



DEPARTMENT OF DEFENSE
Defense Contract Management Agency

INSTRUCTION

Corrective Action Process

Multifunctional Instruction

Lead Component: Quality Assurance Directorate

DCMA-INST 1201

December 4, 2012

Incorporating Administrative Change 1, December 10, 2012

Administrative Change 1: Changes PLAS Code to 085D

1. PURPOSE. This multifunctional Instruction:

a. Supersedes the existing DCMA-INST 1201, "Corrective Action Process" (Reference (a)) and Corrective Action Request (CAR) provisions contained in functional instructions.

b. Establishes policies, assigns responsibilities, and provides procedures for all DCMA functional elements to address and resolve contract noncompliances/item nonconformances/deficiencies (hereafter referred to as noncompliances).

c. Implements Department policy pursuant to References (b) through (o).

d. Is established in compliance with DoD Directive 5105.64 (Reference (b)), and all references listed.

2. APPLICABILITY. This multifunctional Instruction applies to all DCMA Contract Administration Services activities. Exceptions to this Instruction for classified contracts due to security requirements shall be in accordance with supplemental instructions maintained by the Special Programs Directorate.

3. MANAGERS' INTERNAL CONTROL PROGRAM. In accordance with DCMA-INST 710, "Managers' Internal Control Program" (Reference (c)), this Instruction is subject to evaluation and testing. The process flowchart is located at Appendix A.

4. RELEASABILITY – UNLIMITED. This Instruction is approved for public release.

5. PLAS CODE. Quality Assurance use 085D. Other functional Specialists, (TBD).

6. POLICY RESOURCE PAGE. <https://home.dcm.mil/policy/1201r>

7. EFFECTIVE DATE. By order of the Director, DCMA, this Instruction is effective immediately.


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TABLE OF CONTENTS

REFERENCES..... 4

CHAPTER 1 – POLICY

 1.1. Policy 5

CHAPTER 2 – RESPONSIBILITIES

 2.1. DCMA Functional Elements..... 6

 2.2. CAR Data and Trend Analysis 6

CHAPTER 3 – PROCESS

 3.1. Identifying and Addressing Contractual Noncompliance(s)..... 8

 3.2. Contractor Business Systems Rule 8

 3.3. Customer Identified Noncompliance 9

 3.4. Contractor Identified Noncompliance..... 9

 3.5. Generating a CAR..... 9

 3.6. Subcontract Level Noncompliances 13

 3.7. CAR Coordination 14

 3.8. Generating and Documenting a CAR 15

 3.9. Contractor Corrective Action..... 15

 3.10. Review and Acceptance of Contractors Corrective Action Plan (CAP)..... 15

 3.11. Contractor’s Corrective Action Verification 15

 3.12. CAR Follow-up..... 16

 3.13. Circumstances Warranting Raising a CAR to the Next Higher Level..... 16

 3.14. CAR Closure..... 16

CHAPTER 4 – NONCOMPLIANCE IDENTIFIED IN DFARS 242.70, “CONTRACTOR BUSINESS SYSTEMS”

 4.1. Noncompliances Identified in Business Systems Covered by DFARS 242.70 17

 4.2. Coordinating Noncompliances Identified in Business Systems. 17

CHAPTER 5 – INFLUENCING SUPPLIER PERFORMANCE AND RECOUPMENT OF REINSPECTION COSTS

 5.1. Influencing Supplier Performance 19

 5.2. Recoupment of Reinspection Costs 19

TABLES

 Table 1. CAR Coordination, Approval, and Distribution Matrix..... 7

 Table 2. Minimum CAR Elements Matrix 11

 Table 3. CAR Response Requirements Matrix 12

APPENDICES

Appendix A. Corrective Action Process Flowchart 20
Appendix B. CARs Flowchart for Subcontract Level Noncompliance 21
Appendix C. CAP Flowchart for Subcontract Level Noncompliance 22

GLOSSARY

Definitions..... 23
Acronyms..... 24

REFERENCES

- (a) DCMA-INST 1201, "Corrective Action Process," March 2009 (hereby canceled)
- (b) DCMA Directive 5105.64, "Defense Contract Management Agency," September 27, 2000
- (c) DCMA-INST 710, "Managers' Internal Control Program," September 12, 2011
- (d) Federal Acquisition Regulation (FAR) Part 42.302, "Contract Administration Functions"
- (e) Defense Federal Acquisition Regulation Supplement (DFARS) 252.242-7005, "Contractor Business Systems"
- (f) DFARS Subpart 242.70, "Contractor Business Systems"
- (g) DCMA-INST 308, "Safety of Flight (SOF)," March 2010
- (h) FAR Part 12, "Acquisition of Commercial Items"
- (i) FAR Part 15, "Contracting by Negotiation"
- (j) FAR 52.212-4, "Contract Terms and Conditions - Commercial Items"
- (k) DCMA-INST 131, "Contractor Business Systems," January 2012
- (l) DFARS 252.242-7005(b), "Contractor Business Systems"
- (m) FAR 52.246-2 through 8, "Standard Inspection Clauses"
- (n) DFARS 246.470-1, "Assessment of Additional Costs"
- (o) FAR 32.604, "Demand for Payment"

CHAPTER 1

POLICY

1.1. POLICY.

1.1.1. It is DCMA policy for corrective action to be requested from contractors when contractual noncompliances are independently identified by DCMA personnel performing Contract Administration duties outlined in paragraph (a) of FAR Part 42.302, "Contract Administration Functions" (Reference (d)).

