



DCMA

Counterfeit Mitigation

Parts Standardization & Management Committee (PSMC) LMI – Tysons, VA

Defense Contract Management Agency (DCMA)
Technical Directorate - Engineering
25 - 27 April 2017



COUNTERFEIT MITIGATION

- **DCMA Counterfeit Mitigation Status**
- **DCMA Training**
- **OSD – DFARS and FAR regulations changes**
- **Legislative Requirements**
- **Counterfeit Detection Checklist**
- **Supporting CPSR**
- **DFARS CLAUSES**
- **Discovery / Reporting – Suspect Counterfeit**
- **GIDEP**
- **Takeaways**

December 31, 2011

The President signed into Law FY12 National Defense Authorization Act (NDAA), Section 818 "Detection and avoidance of counterfeit electronic parts".

September 21, 2012

DCMA Issued TASKING MEMO 12-297 – "Facility Surveillance of Contractors for Counterfeit Part Mitigation Processes" Counterfeit Checklist based on FAR 52.246-11 and FAR 52.246-2 Criteria for Counterfeit Materiel and Electronics.

September 15, 2014

DCMA Issued TASKING MEMO 14-272 – Counterfeit Detection Checklist Procedures based on DFARS 252.246-7007(C) twelve (12) System Criteria for Materiel and Electronics.

May 1, 2015

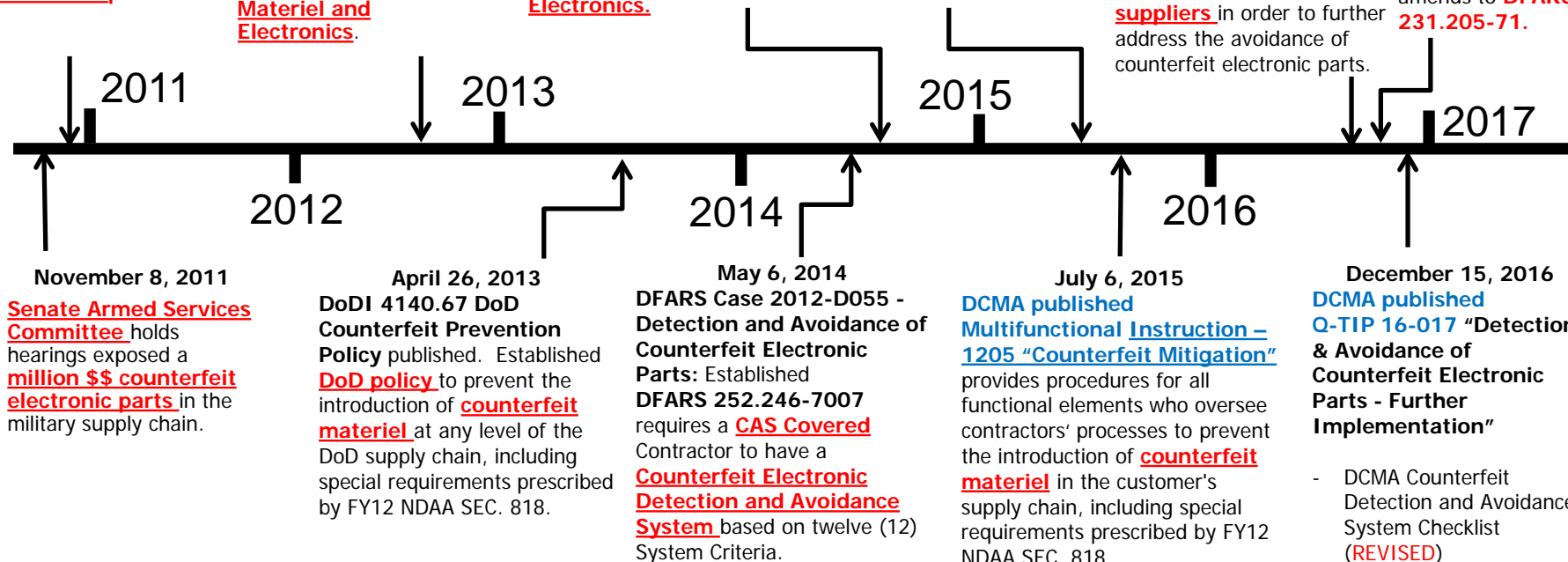
DCMA Issued TASKING MEMO 15 - 078 – Mandatory Counterfeit Mitigation Training (Webcasts) The Counterfeit Mitigation Training consists of a two part series: **Part I** – MDA Counterfeit Part Training – Missile Defense Agency **Part II** – Government Contract Oversight, Counterfeit Mitigation – DCMA

