

DCMA SURVIVAL GUIDE

How to be Audit Ready with Property
and End Item Deliverables





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The prospect of getting audited by the federal Defense Contract Management Agency can feel daunting and nerve-racking. For your company to be deemed compliant with DCMA's exacting requirements and specifications for government contracts, all employees should have a thorough understanding of your property management and shipment requirements, Item Unique Identification (IUID) methods and reporting obligations. They also must understand how the various divisions of the company work together to attain and maintain IUID and shipment compliance.

Although you may feel overwhelmed about preparing for a possible DCMA audit, it is far better to put in the time now than to be deemed non-compliant by a DCMA auditor. Non-compliance can result in rejected payments, shipments that are rejected upon receipt, costly corrective actions, retroactive fixes, and auditors codifying your organization's deficiencies in an official government report.

Fortunately, advances in technology have eliminated many of the hurdles to achieving DCMA compliance. With electronic tracking and data management to all military standards, contractors now have the ability to efficiently identify and report their assets and inventories, while simultaneously reducing costly labor hours and the potential for human error. IUID and Radio Frequency Identification (RFID) technology has also dramatically enhanced a contractor's ability to gain real-time insights into where assets are, where they've been, and how to optimize production processes.¹

Although this technology allows them to track assets and shipments much more efficiently and accurately, defense contractors must know how to use IUID and RFID to maximize its effectiveness – and ultimately to pass DCMA inspections. Especially when different teams are responsible for different elements of the identification and reporting process, such as printing, labeling and electronic reporting to government, it is important to have a thorough understanding of how each of the various compliance tasks comes together to support the whole.

The DCMA Survival Guide is intended to teach you what you need to do to pass a DCMA on-site audit. This guide will review what DCMA auditors will be evaluating and looking for, why DCMA focuses on assessing the areas it does, and what happens when deficiencies are identified by an auditor. This guide also will cover the technology and services available to help you achieve compliance, and the steps you can take now to ensure your organization is adequately positioned to maintain compliance.

¹ Roberti, Mark. "Navy Tracks Broken Parts from Iraq." *RFID Journal*. November 14, 2005. Available online: <https://www.rfidjournal.com/articles/view?1982>

The Defense Contract Management Agency is an agency under the U.S. Department of Defense that works directly with defense contractors to ensure government supplies and services are delivered on time, come in at projected costs, and meet all performance requirements. The agency's mission is to protect the government from acquiring assets that are not of optimum quality, that aren't being purchased at the most competitive prices, and that aren't being delivered on time. ²

In addition to their auditing role, DCMA representatives routinely visit contractors both before a contract is awarded and throughout the life of the contract. They look to identify possible risks, ensure contracts are written to meet government needs and standards, and confirm that all terms and conditions of a contract are being met.

Specifically, when DCMA representatives evaluate government contracts, they are looking to ensure that every asset is uniquely identified, labeled, and tracked in accordance with the military and government standards. To that end, DCMA has developed a series of policies and procedures that allow DCMA auditors to systematically assess compliance under two important policies, MIL-STD 129 (Shipment Identification) and MIL-STD 130 (Asset Identification). DCMA also has developed very specific auditing standards to evaluate a contractor's systems and processing for managing their IUID and RFID obligations. ³

² Socha, Evamarie C. "Doing Business with the Defense Contract Management Agency." *Washington Technology*. February 19, 2004. Available online: <https://washingtontechnology.com/articles/2004/02/19/doing-business-with-the-defense-contractmanagement-agency.aspx>