1.1.2. This Instruction outlines procedures for all DCMA functional elements to address and resolve contract noncompliances/item nonconformances/deficiencies (hereafter referred to as noncompliances).

1.1.3. The intent of this Instruction is to fully engage Contract Management Offices (CMO)/Center leadership in all aspects of the corrective action process, from identification of noncompliances to the issuance of Corrective Action Requests (CAR) and continuous oversight and validation of contractor corrective and preventive actions.

CHAPTER 2

RESPONSIBILITIES

2.1. DCMA FUNCTIONAL ELEMENTS. This Instruction is applicable to all Contract Administration functional elements.

2.1.1. All DCMA functional elements shall issue, manage, and close CARs using the enterprise CAR eTool.

2.1.2. CARs will be coordinated, approved, and distributed in accordance with (IAW) Table 1, CAR Coordination, Approval, and Distribution Matrix. There are four CAR levels (I, II, III, and IV). Level I and II CARs may be issued by functional specialists IAW Table 1, below. For Level III and IV CARs, the cognizant Contracting Officer (CO) is responsible for issuance of the CAR, acceptance of contractor corrective action plans, and CAR closure. [NOTE: When the acronym "CO" is used, it refers to the appropriate Corporate Administrative Contracting Officer (CACO), Divisional Administrative Contracting Officer (DACO) or Administrative Contracting Officer (ACO).] The ACO shall work closely with the functional specialists throughout the corrective action process.

2.2. CAR DATA AND TREND ANALYSIS. CAR data will be periodically analyzed by assigned CMO functional specialists for performance trends.

2.2.1. CMOs are responsible for analyzing performance trends for contractors under their cognizance.

2.2.2. The Operations Directorate is responsible for macro-level analysis of major contractor performance trends. This analysis shall look at CAR information for major contractors with business units dispersed under the cognizance of multiple CMOs. The analysis shall be conducted on a quarterly basis and provided to the applicable headquarters functional directorates by assigned functional specialists.

2.2.3. Where appropriate, the data analysis should be reviewed and discussed in CMO, sector, and corporate-level Management Councils.

Table 1. CAR Coordination, Approval, and Distribution Matrix

CAR Level	Pre-Release Coordination*	Approval For Release & CAP Acceptance*	Pre-Release Notification	Issued To Supplier Management Level	Post-Release Distribution
I	N/A	Functional Specialist	N/A	Lowest Management Responsible to Correct Defect	
II	Other functions when impacted. Additional coordination prescribed locally	Functional Specialist	Other functions when impacted. Additional coordination prescribed locally	Functional level responsible for corrective action	Copy to ACO/DACO/CACO, originator of Quality Assurance Letters of Instruction (QALIs), Letters of Delegation (LODs), the affected CMO functions, or DCAA.
III	CMO Commander/Director, Legal Counsel, Contract Integrity Center (CIC), applicable Centers (e.g., Property), etc., and applicable customer(s)	ACO/DACO/CACO	Region Director, COO, Deputy Operations (Ops) Director, the applicable Agency functional Executive Director, Ops functional Directors, any affected DCMA Centers	Top-level manager at business segment or corporate manager	A copy shall be uploaded to the <u>DCMA Forum</u> and <u>provided to the CMO Cmdr/Director</u> , Region Director, the applicable Agency Functional Exec Director, COO and Ops Deputy and functional Directors, CIC, any affected DCMA Centers, all affected customers, and DCAA representative.
IV	CMO Commander/Director, Legal Counsel, CIC, applicable Centers (e.g., Property), etc., and applicable Customer(s)	ACO/DACO/CACO	Region Director, COO, Deputy Ops Director, the applicable Agency functional Executive Director, Ops functional Directors, any affected DCMA Centers	Top level manager at business segment or corporate manager	A copy shall be uploaded to the <u>DCMA Forum</u> and <u>provided to the CMO Cmdr/Director</u> , Region Director, the applicable Agency Functional Exec Director, COO and Ops Deputy and functional Directors, CIC, any affected DCMA Centers, all affected customers, and DCAA representative.
* For Earned Value Management System (EVMS) CARs, follow Standard Surveillance Instruction (SSI) Guidance for CAR Approval and CAP Acceptance.					

CHAPTER 3

PROCESS

3.1. IDENTIFYING AND ADDRESSING CONTRACTUAL NONCOMPLIANCE(S).

DCMA conducts surveillance to ensure contract compliance. When noncompliances are identified, CMOs/Centers will utilize the structured corrective action process outlined herein to ensure the contractor addresses the noncompliance.

3.1.1. This Instruction is applicable to all contractually required products, services, processes, and systems with the following exception: deficiencies identified in DCAA Audit Reports for Accounting, Material Management and Accounting Systems (MMAS), and Estimating Systems that are not “significant” pursuant to DFARS 252.242.7005 (Reference (e)).

[NOTE: Deficiencies identified on DCAA audit reports that are determined to be “significant” pursuant to DFARS 252.242.7005 (Reference (e)) and all EVMS deficiencies - both DCMA and Defense Contract Audit Agency (DCAA) identified - will be addressed IAW this Instruction.]

3.1.2. CARs shall include the name of the contractor’s process(es) associated with the noncompliance(s) or defect(s).

3.1.3. Significant or recurring product or process noncompliances may be indicative of a breakdown in the contractor’s applicable business and management systems. These include, but are not limited to:

- Accounting Systems*
- Aircraft Operations
- Contract Safety
- Contractor Purchasing Systems*
- Earned Value Management System (EVMS)*
- Estimating Systems*
- MMAS*
- Property Management System*
- Quality Management System

* Indicates a contractor business system covered by DFARS subpart 242.70 (Reference (f))

3.1.4. Alternate methods for addressing noncompliances such as Letters of Concern shall not be used in lieu of CARs.

3.2. CONTRACTOR BUSINESS SYSTEMS RULE. See Chapter 4 for instructions specific to deficiencies identified in contractor Business Systems covered by DFARS subpart 242.70 (Reference (f)).

