

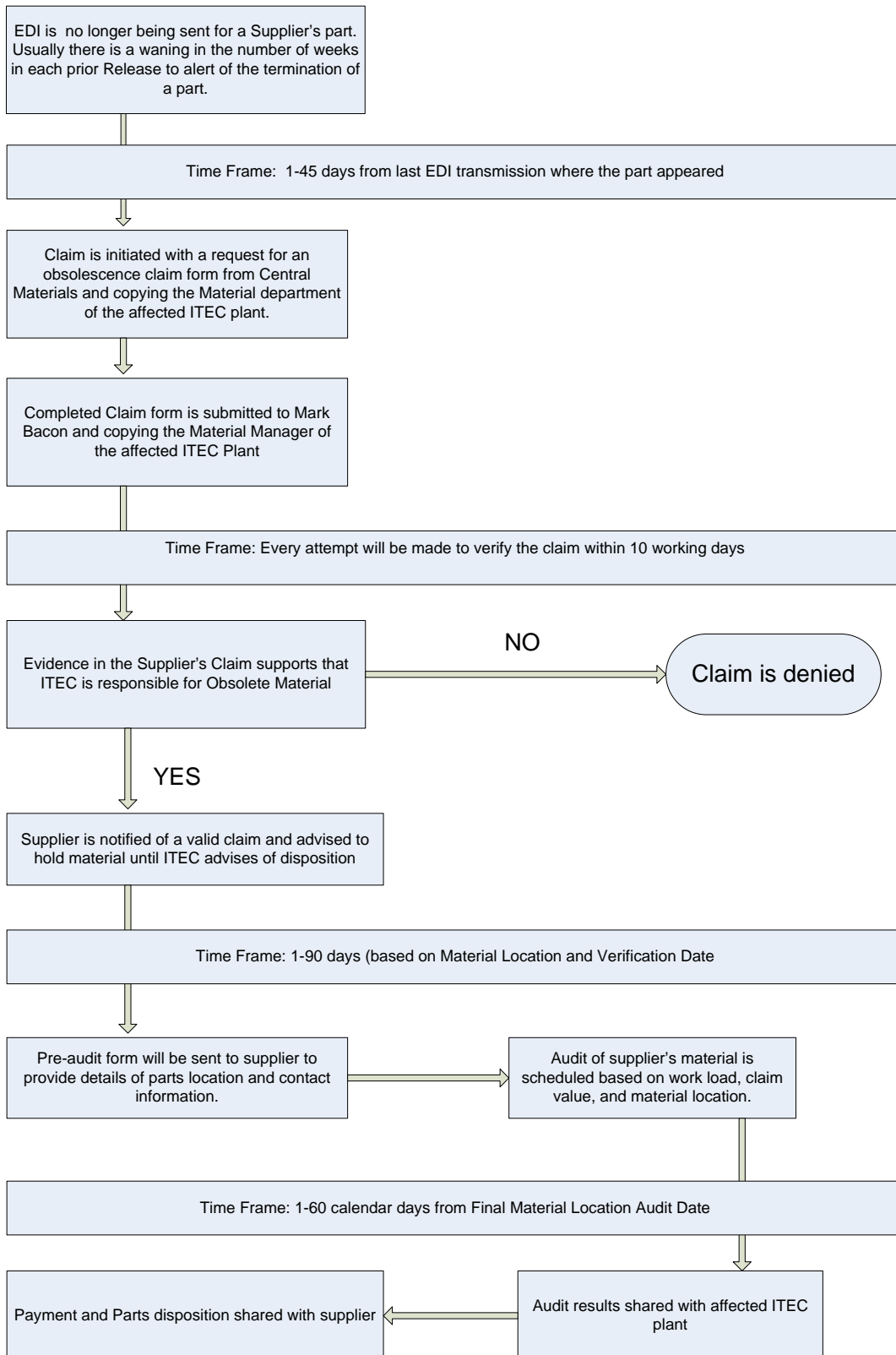
# **International Truck and Engine**

## **Engine Division Obsolescence Manual**

**November 2006**

**(DO000D09 – Rev. No. 0 – 11/27/2006)**

# I. Supplier Obsolete Inventory Claim Process Flow



## II. Eligible Assembly Plants

The three domestic Engine Assembly Plants are covered by this Policy:

- Melrose Park Plant in Melrose Park
- International Diesel of Alabama in Huntsville
- Indianapolis Engine Plant in Indianapolis

## III. Overview

The Engine Division Obsolescence Manual supports the ITEC Obsolete Inventory Policy as described in the Engine Division Supplier Guidelines. This manual contains Supplier claim submission instructions for Obsolete Production parts and related materials.