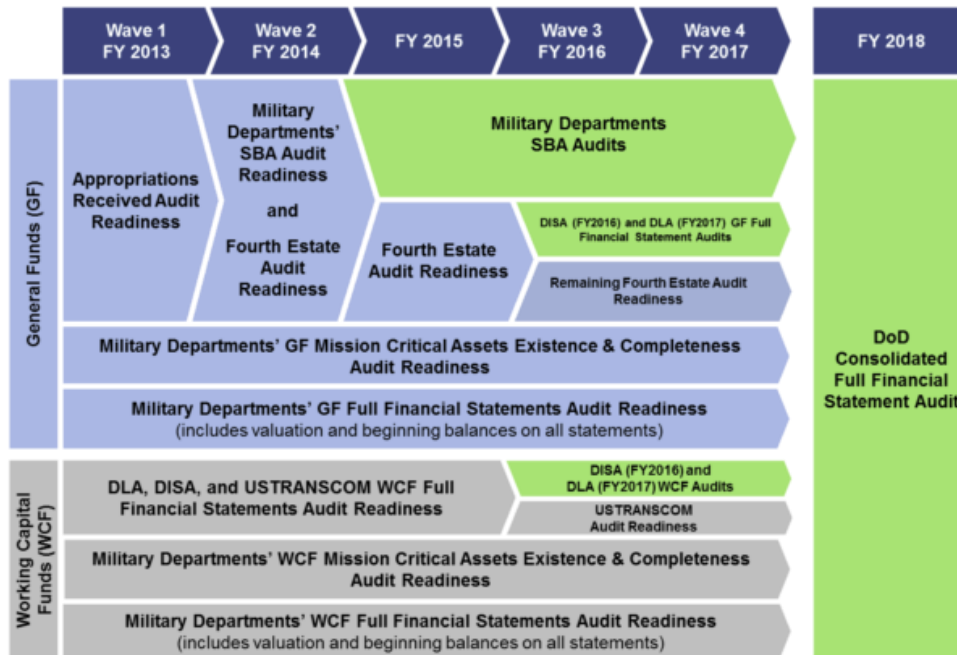
³ "7 Best Practices for Keeping Asset Data Compliant with IUID Registry." *A2B Tracking*. Available online: <http://www.a2btracking.com/blog/7-best-practices-keeping-asset-data-compliant-iuid-registry/>

GROWING IMPACTS OF THE FIAR DIRECTORATE

In addition to routine contract obligations noted above, the DoD is also facing internal audit-readiness deadlines that impact the way that assets and property are reported for the next generation of logisticians and property managers.

The Financial Improvement and Audit Readiness (FIAR) initiative will reach a major milestone on September 30, 2017. The entire Defense community needs to understand that as we begin Fiscal Year 2018 on October 1st — the FIAR Directive dictates that all accountable assets be audit ready.

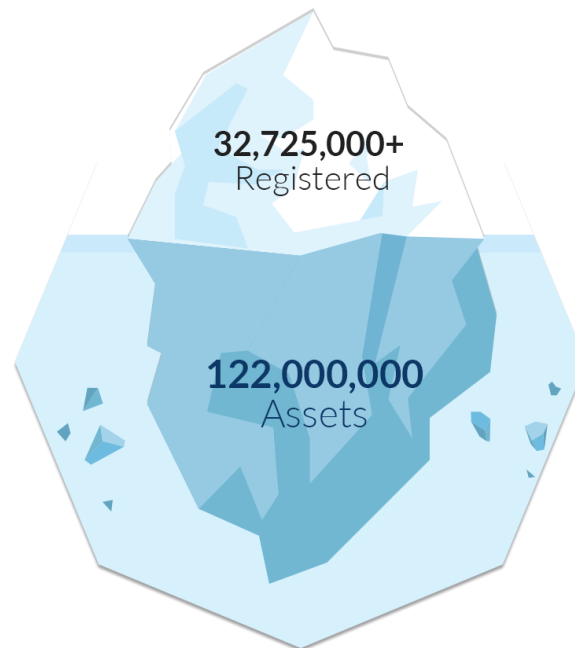
The US Congress is holding the DoD accountable to achieve and sustain full audit readiness of DoD property, plant, equipment, operating materiel and supplies. It puts the highest priority on accountability for all qualifying asset information and to be able to verify the existence and completeness of that inventory. This department-wide endeavor requires military contractors and program managers to track and report all DoD property by this date.



