



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD, SUITE 2533  
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY  
REFER TO

J-33

PROCLTR 04-06

MAR 3 1 2004

MEMORANDUM FOR PROCLTR DISTRIBUTION LIST

SUBJECT: New Business Rules for Government Surveillance at Source (Defense Logistics Acquisition Directive (DLAD) 4105.1, 11.302(b)(92)(xii), 46.402, 46.402(90)-(91), 46.404, 52.213-9001)

This PROCLTR provides DLAD guidance (Attachment 1) to implement Department of Defense (DOD) policy issued by Under Secretary of Defense (Acquisition, Technology, and Logistics) (USD(AT&L)) memorandum dated December 22, 2003 (Attachment 2). Guidance to technical/quality specialists was issued in T-Q Tip 04-02 dated January 30, 2004, which will be incorporated into the DLA Technical Support Policy & Procedures Deskbook. The T-Q Tip addresses technical issues associated with the contracting officer determinations in DLAD 46.402(3).

The USD(AT&L) memorandum defines New Business Rules for Government Surveillance at Source on contracts administered by the Defense Contract Management Agency (DCMA). DCMA resources are being drastically reduced, yet their workload projections indicate continued growth. To address this, the USD(AT&L) determined that the limited contract management resources in the DOD must be principally focused on high-risk areas. For dollar values under \$250,000, this means DCMA effort should only be expended on awards with sufficient complexity and criticality.

The Military Services, DLA, and DCMA have all expressed a desire to ensure that support to Military customers is not impaired during this transition period. Accordingly, HQ DCMA has directed its Contract Management Offices (CMOs) to continue accepting all contract delegations for the remainder of FY 2004. The CMOs will be tracking awards that include GSI, to identify trends in noncompliance, and will be working with buying activities to develop mutually-acceptable solutions. Where we may experience difficulties in complying with the DOD policy, an integrated field-level working group has been established that will report and recommend proposed solutions to HQ DCMA and HQ DLA. These issues include when Government source inspection (GSI) must be invoked for reasons unrelated to quality (e.g., unknown destinations, sole source/best value offers contingent on GSI and/or f.o.b. origin, etc.)

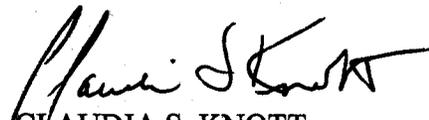
DLA is reviewing and revising its policies to help minimize GSI. We rescinded the requirement to use GSI whenever acquiring critical application items from an offeror of surplus material, and we revised guidance at DLAD 46.402(90) to reflect the Agency preference for destination inspection/acceptance. We urge you to take action to minimize the use of GSI,



such as encouraging the authorization of Certificates of Conformance (CoC) when appropriate, and discouraging the practice of combining direct vendor delivery (DVD) and stock CLINs on the same award, while the efforts of the field-level working group are underway.

USD(AT&L) recognizes the concern about timely submission of destination acceptance receipts for DVDs. Wide Area Work Flow (WAWF) is viewed as the long-term solution to this concern, so your continued active engagement in that effort is needed. However, until the implementation of WAWF or some other permanent solution, I am issuing class deviation FARS DEV 04-02 (Attachment 3) for a two-year period. The deviation authorizes use of fast payment procedures for direct vendor delivery (DVD) awards valued up to \$100,000, if the other conditions in FAR 13.402(b)-(f) apply. This deviation is an interim measure to help ensure timely payment to suppliers and timely support to our customers during this transition period, and is subject to the oversight requirements contained therein.

This PROCLTR is effective immediately and expires upon incorporation of the attached coverage into the DLAD. This is considered interim policy, until the impediments are addressed and solutions developed are mutually-acceptable between DLA and DCMA. The point of contact for this PROCLTR is Ms. Anne Burleigh, J-3311, at (703) 767-1358, DSN 427-1358, or e-mail [anne.burleigh@dla.mil](mailto:anne.burleigh@dla.mil).

  
CLAUDIA S. KNOTT  
Senior Procurement Executive

Attachments

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PART 11

DESCRIBING AGENCY NEEDS

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SUBPART 11.3 - POLICY

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11.302 ~~Policy Solicitation provisions and contract clauses.~~

(b) (92) Contracting officer responsibilities and procedures.

