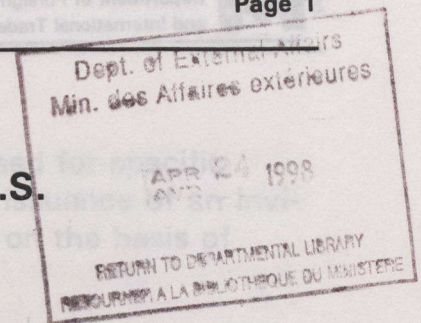


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Kelly, Brad
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MARCH, 1975

HOW TO DO BUSINESS WITH THE U.S. DEPARTMENT OF DEFENCE



Canada-U.S. Bilateral Agreement

The governments of Canada & U.S. concluded an agreement in the 1950's that has come to be known as the Defense Production Sharing Arrangement (DPSA). The DPSA defines Canadian defense contractors as an integral part of the U.S. industrial/mobilization base. The terms of this arrangement remain valid today. Canadian contractors are to be given the same consideration as domestic U.S. suppliers. "Buy American" is waived for all defense supplies made in Canada

Under the DPSA agreement, U.S. buyers contract with the Canadian Commercial Corporation (CCC) who in turn subcontracts the work to the Canadian defense suppliers. In the process, CCC guarantees the performance of the Canadian contractors and, if necessary, will re-procure at CCC's expense. The DPSA provides U.S. acceptance of all Canadian government contracting and contract management procedures. Furthermore, there are bilateral arrangements for quality assurance, in-plant inspection and security for classified programmes.

U.S. Department of Defense (DoD) Contracting Principles & Practices

One of the primary objectives of the Department of Defense (DoD) is the acquisition of weapons and materials which fully meet qualitative, quantitative and delivery criteria at the lowest overall cost. To achieve this objective, DoD places maximum emphasis on full and open competition with equal opportunity to all interested qualified suppliers to compete for defense contracts.

Sources of Information on Defense Procurement

The Military Services and Defense Agencies have contracting offices located throughout the U.S. *To better assist industry*, the DoD has a directory of military activities and their corresponding small business specialists by state. The directory of "Small Business Specialists" can be obtained for a fee from:



Superintendent of Documents
U.S. Government Printing Office
Washington, D.C. 20402 U.S.A.
Tel. (202) 783-3238

Aerospace Daily and Aerospace/Aviation Online can assist with identifying business opportunities with the military on a continuous basis and can be obtained by contacting:

Aerospace Daily
1200 G Street, N.W.
Washington, D.C. 20005 U.S.A.
Telephone: (202) 383-2350

In addition, Commerce Business Daily reports daily on U.S. Government procurement invitations, contract awards and subcontracting leads. Commerce Business Daily can be obtained online through Aerospace Online at the above address or in hard copy from:

Superintendent of Documents
Government Printing Office
Washington, D.C. 20402 U.S.A.
Telephone: (202) 783-3238

Any company seeking to participate in DoD procurement should obtain Standard Form 129, Solicitation Mailing List Application from a Small Business Specialist. These Specialists provide information and guidance on defense procurement procedures, placement on solicitation mailing lists, identifying prime contract and subcontract opportunities and federal procurement conferences, opportunities for meeting with procurement specialists from military and civilian agencies as well as federal prime contractors. Note: there is no central procurement list and each activity conducts its own source identification process through its Small Business Specialist(s).

DoD Purchasing Practices

Applications are placed on a rotation list in the order they are received. For contracts over \$25,000 companies are sent solicitation packages containing specifications and requirements on the project. Purchases over \$25,000 are made in three ways:



1) **Sealed Bidding** (formerly known as Formal Advertising) is used for specific requirements. Procurement by sealed bidding begins with the issuance of an Invitation For Bids (IFB). Sealed bidding acquisitions are awarded on the basis of lowest bid.

2) **Competitive Proposals** allow flexibility in defining the exact requirement or the terms and conditions of the procurement. The purchasing office issues a Request For Proposal (RFP) which defines specifically what will be purchased and consider not only price but factors such as technical requirements and company capabilities. After reviewing the proposals received, the contracting officer will negotiate with those suppliers that have submitted acceptable proposals. These contracts are not necessarily awarded on the basis of lowest price, and many require certain prequalification procedures.

3) Other-than-Competitive Procedures are used in unusual circumstances.

