

Defense Federal Acquisition Regulation Supplement

Part 242--Contract Administration and Audit Services

SUBPART 242.72--CONTRACTOR MATERIAL MANAGEMENT AND ACCOUNTING SYSTEM

(Revised November 09, 1999)

242.7200 Scope of subpart.

This subpart provides policies, procedures, and standards for use in the evaluation of a contractor's material management and accounting system (MMAS).

242.7201 Definitions.

“Material management and accounting system” and “valid time-phased requirements” are defined in the clause at 252.242-7004, Material Management and Accounting System.

242.7202 Policy.

DoD policy is for all contractors to have an MMAS that—

- (a) Reasonably forecasts material requirements;
- (b) Ensures the costs of purchased and fabricated material charged or allocated to a contract are based on valid time-phased requirements;
- (c) Maintains a consistent, equitable, and unbiased logic for costing of material transactions; and
- (d) Conforms to the standards at 252.242-7004(f) when the contractor has cost-reimbursement or fixed-price contracts exceeding the simplified acquisition threshold, with progress or other contract financing provisions, except when all of the contracts and subcontracts are awarded under the set-aside or Section 8(a) procedures of FAR Part 19.

242.7203 MMAS disclosure, demonstration, and maintenance requirements.

(a) A large business contractor is subject to MMAS disclosure, demonstration, and maintenance if in its preceding fiscal year the contractor received DoD prime contracts or subcontracts (including modifications) totaling—

- (1) \$70 million or more; or
- (2) \$30 million or more (but less than \$70 million), and the contracting officer determines it to be in the best interests of the Government (e.g., contractor disclosure, demonstration, or other activities indicate significant MMAS problems exist).

(b) After the administrative contracting officer determines the contractor's MMAS is adequate (see 242.7204(b)), written disclosure will not be required for the next MMAS review unless the contractor's policies, procedures, or practices have changed in the interim period(s). Similarly, once the contractor demonstrates that its MMAS contains no significant deficiencies, demonstration requirements for subsequent reviews may be satisfied if internal audits are reasonably current and contain sufficient transaction tests to demonstrate MMAS compliance with each standard.

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242.7204 Responsibilities.

(a) The contracting officer shall—

(1) Through use of the clause at 252.242-7004, Material Management and Accounting System, apply the disclosure, demonstration, and maintenance requirements to large business contractors meeting the criteria in 242.7203(a);

(2) Consider whether to apply the disclosure, demonstration, and maintenance requirements to other large business contractors under 242.7203(a)(2) after concurrence from, or at the request of, the administrative contracting officer; and

(3) Not apply the disclosure, demonstration, and maintenance requirements to small businesses, educational institutions, or nonprofit organizations.

(b) For contractors subject to the disclosure, demonstration, and maintenance requirements, the administrative contracting officer (ACO) determines the adequacy of the contractor's MMAS and pursues correction of deficiencies.

(c) The contract auditor shall—

(1) Assist the ACO in evaluating the contractor's MMAS;

(2) Assess the significance of contractor deficiencies and provide the ACO an estimate of the resulting adverse material impact to the Government; and

(3) Assist the ACO in evaluating the contractor's correction of deficiencies.

242.7205 Review procedures.

(a) *System evaluation.* Cognizant contract administration and audit activities shall jointly establish and manage programs for evaluating the MMAS systems of contractors subject to disclosure, demonstration, and maintenance requirements and annually establish a schedule of contractors to be reviewed. They shall—

(1) Conduct reviews as a team effort.

(i) The administrative contracting officer—

(A) Appoints a team leader; and

(B) Ensures that the team includes appropriate functional specialists (i.e., industrial specialists, engineer, property administrator, auditor, etc.).

(ii) The team leader—

(A) Advises the ACO and contractor of findings during the review and at the exit conference.

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(B) Makes every effort to resolve differences regarding questions of fact during the review.

(2) Tailor reviews to take full advantage of the day-to-day work done by both organizations.

(3) Prepare a review report.

(4) Conduct a review every three years. The ACO, with advice from the auditor, may lengthen or shorten the three-year period based on a risk assessment of the contractor's past experience and current vulnerability.