### A. Locating the Supplier Guidelines, EDO Manual, and Claim Form

- Access via [www.Internationalsupplier.com](http://www.Internationalsupplier.com)  
Located under Engine Division

### B. ITEC Obsolescence Claim information

#### Primary Contact

Mark Bacon, Master Scheduler Central Materials  
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#### Secondary Contacts

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## IV. ITEC Obsolete Production Inventory Claim Policy

ITEC's obsolescence policy allows a supplier to file a claim for obsolete production related inventory when a production part becomes obsolete. All Supplier obsolescence claims are subject to the Policy identified in this manual. Suppliers must follow and meet **ALL**

requirements outlined in this Obsolescence Manual to qualify for reimbursement of obsolete parts and/or materials.

If all requirements outlined in this Manual are not met there may be claim rejection and/or claim gross value reduction. Gross value amounts rejected or reduced from claims that do not meet any or all of the requirements identified in this Policy Manual will not be covered by ITEC

The Policy is applicable for ITEC part numbers and their related work-in-process, component(s), sub-component(s), and raw Material(s) which are used to fabricate the ITEC finished part supplied to any or all of the three domestic assembly plants listed above.

This Manual supersedes all prior policies and will remain in effect until superseded by another version or until otherwise notified by ITEC.

### **A. Supplier Responsibility**

It is the supplier's responsibility to enter accurate and complete data on the Claim Form on the initial submission. ITEC will not be responsible to fund incorrect, inaccurate, or incomplete data submitted by Suppliers.

In addition, Suppliers are required to:

- Retain all ITEC EDI 830 Releases to support claim data based on 3 week cumulative Fab and 9 week cumulative raw material authorizations.
- Submit/File claims for obsolete production inventory in accordance with this Policy Manual
- Retain parts and/or materials identified in Obsolescence Claims, in useable condition, in accordance with the Audit Policy Section of the Policy Manual.
- Retain parts and/or materials identified in Obsolescence Claims, in useable condition, until ITEC issues the plan for disposal

### **B. Claim Filing Eligibility**

- Supplier filing the Obsolescence Claim is the Tier 1 supplier for the ITEC part number

- ITEC part number is supplied to at least one of the eligible assembly Plants listed above
- ITEC part number and related work-in-process, components, sub-components, and raw material meet the minimum requirements identified in Section D below

### **C. Pre-filing Checklist**

Prior to filing a claim for obsolete material, the ITEC part number and/or all related components must meet **ALL** requirements on the checklist

- Supplier is no longer receiving EDI for the component (From Any ITEC Plant)
- Supplier filing the claim is Tier 1 to ITEC
- Part is fully PPAP/PSW approved. Parts w/out full PPAP approval are not considered Production Parts and can not be processed via Central Materials
- ITEC part number does not have an “exhaust all” requirement
- All components in this claim are available for physical audit by ITEC
- None of the parts being claimed have been returned to the Supplier by ITEC for a Quality related problem.
- All components are in a useable state—no defects
- ITEC’s EDI Material Release(s) exceeded Final Accum shipped for Identified Part. i.e. ITEC ordered more material in the nine week window than they eventually bought from the supplier

### **D. Claim Filing Minimum Requirements**

- Claims must be filed using the form provided by Central Materials
- Claim Gross Value must exceed \$500 US dollars
- All items on pre-filing checklist must be checked as complete
- Only one claim allowed per ITEC part number/Supplier code combination
- Unit cost of combined work-in-process, components, sub-components, and raw material may not exceed the unit cost of the ITEC part number, after considering percent complete and unit of usage
- ITEC EDI 830 Material Release must exceed the Final Accum shipped for the part number identified in the claim
- All **MANDATORY** steps must be completed in claim submission process in accordance with the Policy Manual
- There must not be a previously rejected claim for the same ITEC part number
- ITEC Part number must not have a prior claim with payment already issued or prior claim with Purchasing, ITEC Engineering, or any other ITEC Entity, which has already been paid or is being processed for payment
- Parts returned by ITEC for quality reasons are not accepted for claim

#### **E. Claim Filing Time Limit**

- All claims must be submitted within 45 calendar days from the date of the last EDI where the ITEC part number appears
- Once a claim has been submitted, the 45 calendar day time limit no longer applies. Rejected claims can not be resubmitted even if there are still calendar days left within the 45 day time limit.

#### **F. Claim Amendments**

- Claim amendments will not be accepted except to change the location of the Material being claimed

## **G. Standard ITEC 830 Production Planning Material Release Authorization**

- The 830 Production Planning Material Release is the method that ITEC uses to authorize their Suppliers to Fabricate finished parts, based on the 3 week cumulative demand: and /or procure raw material, components and or sub-components, which will be used to fabricate the finished part based on the 9 week cumulative demand.
- Amended 830 Production Planning Material Releases issued in the same week supersede any prior release from the same week.