This table represents the official FIAR strategy and deadlines as provided by DoD Comptroller Office. As illustrated above, the deadline for asset Existence and Completeness audit readiness is September 30, 2017. <http://comptroller.defense.gov/fiar/fiarguidance.aspx>

The branches of the US Military and contractors that support them have all made significant strides towards the FIAR initiative since its inception — but there is still a long way to go. The process of capturing and registering data for approximately 150 million assets, whether they are legacy items, Government Furnished Property or newly acquired assets, is a daunting task.

The Challenge: So Many Assets Marked. So Many More to Go.



-- GAO Report, May 2012

As of February 2017, the DoD has reported only 32.7 million accountable assets according to an A2B Tracking webinar and IUID Registry statistics. According to a May 2012 GAO Report there are approximately 122 million total legacy items in their inventory. (GAO report: <http://www.gao.gov/products/GAO-12-482>)

Fortunately, the Department has embraced the industry best practices for quickly and cost-effectively identifying, marking and tracking critical assets. The DoD refers to this practice as the Item Unique Identification (or IUID). And they have adopted a number of policies to streamline and simplify this process, most notably the IUID Policy. The DoD has also put into place the WAWF e-commerce suite which includes iRAPT and the IUID Registry as the gateway to reporting all military assets and shipments.

WHAT IS THE IUID REGISTRY?

The IUID Registry is the Department of Defense's repository for all IUID data, allowing the government to manage and track end items, legacy items, updates and rebuilds, and other property. The IUID Registry allows the government to establish a system of record, to track and trace all assets, to create an audit trail for all assets, and to analyze, report on, and optimize its assets.

When submitting data to the IUID Registry, you should expect to submit the following information at minimum about an asset:

- What property the company has in its custody
- What the item is
- How and when it was acquired
- The item's initial value
- Its custody status (i.e., government vs. contractor)
- Description of how it is marked for tracking
- Additional details for end items, legacy items, and GFP (government-furnished property)

Property Management vs. End-Item Production

Contractors manage two main types of assets: End items that are produced by the contractor and go to the government, and government-furnished property and legacy assets that come from the government and are managed by the contractor. Although there are clear processes in place to manage both types of assets, these workflows are not the same, and the DCMA does not treat them the same. It is important to understand the main differences:

1) End-item production: End items must be registered via an IUID methodology and shipped with an Advance Shipping Notice (ASN). All end items must be inspected by DCMA prior to acceptance by the government. The assets used to produce end items are called "sub" items and are required to undergo the IUID process as well. The "end" items that are produced from "sub" items are always required to be fully reported assuming that they meet the qualifiers for IUID.