August 2, 2016

DFARS Case 2014-D005, Detection and Avoidance of Counterfeit Parts - Further Implementation: Established **DFARS 252.246-7008 "Sources of Electronic Parts."** This rule requires DoD contractors and subcontractors, except in limited circumstances, to acquire electronic parts from contractor-approved suppliers in order to further address the avoidance of counterfeit electronic parts.

August 30, 2016

DFARS 2016-D010 - Costs Related to Counterfeit Electronic Parts: Establishes the allowability of costs for rework or corrective action that may be required to remedy the use or inclusion of counterfeit or suspect counterfeit parts under amends to **DFARS 231.205-71**.



- DCMA is following OSD/DPAP's lead in addressing **DFARS 252.246-7007** "System Criteria" utilizing the DCMA Counterfeit Checklist, (DFARS 252.246-7008 "Sources of Electronic Parts" required under para. (c) 4 & 5).
- **DFARS 252.246-7008** "Sources of Electronic Parts" is required in all solicitations and contracts when procuring Electronics, or services and COTS items that contain electronic parts.
- A holistic approach to counterfeit mitigation, not just for Electronics IAW **DoDI 4140.67** "DoD Counterfeit Prevention Policy"
- DCMA's Counterfeit Mitigation Strategic Reliability Goals are composed of the following:
 - Training
 - Policy
 - Operational Tools
 - Communications/Awareness
- DCMA has developed a Counterfeit Mitigation policy (**INST-1205**) as well as an internal training package which includes theory and practical applications.

DCMA Implementation of DFARS 252.246-7007 “Contractor Counterfeit Electronic Part Detection and Avoidance System:” **Published on 6 May 2014.**

- DCMA tasking memo 14-272 Counterfeit Mitigation Checklist: **Issued 15 September 2014**
 - The checklist assesses risk and identifies areas that might require increased surveillance for **both Electronics and Materiel.**
- DCMA-INST 1205 Counterfeit Mitigation Policy: **Issued 6 July 2015**
 - This **Multifunctional** policy addresses Counterfeit for **both Electronics and Materiel.**

DCMA Implementation of DFARS 252.246-7008, “Sources of Electronic Parts:” **Published 2 August 2016**

- Q-TIP 16-017 “Detection & Avoidance of Counterfeit Electronic Parts - Further Implementation” issued **15 December 2016** addressed —
 - **DFARS 252.246-7008, “Sources of Electronic Parts”** requires contractors to obtain electronic parts from the original manufacturer (OM) or in limited circumstances, from contractor-approved suppliers.
 - **DCMA Counterfeit Mitigation Checklist revised** to address DFARS 252.246-7008 requirements.
- **DCMA Risk Assessment Process**
 - **Currently** updating the DCMA Risk Assessment process to include performance factors to address “Sources of Electronic Parts.”

Counterfeit Mitigation Training

DAU CLL032 - Preventing Counterfeit Electronic Parts from Entering the DoD Supply System

DAU CLL062 - Counterfeit Prevention Awareness

DCMA HQ – QA developed counterfeit training, delivered in two parts. Addresses the proliferation of counterfeits, where they can be found and what to do when it is encountered. **REF: Task MEMO # 15-087, May 11, 2015.**

1. The “Voice of the Customer” MDA Counterfeit Part Training Webcast – A webcast presenting the voice of our customer on issues they have seen with counterfeit electronic items.
2. Counterfeit Mitigation Training Webcast – A webcast providing details on DCMA policy on surveilling contractors system to detect and avoid counterfeit parts. The process is not limited to electronics.