3.3. CUSTOMER IDENTIFIED NONCOMPLIANCE.

3.3.1. When a noncompliance is discovered by a DCMA customer and communicated to and verified by DCMA, the functional specialist should initiate a CAR and manage any corrective actions IAW this Instruction, except when:

3.3.1.1. The issue is being addressed as a reported Product Quality Deficiency Report (PQDR); or

3.3.1.2. A CAR has been initiated by the customer directly to the contractor.

3.3.2. When the contractor's response to the customer-initiated PQDR or CAR is inadequate, DCMA may issue a CAR at the appropriate level.

3.4. CONTRACTOR IDENTIFIED NONCOMPLIANCE. If a contractor self-identifies a noncompliance and takes timely, appropriate action to correct it, a DCMA CAR should not be issued. A subsequent DCMA determination of ineffective contractor corrective actions should result in issuance of a CAR. CARs issued for repetitive issues disclosed by a contractor should cite a weakness in the contractor's corrective action process.

3.4.1. Concurrently Identified Noncompliance. When DCMA surveillance is accomplished concurrently with a contractor event (e.g., concurrent Product Examination, Software Peer Review, and Earned Value Management (EVM) Self-Assessment) CARs shall be issued only after the contractor has made an accept/reject or compliance determination, and only when DCMA personnel observe the contractor's failure to properly conduct the event or to accurately document the result.

3.4.2. A noncompliance properly recorded by the contractor will not be cause for corrective action notification by DCMA personnel, provided the contractor corrects the noncompliance in a timely manner. Conversely, when a surveillance event is led by DCMA and the contractor participates (e.g., EVM or property joint surveillance), CARs shall be issued for identified noncompliances.

3.5. GENERATING A CAR. All CARs shall be initiated and tracked via the CAR eTool. The level of the CAR depends on the significance of the noncompliance and the level of contractor management engagement required. Lower level CARs need not be issued prior to higher level CAR issuance. CARs will be coordinated, approved and distributed IAW Table 1. Information designated No Foreign Nationals (NOFORN) and classified information shall not be entered into the CAR eTool.

3.5.1. The levels of CARs are:

3.5.1.1. Level I. Level I is issued for noncompliances that are minor in nature, are promptly corrected by the contractor, and present no need for root cause determination or further preventive action. Level I CARs shall be issued to the contractor management level responsible

for correcting the cited noncompliance. While the contractor must correct the noncompliance, further actions are not required regarding the specific noncompliance. (See paragraph 3.13.1.).

3.5.1.2. Level II. Level II is issued for noncompliances that are not promptly correctable and warrant root cause analysis and preventive action, or need action by the contractor to determine if other product/services are affected. Level II CARs shall be directed to the contractor management level responsible for initiating corrective actions. A written response from the contractor is required.

- FOR QUALITY ASSURANCE (QA) ONLY: As a minimum, noncompliance associated with Critical Safety Item (CSI) critical characteristics and Safety of Flight (SOF) characteristics shall be issued at this level. A Level II CAR shall also be issued when a government SOF inspection point is bypassed, including Break of Inspections.

3.5.1.3. Level III. Level III is issued to the contractor's management responsible for the company or business segment to call attention to a serious noncompliance, a significant deficiency pursuant to Reference (e), a failure to respond to a lower level CAR, or to remedy recurring noncompliance. A written response from the contractor is required. A Level III CAR, may result in initiation of available contractual remedies, such as reductions of payments, cost disallowances, revocation of government assumption of risk of loss, or business management systems disapprovals, etc.

- FOR QA ONLY: Level III CARs are required for "repeat" SOF noncompliances IAW the DCMA-INST 308, "Safety of Flight (SOF)" (Reference (g)).

3.5.1.4. Level IV. Level IV is issued to the contractor's segment or corporate management and when the contractual noncompliance(s) is of a serious nature or when a Level III CAR has been ineffective. A written response from the contractor is required. A Level IV CAR will result in a mandatory review of available contractual remedies, such as cost disallowance, reduction or suspension of payments, revocation of government assumption of risk of loss, business system disapproval, or suspension of product acceptance activities (see paragraph 3.5.3. below). Any contractual remedies will be implemented IAW applicable FAR/DFARS policies and procedures.

NOTE: CARs may contain information that contractors consider to be trade secrets, confidential, and/or proprietary. No CAR shall be released to anyone outside the government without a careful analysis of the information to prevent improper release. Violation of the statutes or regulations protecting such information can result in criminal fines or other penalties including disciplinary action up to and including removal from Federal service. Consult with the servicing Office of Counsel when performing this analysis to determine if redaction of information is necessary prior to any release.]

3.5.2. The exercise of contract remedies is a separate action, distinct from the issuance of a CAR, and is governed by regulations such as the FAR/DFARS/Procedures, Guidance, and Information (PGI) system. Close teamwork between the ACO and functional personnel is essential to effectively influence supplier performance. While the determination of the

appropriate remedy is ultimately the ACO's responsibility, the ACO should consider recommendations from functional personnel for contractual actions. Contract remedies include regulatory requirements such as those impacting business system approval or adequacy determinations. At any point in the CAR process, the CO retains the right to exercise, as appropriate, any contractual rights or remedies otherwise available to the government IAW applicable regulations.