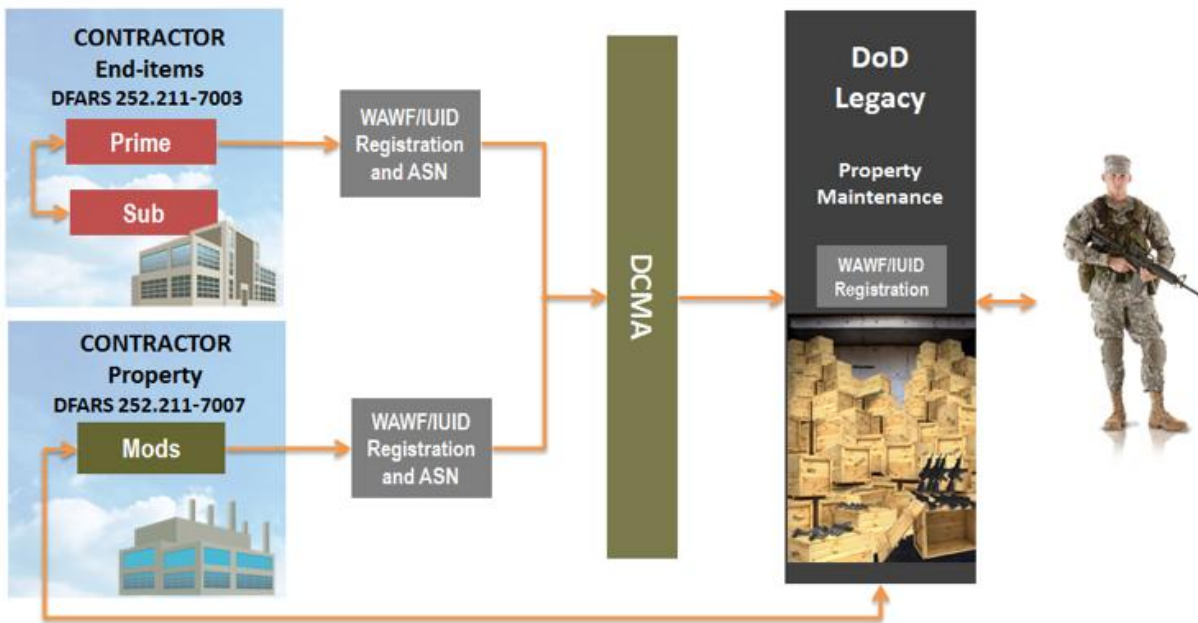
iRAPT vs. WAWF

The IUID Registry is managed through iRAPT (Invoicing, Receipt, Acceptance and Property Transfer). For anyone who has used iRAPT's predecessor, WAWF (Wide Area Workflow), there are a few key differences you should be aware of when registering in iRAPT:

- Instead of XML files, the files are now EDI format.
- iRAPT acceptance is needed at the first embedded level, and the additional child/embedded items are entered directly into the Registry.
- The IUID Helpdesk no longer administers user accounts, and has been replaced by the Group Administrator (GAM).
- All GFP (Government-Furnished Property) regardless of value, must be reported, whether serially managed or non-serially managed.

WHAT IS THE IUID REGISTRY?

2) Property management: All assets that undergo modifications while being managed by the contractor are required to be registered via an IUID methodology and sent through DCMA inspection prior to acceptance by the government. In many cases, the government will send the contractor additional assets over time that the contractor modifies and updates; all of this property, once ready to be returned to the government, generally must go through the IUID registration process.



Because these processes diverge, it is important to maintain compliance for these two types of assets separately and to create workflows that ensure each tracking process has adequate compliance measures built into it.

WHAT ARE THE ODDS OF BEING AUDITED?

Just as some income tax filers are more likely to be audited than others, some contractors are more likely than others to face a DCMA audit. The likelihood of DCMA selecting your organization for an audit depends on a number of factors, including the size of the company and the number and type of government contracts. A larger company that has an ongoing relationship with the government, for example, is more likely to be audited.

That said, any organization can be audited, and the DCMA does not provide any advanced notice when it is conducting a random audit. Therefore, it's essential to do everything you can prior to an audit to ensure your organization is in compliance and prepared to pass.

WHAT DOES THE DCMA AUDITOR LOOK FOR?

When DCMA auditors show up at your workplace, they know how your operation should be run and will reference what they observe against these standards. Fortunately, there's no mystery to the things that DCMA auditors will inspect. Auditors want to know that all employees understand and adhere to all contract requirements related to property management and the shipment of end item deliverables. They will also need insight to the IUID data management system, that the physical IUID labeling system is being performed to specifications, that the assets are being registered properly, and that all subcontractors are supporting the IUID asset identification methodology. Each of these areas of focus are discussed in more detail below:

1) Employee adherence: DCMA auditors are looking to verify that all employees involved with property management or with IUID asset identification and reporting understand their organization's processes and consistently support effective implementation of these processes. The auditor will look for a property management and IUID execution plan that documents the company-wide strategy for adhering to all contract requirements and provisions, from standard operation procedures and best practices to engineering drawings, material selection, serialization of part numbers, and employee training programs while managing all property management obligations. [For more information see: [A2B Tracking's Essential Property Management Guide](#)].

