DCMA Manual 2303-01

Surveillance – Assess Risk

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Office of Primary Responsibility	**Contractor Effectiveness Capability**
Effective:	July 15, 2019
Releasability:	Cleared for public release
New Issuance	
Implements:	DCMA-INST 2303, "Surveillance," November 5, 2018
Internal Control:	Process flow and key controls are located on the Resource Page
Labor Codes:	Located on the Resource Page
Resource Page Link:	https://360.dcma.mil/sites/policy/CE/SitePages/2303-01r.aspx
Approved by:	David H. Lewis, VADM, USN, Director

Purpose: This issuance, in accordance with the authority in DoD Directive 5105.64," Defense Contract Management Agency (DCMA)":

- Implements policy established in DCMA Instruction 2303
- Defines standard risk assessment terminology, assigns detailed responsibilities, and prescribes procedures for implementing risk assessment process for consistency and clarity
- Provides Risk Assessment guidance for Contract Management

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SECTION 1: GENERAL ISSUANCE INFORMATION

1.1. APPLICABILITY. This issuance applies to all DCMA activities unless higher-level regulations, policy, guidance, or agreements take precedence.

1.2. POLICY. It is DCMA policy to:

a. Perform contract management functions in compliance with Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARS), and other applicable regulations, supplements, and directives in accordance with (IAW) DCMA Instructions (DCMA-INSTs).

b. Use a risk based approach to determine resource requirements to provide contract administration services.

c. Establish and maintain standardized risk assessment terminology and techniques for the Agency that emulates those in use by Government and Industry.

d. Perform the process(es) this manual describes in a safe, efficient, effective, and ethical manner.

SECTION 2: RESPONSIBILITIES

2.1. DCMA COMPONENT HEADS AND/OR CAPABILITY MANAGERS. DCMA Component Heads and/or Capability Managers will align their surveillance related issuances, training, guidance, and tools with this Manual.

2.2. OPERATIONAL UNIT COMMANDERS/DIRECTORS. Operational Unit Commanders/Directors will:

a. Ensure compliance with this Manual.

b. Ensure risk assessment training, guidance, and tools they endorse align with this Manual.

c. The Director, Special Programs Command must comply with DCMA-INST 2303 and meet the intent of this Manual to the maximum extent practicable for all Special Access Programs and Sensitive Compartmented Information contracts.

2.3. CONTRACT MANAGEMENT OFFICE (CMO) COMMANDERS/DIRECTORS, GROUP DIRECTORS (Leaders), AND SUPERVISORS. CMO Commanders/Directors, Group Directors (Leaders), and Supervisors will:

a. Ensure compliance with this Manual.

b. Ensure CMO-related training, guidance, and tools on risk assessment align with this Manual.

c. Ensure Inherent and Contractor Process risks are assessed.

d. Ensure risk assessments are documented and maintained.

2.4. FUNCTIONAL SPECIALISTS. Functional Specialists will:

a. Comply with this Manual and all other issuances.

b. Ensure Inherent and Contractor Process risks are considered.

c. Ensure risk assessments are documented and maintained.

SECTION 3: ASSESS RISK

3.1. ASSESS RISK DOCUMENTATION.

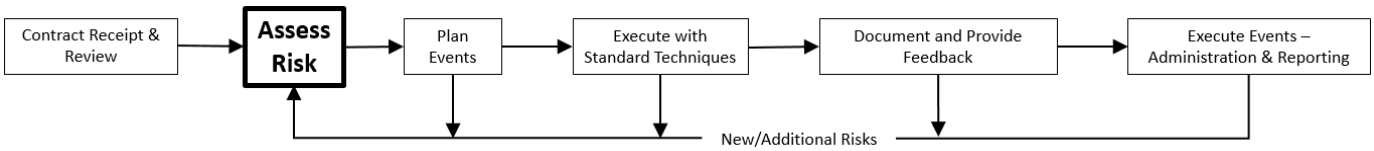
a. The importance of documenting the assessment of risk cannot be overstated. Assessment of risk is the impetus for determining the frequency and intensity of contractor systems, processes and product surveillance. Any decision to perform surveillance or not to perform surveillance of a key contract requirement (KCR) must be documented. Risk documentation provides an audit ready basis for resource utilization and must be maintained IAW Agency records management procedures and guidance.

b. If another issuance or publication is driving a requirement to assess risk on a process (or processes), the functional specialist must adhere to that (those) requirement(s) in addition to this Manual. No matter what issuance is driving the requirement to assess risk, documentation must be retained IAW Agency records management procedures and guidance.

