

# GUIDEBOOK FOR CONTRACT PROPERTY ADMINISTRATION

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## **PREFACE**

### **INTRODUCTION**

The Government relies on and requires its contractors to provide effective and efficient stewardship of the Government contract property (as defined at DoD Instruction 4161.02) in their custody. This stewardship responsibility, codified in the Federal Acquisition Regulation (FAR) 52.245-1 and its associated DFARS clauses, is the subject of this Guidebook.

This Guidebook is designed to implement the requirements of the FAR, facilitate the effective and efficient oversight of contractors, provide a degree of standardization in corporate practices, maximize the Department's return on investment, achieve best value, and protect the Government's interests. This document is intended as general guidance only, and should not be construed as changing or modifying any statute, regulation, or DoD policy or guidance, or any term(s) of any contract with the United States Government or any department or agency of the United States Government. The terms and conditions of a contract take precedence over the requirements of this Guidebook.

This Guidebook replaces DoD 4161.2-M, DoD Manual for the Performance of Contract Property Administration (1991). To ensure ease of updates and accessibility, this guide is being made available in printable electronic format.

### **INTENT/OUTCOME/PURPOSE**

The intent/outcome/purpose of this Guidebook is to provide a policy framework for Government "contract" property stakeholders: Program Managers (PMs), Contracting Officer (COs), Contract Specialists and Accountable Property Officers, along with those designated the responsibility of oversight of stewardship, including Property Administrators (PAs) and Plant Clearance Officers (PLCOs).

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## CHAPTER 1: PROCESS

### 1.0. REVIEW NEW CONTRACTS.

1.1. Review each new contract within 30 days of receipt to determine if the contract contains a contract property (as defined at DoDI 4161.02) requirement. Throughout this Guidebook, all references to “days” are calendar days.

1.2. Ensure contracts contain appropriate terms and conditions, including FAR and DFARS clauses, relevant to property expected to be furnished or acquired.

1.3. Examples of relevant clauses include FAR clauses at 52.245-1, 52.251-1, and 52.245-9; and DFARS clauses 252.211-7007, 252.245-7001, 252.245-7002, 252.245-7003, 252.245-7004, 252.223-7002, 252.223-7007, and 252.228-7001.

1.4. Be alert to:

1.4.1. Potentially inappropriate instances of GFP or contractor acquired property, such as common office items or general-purpose equipment (the costs of such property may not be allowable under FAR part 31).

1.4.2. Contracts where a deliverable end-item is to be delivered/accepted in-place (Free on Board origin).<sup>1</sup>

1.4.3. Period of performance dates (to plan for expeditious property disposition and contract closeout).

1.4.4. In-theater contractual and technical terms and conditions, country-to-country agreements, host nation requirements, memorandums of agreement, and treaties. See DFARS 225.301 and Procedures, Guidance and Information (PGI) 225.7401.

1.4.5. Nonstandard property attachments. See PGI 245.103-72, Government-furnished property (GFP) attachments to solicitations and awards.

1.4.6. Nonstandard Government property contract clauses (reference 41 U.S.C. 1304).

**NOTE:** The contract cannot be closed until shipped in place items are ultimately shipped to their final destination.

<sup>1</sup>

*If a contract deliverable item is shipped in place (FOB Origin), the deliverable item would become either GFP (in which case 52.245-1 applies) or “not” (52.245-1 does not apply). If the contracting officer intends the property to be GFP, then 52.245-1 and its associated clauses must be added to the contract (assuming the contract lacks those clauses). If the property is not designated as GFP, then the Government has ostensibly imposed upon the contractor a property storage requirement (a “service”), in which case the contracting officer should ensure the contract includes appropriate terms and conditions relevant to the type, scope and duration of storage. The contract should also include necessary and appropriate funding (storage at no cost is not appropriate), a clear statement that the property is not GFP, and an appropriate liability provision (the Government would not ordinarily assume the risk of property loss (self-insure) for property shipped in-place that is not GFP).*

### 2.0. ISSUE CONTRACT DEFICIENCY REPORT.

2.1. PAs shall issue Contract Deficiency Reports (CDR) via the CDR tool within Electronic Document Access (EDA) for contracts lacking appropriate clauses, standard property attachments, terms and conditions

2.2. Notify the CO (in writing) if use of EDA is not appropriate or unavailable.

### 3.0. IDENTIFY/ASSIGN CONTRACTS.

PAs shall assign<sup>2</sup> for property administration the following contract types, instruments, and conditions:

3.1. Fixed-price contracts where property will be furnished to the contractor (includes fixed-price contracts with cost-reimbursable contract line items).