2) IUID marking: DCMA auditors are looking to verify that all physical IUID labeling with plates, tags and labels is done in accordance with government standards. Auditors will look at every aspect of IUID markings, from verifying that physical markings appear on assets to ensuring those markings are visible and readable by commercial off the shelf scanners. Auditors will inspect the durability and type of materials used for the labeling, including how the Direct Part Mark (DPM) is being affixed, if being used. Auditors also will ensure that the location of the tags is correct, even going so far as to compare the tags' placement against the original engineering drawings. Finally, auditors will seek proof that all IUID marks have been validated and verified in compliance with military standards, which includes having the appropriate construct, data qualifiers, enterprise identifier type and a certificate of conformance to MIL STD 130.

3) Proof of registration: DCMA auditors are seeking to verify that all assets are properly registered in the iRAPT (Invoicing, Receipt, Acceptance and Property Transfer) system, the DoD's web-based system for electronic invoicing, acknowledgement of receipt, and asset acceptance. If you're not familiar with iRAPT, perhaps you may be familiar with its predecessor, WAWF (Wide Area Workflow), which served a similar function.⁴ DCMA auditors specifically will look to ensure each IUID number is registered under the correct domain (i.e., acquisition, custody, legacy), and that this information is being submitted accurately in iRAPT or the IUID Registry. Auditors also will be seeking to confirm that when the contractor updates its records (i.e., for lifecycle events, Part Number rollovers, custody transfers, condition changes), these updates are being propagated into the IUID Registry in real time.

⁴ "Moving from WAWF to iRAPT: What This Means for the DoD Commerce World." A2B Tracking. Available online: <http://www.a2btracking.com/blog/moving-wawf-irapt-means-dod-commerce-world/>

Required vs. Non-Required Documents

The iRAPT system for managing asset tracking uses a form called a **DD250**, which is the Material Inspection and Receiving Report. iRAPT also requires ASNs (Advanced Shipping Notices). By contrast, **DD1149**, which is the Requisition and Invoice/Shipping Document, commonly known as a transfer report, is not a contractually required document. It is used to transfer government property from one party to another, i.e., government to contractor, contractor to government, from one government activity to another.

WHAT DOES THE DCMA AUDITOR LOOK FOR?

4) Subcontractor oversight: DCMA auditors will look to verify that a company's subcontractors are following all protocols for IUID compliance. For example, when evaluating the application of labels that have been outsourced, the auditors will look for proof of application from the subcontractor and review the subcontractor's processes. For labels that are produced by subcontractors and applied by the contractor, auditors will look for proof of compliance with production standards. And finally, DCMA auditors will examine IUID Registry data, including documentation of assets that move through the workflow from "sub" to "prime."

Why is accurate tracking data so important?

Being able to reliably and consistently track assets through their full lifecycle is essential for passing DCMA audits. But investing in the infrastructure and resources necessary to support accurate tracking data is important for strategic company reasons as well. When you track assets in real time, you are able to identify errors and problems early on, and correct them before the error is propagated. Once erroneous tracking data have been submitted to the IUID Registry or another registration authority, the mistake becomes increasingly complicated and costly to correct.

Furthermore, the IUID Registry is an ecosystem; all IUID data that go into the system are, by design, linked to invoices and the payment approval process, ensuring total compliance. Thus, all data that are put into this system create a domino effect through the ecosystem: If you don't input data correctly, you may not get paid.

Because IUID tracking requires so much attention to process and detail, being deemed non-compliant by a DCMA auditor is a very real possibility, even for organizations that take measures to follow proper tracking protocols. No matter how much you're doing now, there is always an opportunity to do more to prevent missing, incomplete or inaccurate IUID information from being generated and submitted.

Being deemed non-compliant can have severe long-term implications. It can impact your reputation and your ability to maintain government contracts, as well as secure future contracts. In a worst-case scenario, you may be cut off from all government customers – essentially, blacklisted within the tight-knit DoD community – and endure crippling revenue losses.

In the short term, failure to comply with DCMA specifications can result in rejected shipment of non-conforming 2D Data Matrix codes, rejected payments, and temporary shutdown of production lines while you resolve the deficiency. You also may be forced to correct the tracking markings on assets after the assets have left your possession and that have perhaps even been deployed to the field.