OSD Sec 818 Implementation Plan (as of 14APR17)

DEFENSE CONTRACT MANAGEMENT AGENCY

- Issued DODI 4140.67 DoD Counterfeit Prevention Policy

- Sponsored cases to amend the FAR and DFARS

Case #	Description	Status
DFARS 2012-D055	Detection and Avoidance of Counterfeit Electronic Parts	DFARS 252.246-7007 final rule published 05/06/2014. Effective upon publication.
FAR 2012-032	Higher-Level Contract Quality Requirements	FAR 46.311 (a), 44.303 (k) final FAR rule published 11/25/2014. Effective 12/26/2014
DFARS 2014-D005	Detection and Avoidance of Counterfeit Electronic Parts—Further Implementation	DFARS 252.246-7008 final rule published 08/02/2016. Effective upon publication.
DFARS 2016-D010	Costs Related to Counterfeit Electronic Parts	DFARS 231.205-71 final rule published 08/30/2016 Effective upon publication.
FAR 2013-002	Expanded Reporting of Nonconforming Items	04/05/2017 DARC Director tasked DARS Staff to review public comments, draft final FAR rule. Report due 05/31/2017.
DFARS 2017-D023	Suppliers that Meet Anticounterfeiting Requirements	02/02/2017 Case transferred to Holding File 2017-H011 , pending further input from PDI.
DFARS 2016-D013	Amendments Related to Sources of Electronic Parts	02/08/2017 Case manager forwarded draft final DFARS rule to DAR editor. DAR editor reviewing.
DFARS 2017-D014	Use of Commercial or Non-Government Standards	01/11/2017 DARC Director tasked Quality Assurance Committee to draft proposed DFARS rule. Report due 04/26/2017.

DAR – Defense Acquisition Regulation
 DFARS – Defense Federal Acquisition Regulation Supplement
 OIRA – Office of Information and Regulatory Affairs

FAR – Federal Acquisition Regulation
 CAAC- Civilian Agency Acquisition Council
 PDI - Program Development and Implementation



Legislative Requirements:

Are met by GCQA and Industry Standards

Government Contract Quality Assurance Surveillance	DFARS 252.246-7007 (c) System Criteria (DFARS 252.246-7008 required under Para. 4 & 5)		AS5553B	AS9100D	DCMA Counterfeit Checklist
Training	(i)	the training of personnel	3.1.1	8.1.4	1
Receiving & Inspection	(ii)	the inspection and testing of electronic parts;	3.1.3.d. 3.1.7.g.	8.1.4 8.4.2.d 8.4.3.i	2
Nonconforming material / Reporting	(iii)	processes to abolish counterfeit parts proliferation;	3.1	8.1.4 8.4.3.k 8.7.1.d	3
Subcontract Management/ Purchase Order System	(iv)	Suppliers that have risk-based processes that enable traceability from acceptable sources of electronic parts, (IAW 252.246-7008 (c), Sources of Electronic Parts).	3.1.4 3.1.5 3.1.7	8.1.4 8.5.2 8.1.4	4 4.a. 4.b
	(v)	Suppliers that obtain parts from the original manufacturer or an authorized aftermarket manufacturer and /or approved sources using inspection, testing, and authentication, (IAW 252.246-7008 Sources of Electronic Parts).	3.1.3		5 5.a 5.b 5.c 5.c.1
Nonconforming material / Reporting	(vi)	the reporting and quarantining of counterfeit electronic parts and suspect counterfeit electronic parts;	3.1 3.1.7.c 3.1.8	8.1.4	6
Receiving & Inspection	(vii)	methodologies to identify suspect counterfeit parts and to rapidly determine if a suspect counterfeit part is, in fact, counterfeit;	3.1.3.d 3.1.7.g	8.1.4	7
Subcontract Management/ Purchase Order System	(viii)	the design, operation, and maintenance of systems to detect and avoid counterfeit electronic parts and suspect counterfeit electronic parts; and	3.1 3.2	-----	8
	(ix)	the flow down of counterfeit avoidance and detection requirements to subcontractors;	3.1.4	8.4.3.k	9
Training	(x)	Processes to keep informed on counterfeiting trends	3.1	-----	10
Subcontract Management/ Purchase Order System	(xi)	Process for screening GIDEP reports and other credible sources to avoid the purchase of counterfeit parts	3.1.3	-----	11
	(xii)	Control of obsolete electronic parts	3.1.2.b	8.1.4	12
	SUMMARY:	Does the Contractor have an acceptable (Risk-Based) operational system(s) to detect and avoid counterfeit parts and suspect counterfeit parts?	----	-----	-----



