

EBOOK

# How to Turn MMAS Compliance into a Competitive Advantage





# How to Turn MMAS Compliance into a Competitive Advantage

**Project manufacturing is dynamic and challenging by itself. When you have the US government as your customer you've increased the difficulty exponentially.**

Compliance and regulation are not only pre-requisites for winning deals, but they add ongoing costs to your business— especially if you are getting audited. Once you have over \$40M in annual materials contracts, the regulation that governs accounting properly for materials for the federal government is known as Defense Federal Acquisition Regulation (DFARs) section 252.242-7004, Material Management and Accounting System (MMAS). These requirements ensure that all work the government paid for would be planned, purchased, tracked, and used within strict standards

## **MMAS Auditing**

MMAS compliance audits are conducted by the Defense Contract Audit Agency (DCAA). These audits can happen before, during, or after a contract. A DCAA auditor will have 30 days to deliver any notice of deficiencies. You will then have 30 days to disagree in writing, and 45 days after that to fix any deficiencies. Failure to do so can result in stoppage of payment and refusal of future contracts.

Believe it or not, MMAS can be considered a good thing for those of you who work in project manufacturing and inventory management. In this eBook, we'll help you understand these requirements – and also how you can turn them into a competitive advantage to enhance both efficiency and growth.



# What is MMAS?

## **MMAS requirements were first published in 1989 as part of the Defense Federal Acquisition Regulation Supplement (DFARS):**

“System or systems for planning, controlling, and accounting for the acquisition, use, issuing, and disposition of material. Material management and accounting systems may be manual or automated. They may be stand-alone systems, or they may be integrated with planning, engineering, estimating, purchasing, inventory, accounting, or other systems.”

These criteria require contractors to demonstrate that they have adequate internal controls in place to:

- Ensure that physical inventories are reconciled with book inventories
- Prevent loss or misuse of materials
- Properly record all transactions

In addition, one of the key components of MMAS is the idea of “time-phased.” This refers to the government’s expectation that you can account for the time or age of contracts in the way that you track, cost, and account for any physical items or manufacturing.





# The Ten Requirements

Let's take a closer look at the ten MMAS requirements you'll need to consider.

## 1. System Description: Policy, Procedures, and Operating Instructions

A requirement to provide an adequate system description—including policies, procedures, and operating instructions—compliant with FAR (Federal Acquisition Regulation) and CAS (Cost Accounting Standards) criteria for all elements of cost.

Having a self-assessment or self-audit of your people, processes and tools is necessary. The auditor will be interested in adherence to all applicable policies and procedures. Once the auditor has reviewed your documentation and you've demonstrated compliance, they will make a risk assessment.

# The Ten MMAS Requirements You'll Need to Consider

## 2. Material Requirements: Time-Phased Materials, Bill of Materials and Planning Accuracy

The costs of purchased and fabricated material charged or allocated to a contract are based on valid time-phased requirements, as affected by minimum/ economic order quantity restrictions.

This standard's main objective is to ensure sufficient controls are established and used so material costs are valid and time-phased. Two key quantitative requirements are that there should be a "98% bill of material accuracy and a 95% master production schedule accuracy."

The auditor will also evaluate whether your process for adjusting your Bill of Material (BOM) ensures changes are accurate and timely. You'll also be evaluated whether your processes prevent the ordering and billing of parts over and above contract requirements without justification.



# The Ten MMAS Requirements You'll Need to Consider

## 3. System Monitoring

As a contractor, you must provide a mechanism to identify, report, and resolve system control weaknesses and manual overrides. Systems should identify operational exceptions, such as excess or residual inventory as soon as they are known.

Exception reports will be an indication of the accuracy of the BOM (e.g., obsolete material, excess material, inventory with no demand). The system must identify, report, and resolve system weaknesses and exceptions in a timely manner.

Examples of these include:

- Excess
- Residual materials available for transfers
- No cost transfers
- Lost/found parts
- Proper disposition of lost/found parts

# The Ten MMAS Requirements You'll Need to Consider

## 4. Audit Trails and Testing

Provide audit trails and maintain records necessary to evaluate system logic and to verify (through transaction testing) that the system is operating as desired.