3.2. Purchase orders (identified as P, M, W, or V in the ninth position of the Procurement Instrument Identification Number (PIIN)) with property furnished for repair, maintenance, overhaul, or modification with a total unit acquisition value exceeding the DoD simplified acquisition threshold and otherwise meeting FAR 45.107(d).

3.3. Time and materials contracts (except when it is clear no property will be furnished or acquired. For example, contracts involving only engineering services, research, or study efforts).

3.4. Cost reimbursement contracts (except when it is clear no property will be furnished or acquired. For

example, contracts involving only engineering services, research, or study efforts).

3.5. Top-level basic indefinite delivery contracts where property will be furnished or acquired.

3.6. Delivery orders awarded under Basic Ordering Agreements (FAR 16.703) Basic Agreements FAR 16.702 or Blanket Purchase Agreements where property will be furnished or acquired.

3.7. Letter contracts FAR 16.603-2 are typically (though not always) awarded as cost-reimbursement contracts, with specific contract type/pricing arrangements definitized at a later date.

3.8. Non-procurement Instruments (Grants, Cooperative Agreements, Other Transactions) where property is involved<sup>3</sup>.

<sup>2</sup> DCMA uses its Contract Property Administration System (ties to Mechanization of Contract Administration Services) for this purpose

<sup>3</sup> Not every DoD Component administers Grants, Cooperative Agreements, and Other Transactions

#### **4.0. ISSUE/ACCEPT SUPPORT PROPERTY ADMINISTRATION (SPA) DELEGATIONS.**

Prime PA's may request SPA delegations when surveillance is required at contractor operations outside their assigned area of responsibility. SPA for subcontractors is permitted only when the exceptions listed at FAR 42.202(e)(2) apply. Prime PAs shall:

4.1. Ensure support delegation requests include a sufficient level of detail, e.g., types of property, scope of surveillance, duration, special or unique requirements; sensitive property.

4.2. Obtain prime contractor consent to accept the findings of a support PA when property administration involves oversight and surveillance (through a delegation) of a subcontractor. (See FAR 45.5.)

4.3. Take necessary and appropriate actions with the prime; incorporate the supporting PA's findings within the PMSA.

4.4. Ensure corrective actions are accomplished.

4.5. Issue Support Property Administration

4.6. Support PAs shall accept or reject delegation within 10 days of the delegation request.

#### **5.0. ESTABLISH FILES.**

5.1. Some examples of files that need to be established are:

- Records of site visits (other than those conducted for PMSA performance)
- Correspondence and documentation general in nature; i.e., not tied to a single contract
- Copies of audits and inspections performed by other activities, e.g., Defense Contract Audit Agency, Defense Security Service (DSS)
- Copy of contractor's property management system procedures (if practical)
- General correspondence (not associated with a particular contract)
- Other documentation common to all contracts
- Documentation and correspondence directly related to the contract, including outside audits, and memorandums and correspondence involving liability and responsibility for property loss.

5.2 PMSA File. PMSA files are required for each completed PMSA. The following documentation is required (at a minimum) for each contractor:

- Contract review correspondence and memorandums
- PMSA notification letter
- Business System Analysis Summary (BSAS) and audit reports
- Procedure review—findings and correspondence
- Risk assessments and PMSA plans; levels of oversight determinations regarding processes or elements waived or determined not applicable
- CO correspondence

- Work papers and support documentation, i.e., sampling plans, narratives
- Internal memorandums; e.g., to COs, other functional specialists

## **6.0. ASSIGN NEW CONTRACTORS.**

Within 30 days of property assignment, the PA shall:

6.1. Send the new contractor a letter of introduction advising them of their contractual responsibilities. The letter shall request contractor provide a copy of their property management procedures and names of appropriate points of contact.

6.2. Submit a post-award orientation recommendation (if warranted) to the CO, including rationale and recommended type of orientation.