Counterfeit Detection Checklist

(revised to address DFARS 252.246-7008 requirements)

DEFENSE CONTRACT MANAGEMENT AGENCY

- DCMA ensures contractors have the proper controls and inspection/quality management systems in place to mitigate counterfeit parts
- Government Contract Quality Assurance (GCQA) surveillance policy was updated to add requirements for review of supplier counterfeit detection and avoidance systems
- Checklist is used by the Technical Specialist to determine if a contractor's counterfeit detection and avoidance systems and processes are in control
- Non-compliance is handled through normal DCMA corrective action processes
(Counterfeit is a Subset of a Nonconformance)

Does the Contractor execute risk-based policies and procedures that address, at a minimum, the following?

(This checklist applies to ALL contracts to determine counterfeit risk)

1. Personnel training? <i>(Example: The Contractor has an anti-counterfeit training program.)</i>
2. Inspection and testing of parts, including criteria for acceptance and rejection? <i>(Example: The Contractor uses established counterfeit prevention industry standards, i.e. ASS553, AS6174)</i>
3. Abolish counterfeit parts proliferation? <i>(Example: The Contractor uses established counterfeit prevention industry standards...)</i>
4. Risk-based tracking of part traceability from the original manufacturer to product acceptance by the Government, whether the parts are supplied as discrete parts or are contained in assemblies?
4.a. Is the contractor responsible for inspection, testing, and authentication IAW existing applicable industry standards if traceability cannot be established from the original manufacturer?
4.b. Does the Contractor maintain documentation of traceability, or the inspection, testing, and authentication required when traceability cannot be established in accordance with FAR subpart 4.7? and: - Does the contractor make such documentation available to the Government upon request?
5. Does the contractor obtain parts from the original manufacturer or an authorized aftermarket manufacturer?
5a. Does the contractor identify "contractor-approved suppliers" (when parts are not in production by, or are not currently available in stock from the original manufacturer or an authorized aftermarket manufacturer)?
5b. Does the Contractor identify and approve their suppliers by ensuring established counterfeit prevention industry standards (including inspection, testing, and authentication) are utilized?
5c. Does the contractor identify "other than a contractor-approved supplier" which includes notifying the CO in writing (due to part nonavailability from contractor approved sources or the subcontractor refuses to accept flowdown, or cannot confirm the part is new and has not been comingled)?
5c.1. Does the Contractor use established counterfeit prevention industry standards (including inspection, testing, and authentication) to obtain the part?
6. Reporting and quarantining counterfeit parts and suspect counterfeit parts?
7. Methodologies to identify suspect counterfeit parts and to rapidly determine if a suspect counterfeit part is, in fact, counterfeit?
8. Design, operation, and maintenance of systems to detect and avoid counterfeit and suspect counterfeit parts?
9. Flow down of counterfeit detection and avoidance requirements to subcontractors at all levels in the supply chain that are responsible for buying or selling parts or assemblies, or for performing authentication testing?
10. Continually informed of counterfeit information and trends?
11. Screens GIDEP reports and other credible sources of counterfeiting information to avoid the purchase and/or use of counterfeit and suspect counterfeit parts?
12. Control of obsolete parts in order to maximize the availability and use of authentic, originally designed, and qualified parts throughout the product's life cycle?
SUMMARY: Based on your review, does the Contractor have an acceptable (Risk-Based) operational system(s) to detect and avoid counterfeit parts and suspect counterfeit parts?

