

# MANUFACTURING WEEK

A CMP PUBLICATION

ISSUE 022, DECEMBER 21, 1987

\$2.00

## Military May Halt Payments Over MRP

By Philip Burgert

WASHINGTON — The Pentagon is threatening to stop certain payments to military contractors whose computerized material-requirements-planning systems do not comply with a newly defined set of standards.

More than 300 military contractors are expected to be affected by the standards, which

sprang from congressional hearings into Defense Contract Audit Agency accusations that contractors have collected more than \$1 billion in unwarranted fees in recent years by using MRP systems to double bill, inflate prices and commingle inventories.

The standards, which list key elements needed for material

management and accounting systems, are intended to head off action on Capitol Hill requiring certification of MRP systems. The standards resulted from negotiations between Defense Department auditors and industry representatives.

After receiving the standards and compliance order from the Pentagon, congress-

sional officials said last week they would delay action on a bill pending in the House (see *Manufacturing Week*, Oct. 26) at least until March 1 when the Government Accounting Office will submit a review of the standards and contractor compliance.

The order was sent Dec. 10 (Continued on Page 8)

Order Sent Out Dec. 10

## Pentagon: Standardize MRP Or Risk Losing Payments

(Continued from Page 1)  
from the office of Robert Costello, assistant secretary of Defense for production and logistics, to the three services and the Defense Logistics Agency. Payments to contractors will be withheld in proportion to the financial damage believed done by MRP systems not in compliance with the standards.

"We have discovered there are problems in the implementation of material management and accounting systems, and industry has acknowledged that problems do exist," Costello said.

tatives of the Aerospace Industries Association, Electronic Industries Association and Council on Defense and Space Industries in forging the standards.

### List Of Nine Standards

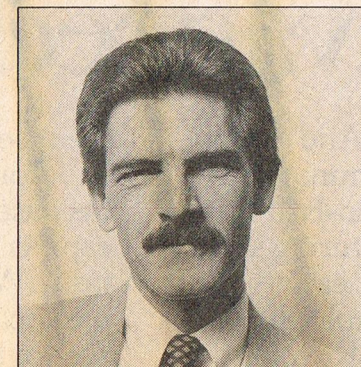
The order requires the Pentagon's administrative contracting officers to work with the DCAA in approving contractor demonstrations of their compliance with a list of nine standards covering such elements as audit trails, record accuracy, and common inventory accounts.

"I think it is a pretty comprehensive agreement," said

Division, San Diego, and one of four industry representatives who negotiated with the Pentagon.

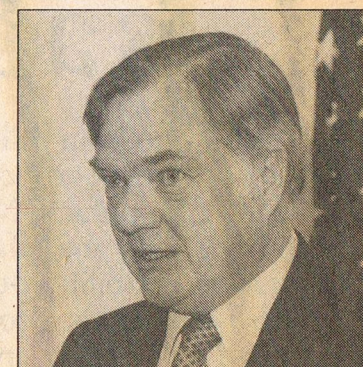
"It puts a responsibility on the manufacturers to put together a description of what [MRP system] they have today and how they interact with their cost systems and their billing practices," he said. "It's intended to be a balanced approach." He added that the agreement may make some manufacturers impose manual controls until they demonstrate compliance.

"I honestly believe this is go-



Fredrick: The responsibility is on the manufacturer.

said H. Douglas Eubanks, aero-



Costello: Problems were found in the implementation.

system vendor. He said most