6.3. Obtain contractor policies and procedures; review procedures within 45 days of receipt. If the procedures are on their face unacceptable, the PA shall notify the contractor in writing that its procedures are unacceptable as written, and that failure to produce acceptable procedures may invoke contractual remedies. In such cases, the PA may grant the contractor additional time, not greater than 45 days, to resubmit procedures. If the resubmitted procedures are unacceptable, the PA shall:

6.3.1. Document the deficiency via a BSAS.

6.3.2. Forward BSAS to the CO.

6.3.3. Consider the action a completed PMSA.

**NOTE:** The term “new contractor” means a contractor that never before had a contractual; i.e., FAR/DFARS requirement for a property management system (as opposed to a contractor with existing or previous contracts with property newly assigned).

## **7.0. PLAN PROPERTY MANAGEMENT SYSTEM ANALYSIS (PMSA).**

The PA shall:

7.1. Revalidate Risk Rating. The PA shall revalidate the risk rating previously assigned to each contractor (to the extent a risk rating was previously assigned). PAs shall base their revalidation on the results of the last PMSA, current status of the contractor’s property management system, and any other sources of reliance including, but not limited to, potential program impact because of property type or criticality, Special Programs’ findings, past performance, prior experience with the contractor, contractor procedural changes, other audit findings, corrective actions, and results of pre-award/post-award conferences.

7.2. Identify findings, noncompliances and significant deficiencies cited in prior PMSAs.

7.3. Choose appropriate PMSA type as follows:

7.3.1. Standard PMSAs require entrance and exit conferences, detailed tests and formal examination/evaluation of a contractor’s property management system.

7.3.2. Limited PMSAs. Standard PMSAs involve plant visits and detailed testing and formal examination and evaluation of contractor processes. Limited PMSAs or “desk audits” permit less formal testing methods and techniques including detailed on-site testing of select processes, contractor responses to a series of questions covering each required element of a contractor’s property management system, and interviews of contractor personnel among other methods as appropriate, depending on the risk level, amount and value of property, etc. Should a limited PMSA reveal deficiencies, the PA may visit the contractor to resolve issues and/or conduct a standard PMSA.

## **8.0. SCHEDULE PMSA.**

PMSA schedules shall be based on the following:

8.1. High Risk. Perform a Standard PMSA at least annually until such time as the contractor improves to at least a moderate risk level and the PA determines the status of the contractor’s system justifies a reduced level of oversight.

8.2. Moderate Risk. Perform a Standard or Limited PMSA as frequently as conditions warrant, but at least once every 2 years.

8.3. Low Risk. Perform a Standard or Limited PMSA as frequently as conditions warrant, but at least once every 3 years.

## 9.0. CONDUCT PMSA.

For all contractors, PAs shall:

9.1. Plan for Conduct of PMSA.

9.1.1. Establish PMSA scheduled due date.

9.1.2. Revise or extend date scheduled based on individual circumstances.

9.1.3. Exercise reasonable judgment based on facts and data.

9.1.4. Establish and maintain adequate documentation to support decisions.

9.2. Review contractor written procedures.

In general, well-designed, up-to-date procedures with strong internal controls will produce consistent results. In contrast, contractor procedures obviously neglected can forecast deficiencies. Ensure contractor procedures:

9.2.1. Have adequate management and internal controls.

9.2.2. Address contract terms and conditions, including requirements to perform self-assessments.

9.2.3. Establish clear lines of authority and organizational accountability for custodial care (ASTM E2279-09 – Standard Practice for Establishing the Guiding Principles of Property Management).

9.2.4. Describes methods for performing prescribed tasks; e.g., acquisition, receiving.

9.2.5. Perform risk assessment of all applicable elements of property management.

9.2.6. Notify contractor in writing at least 30 days prior to starting the PMSA (unless the contractor otherwise agrees to less than 30 days); provide a copy to the CO.

**NOTE:** Limited PMSAs do not generally require prior written notification to the contractor.

9.3. Conduct Entrance Conference.

The PA shall:

9.3.1. Inform contractor of the scope of review<sup>4</sup> and the timeline for completion.

9.3.2. Establish with the contractor a mutual understanding of audit processes and sampling procedures to be used. No commitment should be made regarding audit processes or sampling methods.