Implemented on all suppliers with contracts containing FAR 52.246-11 or -2 clause



DCMA-INST 326 Risk Assessment Risk Profile and Plan, "Performance Factors All suppliers" TAB

8a. Does the supplier have an acceptable counterfeit electronic part detection and avoidance **SYSTEM** meeting the requirements prescribed in DFARS 252.246-7007 when the clause is present and applicable in the contract?

8b. Does supplier comply with DFARS 252.246-7008 Sources of Electronic Parts when the clause is on contract?

Question #8a: To answer this question, use the Counterfeit Detection and Avoidance System Checklist located on the DCMA-INST 1205 Resource page.

9. Does the supplier have a method/procedures for assuring quality of purchased material.

10. Does the supplier assure that sub-suppliers furnish reasonable facilities and assistance for the safe and convenient performance of GSI/GCQA to include equipment adequate for the product being produced?

Question #8b: To determine contractor compliance with **DFARS 252.246-7008** "Source of Electronic Parts" use the Counterfeit Detection and Avoidance System Checklist located on the DCMA-INST 1205 Resource page. (Contractor must obtain electronic parts from sources IAW requirements identified in **DFARS 252.246-7008**)

11. Has the supplier flowed all applicable technical and quality requirements to sub-tier suppliers?
Supplier must be able to demonstrate effective control over inspection and testing to assure delivery of only conforming supplies.

Indicators include as applicable:

12. Does the supplier have an adequate selection of calibrated inspection equipment for examination of product?

13. Does the supplier maintain an acceptable system to assure the accuracy and adequacy of measuring and test equipment which includes records, traceability to National Institute for Standards and Technology (NIST) and a recall system?

14. Does the supplier maintain records of all inspections and tests which indicate the nature and number of observations made and type and number of deficiencies found and quantities approved and rejected?

15. Does the supplier understand and use statistically valid sampling plans?

16. Does the supplier have documented records of activities to assure the quality of purchased material including shelf life requirements, verification of traceability on material certification?

17. Has the supplier presented only conforming products for Government acceptance?

The Supplier must demonstrate effective corrective action, control of nonconforming material, and administrative controls to assure delivery of only conforming supplies.

Indicators include as applicable:

18. Does the supplier have a system to effectively control nonconforming material (including counterfeit material) with mechanisms to identify, segregate, determine root cause, apply corrective and preventive action, and properly disposition nonconforming material?

Question #18: "Electronic counterfeit material" should be addressed under Performance Factor question number (8a) when the **DFARS clause 252.246-7007** is included in the contract, or question number (8b) when **DFARS clause 252.246-7008** is on contract. **However, all Counterfeit Material is considered to be a subset of Non-Conforming Material and should be treated as such.**

When **DFARS 252.246-7007** and or **DFARS 252.246-7008** are **NOT** on contract, utilize the Counterfeit Detection and Avoidance System Checklist to determine Counterfeit (CF) risk IAW DCMA-INST 326 and DCMA-INST 1205. If there is a risk of CF material consider issuing a CAR for failure of the contractor's non-conforming material controls (**CF as a subset of NCM**).

Counterfeit Checklist Results

as of **JULY 2015**

CAS Electronics contractors best prepared (DFARS 252.246-7007 contractually required).

- **88%** complying with all twelve DFARS 252.246-7007 requirements.
- **Non-CAS Electronics contractors are doing well** (No contractual requirement).
 - **67%** complying with all twelve DFARS 252.246-7007 requirements.
- **Non Electronics contractors lagging** (No contractual requirement).
 - **40%** complying with all twelve DFARS 252.246-7007 requirements.

(DFARS 252.246-7007 twelve System Criteria **not** on contract).

as of **DEC 2016**

CAS Electronics contractors best prepared (DFARS 252.246-7007 contractually required).

