

COUNTERFEIT PARTS

Prevention and Guidance

This presentation reviews the counterfeit parts problem in federal procurement and outlines preventive measures that are currently in place....

Office of Government Contracting and Business Development

February 2015

*U.S. Small Business
Administration*



Slide 1



This is about preventing the acquisition and use of counterfeit parts in federal procurement.

Welcome to SBA's training module, Counterfeit Parts – Prevention and Guidance.

NOTE: *This supplemental workbook tracks the slides and narrative contained in SBA's online course, **Counterfeit Parts – Prevention and Guidance**. The online version of the training program, with audio can be accessed at: www.sba.gov/gcclassroom. For the convenience of users, all hyperlinks contained in the copied slides are included as links at the end of the workbook.*

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Introduction

- Growing abundance of counterfeit electronic and other parts showing up in federal contracting
- Presentation reviews the counterfeit parts problem and outlines preventive measures currently in place

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Counterfeit Parts – Prevention and Guidance

There is a growing abundance of counterfeit electronic and other parts showing up in federal contracting. This problem is challenging for the federal government, and has been especially troublesome in areas of defense acquisition.

This short presentation reviews the counterfeit parts problem and outlines preventive measures that are currently in place.

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Counterfeit Parts – *The Problem*

- Problem is challenging for the federal government --- Senate Armed Services Committee, in 2011 identified some 1,800 cases of counterfeiting, involving roughly 1 million parts
- Counterfeit risks are significant -- early product failure, high repair costs, mission failure and even national security catastrophes.

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Counterfeit Parts – Prevention and Guidance

The problem...

The use of counterfeit parts in federal procurement is a significant problem. In 2011, the Senate Armed Services Committee identified some 1,800 cases of counterfeiting, involving roughly 1 million government purchased, or about to be purchased parts.

The risks associated with this problem are challenging and huge. Such risks are reflected in early product failure, high repair costs, mission failure and even national security catastrophes.

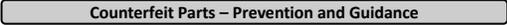
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DOD Anti-Counterfeit Actions

- National Defense Authorization Act of 2012, included provisions (Section 818) that required greater responsibilities on the part of contracting entities and contractors to prevent counterfeit electronic parts from entering federal supply chains
- DOD issued a final rule on May 6, 2014 -- amending the DFARS and immediately establishing a series of new anti-counterfeit requirements for both prime contractors and subcontractors



48 CFR Parts 202,231,244,246 & 252
DFARS 252.246-7007



Countering the counterfeit problem...

In an effort to mitigate the acquisition of counterfeit electronic parts, the National Defense Authorization Act of 2012, included provisions – outlined in Section 818 – that, among other things, require greater responsibilities on the part of contracting entities and contractors to prevent counterfeit parts from entering federal supply chains.

In May of 2014, the Defense Department issued a final rule, known as the anti-counterfeit rule and published it in the DOD Federal Acquisition Regulation Supplement. The rule took effect immediately on May 6th and established a series of anti-counterfeit requirements for both prime contractors and subcontractors. This DFARS rule is significant and important.

New DOD Requirements...
Federal Anti-Counterfeit Actions

- Requires contractors to establish a counterfeit electronic part detection and avoidance system or modify an existing system to come into compliance
- Does not apply to small business prime contractors – those who are not subject to Cost Accounting Standards, but small firms serving as subcontractors may be impacted through flow-down provisions

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Counterfeit Parts – Prevention and Guidance

The new DFARS rule requires contractors to establish a counterfeit electronic part detection and avoidance system or modify an existing system to come into compliance with the new rule. The rule does not apply to small business prime contractors – those who are not subject to Cost Accounting Standards, but small firms serving as subcontractors may be impacted through flow-down provisions.

Contractors subject to the rule – that is, contractors subject to the Cost Accounting Standards under section 26, of the Office of Federal Procurement Policy Act (41 U.S.C. 422) and that supply electronic parts or products that include electronic parts – must establish and maintain a counterfeit electronic part detection and avoidance system in compliance with the new rule. The rule – as just noted - also contains flow-down provisions requiring that all subcontractors establish and maintain counterfeit electronic part detection and avoidance systems.