3.2. ASSESS RISK OVERVIEW.

a. Risk assessment is an ongoing process and an essential part of Contract Management and Contractor Effectiveness activities. The "Assess Risk" process occurs after the "Contract Receipt & Review (CRR)" process and before the "Plan Events" process, as shown in Figure 1. Assess Risk as a Function of Contractor Effectiveness. Though it is depicted as a linear process, Assessing Risk is an iterative approach and must be repeated during any phase of the contractor effectiveness process as changes occur in contract requirements or execution. Each time a risk assessment is conducted, functional specialists must document the assessment, provide documented rationale for the rating, and any adjustments made to the surveillance activities.

Figure 1. Assess Risk as a Function of Contractor Effectiveness



b. The output from the "CRR Requirements" is a list of KCRs applicable to the contract. KCRs are contract requirements identified by function that may drive surveillance events.

c. This Manual outlines guidance for functional specialists to identify, assess, and document contract performance risks IAW instructions, manuals, and guidance found on the resource pages. If an area or process requires additional details, functional specialists should refer to specific guidance within their instruction, manual, and resource page.

d. The purpose of risk assessment is to identify areas of risk and surveillance requirements, as an input to planning surveillance, justify the allocation of resources (hours), frequency, and intensity (schedule) necessary to provide the appropriate level of oversight of the supplier's

processes, progress, and products. Properly performed, risk assessment will identify the areas where surveillance activities are required.

e. This Manual utilizes common definitions for the application of the risk assessment process to be used within the Agency. These definitions are common to what is used in industry and the DoD. DCMA-specific definition(s) when assessing risk are provided in the glossary.

f. Risks can be characterized by consequence and likelihood. They can be grouped as financial, business, quality, technical, aircraft liability, manufacturing, program, functional, industry standard and/or schedule. All functional risk assessments must consider the supplier risk rating, its associated components of criticality (consequence) and probability an event will occur (likelihood). Consequence and likelihood quantification guidance is further discussed in the Risk Matrix document located on the resource page.

g. To ensure a standard process is applied across the Agency, a breakdown of risk areas to be considered is located in the Risk Breakdown Structure Workbook. This workbook is partitioned further in the Risk Register. A Risk Tree is used to outline the relationship between the Risk Breakdown Structure Workbook, Risk Register with Inherent Risks, Contractor Process Risks, and the KCR lists. These documents are located on the resource page. The Risk Breakdown Structure Workbook and Risk Register are discussed in more detail in paragraph 3.3. and the glossary. These documents are living documents and require configuration management. Submit proposed updates to any risk assessment tool on the resource page to the "DCMA Ft Lee HQ Mailbox Contractor Effectiveness Capability Board" email at dcma.lee.hq.mbx.contractor-effectiveness-capbd@mail.mil.

h. The output of the risk assessment process is the Risk Rated Workload. The Risk Rated Workload identifies risk rated workload factors associated with KCRs for surveillance planning consideration. Minimum elements to be included in the Risk Rated Workload product are the KCR, question/statement for consideration, risk rating, and justification. The Risk Rated Workload is an input to the Plan Events process as defined in DCMA Manual (DCMA-MAN) 2303-02, "Surveillance – Plan Events."

i. Previous applicable DCMA instructions, when modified, will incorporate the risk assessment tenets identified herein across all functions. This will ensure all functional areas approach risk assessment from a common view/perspective.

3.3. RISK ASSESSMENT PROCESS.

a. Planning and preparation of the risk assessment occur after CRR and a Contract Review Checklist or other appropriate document is generated via the CRR process.

b. Functional specialists will use CMO and/or functional directorate guidelines for determining surveillance requirements. Guidelines for the application of the consideration of risk for each functional specialist may differ for the same contract depending on the specifics of the contract and its surveillance requirements. Guidelines will be documented and approved by the CMO Commander, or their designee. If the CMO deems the contract to be below locally

generated guideline criteria and the determination is made to not perform surveillance, not executing risk assessment will be a documented process approved by the CMO Commander, or their designee. If the determination is made to **not** perform surveillance, functional specialist(s) must document the risk assessment and surveillance determination, then maintain the determination per records management direction.

c. A CMO may be called upon to address risks of many types and potential consequences. This can include risks that emerge from business systems, safety, aircraft operations, critical products and processes, complex system design and state of the art technologies or customer concerns. Due to this diversity of risks, CMOs may find it beneficial to contend with these risks by logically grouping them by Contractor Business System (CBS), program, function, contract/contractors and product or any appropriate combination thereof.

d. Once the CMO (based on functional specialists input) has made the determination that contract surveillance must take place, the following process is used to consider risk:

(1) The CRR process must be accomplished prior to assessing risk. Information and guidance on conducting CRR is located in DCMA-MAN 2501-01, "Contract Receipt and Review" and its associated resource page.