3.5.3. Action to suspend product acceptance shall be accomplished via a Level IV CAR.

3.5.4. All CARs shall clearly state that the request should be treated by the contractor as a customer complaint and include the information contained in Table 2, Minimum CAR Elements Matrix.

Table 2. Minimum CAR Elements Matrix

CAR Elements	Level I	Level II	Level III	Level IV	Remarks
Name of the supplier and location	X	X	X	X	
Program(s) (if applicable)	X	X	X	X	
Contract Number(s)	X	X	X	X	If this affects multiple contracts, include a description of the applicable contracts
Contractual requirement reference(s)	X	X	X	X	
Description of the noncompliance(s) which show(s) a clear departure from the stated requirement	X	X	X	X	Identification of "CSI" or "SOF," if the noncompliance is associated with CSI or SOF characteristics
Date noncompliance observed	X	X	X	X	
Date CAR approved	X	X	X	X	EVM only
Date CAR issued to supplier	X	X	X	X	If different than approved date
Due date for supplier's response		X	X	X	Not applicable to Level I CARs. For SOF, shall require an initial response from the supplier of no more than 5 working days
Individual issuing CAR	X	X	X	X	
Individual approving CAR	X	X	X	X	If different than issuing individual
Disclaimer statement	X	X	X	X	

3.5.4.1. The CAR must be issued against a valid contractual requirement and the cited noncompliance description must show a clear departure from the contractual requirement. Level II and higher CARs shall communicate the contractor response requirements contained in Table 3, Contractor's CAR Response Requirements Matrix. All CARs above Level II must state that the

contractor is required to produce and submit a Corrective Action Plan (CAP) (except as provided in paragraph 3.5.4.2.).

Table 3. CAR Response Requirements Matrix

Requirements	Level I	Level II	Level III	Level IV
Root cause of the noncompliance		X	X	X
Corrective Action taken or planned to eliminate the cause(s) and prevent recurrence of the noncompliance, to include addressing people, process, and/or tools as indicated		X	X	X
Actions taken to correct the specific noncompliance		X	X	X
Determination of whether other processes are affected by the identified root cause(s)		X	X	X
Determination of whether other products/services are affected by the identified root cause(s), including product already delivered to the customer		X	X	X
Action taken to correct the weakness which allowed deficient products/services to be provided to the government for acceptance		X	X	X
Target date(s) for implementation of planned actions		X	X	X
Note: See Chapter 4 for information specific to CAR and CAP requirements for noncompliances identified in DFARS 242.70, Contractor Business Systems covered contracts.				

3.5.4.2. A root cause analysis and CAP shall not be requested in commercial contracts issued pursuant to FAR Part 12 (Reference (h)) because such contracts contain requirements differing from FAR Part 15 (Reference (i)) acquisitions. CARs issued for noncompliances under FAR Part 12 (Reference (h)) contracts shall require a limited response. For example, when a contract contains the commercial contracts clause, FAR 52.212-4 (Reference (j)), a CAR issued against a nonconforming product or service being tendered to the government for acceptance can only require the supplier to identify actions taken to correct the specific product nonconformity.

3.5.4.3. CARs shall include artifacts documenting a noncompliance when the capability exists and it is feasible to do so. For example, a high resolution digital photograph illustrating a noncompliance condition or screen shots evidencing data anomalies can be helpful in the corrective action process.

3.5.4.4. All CARs shall contain a standard disclaimer statement:

“Nothing in this CAR changes any terms or conditions of the contract, or waives any rights the Government has under the contract or in law.”

3.5.4.5. A written notification should be submitted by the CMO to DCMA leadership via the chain of command prior to release of any Level III or IV CARs. This notification should provide an executive-level synopsis of the underlying noncompliance and CAR.

3.5.4.6. Level III and IV CARs shall be issued on DCMA letterhead. A transmittal letter from the CMO Commander/Director to the contractor senior leadership communicating the significance of the CAR may be provided as warranted to accompany the CAR.

3.6. SUBCONTRACT LEVEL NONCOMPLIANCES. It is the prime contractor’s responsibility to manage its supply chain. Although prime contractors have wide latitude as to how they control their supply chain, the prime contractor is ultimately responsible for flow down and execution of contract requirements. When DCMA discovers a noncompliance at a subcontract level, the appropriate level CAR shall be issued to the prime contractor. This includes DCMA surveillance efforts performed pursuant to a contract administration delegation and also for contracts that explicitly stipulate a subcontractor facility as the place of performance (Appendix B).

3.6.1. When a contractor has both prime and subcontracts and a noncompliance is found against a manufacturing, business or management system, or a process or product that is common to both prime and subcontracts, the CAR shall cite an applicable prime contract.

3.6.2. Although the CAR cites a prime contract, when the noncompliant condition also applies to subcontracts for which a contract administration delegation has been received, a copy of the CAR (appropriately redacted) shall be provided to the delegating CMO(s). The delegating CMO(s) shall share the CAR with the prime contractor and assess whether there is sufficient aggregate data indicating an ineffectiveness of the prime control of subcontractor processes. If the prime contractor’s control of subcontractors is determined ineffective, a separate CAR shall be issued to the prime contractor. In all cases, proprietary information must not be released to the other contractors.