9.3.3. Discuss the status of any unresolved deficiencies, contractor proposed changes to their property management system, deficiencies identified by the contractor through their self-assessment or other internal reviews, plus any and all related corrective actions

9.3.4. Inform contractor personnel (for standard PMSAs) that an “out brief” will be conducted at the end of each workday unless prevented by local circumstances. For example, if appropriate contractor personnel are not available. In all cases, PAs should document that the out brief was conducted; formal documentation such as meeting minutes and memorandums is advisable if deficiencies are found.

9.3.5. Each applicable process must be reviewed or tested at least once every 3 years.

9.4. Process Review and Testing.

9.4.1. Perform annual on-site reviews of records, storage, utilization, and physical inventories processes (at a minimum) when sensitive property is involved (notwithstanding the contractor’s risk rating) Less frequent reviews or reviews not performed on-site; e.g., for contract closeout purposes, require PA supervisor approval.

9.4.2. Test the following process outcomes, to the extent they apply: (\*indicates a sub process to a FAR outcome, which may require separate population selection).

- Acquisition

- Receipt
- Identification\*
- Records
- Physical Inventory
- Subcontractor Control
- Reports
- Relief of Stewardship Responsibility and Liability
- Utilization
- Consumption\*
- Movement\*
- Storage\*
- Maintenance
- Property Close Out
- Disposition\*

9.4.3. Identify appropriate population/universe for sampling purposes (a population/universe consists of a collection of "things." For example, records, requisitions, property items, reports, or documents with common characteristics, encompassing the maximum number possible within a process segment).

#### 9.5. Establish Sampling Plan.

The PA shall:

9.5.1. Determine appropriate sampling methodology for the process segment being examined.

9.5.2. Use statistical sampling methods whenever possible (judgment and purposive sampling methods may also be used if the situation warrants); select an appropriate confidence level as follows:

9.5.2.1. A 97 percent confidence level (97 percent confidence of rejecting lots having 10 percent or more defects) should be used when a high degree of accuracy is required (when testing record accuracy of sensitive property items, for example, as defined at FAR 45.101).

9.5.2.2. A 95 percent confidence level (95 percent confidence of rejecting lots having 10 percent or more defects) may be used when a moderate to high degree of accuracy is required.

9.5.2.3. A 90 percent confidence level (90 percent confidence of rejecting lots having 10 percent or more defects) is suitable in most cases.

9.5.2.4. Draw the maximum number of transactions or attributes possible. If testing transactions (material requisitions, for example), the population/universe shall consist of the total number of transactions occurring within the past year (365 days). In other words, 365 days prior to starting the PMSA or since completion of the prior PMSA (whichever time period is less). If testing attributes, the population/universe shall consist of the total number items (storage areas, documents, records or property items, for example) to be examined.

**NOTE 1:** Judgment Sampling. Judgment sampling is a process used to evaluate areas, items, or actions, based upon the reviewer's professional judgment. Judgment sampling is useful for testing process segments that do not lend themselves to statistical methods of sampling.

**NOTE 2:** Purposive Sampling. Purposive sampling is a process used to evaluate areas, items, or actions involving credible, known, suspected deficiencies or reported conditions of a critical/substantial nature.

**NOTE 3:** Sampling is a tool that supports, not supplants, a PA's judgment.

#### 9.6. Analyze Defects.

The PA shall:

9.6.1. Analyze defects from both quantitative (using established statistical sampling tables acceptance and rejection rates for set populations) and qualitative (impact, significance, materiality) perspectives.

9.6.2. Determine if defects materially affect the ability of DoD officials to rely upon information produced by

the contractor's property management system.

9.6.3. Review appropriate source and supporting documents pertaining to each process outcome.

9.6.4. Validate alignment and consistency of testing/sampling results against a contractor's written procedures.

9.6.5. Incorporate contractor self-assessment results into PMSA findings (to the extent the results are reliable; i.e., are conducted in a manner similar to a PMSA).

9.7. Conduct Exit Conference.

The PA shall:

9.7.1. Discuss findings identified or discovered during the course of the PMSA, and any actions already taken by the contractor, if any, to resolve or correct deficiencies.

9.7.2. Document the results of exit conference in the PMSA file.

9.7.3. Exit conferences are not required for Limited PMSAs.

9.8. PMSA for new contractors.

The PA shall conduct:

9.8.1. Standard or Limited PMSA, as appropriate, within 12 months from when the contractor received or acquired the property.