The DCAA will determine whether the evaluation of transactions has created an accurate BOM. In turn, they will then determine the adequacy of the audit trail. In addition, DCAA will determine whether sufficient evidence has been provided through transaction testing to show its system is operating as desired and in compliance with DFARS



# The Ten MMAS Requirements You'll Need to Consider

## 5. Physical Inventories, Receipts, Returns, Cycle/Physical Count Materials

This standard aims for a threshold of 95% inventory record accuracy, to ensure that recorded inventory quantities reconcile to physical inventory. You must establish and maintain adequate levels of record accuracy and include recorded reconciliations regularly by part number. This means you've counted and verified everything.

DCAA will observe the receipt, inspection, and issuance of material to determine if they are adequate to ensure the following:

- All material received is accounted for
- Only material meeting agreed-to quantity and quality specifications are accepted
- Material returns are properly controlled and accounted for (outside vendors)
- All material received is transferred to inventory or otherwise accounted for
- Material issued to floor or returned to inventory are controlled and accounted for
- If accuracy levels fall below 95%, you will need to provide adequate evidence that there is no material harm to the government due to the lower accuracy levels and the cost to meet the accuracy goal is excessive in relation to the impact on the government



# The Ten MMAS Requirements You'll Need to Consider

## 6. Material Transfers

All policies and procedures should include detailed descriptions of circumstances that will result in manual or system-generated transfers of parts. DCAA will ensure you have adequately described the transfer process and can test to confirm compliance.





# The Ten MMAS Requirements You'll Need to Consider

## 7 Material Costing and Borrow/Payback

- Maintain a consistent, equitable, and unbiased logic for costing materials. Your system should transfer parts and associated costs within the same billing period. Where this may not be feasible, you can transfer material using a loan or payback technique.

The “loan or payback technique” means that the physical part is moved temporarily from the contract, but the cost of the part remains on the contract. The procedures for the loan or payback technique must be approved by the Administrative Contracting Officer (ACO).

When using loan or payback techniques, make sure you have processes to ensure :

- Parts are paid back expeditiously
- Procedures and controls are in place to correct any overbilling that might occur
- Monthly, at a minimum, identification of the borrowing contract and the date the part was borrowed
- Cost of the replacement part is charged to the borrowing contract



# The Ten MMAS Requirements You'll Need to Consider

## 8.

### Allocating Common Inventory

Your system must manage common inventory in a manner that prevents improper allocation and associated excess costs. This can be difficult when common items are used in multiple contracts of different types across different projects.

If you don't have good policies and technology in place. Make sure that:

- Reallocations and any credit due are processed no less frequently than the routine billing cycle
- Inventories for requirements not under contract are not allocated to contracts



# The Ten MMAS Requirements You'll Need to Consider

## 9. Commingled Inventory

- You must have adequate controls to ensure that physically commingled inventories do not compromise requirements of any of the previous MMAS standards. These commingled inventories may include material for which costs are charged or allocated to any type of contract (i.e., fixed price, cost-reimbursable) or for non-governmental projects.

Remember the government owns all the materials and parts procured under a cost type contract.



# The Ten MMAS Requirements You'll Need to Consider

## 10. Regular Reviews

Your system will be subject to periodic internal audits to ensure compliance with established policies and procedures. These audits must be made available to any auditor as fast as possible.

A robust enterprise resource planning (ERP) solution integrated with an inventory management solution is crucial for contractors to manage materials effectively and ensure accurate cost allocation.

By meeting the ten criteria outlined above, contractors can ensure their operations are dependable, efficient, and compliant with standards. This not only aids in operational efficiency but also promotes transparency and accountability.



# Getting Started

At this point, it's clear that compliance requires a considerable amount of work. You have to create policies, procedures, and systems to plan, track, allocate, and account for all your inventory to a 98% accuracy on BOM and 95% accuracy on production schedule – over time, across projects, and segmented by direct and indirect costs.

## How do you start?

It might not be easy, but you can develop a plan to increase your chances for compliance with an audit. We recommend taking the following steps:



### Create a project team

Establish a team to oversee the MMAS compliance project. This team should include representatives from finance, operations, and information technology (IT) along with any other relevant stakeholders.



### 10 Break down the ten requirements and assign owners

Schedule regular meetings for your project team. These meetings will serve as an opportunity for your team to share information since you must document your procedures and prove how you follow them.