3.6.3. When a contractor has only subcontract work or the noncompliance is exclusively applicable to subcontract work, the appropriate level CAR shall be drafted by the supporting CMO cognizant of the subcontractor and sent to the prime CMO to be issued to the prime contractor. The supporting CMO shall ensure the CAR and any supporting artifacts attached do not include proprietary or competition sensitive information. A copy shall be provided to the subcontractor, but shall be clearly marked as “Draft” and subject to revision before issuance to the prime contractor. The transmittal document to the subcontractor shall contain the following disclaimer statement:

“The Government is performing contract administration IAW FAR 42.302 and DFARS 242.302. The Government does not have a contractual relationship with you, and no action taken by the Government or you pursuant to this draft

CAR will establish a contractual relationship between you and the Government. This draft is being provided for information only so you are aware of the issue.”

3.6.4. When the subcontractor has subcontracts from more than one prime contractor for which contract administration delegations have been received, a separate CAR shall be drafted and sent to each affected prime CMO.

3.6.5. The prime CMO must act on the CAR promptly and shall issue the CAR within 3 business days. CARs submitted by the supporting CMO shall only be returned to the supporting CMO if it is determined to not be a valid contractual noncompliance. Any minor grammatical changes should be made by the prime CMO. The prime CMO is responsible for assessing whether there is sufficient aggregate data indicating the prime contractor’s control of subcontractor processes is ineffective. A separate CAR shall be issued if the prime contractor’s controls are determined to be ineffective.

3.6.6. The prime CMO shall distribute copies of each issued CAR to the supporting CMO that drafted the CAR and all CMOs in the delegation chain.

3.6.7. Upon receipt of the CAP from the prime contractor, the prime CMO shall distribute the CAP (with root cause analysis and corrective actions) to the supporting CMO (Appendix C). The prime CMO or functional specialist and the supporting CMO (cognizant of the noncompliant subcontractor) will jointly determine the adequacy of the CAP IAW paragraph 3.10.

3.6.8. The supporting CMO will validate the implementation and effectiveness of corrective actions IAW paragraphs 3.11. and 3.12. below. The results of these validation actions will be sent to the prime CMO to provide a basis for CAR closeout.

3.7. CAR COORDINATION. Close coordination IAW Table 1, CAR Coordination, Approval and Distribution is necessary to ensure effective DCMA interaction.

3.7.1. Internal coordination and concurrence should be accomplished in a timely manner. Coordination requests should include a suspense date and specifically state the urgency of the request.

3.7.2. If fraud, corruption, or counterfeit items are suspected, the fraud indicator shall be reported to the applicable regional Contract Integrity Center (CIC) Counsel. Any CARs associated with such suspicions shall be coordinated with the applicable CIC Counsel prior to issuance.

3.7.3. It is critical that CMOs/Centers communicate with affected customers when significant noncompliances are observed. These communications should advise the customer of DCMA actions to address the specific instances, underlying root causes, and potential impacts.

3.7.4. Coordination with customers can serve to develop a unified government position. However, customers do not have the right to direct DCMA not to issue a CAR. DCMA has an independent responsibility to address noncompliant contractor performance. Customer concerns

with DCMA-issued CARs should be escalated through the DCMA management chain as appropriate.

FOR AVIATION CRITICAL SAFETY ITEMS: The Joint Aeronautical Commanders Group (JACG) Joint Services Instruction requires the procuring activity be advised of CARs issued by DCMA to the contractor relative to noncompliant aviation CSI, CSI critical characteristics, or deficient manufacturing, configuration management, quality management, or contractor management processes. Advise the procuring activities of contractor responses and status of corrective actions relating to defective CSI or CSI processes.

3.8. GENERATING AND DOCUMENTING A CAR. The multi-functional CAR eTool shall be used for creating, documenting, and transmitting CARs.

3.9. CONTRACTOR CORRECTIVE ACTION. Contractors should be given no more than 45 days from the date of a Level II or III CAR issuance to submit their CAP. If the contractor fails to reply within the suspense date, a follow-up notification allowing 10 additional calendar days should be issued. If the contractor fails to respond within the 10 additional calendar days, DCMA will raise the CAR to the next higher level and the process and timeline will start over.

3.10. REVIEW AND ACCEPTANCE OF CONTRACTOR'S CORRECTIVE ACTION PLAN (CAP). The contractor's proposed CAP shall be reviewed to ensure all noncompliances cited in the CAR are addressed and the adequacy of the contractor's root cause analysis and planned corrective actions is determined IAW Table 1.

3.10.1. When a CAP does not adequately address the applicable requirements cited in Table 3, the response shall be rejected. The rejection should be given in writing and will allow a contractor 10 calendar days to resubmit an adequate CAP. If after 10 calendar days a contractor does not respond, or the resubmitted response is still found to be insufficient, the CAR will be raised to the next higher level and the process and timeline will start over.

3.10.2. For Level III and IV CARs, the response to the contractor will be issued by the CO.

3.11. CONTRACTOR'S CORRECTIVE ACTION VERIFICATION. The Contractor's implementation of corrective/preventive actions shall be verified.

3.11.1. When Corrective Actions are not being implemented IAW the accepted CAP, the contractor shall be notified in writing and submission of a revised CAP shall be required. The contractor shall be notified in writing and allowed 10 calendar days to submit a revised CAP.

3.11.2. If after 10 calendar days a contractor does not respond or the resubmitted response is still found to be insufficient, the CAR will be raised to the next higher level and the process and timeline will start over.

3.12. CAR FOLLOW-UP. Validate Effectiveness of contractor's corrective action. For Level II and higher CARs, a validation review will be conducted by the functional specialist after the contractor completes the corrective actions to ensure full resolution of the noncompliance(s).