Almost 98% of DoD's purchase transactions are for \$25,000 or less and account for less than 20% of DoD's procurement dollars. However, purchase transactions of less than \$25,000 amount to billions of dollars each year. Most small purchase procedures are made orally or by brief written requests for quotations which are issued to prospective suppliers in the local area.

Special Arrangements for Small Businesses

The DoD has a major programme to ensure the award of a fair proportion of its contracts to small businesses. This programme entails the following purchasing procedure:

- Permitting offers on less than the total requirements for items and allowing the maximum time possible for preparation of offers.
- Setting aside, for award to small business only, any procurement where there is a reasonable expectation that at least two small businesses will offer the products of small business concerns at reasonable prices. Most purchases under \$25,000 are automatically reserved for small businesses.
- Setting aside a portion of a procurement that would otherwise be too large for a total small business set-aside. Any business, large or small, can compete for the non-set-aside portion. Small businesses are then given the opportunity to receive a contract for the set-aside portion at the price of the non-set-aside portion.

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- Having the Small Business Administration (SBA) review a small business' capability in the event the contracting officer determines it to be 'nonresponsible'.
- Encouraging large DoD contractors to subcontract with small businesses. When a DoD contract is in excess of \$500,000 and has a potential for sub-contracting, large prime contractors must establish a plan designed to maximize the participation of small businesses and subcontractors.

The DoD's "Small Business Subcontracting Directory", a comprehensive guide which provides a list of prime contractors, their product and service requirements and their small business liaison officers, can be obtained from the U.S. Government Printing Office in Washington, D.C. In addition, the U.S. Small Business Administration produces "Small Business Subcontracting Directory" containing the same information as DoD's directory plus information on SBA's field offices in respective districts and their representatives. This directory can be obtained by contacting:

The U.S. Small Business Administration
Office of Procurement Assistance
Washington, D.C. 20416

Preaward Determination of Responsibility

The preaward survey is used for evaluating prospective contractors' competence and capability, or "responsibility". Without satisfaction on this point, DoD will not award a contract even if the company has made the best offer.

The preaward survey is done only in connection with an offer. To be found responsible, companies must be able to demonstrate that they:

- 1) have, or are able to obtain, adequate financial resources;
- 2) are able to comply with delivery requirements;
- 3) have a satisfactory performance record;
- 4) have a satisfactory record of integrity & business ethics;
- 5) have, or are able to obtain, the necessary organization; experience, accounting and operational controls, and technical skills;
- 6) have, or are able to obtain, the necessary production, construction and technical equipment and facilities;
- 7) are otherwise qualified and eligible to receive an award under applicable laws and regulations.



In order to be prepared for the survey team, companies are advised to consider the following criteria:

- Identify a company representative who will have primary contact with the survey team and who is thoroughly familiar with the Government's solicitation and with the company's position.
- Document the company's status: e.g. Does it qualify as a manufacturer or regular dealer for contracts under the Walsh-Healey Act? Does it qualify as a small business? Is it in a labour surplus area? If representations of this sort have been made, evidence should be available.
- Demonstrate technical capability. Have a production plan ready to be reviewed. Be prepared to provide a tour of facilities, with technicians available to answer questions, or alternatively, be ready to explain how necessary facilities and equipment will be secured. Provide documentation about past work such as commercial, subcontract or other Government contract, showing satisfactory delivery and quality.
- Demonstrate ability to meet packaging, transportation, and similar requirements if relevant. Prepare a set of procedures for dealing with Government-furnished material or equipment, if called for. If the contract requires technical data, show the ability to deliver such data.
- Document plans for labour and material with evidence of an available, skilled workforce. Provide plans for acquiring materials and subcontract services as needed for timely performance.
- Demonstrate quality control and familiarity with any relevant military specifications and standards.
- Demonstrate financial competence. Copies of recent profit-and-loss statements and balance sheets may be furnished in advance, cash-flow statement and forecast may also be required.
- If progress payments or cost reimbursements are requested, be prepared to demonstrate a system that will support requests for payment.

The contracting officer will deem the bidder "responsible" or "not responsible". If found "not responsible" the matter is referred to the Small Business Administration



(SBA). The SBA, if the circumstances warrant, is authorized to certify to Government procurement officers with respect to all elements of responsibility of any small business concern. Any such certification - called a Certificate of Competency - is binding on the contracting officer.