9.8.2. Standard or Limited PMSA, as appropriate within 6 months if sensitive property is involved (6 months from the date contractor received or acquired sensitive property).

<sup>4</sup>

*Entrance conferences are not required for Limited PMSAs.*

## **10.0. CONDUCT LIMITED PMSA.**

If a standard PMSAs is not necessary or appropriate, the PA shall:

10.1. Develop a series of questions covering each applicable element of the contractor's property management system; interview contractor to determine contract compliance.

10.2. Validate/evaluate results of the interview by obtaining samples of relevant documents, e.g., receiving reports.

10.3 Prepare audit report that includes at a minimum:

10.3.1. A determination regarding the applicability of each required element of the contractor's property management system.

10.3.2. The list of questions developed for each required element of the contractor's property management system; a statement addressing the adequacy and accuracy of contractor responses.

10.3.3. Findings and conclusions.

**NOTE:** In all cases, the PA shall inform the contractor that the CO will determine the significance of any deficiencies and formal system status, i.e., approved, disapproved.

## **11.0. PREPARE BUSINESS SYSTEM ANALYSIS SUMMARY (BSAS).**

Upon completion of a PMSA (either Standard or Limited), the PA shall:

11.1. Prepare BSAS.

11.2. Ensure BSAS provides a clear understanding of work performed and its conclusions, and a level of detail necessary to allow a CO to determine the significance of deficiencies.

11.3. Forward BSAS to the CO (for Standard PMSAs, within 30 days of the date of the exit conference; for Limited PMSAs, within 20 days of receipt of adequate contractor responses).

**NOTE:** PMSAs are generally considered complete upon their forwarding of a BSAS to the CO.

11.4. Provide copies of PMSA audit reports or other documentation to the CO (in addition to the BSAS), upon request.

## **12.0. IDENTIFY/DETERMINE CONTRACTOR FUTURE PERFORMANCE RISK.**

Based on PMSA results and other sources of reliance, the PA shall:

12.1. Isolate and analyze root causes, determine relationships to other risks, express performance risk in terms of probability and consequences, and be mindful of the size and scope of a contractor's property management system in order to prioritize systems of equal risk (this includes both qualitative and quantitative analyses).

**NOTE:** Dollar values or amounts of property in a contractor's possession are generally not meaningful factors for determining performance risk.

12.2. Identify unfavorable future events ("What could go wrong?").

12.3. Assess the likelihood or probability of unfavorable future events ("Is it likely to happen?").

12.4. Estimate the consequence or impact of those events ("What is the potential impact on the Government if the event occurs?").

12.5. Assign Risk Rating. Within 10 days of the date of the CO's Final Determination, the PA shall assign risk ratings (high, moderate, or low) based on the following criteria:

12.5.1. High Risk. High Risk means the contractor's system has significant deficiencies as determined by the CO. High Risk also means the contractor has undocumented, inconsistent, or chaotic contractor processes and practices; findings of fraud, waste and abuse; safety or national security concerns; or cost, schedule or performance issues. High Risk contractors include those with a pattern of questionable or non-existent procedures and those with poor internal controls.

12.5.2. Moderate Risk. Moderate Risk means that, although the contractor's property management system is in an approved status, new or changing conditions pose a degree of uncertainty or potential threat to future performance. Moderate Risk contractors can include inexperienced contractors furnished with or

acquiring property for the first time; i.e., new contractors; contractors without fully developed procedures and systems; contractors who have deployed or who are in the process of deploying a new property management system, or those with new management teams. Moderate Risk contractors can include newly assigned and formerly High Risk contractors who have completed all corrective actions, but do not yet meet low risk criteria.

12.5.3. Low Risk. Low Risk means the contractor's auditable processes are consistent with contract terms and conditions, are embedded within the organization, and supported throughout all levels of management. Low risk can also mean the contractor focuses continually on improving its processes through both incremental and technological improvements; the system is well-managed, effective and efficient; processes produce consistently positive results; cost, schedule, performance or other contractual requirements are not in danger of being compromised, there are adequate internal controls in place, and no known significant deficiencies. New and newly assigned contractors should not be rated low risk until a satisfactory track record is established.