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(xii) *When an offeror of surplus material is the prospective awardee, the contracting officer shall refer the acquisition to the technical/quality specialist (product specialist), who shall determine whether quality assurance will take place at source or destination. If the technical/quality specialist (product specialist) determines inspection/acceptance (I/A) shall be at source and the award will be administered by DCMA, the technical/quality specialist (product specialist) shall prepare a Quality Assurance Letter of Instruction (QALI). The contracting officer shall advise the technical/quality specialist (product specialist) what should be included in the QALI. All QALIs shall include at a minimum:*

(A) A copy of the completed clause at 52.211-9000, with instructions to verify the representations and documentation provided by the offeror. Inspection criteria must be consistent with the basis for determining the surplus material acceptable. (For example, if previous Government ownership was demonstrated by documentation other than a Government contract number, the current contract must not require the surplus material to be identified to a previous Government contract.) Inspection criteria must include special inspection or testing requirements forwarded by the technical/quality specialist (product specialist), if any. (Criteria may also include dimensional inspection, if appropriate; or destructive testing, depending on the age of the material. Obtain the recommendation of the technical/quality specialist (product specialist) to determine the need for additional criteria.)

(B) A requirement for the QAR to notify the contracting officer if, at the time of Government source inspection, the QAR is denied access to the contractor's plant or not permitted to select the material to be inspected.

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PART 46

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SUBPART 46.4 - GOVERNMENT CONTRACT QUALITY ASSURANCE

46.402 Government contract quality assurance at source.

Except as provided in 46.402(90)(2)-(3) and 42.402(91), DLA buying activities shall not delegate contract administration to DCMA when a contract, purchase order, or delivery order is valued below \$250,000 and requires Government contract quality assurance at source, unless -

(1) Mandated by DoD regulation; or

(2) Required by a memorandum of agreement between the acquiring department or agency and the contract administration agency; or

(3) The contracting officer determines that -

(i) Contract technical requirements are significant (e.g., the technical requirements include drawings, test procedures, or performance requirements);

(ii) Critical product characteristics, specific product features, or specific acquisition concerns have been identified; and

(iii) The contract is being awarded to -

(A) A manufacturer or producer; or

(B) A non-manufacturer or non-producer and specific Government verifications have been identified as necessary and feasible to perform (except as provided in 46.402(90)(3)).

(90) Under normal circumstances, the contracting officer shall apply inspection/acceptance (I/A) requirements as designated by the technical/quality specialist (product specialist). The contracting officer shall not change source I/A to destination I/A without obtaining prior approval from the technical/quality specialist (product specialist). If the prospective awardee is currently identified (e.g., on a contractor alert list) as requiring source I/A, the contracting officer shall not apply destination I/A. The contracting officer may contact the technical/quality specialist (product specialist) for confirmation of, or revision to, an I/A requirement whenever it appears inappropriate to the item or the circumstances of the acquisition.

(1) When a solicitation is issued on the basis of source I/A, and the item is acquired from a sole source that will not permit quality assurance at source, the matter should be negotiated on a case-by-case basis to provide adequate consideration to the Government for the added cost of performance of the necessary technical quality assurance.

(2) Conversely, when a sole source or best value quote/offer is contingent on source I/A and/or f.o.b. origin for items that were solicited on the basis of destination I/A, buying activities shall attempt to negotiate destination I/A terms to the extent practicable and document results (see 46.402(91)(1)).

(3) When a solicitation is issued on the basis of source I/A, and the item is acquired from a non-manufacturer/non-producer (i.e., dealer/distributor), the contracting officer shall award on the basis of source I/A and delegate contract administration to DCMA. This is interim policy until a permanent solution can be developed (e.g., inclusion of a field to capture data in the Vendor Master advising whether a non-manufacturer/non-producer has test/inspection equipment on site).

(91) The contracting officer may change destination I/A requirements to source I/A at time of award when the following conditions apply:

(1) The sole source or best value quote/offer is contingent on source I/A and/or f.o.b. origin for items that were solicited on the basis of destination I/A; and efforts to award on the basis of destination I/A are either impracticable or unsuccessful.