Directorate of Competition Advocacy

In addition to contracting officers, the Directorate of Competition Advocacy (DCA) is authorised to insure compliance with the competition in Contracting Act (CICA) and all regulatory requirements. A DCA is responsible for the overall Competition Advocacy programme for each military activity in the following capacity:

- Ensure that competition considerations are included in the process of acquiring and managing systems, items, services, data, and software.
- Develop a Competition Plan, including guidance for establishing realistic competition goals.
- Develop and implement programmes to increase competition and remove any impediments to competition.
- Review, approve, and provide coordination of Justification and Approval (J&A) documents for acquiring supplies, services, repairs, and data by other than full and open competition procedures.
- Promote new sources of supply and assist in resolving difficulties encountered by suppliers in obtaining approval as a manufacturing/repair source.
- Function as the Office of Primary Responsibility (OPR) for the Air Force Zero Overcapacity Programme (ZOP) and Price Verifications.
- Participate with system programme manager and item manager organizations in acquisition procedures in order to ensure full competition.
- Maintain a liaison relationship with industry, Air Force Logistics Command Headquarters and other DoD purchasing activities regarding the competition programme.



Financing

While private financing is generally preferred, alternatives are available. The loan guarantee programme authorized by the Defense Production Act is not being used at present and advance payments are discouraged. The most likely form of U.S. Government financing is progress payments based on costs.

Payments Under Cost-Reimbursement Contracts

Under cost-reimbursement contracts, companies are entitled to be reimbursed for allowable costs. Every month, or more frequently if authorized, invoices or a public voucher forms - obtainable from contract administration offices - may be submitted. Any costs incurred that are not allowable under DoD's rules will be omitted from payment. Unless otherwise specified, payment due date is 30 days after receipt of invoice.

In addition to reimbursement for allowable incurred costs, a portion of the fee or profit, if any, can be paid as the work progresses. Fee payment provisions are set forth in the contract and generally provide for payment of a percentage of the total fee based on the ratio of costs incurred to total estimated cost. After payment of 85% of any fee due under the contract, the contracting officer may withhold a reserve to protect the Government's interest pending completion of the work.

Progress Payments

Under fixed-price contracts, some contractors obtain a major part of their contract payments in the form of progress payments. Prior to sending out the solicitation for a company's contract, contracting officers decide whether progress payments would be available. Key points to remember are the following:

- 1) Contract requires long lead time (4 months or more) and outlay of contractor funds before any supplies or services are ready for delivery.
- 2) Contractor has an adequate cost accounting system and will allow Government auditors to review the support.
- 3) Progress payments must be authorized by a contract clause.
- 4) Requests, no more often than monthly, are to be submitted on Standard Form (SF) 1443.



If the contract is to authorize progress payments, preaward survey will include inquiry into contract cost accumulation system. Provision must be made for DoD to check claims of eligible costs to qualify for progress payments procedure. To receive progress payments, companies should submit form SF 1443 to the contract administration office as shown in contract.

Payment on Delivery

Contracts with a single item of work and a single delivery are generally paid in one lump sum. For larger contracts with many items and staggered delivery dates, companies can invoice and receive partial payments as deliveries are made. In either case, the payment due date depends on receipt and acceptance of supplies or services (the payment office must get reports from the actual receiving points to establish accounts payable) and receipt of a proper invoice from the supplier.

Note: "Receipt" refers to custody; if a company ships on a Government Bill of Lading, then the Government has taken delivery at a company's plant - the source. In most other modes of delivery, the transit risks are the company's, and receipt takes place at the destination. Contracts state where delivery is to be made and the payment office needs proper evidence that the receipt did indeed take place and that the Government is satisfied with the quality ("acceptance"). This quality control may be performed in the company's plant or at the receiving location. There are two locations: source and destination and two functions: receipt and acceptance. The payment office needs evidence, from the authorized activity, for both functions. This evidence is provided on the Material Inspection and Receiving Report (MIRR), DD Form 250. DD Form 250 plays an important part in getting payment to companies. The form can serve as evidence of Government procurement quality assurance (PQA) and can similarly be used to record the receipt of products. It also can serve as a packaging list and shipping notice. Contractors are responsible for preparing and distributing the form. Blank forms can be obtained from contract administration offices. If the data from the contract, the DD Form 250, and the invoice all agree, payment will result without delay.

Certificate of Conformance

Where the inspection and acceptance process leads to delays in payment, Companies may be able to arrange for a Certificate of Conformance. This can be authorized when the Government has reason to believe that the product will be acceptable and that any defective work will be replaced, corrected, or repaired without contest.