### **13.0. ISSUE CORRECTIVE ACTION REQUESTS (CAR)/MONITOR CONTRACTOR CORRECTIVE ACTIONS.**

Only the CO can determine a contractual noncompliance to be a significant deficiency. However, the PA's preliminary judgment is crucial to mission success. Contractual noncompliance can be discovered at any time during or outside the PMSA process). Accordingly, the type and scope of corrective action(s) may differ based on the circumstances.

### **14.0. ENSURE CONTRACTOR REPORTING OF PROPERTY LOSS.**

Consistent with DFARS 252.245-7002, "Reporting Loss of Government Property", PAs shall ensure contractors provide the information required by FAR 52.245-1(f) (1) (vii) (B) (1) through (12). Property loss reporting includes losses of any kind (including damage), including those that occur under contracts containing DFARS 252.228-7001, "Ground and Flight Risk".

**NOTE 1:** The liability requirements of DFARS 252.228-7001 pertain to and prevail in cases of loss, damage or destruction of aircraft that occurs "in the open," during "operation", and "in flight".

**NOTE 2:** The Government Flight Representative and/or alternates is also responsible for making liability recommendations to the CO for all incidents involving loss of Government aircraft when DFARS 252.228-7001 is in the contract.

### **15.0 EVALUATE CONTRACTOR RESPONSIBILITY AND LIABILITY FOR PROPERTY LOSS.**

15.1. PAs shall, within 90 days of receiving an acceptable property loss report from the contractor:

15.1.1. Ensure contractor reported loss meets the FAR/DFARS (or other contract terms and conditions) definition and reporting criteria for "loss of Government property," as defined in FAR 45.101.

15.1.2. Review contract terms and conditions; determine whether risk of loss is assumed by Government or contractor; assess the extent of subcontractor responsibility and liability (if property loss occurred at the prime's subcontractor).

15.1.3. Evaluate facts and circumstances, including whether the loss is covered by insurance and/or the contractor was (or expected to be) otherwise reimbursed.

15.1.4. Determine if property loss was caused by contractual non-compliance, particularly significant deficiencies in the contractor's property management system.

15.1.5. Based upon the findings and conclusions, the PA shall either relieve (in writing and consistent with Certificate of Appointment authority (see DFARS 201.670) the contractor of responsibility and liability (FAR 45.105(d) where the possibility of property loss was a risk assumed by the Government under the contract, or (if potential property loss was a risk assumed by the contractor) recommend the CO:

15.1.5.1. Hold the contractor responsible and liable for the item's unit acquisition cost (in full or in part).

15.1.5.2. Authorize contractor to repair or replace the property.

15.1.5.3. Determine a form of consideration appropriate for the circumstances.

**NOTE:** Relief of responsibility and liability can be applied to either the property item(s) itself (at unit

acquisition cost) or an item's repair or replacement cost (the latter cost may differ from unit acquisition cost). Relief of responsibility and liability does not obviate the need for proper disposition of the property item, to the extent the item still exists. For example, if relief of responsibility and liability involved a damaged item.

15.2. PAs shall also:

15.2.1. Maintain data integrity within the Property Loss eTool to reflect results of evaluations, analyses, investigations, etc., and regularly uploading support documentation.

15.2.2. Report all incidents of property loss to the DSS when property contains or potentially contains classified or sensitive data, and appropriate law enforcement organizations if arms, ammunition and explosives are involved. See DoD 5220.22-M, "National Industrial Security Program Operating Manual".

15.2.3. Take other required actions as may be necessary and appropriate to comply with contract terms and conditions.

## **16.0. HOLD CONTRACTOR RESPONSIBLE AND LIABLE.**

The CO may hold the contractor responsible and liable when one or more of the following conditions exist:

16.1. Property loss is a result of willful misconduct or lack-of-good faith on the part of contractor managerial personnel per FAR 52.245-1(h)(1)(ii);

16.2. The Government's assumption of risk for property loss was previously withdrawn in accordance with FAR 45.104(b);

16.3. The loss is covered by insurance or the contractor is/will be otherwise reimbursed, or

16.4. The possibility of property loss was a risk assumed by the contractor; i.e., such action is authorized by contract terms and conditions.