(2) Destinations are unknown (see 47.305-5, 47.304-1(f), and 47.302(c)(1)).

(3) DVD (including foreign military sales) and stock CLINs are combined on the same award.

(4) When the prospective awardee is currently identified (e.g., on a contractor alert list) as requiring source I/A.

(5) When otherwise mutually agreed by the buying activity/contracting officer and DCMA.

**46.404 Government contract quality assurance for acquisitions at or below the simplified acquisition threshold.**

**DLA buying activities shall not delegate contract administration to DCMA when a contract, purchase order, or delivery order is valued at or below the applicable simplified acquisition threshold or below \$250,000, whichever amount is greater, and requires Government contract quality assurance at source, unless the applicable criteria at 46.402 have been met.**

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PART 52

SOLICITATION PROVISIONS AND CONTRACT CLAUSES

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52.213-9001 Evaluation factor for source inspection.

As prescribed in 13.106-90(a), 14.201-8(a) (90), and 15.304(c) (94), insert the following provision:

**EVALUATION FACTOR FOR SOURCE INSPECTION ([month PROCLTR issued] 2004) - DLAD**

This solicitation contemplates an award based on destination inspection. However, source inspection will be required for those **quoters**/offerors to whom formal notification thereof has been issued prior to the closing/opening date for receipt of offers under this solicitation. An evaluation factor of \$250 will be added to the quoted/offered price for each source inspection required, for purposes of determining the most advantageous offer received, price and other factors considered. **Quotes/offers contingent on source inspection/acceptance and/or f.o.b. origin may be considered technically unacceptable; if the quote/offer is evaluated, the \$250 evaluation factor will be applied for each source inspection required.** Nothing in this provision affects the right of the Government to perform or waive source inspection on any resultant order/contract.

(End of provision)



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MAR 31 2004

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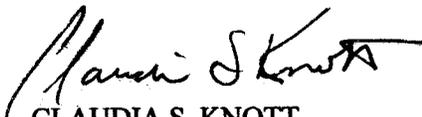
SUBJECT: Class Deviation from Federal Acquisition Regulation (FAR) 13.402(a) Granting 2-Year Authority to Use Fast Payment Procedures for Direct Vendor Delivery (DVD) Awards Not Exceeding \$100,000

This is a class deviation from FAR 13.402(a). This deviation is intended to facilitate implementation of Department of Defense (DOD) policy directing reduced Government surveillance at source. FAR 13.402 identifies conditions that must be present to use fast payment procedures, and subparagraph (a) states individual purchasing instruments may not exceed \$25,000. This class deviation authorizes use of fast payment procedures for Direct Vendor Delivery (DVD) awards not exceeding \$100,000 in dollar value, when the conditions in FAR 13.402(b)-(f) apply. This deviation is granted for a 2-year period.

Due to reductions in Defense Contract Management Agency (DCMA) resources, the Under Secretary of Defense (Acquisition, Technology, and Logistics) (USD (AT&L)) has undertaken an initiative to significantly reduce Government surveillance at source by the DCMA. The USD (AT&L) recognizes the long-standing criticism of destination acceptance associated with untimely receipt of acceptance information by the payment office and payment delays that result. Wide Area Work Flow (WAWF) is viewed as the long-term solution to this concern, so your continued active engagement in that effort is needed. This deviation is an interim measure to help ensure timely payment to suppliers and timely support to our customers prior to the implementation of WAWF or some other permanent solution.

This authority is granted with the understanding that, in conjunction with your already-established internal controls associated with the use of fast payment procedures, you shall also perform a semi-annual verification of customer receipt for a statistically-valid, random sample of all DVD awards valued over \$25,000 but not exceeding \$100,000 and for which payment has been made. In addition, the appropriate use of fast payment procedures will continue to be a special interest item on all Procurement Management Reviews.

This deviation is issued pursuant to the authority delegated to me by the Director of Defense Procurement, September 30, 1999 (see also DFARS 201.404(b)(ii)). FARS DEV 04-02 applies. This class deviation expires two years from the date of this memorandum. Our point of contact is Ms. Anne Burleigh, J-3311, at (703) 767-1358, DSN 427-1358, e-mail [anne.burleigh@dla.mil](mailto:anne.burleigh@dla.mil).

  
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