### Develop a compliance plan for the project

Develop a compliance plan that outlines the steps required to become MMAS compliant. This plan should include a timeline, list of tasks and responsibilities, and milestones.



### Cross-examine all necessary procedures with your technology stack

Identify any gaps or areas of friction with highly manual procedures (as this is also part of compliance).



### Document all processes

Ensure that all relevant processes and procedures are documented in Standard Operating Procedures (SOPs) that are then incorporated into an Employee Handbook.

These SOPs should cover all aspects of MMAS compliance, including inventory management, cost accounting, and financial reporting. Unanet offers numerous resources and documentation within our product instructions and help pages.



# Getting Started (Cont)



## **Prepare a Cost Accounting Standards Board (CASB) disclosure statement**

If applicable, prepare a Cost Accounting Standards Board (CASB) disclosure statement. This statement details your organization's accounting practices and policies.

## **Prepare subcontractor MMAS plans**

You aren't just responsible for your own compliance. If you are a prime contractor with subcontractors, you're responsible for them as well. Confirm that any subcontractors involved in government contracting also have systems in place to comply with MMAS requirements.

## **Train employees**

Provide training to employees to ensure that they understand their role in MMAS compliance and how to use the MMAS system effectively. This should be done regularly to be effective. Ideally, you can use the documentation you created as the backbone for your training.

## **Iterate and automate**

Once you progress through an internal audit you may find inefficiencies. Take the opportunity to correct them as you observe. Once fixed, update your documentation and training accordingly.



## MMAS is Just the Beginning

Overall, having a robust and compliant back-end system is essential to success as a government contractor. Just like a restaurant focuses on passing a health inspection as the minimum for being a quality business, your firm can focus on MMAS as being the ground level for their performance.

By addressing the key concerns of MMAS, you can ensure that you meet government requirements, keep your operations running smoothly, and continue to deliver high-quality projects to your clients.

A business can have manual or automated systems that meet MMAS requirements, but to maintain margins they must be automated, integrated, and easy to use for any employees.





# How Unanet Can Help

The good news is that you are not alone. Unanet is a committed partner to your success, and we have all the tools and expertise you'll need to maintain compliance. We recommend following the steps above and motivating your team by thinking about the four key areas below and how they can improve your business performance overall.



## Accuracy

Accurate inventory tracking is essential to ensure the necessary materials and components are on hand to complete projects successfully. Similarly, accurate accounting is critical to ensure financial records can demonstrate compliance with government regulations.

Accuracy depends on everyone involved in the factory and warehouse. Maintaining accuracy becomes much easier when using technology such as barcodes, RFID scanners, and digital apps or mobile devices to consistently update the status of every piece of inventory you possess.



## Automation

Once you have checked the boxes on accuracy and compliances, now you can start to find ways to automate tasks.

Can you generate your BOMs or somehow transfer them and use them across teams and departments? Can you automatically allocate direct and indirect costs based on timesheets? Unanet is built for automation and compliance, so be sure to contact our team to find out more.



## Integration

These procedures, processes, and most importantly the data to track them must integrate seamlessly across systems. This can include your accounting software, manufacturing systems, and project management tools.

Integration is essential to ensure a comprehensive view of operations—and that all departments are working together efficiently.



## Security

Security is a top concern for any government contractor, and inventory and manufacturing management is no exception. Data must be protected from unauthorized access—robust backup and recovery processes should be in place in the event of a breach or disaster. Unanet serves this need with our cloud system with ample controls and permissions for data access. Find out more [here](#).

# Next Steps

MMAS is a requirement, but your goal as a government contractor, and our goal at Unanet as your partner, is to create the most effective and efficient business possible.

If you are on a journey to gain compliance, or merely looking for someone to talk to about how you can take your current processes further—let us know. We are here to help firms of any size and industry to succeed in government contracting. **For more on how we can help, contact us today.**

## About Unanet

Unanet is a leading provider of project-based ERP and CRM solutions purpose-built for architecture, engineering, and construction firms, professional services firms, and government contractors. More than 3,400 project-driven organizations depend on Unanet to turn their information into actionable insights, drive better decision-making, and accelerate business growth—all backed by award-winning support delivered by a people-focused, forward-thinking team for whom the success of your projects, people, and financials is paramount.

[www.unanet.com](http://www.unanet.com)



©2023 Unanet. All rights reserved.