3.12.1. A suspense date shall be established for the validation review. The suspense date will follow a suitable corrective/preventive action stabilization period. The follow-up review shall assure that the implementation is effective in preventing recurrence of the noncompliance. Follow-up actions may include process review, product examination, data analysis, and systems audit on relevant elements.

3.12.2. When objective evidence establishes that the Contractor's corrective action is ineffective, the contractor's corrective action response shall be rejected and the CAR shall be raised to the next higher level. The rejection notification letter shall be in writing and include evidence of the inefficacy. The results of the follow-up review shall be documented to include the date completed.

3.13. CIRCUMSTANCES WARRANTING RAISING A CAR TO THE NEXT HIGHER LEVEL. CARs shall be raised to the next higher level when a contractor is unwilling or unable to effect corrective action. Examples of circumstances when CARs should be raised include:

3.13.1. Repetitive Level I or II CARs issued in a reasonably short period of time indicating a breakdown of one or more contractor processes or systems.

3.13.2. Contractor is nonresponsive to a CAR.

3.13.3. Multiple rejections of the contractor's response for the same CAR.

3.13.4. Recurring history of CAR response rejections indicating a breakdown of the contractor's corrective action system.

3.13.5. Contractor fails to implement corrective actions outlined in a CAR response.

3.13.6. Contractor corrective actions are ineffective.

3.14. CAR CLOSURE. When the issuer of the CAR is satisfied that the Contractor's corrective actions are appropriate to prevent recurrence of the noncompliance, the corrective action details shall be recorded on the corrective action record, including the causes and any follow-up actions that were performed. The contractor shall be notified when the CAR is considered closed. For Level III and higher CARs, copies of the letter notifying the contractor of the closure action shall be sent to all those addressed/copied in the original CAR.

CHAPTER 4

NONCOMPLIANCE IDENTIFIED IN DFARS SUBPART 242.70, "CONTRACTOR BUSINESS SYSTEMS"

4.1. NONCOMPLIANCES IDENTIFIED IN BUSINESS SYSTEMS COVERED BY DFARS 242.70. When noncompliances are identified against a contractor business system (defined in the clause at DFARS 252.242-7005 (Reference (e))), a CAR shall be used to document the noncompliance, except noncompliances identified in DCAA audit reports (see paragraph 1.1. of this Instruction). For more information related to the DCMA implementation of the Contractor Business Systems policy (DCMA-INST 131, "Contractor Business Systems" (Reference (k))), see related agency guidance.

4.2. COORDINATING NONCOMPLIANCES IDENTIFIED IN BUSINESS SYSTEMS.

4.2.1. If the functional specialist identifies a noncompliance (also referred to as a deficiency) that could potentially be considered significant, he or she shall coordinate with the Contracting Officer (CO) responsible for determining the acceptability of the Contractor's business system. In order for the CO to make an initial determination whether a deficiency is "significant" (as defined in DFARS 252.242-7005(b)) (Reference (l)), the draft CAR and appropriate supporting documentation shall be forwarded to the CO. If the CO determines the noncompliance is not significant, the functional specialist will pursue corrective action, as appropriate. If the noncompliance is determined to be a significant deficiency materially affecting the ability of officials of the DoD to rely upon information produced by the system that is needed for management purposes, the CO will follow the procedures in DFARS subpart 242.70 (Reference (f)), and DCMA-INST 131 (Reference (k)).

4.2.2. After review of the business system report and draft CAR with the functional specialist, the CO will determine if any deficiencies are significant. If there are one or more significant deficiencies, the CO will make an initial determination and notify the contractor in writing, providing a description of each significant deficiency in sufficient detail to allow the contractor to understand the deficiencies. The functional specialist shall prepare the CAR and forward to the ACO. The ACO shall include a Level III or IV CAR marked "draft" with the initial determination to the contractor when significant deficiencies are identified.

[NOTE: The CAR shall not be "Transmitted" to the contractor by the ACO in the CAR eTool at this time. The initial determination should be made within 10 days of receiving the functional specialist input. The contractor will be requested to respond in writing to the initial determination within 30 days.]

4.2.3. Within 30 days of receiving the contractor's response to the CO's initial determination, the CO should evaluate the response in consultation with the functional specialist and make a final determination.

4.2.3.1. If after evaluating the contractor's response, the CO's final determination is that the deficiencies:

4.2.3.1.1. Are not significant, then the “draft” Level III/IV CAR should be returned to the functional specialist for issuance as a Level II CAR.

4.2.3.1.2. Are not valid, then the draft CAR should be withdrawn in the CAR eTool.

4.2.3.1.3. Have been satisfactorily corrected, the draft CAR will be concurrently issued and closed.

4.2.3.2. If the CO’s final determination is that the significant deficiency remains, the CO shall notify the contractor in writing of the system disapproval and request that the contractor correct the deficiency or submit an acceptable CAP within 45 days. The CO will finalize the Level III/IV CAR in the eTool and attach to the final determination. When the CO’s final determination is to disapprove a business system IAW the applicable business system clause, the CO shall obtain a higher-level review from the Contractor Business Systems Review Panel prior to notifying the Contractor in writing that the system is disapproved.

4.2.4. A copy of the initial and final determination and CAR for business systems involving DCAA shall be provided to the DCAA representative.

4.2.5. When a CAP is received for a significant deficiency, the CO and functional specialist shall monitor the contractor’s progress in correcting deficiencies as outlined in the contractor’s CAP. When the contractor notifies the CO in writing that the contractor has corrected all of the system deficiencies, the CO shall request functional specialist review of the corrections to determine if the deficiencies have been resolved. The CAR shall be closed after the deficiencies have been resolved.