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Counterfeit Detection and Avoidance System

Federal Anti-Counterfeit Actions

- Contractors and subcontractors subject to the new DFARS rule are required to establish a [counterfeit electronic part detection and avoidance system](#) or modify an existing system to come into compliance with the rule
- Contractor system must address:
 1. Training of personnel
 2. Processes to abolish counterfeit parts
 3. Processes to trace parts
 4. Using suppliers that are the original manufacturers
 5. Reporting counterfeit parts
 6. Procedures to identify suspect counterfeit parts (continued on next slide)

Contractors subject to the rule are required to establish a counterfeit electronic part detection and avoidance system or modify an existing system to come into compliance with the new rule. The anti-counterfeit systems must address, at a minimum, twelve key areas in order to qualify as meeting acceptable standards outlined in the rule.

The twelve systems areas that contractors must address include: training of personnel; processes to abolish counterfeit parts; processes to trace parts; using suppliers that are the original manufacturers; reporting counterfeit parts; and, establishing procedures to identify suspect counterfeit parts.

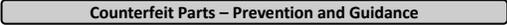
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Counterfeit Detection and Avoidance System (Cont)

Federal Anti-Counterfeit Actions

- Contractor system must address:
 7. Designing, operating and maintaining systems to detect and avoid counterfeit parts
 8. Flow-down of counterfeit detection and avoidance requirements to subcontractors
 9. Processes to keep informed of current counterfeiting trends
 10. Processes for screening the Government-Industry Data Exchange Program (GIDEP) reports and other information
 11. Establishing a plan to control obsolete electronic parts
 12. Inspection and testing of electronic parts

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Further, the contractor system must address: designing, operating and maintaining systems to detect and avoid counterfeit parts; the flow-down of counterfeit detection and avoidance requirements to subcontractors; processes for keeping informed of current counterfeiting trends; processes for screening the Government-Industry Data Exchange Program (GIDEP) reports; establishing a plan to control obsolete electronic parts; and inspection and testing of electronic parts.

Importantly, the new rule holds contractors liable for the costs of any counterfeit or suspect counterfeit parts, as well as any re-work or corrective action costs required to remedy the use of such parts.

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Reporting Counterfeit Parts
Federal Anti-Counterfeit Actions

- Key provision in the DFARS rule relates to reporting counterfeit or suspected counterfeit parts
- Requires contractors to report to the contracting officer and to the Government-Industry Data Exchange Program – GIDEP, counterfeit or suspected counterfeit parts



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One of the key provisions in this rule relates to reporting counterfeit or suspected counterfeit parts.

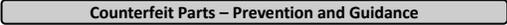
The rule requires contractors to report to the contracting officer and to the Government-Industry Data Exchange Program – GIDEP, counterfeit or suspected counterfeit parts.

Beyond DOD
Anti-Counterfeit Rule

- **Proposed rule** issued in June 2014 would require all contractors to report suspected counterfeit or defective parts to a central government clearinghouse – GIDEP database
- Contractors would have to review the GIDEP database before purchasing parts
- **Proposed rule** would apply to all federal contracts, not just DOD related procurements and would apply all parts, not just electronic parts



48 CFR Parts 44,46 & 52
FAR Case 2012-032
GIDEP



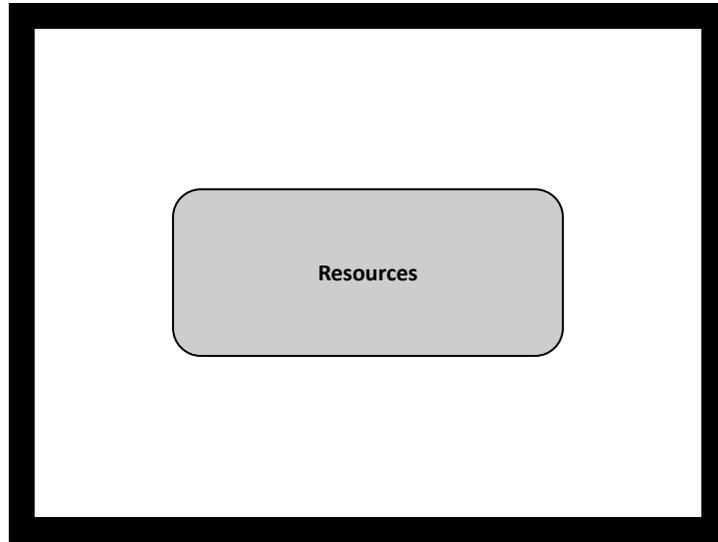
The government’s anti-counterfeit actions will soon go beyond the Department of Defense.