The Certificate of Conformance clause, even if it is in the contract, does not authorize the contractor to use the procedure; it only allows the contract administration office to give the contractor such authority.

Invoices

Companies can use either their own commercial invoice or the DD Form 250. For contracts under \$25,000 contractors may use the fast pay procedures authorized by Federal Acquisition Regulation.

Shipping

Packing, packaging, and marking stipulations are more stringent than in commercial practice and failure to comply can cause delay in payment. Likewise, if the contract includes a First Article Approval clause, its terms may significantly affect the contractor's cost recovery. Specifically, when First Article Approval is required by a contract the acquisition of materials or components and the commencement of production is normally at the sole risk of the contractor. Thus any costs incurred prior to approval of the first article will not be reimbursed unless and until that approval is granted.

DoD Specifications

DoD has exact specifications for standard purchases, and has established engineering and technical limitations and applications of items, materials, processes, methods, and engineering practices. The Index of Federal Specifications, Standards, & Commercial Item Descriptions and the Department of Defense Index of Specifications & Standards are available on a subscription basis from the Government Printing Office.

The Navy Publishing & Printing Service in Philadelphia, PA is the DoD central distribution point for all military specifications and standards. DD Form 1425 is the preferred means to order specifications and standards. Currently, the Navy Publishing & Printing Service serves over 120,000 customers including all military services; federal, state, municipal agencies, foreign governments, industrial and commercial firms, both national and foreign, and the general public. Private industry may obtain standardization documents from the DoDSSP by subscription or on an ad-hoc basis.



A subscription service is also available to private industry providing automatic distribution of new and/or revised unrestricted and unclassified Data Item Description (DID's). The AMSDL 5010.12L, which is the index that lists all active and cancelled DID's, is issued twice a year with notices as needed and is included with this subscription. The Catalog Handbook H2-1 which lists all Federal Supply Classes according to subject can be obtained at no charge from the Subscription Desk. For further information or to purchase a subscription contact

Subscription Services Desk:
DoDSSP Standardization Document Order Desk
700 Robbins Ave., Bldg. 4D
Philadelphia, PA 19111-5094
Tel. (215) 697-2569

All ad hoc standardization document requests are handled through Navy Publishing on Demand System (NPODS). TeleSpecs is the automated system directly connected to the NPODS and can be accessed with a customer number. For more information contact the Special Assistance Desk at the Navy Publishing & Printing Service: Tel. (215) 697-2667/2179.

Mail and fax requests should be made on DoD Specification & Standards order form (DD Form 1425) or company letterhead. Every order shipped will include a blank copy of the DD Form 1425. All requests should include a Company assigned customer number or CAGE (Commercial And Government Entity) number (formerly known as FSCM); specification or standard by document identifier as recorded in the DoD Index of Specifications & Standards (DoDISS); quantity required to a maximum of 5.

Mail and fax orders should be directed to:

DoDSSP
Standardization Document Order Desk
700 Robbins Ave., Bldg. 4D
Philadelphia, PA 19111-5094
Fax. (215) 697-2978

In the case of ad hoc requests the following should be noted:

- Only the specification request will be issued. Documents referenced within a specification must be requested individually.



- All amendments and revisions will be automatically issued with the basic specification.
- When submitting multiple mail requests place the mailing address on each request form.
- For handwritten requests use black or dark blue ink only.
- Slash sheets such as MIL-E-1/306 must be individually requested by document number. Such sheets will not be issued as a set.
- The DoDSSP supplies the current version of any document. Superseded or cancelled documents may be requested through the procurement or contracting officer of the military activity citing the need for the document.
- Do not submit requests for a specification citing a national stock number. DoDSSP has no procedure for cross referencing national stock numbers to specification numbers.
- Non-government/Industry Standards stocked at the DoDSSP are not available to private industry and must be ordered from the preparing technical societies.
- DoDSSP does not maintain microfiche copies of standardization documents and issues only printed documents.
- The DoDSSP does not maintain Invitations for Bid, Requests for Proposals, contracts, etc. Each request must list the document identifier desired.

The specifications for products requiring qualifications testing include requirements for qualification, qualification tests and the name of the activity responsible for qualification. If a company is interested in supplying a product whose specification requires qualification, it should arrange to have its product qualified at the earliest applicable date.

U.S. Federal Supply System

The Federal Government buys, stocks, and uses over six million items.