CHAPTER 5

INFLUENCING SUPPLIER PERFORMANCE AND RECOUPMENT OF RE-INSPECTION COSTS

5.1. INFLUENCING SUPPLIER PERFORMANCE. Supplier noncompliances documented with CARs should be considered when providing input or comment on supplier performance for Contractor Performance Access Report or award fee purposes.

5.2. RECOUPMENT OF REINSPECTION COSTS.

5.2.1. Per FAR 52.246-2 and DFAR 246.470-1 (References (m) and (n)), recoupment of reinspection costs should be considered if there are habitual rejections of supplies that require retesting, or supplies are consistently not ready for the functional specialist's inspection when inspection is requested. The functional specialist may find that the assessment of additional costs is warranted in these situations. Once such a determination is made, the functional specialist should notify the contractor that he will only accept formal requests for inspection (e.g., e-mail or fax) in order to develop the documentation necessary to recoup costs, and explain to the contractor the policy for recoupment per Reference (m).

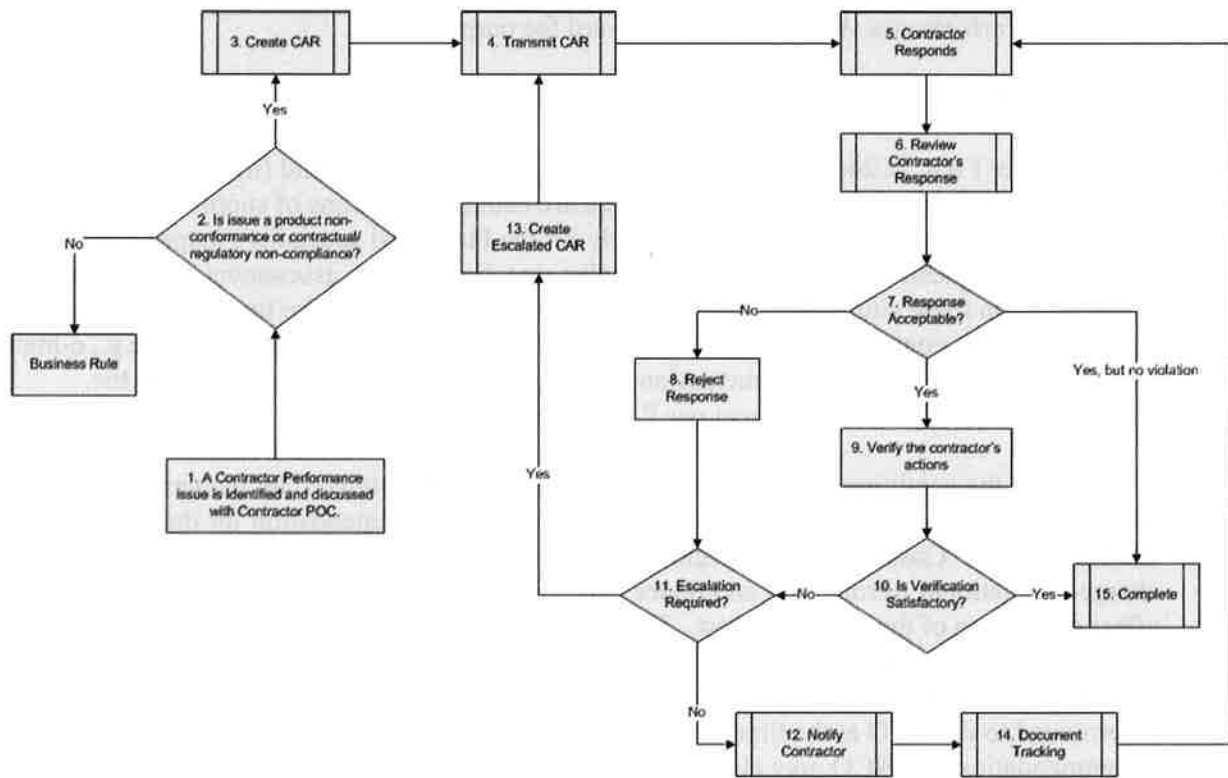
5.2.2. If the condition does not improve, the functional specialist shall recommend that the ACO take necessary action for recoupment and provide a recommendation for the amount of additional costs. Costs shall be determined at the standard non-DoD reimbursable rate (the rate charged to National Aeronautics and Space Administration and other Government agencies) in effect at the time of the delay or retest. The functional specialist shall maintain a log of the time spent for all delays that exceed one-half hour and time spent for retesting of rejected supplies, including travel time, beginning from when the action is contemplated. The documentation shall be provided to the ACO at the time of initial ACO notification. If the ACO agrees with the recommendation, the ACO may elect to:

5.2.2.1. Notify the contractor in writing of the determination to exercise the Government's right under the clause at FAR 52.246-2 (Reference (m)), Inspection of Supplies-Fixed-Price; and

5.2.2.2. Demand payment or consideration of the costs IAW the collection procedures contained in FAR 32.604 (Reference (o)).