The Wake-up Call for Custodians: What's At Risk.

Know what you have and where it is with IUID



PROPERTY MANAGER A
Ahead of the curve

- ✓ Full property accountability
- ✓ Automated reporting
- ✓ Fast, sustainable inventories
- ✓ Facilitate audit readiness



PROPERTY MANAGER B
Behind the curve

- ✗ Inaccurate/incomplete records.
- ✗ Manual data processing.
- ✗ Laborious, error-prone inventories
- ✗ Audit readiness nightmare

How do DCMA auditors address non-compliance?

Identifying non-compliance is a straightforward process for DCMA auditors. But how the auditors handle non-compliance is not so cut and dry. DCMA auditors have considerable discretion, with the actions taken depending greatly upon the auditor and the context of the situation.

Generally, the process works like this: The DCMA auditor determines that a required marking is missing or not created in compliance with DCMA specifications. A report detailing the non-compliant mark or non-registration of the asset is generated. The PQDR (Product Quality Deficiency Report) is submitted in accordance with DLAR 4155.24/ AR 702-7/SECNAVINST 4855.5B, AFR 74-6. Then, permission is sought from the entity responsible for the deficiency to replace and properly register the mark. The contractor has an opportunity to determine how to recover the costs of fixing the deficiency, consistent with the terms of the original contract. Meanwhile, the contractor is notified of the cost to correct the deficiency and given a specified time period to fix the deficiency. A reassessment will typically take place at the end of that time period.



Managing the IUID data management and reporting process is cumbersome and burdensome for any contractor. Fortunately, you do not need to reinvent the wheel. There are a number of commercially available systems on the market that can readily be integrated into enterprise work management systems. Furthermore, many of the routine tasks associated with IUID tracking can be outsourced, from label and tag creation to the registration process in iRAPT. Let's explore these technologies and services in more detail:

1) Commercially available systems: A2B Tracking provides cloud-based COTS (commercial off-the-shelf) software for managing assets and property, shipments, IUID data and reporting obligations to government systems is readily available, and integrates into all of the major enterprise resource planning systems, including Oracle and SAP. With this integration, a contractor is able to streamline all IUID and shipment documentation and registration workflows. Indeed, all registrations, invoice, and Advanced Ship Notices can be programmed to flow seamlessly and in real time among your systems. COTS software also can simplify the marking process, with advanced technologies like thermal transfer printers and laser marking systems able to provide more dependable, compliant labeling solutions. COTS software also includes verification capabilities that perform quality assurance and eliminate errors.⁵

2) Outsourcing: If you don't have the in-house resources to manage the IUID compliance process, you can outsource this work to A2B Tracking since we specialize in this process and do it at a very competitive cost. We create IUID and RFID labels and tags by utilizing the latest technology to generate comprehensive, real-time tracking information. Furthermore, the process of registering assets via iRAPT also can be outsourced. Our next-generation cloud-based portals can provide comprehensive control over asset data and invoicing, alleviating the responsibility of having to train in-house employees on COTS for IUID tracking systems.

HOW DO I BEGIN PREPARATION?

Deciding what to do to manage your IUID, RFID and property management needs requires research and careful deliberation, and you should not rush into any decisions. This does not mean, however, that you cannot get started with some basic preparation steps. This section will explore the things you should start doing today:

⁵ "Cost Benefit Analysis of Unique Identification." U.S. Department of Defense. March 2005. Available online: <http://www.acq.osd.mil/dpap/UIID/attachments/CostBenefitAnalysis.pdf>

1) Get your team members and stakeholders talking: Asset tracking and reporting with IUID involves the dedication and combined resources of many divisions of your company. They must be talking to one another to identify efficiencies and opportunities to collaborate and improve processes. Below is a sample list of the different functional areas within the average company and the responsibilities that each bears for achieving IUID and RFID compliance.