The catalogue of Supply Systems assigns National Stock Numbers (NSN's) to each item the Government uses. The NSN is a 13 digit number assigned by the Defense



Logistics Service Center (DLSC) in Battle Creek, Michigan. The first four digits identifies the Federal Supply Class of the product. The next nine digits represent the National Item Identification Number (NIIN). The first two digits of NIIN identifies the country of origin. The remaining seven digits identifies the specific item. For information on NSN's, contact DLSC's customer service at Tel. (616) 961-4725.

The Federal catalog system is based on one NSN for any one item and the assignment of each particular class of product to a single manager. To sell an item, a company would need to get the item assigned an NSN.

Companies can obtain the specifications (and standards, if applicable) for products analogous with their own to determine what is already being purchased by the Government. Small Business Specialists can help companies review the FSC indices under "Types of Specifications". The differences between a company's new item and those now in the system should be carefully studied.

Products accepted in the commercial marketplace but without an NSN may be placed on a New Item Introductory Schedule. The General Services Administration (GSA) uses this process when different federal agencies may have an interest in the new product. GSA can assist companies in finding sales opportunities with civilian agencies of the Federal Government. The GSA offices are also included in the directory of "Small Business Specialists" obtainable from the U.S. Government Printing Office.

Companies may wish to consult "Selling to the Military" to identify products and services purchased by military activities. This publication can be obtained from the U.S. Government Printing Office. Every DoD purchasing activity also maintains lists of prospective suppliers. These solicitation mailing lists (SMLs) are the key to obtaining maximum opportunities to compete for DoD requirements. Solicitations for a product or service will automatically be issued to a company on an SML. To expedite the processing of an SML application submit a DD Form 2051, Request for Assignment of a Commercial and Government Entity (CAGE) Code. The CAGE Code is a five position alpha numeric identifier assigned by the Defense Logistics Services Center in Battle Creek, Michigan. The code identifies the contractor plant or establishment as a unique entity.

The Commerce Business Daily (CBD), published daily by the Department of Commerce, lists almost every proposed DoD procurement estimated to exceed \$25,000 as well as major DoD prime contract awards that have potential subcontracting



opportunities. It also contains information about DoD needs for R&D efforts in fields in which unsolicited proposals may be appropriate. For subscription information for CBD contact:

Superintendent of Documents
U.S. Government Printing Office
Washington, D.C. 20402
Tel. (202) 783-3238

Small Business Innovation Research Programme (SBIR)

Each year, DoD publishes solicitations describing the R&D needs of DoD to be sought through this programme. To assist small businesses formulate better technical proposals for the SBIR programme the resources of the Defense Technical Information Center (DTIC) are available to prospective SBIR contractors. DTIC is the central repository within DoD for the interchange of scientific, technical, and managerial research information. DTIC's data base includes ongoing and completed research activities in virtually every subject area of science and technology. Further information can be obtained by contacting:

U.S. Small Business Administration
SBIR
1441 L Street, N.W.
Washington, D.C. 20416

Subcontracting Opportunities

Subcontracting offers small businesses an important means of participating in DoD purchasing, however the following should be considered:

- Production for DoD is often intricate and exacting. Subcontractors frequently have to work to very close tolerances, under precise specifications, and with tight delivery schedules.
- Subcontractors have no contractual relationship with the Government.
- The prime contractor will need to know as much about subcontractor's organization and its ability to perform the work as is needed to make the determination of responsibility described previously.



Large firms receiving DoD contracts in excess of \$500,000 which offer subcontracting possibilities must designate a Small Business Liaison Officer to administer contracting to small businesses. To facilitate determining potential sub-contracting opportunities, two publications (mentioned earlier in the report) may be consulted: "Small Subcontracting Directory" and "Small Business Subcontracting Directory" produced by Small Business Administration and DoD, respectively. The Commerce Business Daily (see "Sources of Information") lists awards of contracts in excess of \$100,000 that provide subcontracting possibilities.

For additional information on doing business with DoD, please contact:

Mr. Brad Kelly
The Canadian Consulate General
Suite 400, South Tower
One CNN Building
Atlanta, Ga 30303
Tel: (404) 577-6810. Fax (404) 524-5046

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| BG - BLACK | BA - TANGERINE |
| BD - GREY | BB - ROYAL BLUE |
| BU - BLUE | BX - EXECUTIVE RED |
| BP - GREEN | |

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