(2) Each surveillance risk (based on KCR evaluation) is linked to Inherent Risk(s) and/or Contractor Process Risk(s). A complete list of Inherent Risks and Contractor Process Risks are located on the resource page in the Risk Breakdown Structure Workbook.

(3) Inherent Risk(s) will be considered via the Risk Register. It is the Agency's intent for the CMO to determine how to consolidate and accomplish the assessment of Inherent Risks associated with the contractor(s) under its cognizance to ensure duplication of effort is minimized to the greatest extent possible. The determination(s) must be documented and retained per Agency records management procedures and guidance. Inherent Risk(s) may be linked via KCRs to Contractor Process Risk(s). Where this occurs, functional specialist(s) must then consider the Risk Register and risk-rate the Contractor Process Risk(s). The determination(s) must be documented and retained per Agency records management procedures and guidance.

(4) KCRs linked to Contractor Process Risk(s) must be considered. Functional specialist(s) must consider and determine if there are areas identified in the Risk Register to be risk rated. Where there is crossover (e.g., Quality Assurance and Industrial Specialist), functional specialists must collaborate to accomplish the consideration of risk. This avoids duplication of effort or confirms surveillance/risk ratings are of significant differences requiring each functional specialist accomplish independently. The determination(s) must be documented and retained per Agency records management procedures and guidance.

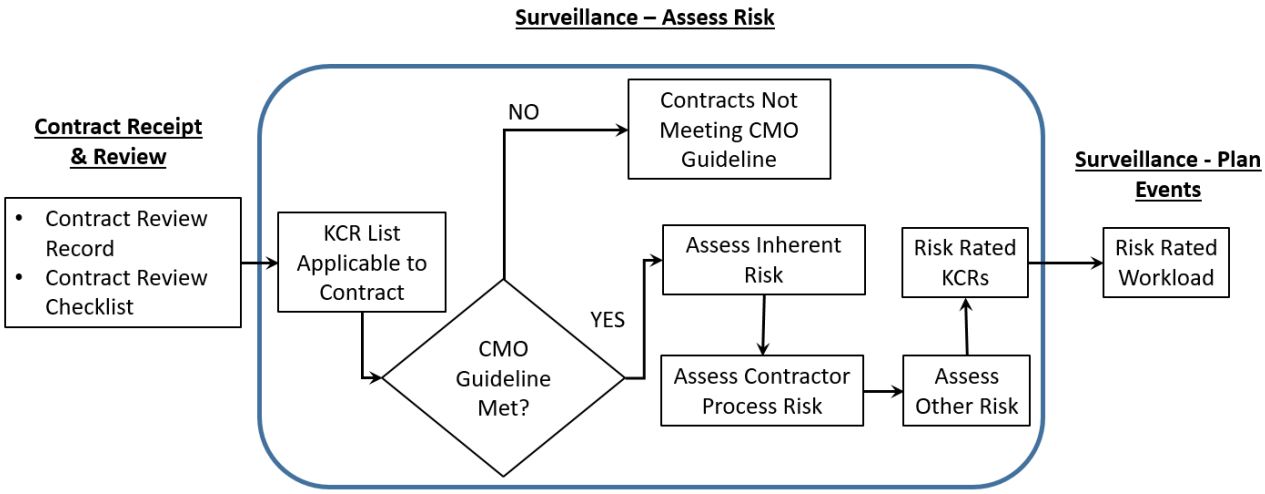
(5) In addition to considering Inherent Risk(s) and Contractor Process Risk(s), functional specialist should consider any other known information impacting risk. The expectation is functional specialists will use all available information, to include program office inputs and tools to provide an integrated risk assessment.

(6) Each KCR determined to require a risk rating must be risk rated with appropriate supporting information. The determination(s) must be supported by analysis, measurement and/or informed observation. Once completed, the determination(s) must be documented and retained per Agency records management procedures and guidance.

(7) The risk rated KCRs and the associated determination, will populate the Risk Rated Workload. This list will be used to plan the events IAW DCMA-MAN 2303-02.

e. The overarching risk assessment process is depicted in Figure 2. When the process is used in conjunction with consistent, predefined likelihood and consequence criteria, it provides a structured means for evaluating and quantifying risks. A careful risk assessment allows for sound, logical decision making related to objective comparisons, prioritization of workload and allocation of resources.