APPENDIX A

Appendix A. Corrective Action Process Flowchart



Appendix B

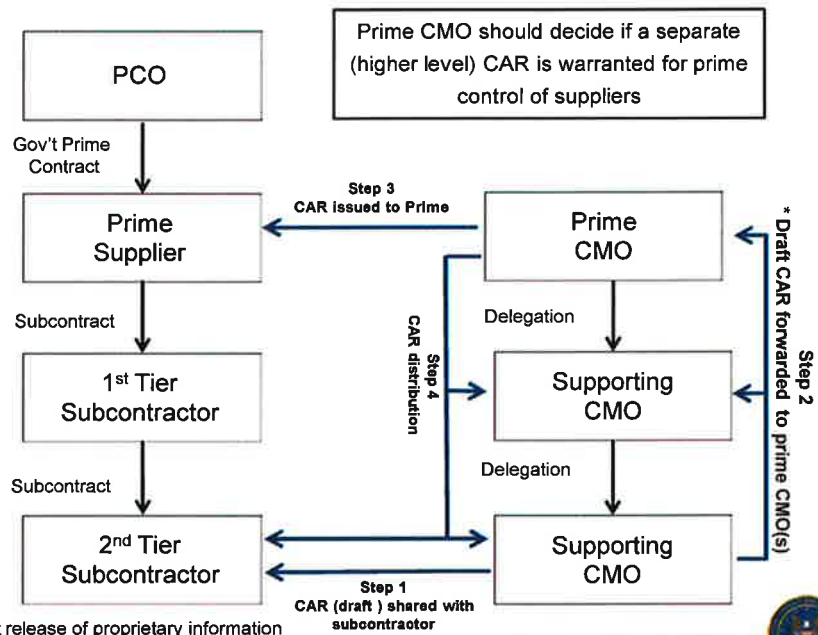
CAR Flowchart for Subcontract Level Noncompliance



CARs flow for subcontract level non-compliance

* All Corrective Actions Requests for noncompliances at subcontractor locations will be escalated to prime CMO for issuance to prime contractors.

3rd and 4th tier delegations are not unheard of; the process is the same



* Redaction needed to prevent release of proprietary information



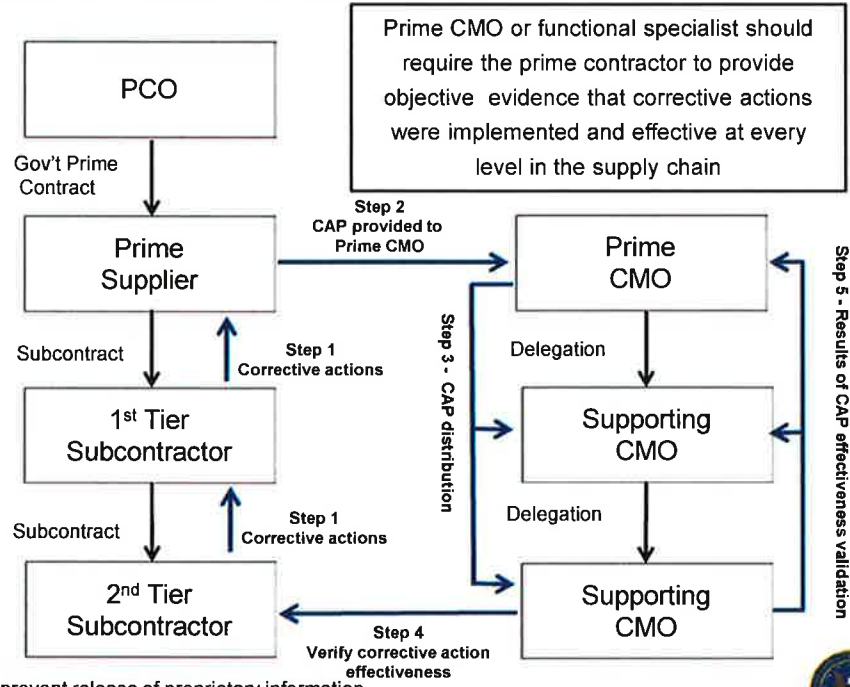
Appendix C

CAP Flow for Subcontract Level Noncompliance



CAP flow for subcontract level non-compliance

Prime CMO or functional specialist must ensure Corrective Actions at prime and subcontractor locations were implemented and effective by working closely with subcontract level CMO or functional specialist



Prime CMO or functional specialist should require the prime contractor to provide objective evidence that corrective actions were implemented and effective at every level in the supply chain

Verify if redaction is needed to prevent release of proprietary information



GLOSSARY

DEFINITIONS

Deficiency. A departure from contractual requirements.

Noncompliance. A departure from contractual requirements. The term noncompliance is synonymous with nonconformances and deficiencies.

Significant deficiency. Pursuant to DFARS 252.242.7005, in the case of a contractor business system, significant deficiency means a shortcoming in a contractor system that materially affects the ability of officials of the Department of Defense to rely upon information produced by the system that is needed for management purposes.

ACRONYMS

ACO	Administrative Contracting Officer
CACO	Corporate Administrative Contracting Officer
CAP	Corrective Action Plan
CAR	Corrective Action Request
CIC	Contract Integrity Center
CMO	Contract Management Office
CO	Contracting Officer (refers to the appropriate CACO, DACO or ACO)
CSI	Critical Safety Item
DACO	Divisional Administrative Contracting Officer
DCAA	Defense Contract Audit Agency
DCMA-INST	DCMA Instruction
DFARS	Defense Federal Acquisition Regulation Supplement
EVM	Earned Value Management
EVMS	Earned Value Management System
FAR	Federal Acquisition Regulation
IAW	In Accordance With
LOD	Letter of Delegation
MMAS	Material Management and Accounting Systems
PGI	Procedures, Guidance, and Information
PQDR	Product Quality Deficiency Report
QA	Quality Assurance
QALI	Quality Assurance Letter of Instruction
SOF	Safety of Flight
SSI	Standard Surveillance Instruction