(b) *Disposition of evaluation team findings.* The team leader shall document the evaluation team findings and recommendations in a report to the ACO. If there are significant MMAS deficiencies, the report must provide an estimate of the adverse impact on the Government resulting from those deficiencies.

(1) Initial notification to the contractor. The ACO shall immediately provide a copy of the report to the contractor upon receipt from the team leader.

(i) The ACO shall notify the contractor in a timely manner if there are no deficiencies.

(ii) If there are deficiencies, the ACO shall request the contractor to provide a written response within 30 days from the date of initial notification.

(iii) If the contractor agrees with the report, the contractor has 60 days to correct any identified deficiencies or submit a corrective action plan showing milestones and actions to eliminate the deficiencies.

(iv) If the contractor disagrees, request rationale in the written response.

(2) Evaluation of the contractor's response. The administrative contracting officer, in consultation with the auditor, evaluates the contractor's response and determines whether—

(i) The MMAS contains deficiencies which need correction;

(ii) The deficiencies are significant enough to result in the reduction or suspension of progress payments or of payments under public vouchers; and

(iii) Proposed corrective actions (if the contractor submitted them) are adequate to correct the deficiencies.

(3) Reduction or Suspension of payments.

(i) When the administrative contracting officer (ACO) determines that there is a significant MMAS deficiency, the ACO shall reduce progress payment claims by an appropriate percentage based on affected costs (in accordance with FAR 32.503-6) and/or suspend questionable costs on public vouchers in accordance with FAR 42.803).

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The reductions or suspensions shall remain in effect until the ACO determines that—

- (A) The deficiencies are corrected; or
- (B) The amount of the impact is immaterial.

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(ii) The maximum payment adjustment is the adverse material impact to the Government as specified in the team's report. The ACO should use the maximum adjustment when the contractor did not submit a corrective action plan with its response, or the plan is unacceptable. In other cases, the ACO should consider the quality of the contractor's self-assessment, demonstration, and corrective action plan in determining the appropriate percentage.

(iii) As the contractor implements its accepted corrective action plan, the ACO should reinstate a portion of withheld amounts commensurate with the contractor's progress in making corrections. However, the ACO shall not fully reinstate withheld amounts until the contractor corrects the deficiency, or until the impact of the deficiency becomes immaterial.

(4) Notification of administrative contracting officer determination.

(i) The administrative contracting officer (ACO) shall notify the contractor in writing (copy to auditor and functional specialists) of—

(A) Deficiencies needing correction;

(B) Acceptability of the contractor's corrective action plan (if one was submitted) or the need for a corrective action plan; and

(C) Any decision to reduce or suspend progress payments or public vouchers because of significant deficiencies.

(ii) The Government does not approve or disapprove the contractor's MMAS system. ACO notifications should avoid any such implications.

(iii) From the time the ACO determines that there is a significant material management and accounting system deficiency until the time the deficiency is corrected, all field pricing reports for that contractor shall contain a recommendation relating to proposed cost or pricing data adjustments necessary to protect the Government's interests.

(iv) The ACO should consider the effect of significant MMAS deficiencies in reviews of the contractor's estimating system (see 215.407-5).

(5) Monitoring contractor's corrective action. The administrative contracting officer (ACO) and auditor shall monitor the contractor's progress in correcting deficiencies. If the contractor fails to make adequate progress, the ACO shall take further action. Actions for consideration may include—

(i) Elevate the issue to higher level management;

(ii) Further reduce or suspend progress payments;

(iii) Notify the contractor of the inadequacy of the contractor's cost estimating system and/or cost accounting system;

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(iv) Take appropriate contractual action, i.e., disallow charges as unreasonable; and

(v) Issue cautions to contracting activities regarding the award of future contracts.

242.7206 Contract clause.

Use the clause at 252.242-7004, Material Management and Accounting System, in all solicitations and contracts exceeding the simplified acquisition threshold that are not for the acquisition of commercial items and—

(a) Are not awarded under the set-aside or Section 8(a) procedures of FAR Part 19; and

(b) Are either—

(1) Cost-reimbursement contracts; or

(2) Fixed-price contracts with progress payments or other Government financing.