- **96%** complying with all twelve DFARS 252.246-7007 requirements.
- **Non-CAS Electronics contractors are doing well** (No contractual requirement).
 - **86%** complying with all twelve DFARS 252.246-7007 requirements.
- **Non Electronics contractors lagging** (No contractual requirement).
 - **60%** complying with all twelve DFARS 252.246-7007 requirements.

DFARS 252.246-7008 applies as of 2AUG16.

- During annual surveillance, the ACO may request assistance from a Technical Specialist (TS), typically a QAS, to assist in evaluation of the contractors “**Counterfeit Electronic Parts Avoidance and Detection System.**”
- The counterfeit mitigation system will be evaluated against the criteria of **DFARS 252.246-7007(C)**. **DFARS 252.246-7008** applies under DFARS 252.246-7007(c) 4 & 5.
- **DCMA INST-1205 “Counterfeit Mitigation” para. 3.1**, requires the TS to provide the Counterfeit Detection Checklist results to the ACO when requested or event driven (when system deficiencies are of a concern).
- **DFARS 231.205-71 “Costs related to counterfeit electronic parts and suspect counterfeit electronic parts”** are allowable under certain conditions, i.e. Must be CAS Covered, Must have an approved Counterfeit Electronic Parts Avoidance and Detection System pursuant to DFARS 244.303.
- The DCMA Counterfeit Checklist is used to identify any deficiencies in the counterfeit avoidance and detection system.

- DFARS 252.246-7007 Contractor “**Counterfeit Electronic Part Detection and Avoidance System**” required in solicitations and contracts when procuring:
 - Electronic parts
 - End items, components, parts, or assemblies containing electronic parts
 - Services where the contractor will supply electronic parts or components, parts, or assemblies containing electronic parts
 - DFARS 252.246-7008 is addressed under DFARS 252.246-7007(c) 4 & 5.
- This clause is not used in solicitations and contracts that are **set-aside for small business**.
- The requirements of the clause do not apply unless the Contractor is subject to **Cost Accounting Standards (CAS)**.
- **Commercial items** are subject to the requirements of the clause.
- Flowdown is required to subcontractors at **all** levels.
- If 7007 is not on contract consider issuing a CDR.

- **DFARS 252.246-7008 “Sources of Electronic Parts”** is required in all solicitations and contracts when procuring:
 - Electronic parts,
 - End items, components, parts, or assemblies containing electronic parts or services.
 - Included in solicitations and contracts for commercial items (i.e. COTS).
- **DFARS 252.246-7008**, is summarized as follows:
 - **Para. (b)(1):** Requires contractors to obtain electronic parts that are in production by the **original manufacturer (OM)** or an **Authorized Aftermarket Manufacturer** or currently available in stock from —
 - 1) the OM of the parts;
 - 2) their Authorized Suppliers; or
 - 3) Suppliers that obtain parts exclusively from the OM or their Authorized Suppliers.
 - **Para. (b)(2): Contractor-Approved Suppliers:** If the part cannot be obtained from the OM, an Authorized Aftermarket Manufacturer or in stock as provided in para. (b)(1), the contractor may identify contractor-approved suppliers.
 - The contractor’s selection of **contractor-approved suppliers** are subject to review and audit by the contracting officer. The contractor must use established counterfeit prevention **industry standards** and processes to identify and approve their contractor-approved suppliers.
 - **Para. (b)(3): Other Than A Contractor-Approved Supplier:** If the contractor cannot obtain electronic parts from an OM or Authorized Aftermarket Manufacturer, due to **nonavailability** or the subcontractor **refuses to accept flowdown**, or the contractor cannot confirm the electronic part is new and has not been comingled, then the contractor may rely on **other than a contractor-approved supplier**.
 - Contractors and subcontractors are required by this rule to **notify the contracting officer** if it is not possible to obtain an electronic part from their contractor-approved supplier. Under Para. (b)(3)(ii)(B), the contractor is responsible for **inspection, testing, and authentication** of such electronic parts to be used in accordance with existing applicable industry standards.