2) Identify which contracts and assets require IUID asset identification and reporting: As much as you should exercise an abundance of caution with IUID, you also must recognize when IUID is not required, so you're using your resources efficiently. This process starts with reading contracts carefully and making sure every employee is on the same page about which assets and shipments must be marked, how to differentiate between end items, government-furnished property and legacy assets, and what kind of tracking and shipping documentation are needed.

AREA	FUNCTION
Program and Contract Management	Contract compliance
IT	Data and application management
Production	Create, manage, submit, report IUID data
Property Management	Create, manage submit, report IUID data
Customer Support	Hardware and software support
Engineering and Quality Assurance	Placement and material specification and label design
Procurement	Purchasing labels, software, hardware
Manufacturing	Bill of Materials and production
Legal	Compliance and audits
Finance	iRAPT reporting

Managing to DoD's contract compliance requires support from many business functions. Responsibilities need to be clearly identified and data processing coordinated to support audit-readiness.

HOW DO I BEGIN PREPARATION?

3) Establish a timeline based on priorities: Because there are so many moving parts to the property management, IUID data management, shipment management and reporting process, your goal should be to set priorities for which elements to master in which order. When you know what you're trying to accomplish, you can set a timeline for achieving key steps, such as engaging DCMA to gain acceptance. As you set priorities, remember to start with data at the core – the data that, if not inputted and managed correctly, can propagate quickly through a property and shipment management system and add up to big headaches down the road.

4) Don't do this work alone: As noted in the previous section, there are a number of commercially available software solutions to streamline the process of creating DoD-compliant markings and registering assets to iRAPT and the IUID Registry. And if you aren't up to the task or don't have the resources to accomplish these tasks efficiently in house, remember that every aspect of this process can be outsourced cost-effectively to experts.

5) Know MIL STD 129 and MIL STD 130 inside and out: DCMA uses two underlying standards as the basis of all IUID and shipment compliance standards. You should seek to understand and master MIL STD 129 and MIL STD 130 because they will guide all of your compliance planning.



6) Show that you are invested in your contract compliance: One of the best ways to prepare for DCMA compliance is to offer your clients a level of customer service that shows you're invested in contract compliance. The property managers that are meeting all of their asset and shipment obligations and are ready for the potential DCMA audit have a distinct advantage over their competition. By staying ahead of your contract obligations your organization will benefit with the ability to offer quicker bid responses, as well as, more accurate project estimates and most importantly you will be able to avoid costly mistakes that your client will easily see, such as a rejected invoice or shipment.

How Should Contractors Prepare

Stay ahead. Be competitive.

CONTRACTOR A
Ahead of the curve



- ✓ Audit-ready for DCMA
- ✓ MIL STD 129/130 compliant
- ✓ Quicker bid response
- ✓ Accurate project estimates
- ✓ No invoice or shipment rejections
- ✓ Win more contracts

CONTRACTOR B
Behind the curve



- ✗ Failed DCMA audit
- ✗ Not compliant yet
- ✗ Delayed bid response
- ✗ Unrealistic project estimating
- ✗ Costly rejections or PQDR
- ✗ Lost contract opportunities

A2B TRACKING: A COMPREHENSIVE SOLUTION



A2B Tracking has pioneered military-grade enterprise-class solutions for identifying, marking and tracking critical assets for DoD agencies and the contractors who support them. We'll help your enterprise take control of your assets by providing you cloud-based asset tracking and data management solutions that incorporate advanced barcode and RFID technologies. We enable total compliance to military asset and shipment identification standards and we automate your reporting to government systems.

Whatever type of contract you have, the qualified professional services team at A2B Tracking will be able to adapt the latest, most appropriate tracking and compliance technologies to ensure your contract's specifications are fully met. A2B Tracking professional services team members are trained to work with members of your in-house asset management teams to design workflow processes that ensure every asset leaves on time, is properly marked and registered, and is in no danger of being rejected.

With more than 3,000 tracking installations around the world, A2B Tracking serves a broad range of commercial enterprises and public sector organizations, from small- and large-scale manufacturers to government agencies and the military.





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