Figure 2. Overarching Risk Assessment Process



f. There are no Agency-wide standardized risk assessment tools in place, the intent of this manual is to provide a common well-established group of methods, concepts, tools and techniques. The aim of the supplemental information provided on the resource page is to raise and maintain a baseline level of technical rigor applied to the current Agency risk assessment practices. The resource page for this manual provides an example tool and data in a format to allow individual tools to be developed locally.

3.4. RISK ASSESSMENT EVALUATION.

a. Once risk has been considered and documented, it may be necessary to quantify the level of the risk in terms of consequence and likelihood. Furthermore, it may be necessary to determine which items or processes have a higher level of risk. If required by other publications, standards, contract requirements or customer requests the standard DoD risk matrix can be used to rank order the various identified risk items to assist with producing an ordinal Risk Rated

Workload. The DoD risk matrix, criteria for likelihood, and criteria for consequence are located on the resource page.

b. Functional specialists must use all available information to quantify risk. Risk assessments may require multiple iterations, using a combination of qualitative and quantitative data from multiple sources to estimate the likelihood of occurrence and the degree of loss, injury or performance degradation quantitatively.

c. To assist the overall risk assessment activities additional terminology and definitions are provided on the resource page.

GLOSSARY

G.1. DEFINITIONS.

Consequence. The fully realized outcome of a negative future event/occurrence expressed qualitatively and/or quantitatively, as some degree of loss, injury or degradation. Risk consequence can be measured as a deviation against an organization's cost, schedule, and performance objectives, requirements or baselines.

Contract Review Checklist. The product derived from the CRR process that yields a list of KCRs to be considered in the risk rating process (see DCMA-INST 2501, "Contract Maintenance," and its associated Manuals for additional information).

Contractor Process Risk. Risk derived from the contractor's management system(s) design and actual performance. This risk has four main areas: Management System, Management Responsibility, Resource Management, and Product/Service Realization (Implementation).

Functional Specialist. Any DCMA personnel executing contract administration services within any career field.

Inherent Risk. Risk derived from contract requirements and factors inherent to a contractor's business profile. This risk has three main areas: Contractor Profile, Contract Requirements, and Government/Customer.

Issuance. A documented instruction, publication, standard or direction intended for use by Agency employees.

KCR. Contract requirements defined by function that drive surveillance events.

Likelihood. The assessed probability that an event will occur given existing conditions.

Risk. (1) A measure of future uncertainties in achieving an organization's objectives, requirements and/or goals within defined cost, schedule and performance constraints. It has three components: a future root cause, a likelihood assessed at the present time of that future root cause occurring, and the consequence of that future occurrence. (2) Potential future event or condition that may have a negative effect on achieving program objectives for cost, schedule, and performance. Risks are defined by (1) the probability (greater than 0, less than 1) of an undesired event or condition and (2) the consequences, impact, or severity of the undesired event, were it to occur.

Risk Breakdown Structure Workbook. An Agency-unique tool, consisting of a Microsoft Excel workbook, provided by headquarters via the DCMA-MAN 2303-01 resource page, used to define Inherent and Contractor Process Risk.

Risk Rated Workload. This is the output from DCMA-MAN 2303-01 and one of the inputs to DCMA-MAN 2303-02. This item provides a rank-ordered list of risk rated KCRs with its

associated justification. Each risk rated item will include, at a minimum, the KCR, question/ statement, risk rating, and justification minimum.

Risk Register (DCMA). A centralized list of questions the functional specialist uses when determining if a particular risk exists, and is then risk rated, to bring as much objectivity as possible to a subjective process. The Risk Register is linked with KCRs, Inherent Risks, Contractor Process Risks, and the Risk Breakdown Workbook Structure in the Risk Tree.

Risk Tree. A tool used to link the Risk Register, KCRs, Inherent Risks, Contractor Process Risks, and the Risk Breakdown Workbook Structure located on the resource page.

GLOSSARY

G.2. ACRONYMS.

CMO	Contract Management Office
CRR	Contract Receipt and Review
DCMA-INST	DCMA instruction
DCMA-MAN	DCMA manual
DFARS	Defense Federal Acquisition Regulation Supplement
FAR	Federal Acquisition Regulation
IAW	In Accordance With
KCR	Key Contract Requirement

REFERENCES

DCMA Instruction 2501, "Contract Maintenance," August 14, 2017
DCMA Manual 2303-02, "Surveillance – Plan Events," April 28, 2019
DCMA Manual 2501-01, "Contract Receipt and Review," March 24, 2019
Defense Federal Acquisition Regulation Supplement (DFARS), current edition
DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," January 10, 2013
Federal Acquisition Regulation (FAR), current edition