-level implementation plans, including defined measures to gauge the reduction in contracts requiring source inspection, to Mr. Robert Schmitt at DCMA at robert.schmitt@dcma.mil, by January 16, 2004. If the source inspection implementation timeframe is not possible, please advise me accordingly.

With regard to WAWF, please provide WAWF deployment and implementation plans to Mr. Will Bishop (Acquisition Domain) at william.bishop@osd.mil, with a copy to the Business Initiative Council, Major Michael Cordero, USMC, at

CorderoME@hqmc.usmc.mil, by January 16, 2004. If security or other concerns preclude implementation of WAWF, submit mitigation strategies addressing your plans to implement electronic invoicing and receiving reports as well as strategies to capture data requirements in support of military equipment valuation and Universal Identification (UID).

Michael W. Wynne
Acting

Attachment:
As stated

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

ACQUISITION,
TECHNOLOGY AND
LOGISTICS

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

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.

MICHAEL W. WYNNE

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

ACQUISITION, TECHNOLOGY AND LOGISTICS

SEP 13 2002

Claude, John, Marvin

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.

MICHAEL W. WYNNE

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MANAGEMENT INITIATIVE DECISION

UNAUTHORIZED RELEASE OF THE FOLLOWING MANAGEMENT INITIATIVE DECISION IS PROHIBITED.

MID 909 (excerpt)

TITLE: Defense Agencies Study

DATE: January 7, 2003

DECISION: The Deputy Secretary of Defense approved the alternative estimate.

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Attachment 2

The pilot program will begin in FY 2004 and run for two years. Within 90 days after the test is completed, DCAA will issue a report to USD(C) and USD (AT&L) with the results.

Defense Contract Management Agency (DCMA)

Changes in business practices are required for DCMA to comply with declining staffing targets over the POM years. At the same time, DCMA must ensure that it addresses Military Services' highest risk, priority contract management issues. The alternative estimate establishes business rules changes (shown in Table 5) to accomplish the goal of reducing contract management workload with minimal risk.

TABLE 5: Proposed Business Rule Changes

- Revise DFARS Part 46 to limit Government source/origin inspection on contracts under $250,000 to those situations where three conditions are met: (1) there are significant contract technical requirements, (2) critical product features / characteristics have been identified, and (3) the contract is awarded to a manufacturer/producer.
- Limit surveillance on contracts for non-critical items.
- Limit production and quality assurance activity on follow-on spares contracts placed with original equipment manufacturers with continuing production capability, unless contracting/program offices identify specific concerns in these areas.

The collective intent of these practices is to structurally change the acquisition process over the coming year to remove the requirement for Contract Management support on certain low risk contracts and low payoff business processes. Estimated benefits from this effort need to approach an estimated $300 million (cumulative) cost avoidance for the period FY 2005-2009 to offset anticipated workload growth and allow DCMA to remain within guidance.

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The alternative estimate supports this effort and directs the USD (AT&L) to begin implementing the rules in FY 2003. During the course of the test, USD (AT&L) should determine the net value and risks associated with these new practices. The DCMA, DLA and Military Services will employ these business rule changes at pilot sites and study their impacts on the effectiveness of their acquisition processes and products. The evaluation will address the number of contracts under the revised dollar value threshold requiring inspection or surveillance.

Submit final impact assessments to the SEC by September 30, 2003. Applicable Components should achieve a nominal savings between FY 2003-FY 2004 due to implementing the business rules changes, the alternative estimate allows the Components to retain the savings and reinvest them in high priority unfunded requirements.

Defense Finance and Accounting Services (DFAS)

DFAS Segments Approach

The FY 2003-2007 Defense Planning Guidance (DPG), required DFAS to develop a Transformation "Road Map" or Plan with the goal of providing the best value to DFAS clients by taking Department of Defense (DoD) financial operations to the next level. To satisfy the DPG requirement, DFAS established a Transformation Working Group to examine the DFAS organization, identify strategic transformation options, evaluate the potential applicability of these options, and ultimately propose recommendations for organizational transformations.

DFAS concluded that transformation on a Product Line basis would result in the best value to DoD, because of the need to tailor transformation approaches to address specific Product Line issues. The SEC selected the DFAS Segment approach as the best method to evaluate DFAS transformation and organizational methods.

The DFAS Segment approach involves evaluating each Product Line to determine which Transformation Solution Set would create the best value for DoD. The key benefit to using the DFAS Segment

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PCO Source Inspection Decision & DCMA Reaction Matrix

Contracts < $250K, FY 03 and Earlier Awards

Contract Items	3 Source Inspection Decision Criteria			DCMA Reactions	
	# 1 Significant Product Technical Requirements (e.g., drawings and/or performance 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 [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 inspecion, 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 (e.g., drawings and/or performance 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 [1] [2]
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 request that contract be modified to require inspection at destination. **DCMA will not perform source inspection unless mandated by agency level regulation/MOA.**
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 **DCMA will not perform source inspection**

NOTES:

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

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