The Federal Acquisition Regulatory Council, in June of 2014, issued a proposed rule that would require all contractors, not just DOD contractors to report suspected counterfeit or defective parts to the Government-Industry Data Exchange Program - GIDEP. In addition, contractors would have to review the GIDEP database before purchasing parts.

The proposed rule tracks the tenets of the DFARS rule just discussed, but it’s uniquely different. The proposed rule applies to all federal contracts, not just DOD related procurements, and it applies to all parts and products being acquired by the government, not just electronic parts.

The bottom line, this proposed rule, like the DFARS rule, is intended to reduce the risk of counterfeit items entering the government’s supply chain by ensuring that contractors and subcontractors report suspect items to a widely available database.

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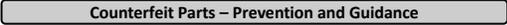


Resources.

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Resources and Tools

- Federal Acquisition Regulations
 - <http://www.acquisition.gov/far> or <http://farsite.hill.af.mil> (searchable)
- Federal Service Desk
 - <http://www.fsd.gov>
- FAR Part s 19, 36, 46, & 48 – Small Business & Quality Assurance Programs
 - <http://www.acquisition.gov/far> – includes all parts
- Code of Federal Regulations (13CFR)
 - <http://www.gpoaccess.gov/cfr/index.html>
- System for Award Management (SAM)
 - <http://www.sam.gov>
- SBA-Government Contracting
 - <http://www.sba.gov/aboutsba/sbaprograms/gc/index.html>



Numerous resources are available to assist individuals who are interested in learning more about government contracting and specifically, issues concerning counterfeit parts.

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Resources and Tools

- Learn more about:
 - [ISO 9000](#)
 - [ANSI Quality Standards](#)
 - [ASQ Standards](#)
 - [Triad Technology Partners](#)
- Local (client) resources:
 - [SBA district office](#)
 - [Procurement Technical Assistance Center \(PTAC\)](#)
 - [Government Contracting Classroom](#) (free online courses)
 - [SCORE chapter](#)
 - [Small Business Development Center](#)
 - [Women's Business Center](#)
 - [Vet Centers](#)

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Use these resources to become better informed.

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Contact Us...

- Thank you for taking the time to learn about the problems and prevention of counterfeit parts in federal procurement
- Please contact us with any questions you may have

U.S. Small Business Administration
Office of Government Contracting and Business Development
800 U-ASK SBA


www.sba.gov/gclassroom

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 **Counterfeit Parts – Prevention and Guidance**

Thank you for taking the time to learn about the problems and prevention of counterfeit parts in federal procurement. We hope the presentation was helpful. Please contact us with any additional questions you may have. Also, consider viewing other training modules in SBA's online **Government Contracting Classroom**.

Thank you.

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Hyperlinks Contained in the Workbook

GC Classroom www.sba.gov/gclassroom

Federal Business Opportunities www.fbo.gov

Access the FAR http://acquisition.gov/far/index.html?menu_id=40

Procurement Technical Assistance Centers http://www.aptac-us.org/new/Govt_Contracting/find.php

Women's Business Centers <http://www.sba.gov/content/womens-business-centers>

SCORE <http://www.score.org/chapters-map>

WOSB Information www.sba.gov/wosb

Office of Women's Business Ownership <http://www.sba.gov/about-offices-content/1/2895>

Small Business Development Centers <http://www.asbdc-us.org/>

Vet Centers <http://www.va.gov/directory/guide/vetcenter.asp>

SBA District Offices <http://www.sba.gov/about-offices-list/2>

Federal Acquisition Regulations <http://www.acquisition.gov/far> or <http://farsite.hill.af.mil> (searchable)

Federal Service Desk <http://www.fsd.gov>

FAR Part s 19, 36, 46, & 48 – Small Business & Quality Assurance Programs

<http://www.acquisition.gov/far> – includes all parts

Code of Federal Regulations (13CFR) <http://www.gpoaccess.gov/cfr/index.html>

System for Award Management (SAM) <http://www.sam.gov>

SBA-Government Contracting <http://www.sba.gov/aboutsba/sbaprograms/gc/index.html>

ISO 9000 <http://www.iso.org/>

ANSI Quality Standards <http://www.ansi.org/>

ASQ Standards <http://www.asq.org/>

Triad Technology Partners <http://www.triadtechpartners.com/>