Concerns:

Comingled Parts — Para. (3)(i)(B), states *“Cannot confirm that an electronic part is new or previously unused and that it has not been comingled in supplier new production or stock with used, refurbished, reclaimed, or returned parts.”*

- In general terms most if not all OM’s and Authorized Suppliers **comingle returns with new stock**. There is an **economic impact** to Authorized Suppliers (Distributors), that keep “returned” inventory separate from “new” inventory.
- Also Authorized Suppliers (Distributors) buy and sell to/from each other and will have **difficulty providing traceability**.

Applicability — Para. (e), states *“The Contractor shall include the substance of this clause, including this paragraph (e), in subcontracts, including subcontracts for commercial items that are for electronic parts or assemblies containing electronic parts, unless the subcontractor is the **original manufacturer**.”*

- **“Original manufacturer”** means the **original component manufacturer**, the **original equipment manufacturer**, or the **contract manufacturer**.
 - **“Original component manufacturer”** means an organization that designs and/or engineers a part and is entitled to any intellectual property rights to that part.
 - **“Original equipment manufacturer”** means a company that manufactures products that it has designed from purchased components and sells those products under the company's brand name.
 - **“Contract manufacturer”** means a company that produces goods under contract for another company under the label or brand name of that company.

Contract Integrity Center (CIC)

The CIC is a component of DCMA's General Counsel.

DCMA employees shall report any and all suspicions of counterfeit to the CIC.

If suspect counterfeit is identified, the Technical Specialist shall:

- Immediately contact the CIC and the chain of command as appropriate.
- The CIC will provide appropriate guidance for path forward.
 - Acceptance of suspect counterfeit product may be required to support a criminal investigation.
- In no case will the Technical Specialist independently initiate a fraud/counterfeit investigation.
- The CIC will provide direction when the Technical Specialist is to submit a suspect counterfeit report in GIDEP.



GIDEP

- **GIDEP is a cooperative activity between government and industry seeking to reduce or eliminate expenditures of resources by sharing technical information essential during the life cycle of systems, facilities and equipment.**
- **DCMA-INST 301, “GIDEP and DCMA Forum Regarding Defective/Nonconforming Product and Process Notifications” provides specific details.**
- **GIDEP is the required reporting mechanism for Suspect Counterfeit.** (Required by NDAA12 Sec 818, DoDI 4140.67 and DFARS 252.246-7007 (6))

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DCMA Forum Topics:

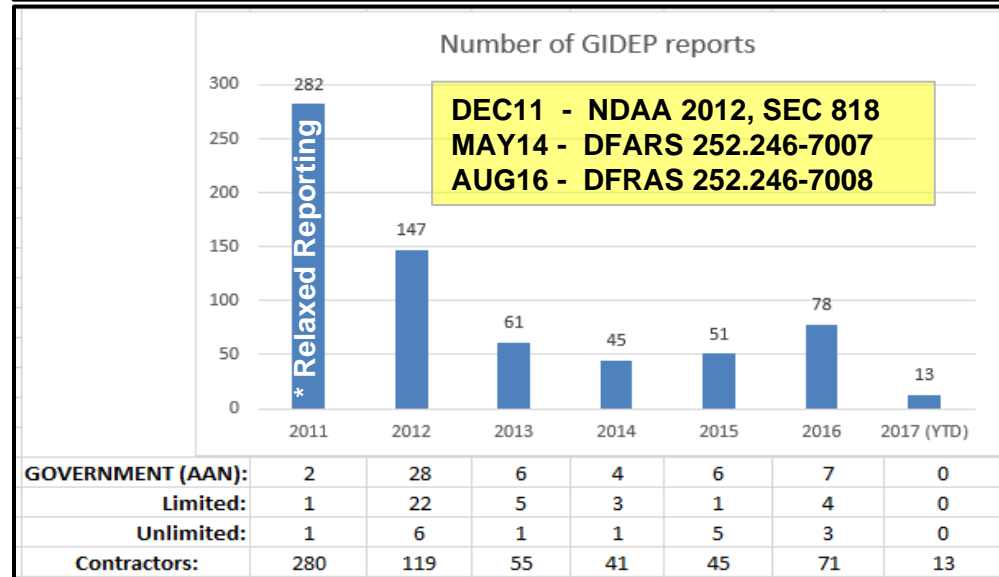
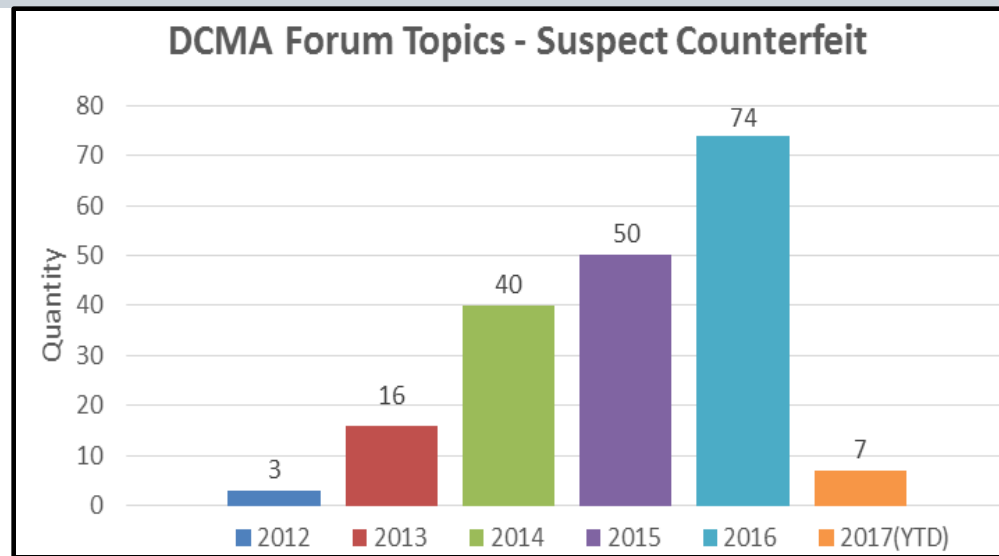
- 190 Suspect Counterfeit - DCMA Forum Topics have been transmitted to DCMA personnel and cognizant CMO's by DCMA-QAE.

GIDEP Notices:

- * GIDEP Interim Policy change

15 Sep - 15 Dec 2010

- Allowed Originator to withhold supplier name.
- 677 GIDEP reports issued from FY2011 through 2017 (YTD).



- **Counterfeit is a Subset of NCM.** A Non-compliance is handled through normal DCMA corrective action processes.
- It is DoD policy to not knowingly procure counterfeit materiel. The DCMA Counterfeit Checklist is **not just for Electronics** and **is** part of the overall Risk Assessment. (REF DoDI 4140.67, Para. 3.a., INST 1205, Para. 3.1 & 3.6)
- If **DFARS 252.246-7007** or **DFARS 252.246-7008** are “NOT” on contract for Electronics, use the DCMA Counterfeit Mitigation Checklist to determine your level of Counterfeit Risk.
- A Contractor’s “**Counterfeit Electronic Detection and Avoidance System**” is evaluated, and **when requested by the ACO**, results summarized and provided to support CPSR at all levels in the supply chain. (REF: DFARS 252.246-7007(c)(9), INST 1205, Para. 3.1.2. & 3.1.3.2.)
- Costs related to counterfeit / suspect electronic parts are allowable if a **CAS Covered** contractor has an **approved System** and meets other criteria. (REF: DFARS 231.205-71)
- Does the contractor validate **traceability** throughout their supply-chain? When Traceability to the OM cannot be established, are risk-based processes in place that include part **inspection, testing, and authentication**? (REF: DFARS 252.246-7008(c)(2))

Questions?

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**Defense Contract Management Agency (DCMA)
Technical Directorate - Engineering**