### **Fabrication authorization**

- The Fabrication authorization includes the finished ITEC end item part, ready to ship, and any partially assembled ITEC end item parts (work-in-process)
- The fabrication process is independent of material location and begins at the point on a supplier bill of material at which individual components/sub-components and/or raw material are combined to begin the actual assembly/fabrication of the ITEC finished part
- Only stage of completion A (Finished Goods) and B (work-in-process) parts are claimable against the 830 Production Planning Material Release

### **Raw Material Authorization**

- The raw material authorization includes individual components and their related sub-components, which by themselves are individual components of the finished ITEC end item part, and/or material in its raw or bulk state.
- The raw material process is independent of material location and does not authorize Suppliers to begin the assembly and/or fabrication process of the ITEC end item part; it only authorizes the procurement of raw goods needed to assemble the ITEC end item part.
- The Raw Material Authorization includes all quantities identified in the Fabrication Authorization. Therefore, all parts claimed under fabrication material authorization must be deducted from the Raw Material Authorization.

- Only stage of completion C (components/ sub-components) and D (Raw or bulk material) parts are claimable against the 830 Production Planning Material Release

## **H. Stages of Completion**

- Stage A: Finished Goods.** 100% completed ITEC end item part, ready to ship to the Assembly Plant
  - i. Claimable against Fabrication Authorization only
  - ii. Formula: High Fab –Cum Ship= number of
- Stage B: Work in Process.** Stage of completion C and D parts have been assembled together to begin the assembly of the finished good
  - i. Claimable against Fabrication authorization only.
- Stage C: Sub-component/Component/Sub-assembly.** Individual component that, by itself, is an individual component of the ITEC finished part.
  - i. Claimable against Raw Authorization only
- Stage D: Raw Material:** Material in raw physical state or bulk state.
  - i. Claimable against Raw Authorization only.

## **V. Claim Audit Policy**

International Truck and Engine reserves the right to physically audit all claimed material and cost data at the supplier location(s) identified in the claim.

### **A. PURPOSE**

- Verify quantity, stage of completion, and condition of parts and/or Material
- Verify materials are correctly priced and identified
- Verify material is labeled the same as reported on claim

### **B. Physical Audit Policy**

A Supplier should expect most audits to be scheduled between ninety (90) and one hundred eighty (180) calendar days after the claim is verified. However, this may be extended depending on the volume of overall claims being handled.



- Audits will typically be scheduled when the volume of claims in a certain region reaches a certain level
- It is the responsibility of the supplier to be fully prepared when the auditor arrives
- If the supplier is not prepared when the auditor arrives, the auditor reserves the right to cancel the audit. *Under no circumstance will ITEC re-audit parts/material which were not found during the originally scheduled audit*
- If the supplier cancels the audit, the ITEC auditor reserves the right to adjust the material/ part quantity scheduled to be audited, to zero in the claim; and the supplier will not be reimbursed for that portion of the claim.
- Once an audit has been conducted the claim will be closed, and disposition processed. No claim amendment will be accepted after audit is conducted, regardless of time limit between Final Release and Physical Audit date.
- Failure to comply with these audit guidelines will result in the denial of the obsolescence claim.

### **C. Audit Preparation**

During the initial contact, the ITEC auditor will:

- Advise of the planned audit date and approximate arrival time and request directions to the material location(s)
- Inquire if other claims are in process of being submitted which could be audited during the visit

At the time of the initial contact, the supplier will:

- Verify material location name and phone number
- Confirm the actual material location.
- Identify all claims to be audited. One trip will be made to verify all claims.
- Material must be identified and tagged as submitted on the claim. Claimed material must be segregated prior to audit.
- Make sure weighing and handling equipment is available if necessary.
- Bill of Material may be requested by ITEC representative at time of claim submission or claim audit.

## **D. Actual Audit**

The auditor and the supplier's representative may perform the following functions during an audit:

- Count and or weigh each line item entry to verify the claimed quantity. If necessary, confirm claimed piece cost against invoice piece cost
- Readdress potential salvage and/or rework offers
- Record audit results on a "Physical Audit Worksheet"
  - This document will be signed by all parties present

## **E. Audit Reductions**

There are several factors which may result in a reduction in part/material quantity as a result of the physical audit

- Actual Quantity is different from claimed quantity
- Material is incorrectly identified on claim.
- Part number on a claim which is different from the part number identified on the box or container will be given an audit quantity of "0"
- Material is not located at the material location identified on the claim at time of audit.
- Material is located in an area which would be physically difficult or impossible to access at time of audit. Some examples are: the parts are stored in a trailer or in a high-rise or behind or underneath other stock.
- Cost discrepancies exist.

## **VI Disposal and Payment**

The using Plant will issue payment once the components are deemed ITEC's responsibility, the quantities are verified and are in usable condition. At that time, the using Plant will also be responsible to determine the disposition of the remaining parts whether it be to complete the assembly of (sub)components into a finished part, ship to ITEC for disposal, or dispose at the Supplier's facility.