## **17.0. PERFORM PROPERTY ADMINISTRATION CLOSEOUT**

17.1. Proper disposition of all accountable property by the contractor, including resolution of plant clearance cases.

17.2. Adjudication of any outstanding property loss cases.

17.3. Termination of Document Control Number if applicable.

**NOTE:** A hard copy DD Form 1593 marked "Information Copy" should be provided to the cognizant DSS office for contracts involving Arms, Ammunition, or Explosives.

# **CHAPTER 2: PROPERTY LIFECYCLE PROCESS OUTCOMES**

## **1.0 ACQUISITION**

The FAR outcome of **ACQUISITION** involves the contractor's acquisition of property by various means, including purchase, fabrication, requisition from Government supply sources, from their own internal stores, or via a contractual transfer of accountability from another contract. The process usually starts with a purchase requisition prepared by the material control organization, which is then submitted to an established purchasing office.

The contractor's acquisition of property is governed by FAR 52.245-1(f)(1)(i), FAR 52.216-7, "Allowable Cost and Payment," and applicable Cost Accounting Standards.

**Source documents** include Defense Logistics Management System (DLMS) requisitions, purchase orders, transfer documents, petty cash documents, and fabrication orders; **supporting documents** include purchase requisitions and engineering change proposals.

To test for compliance, PAs should perform sufficient testing to ensure the contractor:

- Has contractual authority for acquiring the property, to include property obtained from Government supply sources (Reference FAR 52.251-1, "Government Supply Sources" and DFARS 252.251-7000, "Ordering from Government Supply Sources").
- Properly prepares and processes DLMS requisitions including routing identifiers and priority designators.
- Provides for internal reviews of available in-house items that are excess to other (contractual) requirements. (Reference FAR 52.245-1(j)(1)).

- Has the necessary internal controls to assure that quantities purchased are reasonable (consistent with contract type and scope).
- Maintains adequate support and supporting documentation (properly maintained files that reflect the status of requisitions and other acquisition documents).
- Demonstrates appropriate follow-up actions.
- Ensures that (when the purchase order is for property for more than one contract) the quantity acquired for each contract is specified in the purchase order or supporting documentation to ensure proper charging.

**NOTE:** Acquisition of general-purpose equipment. All stakeholders should be alert to potential or obviously inappropriate instances of GFP or contractor-acquired property, for example common office items. The latter may not be allowable under the cost principles stated in FAR part 31.

The FAR “contract property” categories of special tooling, special test equipment, equipment, and material are derived from FAR part 31 cost principles. Accordingly, when the acquisition of equipment is discovered, PAs should review the contractor’s current Disclosure Statement (CASB-DS-1). If the contractor’s Disclosure Statement says that equipment should be charged direct, notify the CO; Defense Contract Audit Agency (DCAA) review is necessary to ensure charging is accordance with CAS 402, “Consistency in Allocating Costs Incurred for the Same Purpose”, CAS 404, “Capitalization of Tangible Assets”, and CAS 409, “Depreciation of Tangible Capital Assets.”

**NOTES:**

(1) When general equipment items are not charged as a direct cost, title to the Government does not convey (see FAR 45.4, “Title to Government Property”).

(2) PAs should also be alert to contractors setting up “entities” with a new Commercial and Government entity (CAGE) code, being awarded that single contract and then charging direct general-purpose items, e.g., cars, equipment. In such cases, the PA should notify the CO.

Reminder: A basic FAR principle is that, upon contract award, contractors bring all the necessary organization, experience, accounting and operational controls, property, and technical skills, or the ability to obtain them (Reference: FAR 9.104-1 (e), (f), and (g) of General Standards).

Therefore, upon contract award, responsible contractors should have the means to provide effective and efficient stewardship of Government property (Reference: PGI 245.102-70).

CASB-DS1 Form Sample -- [http://www.whitehouse.gov/sites/default/files/omb/procurement/casb\\_ds-1.pdf](http://www.whitehouse.gov/sites/default/files/omb/procurement/casb_ds-1.pdf)

**NOTES:**

The CASB-DS1 form has sections for DIRECT CHARGED MATERIAL. Section 2.1.0 is a description of Direct Material.

Section 2.7.0 – Asks for a “DESCRIPTION OF OTHER DIRECT COSTS” (PAs may have to ask the Contractor to see this “supplemental disclosure” on a continuation sheet)

Section 3.1.0 – Asks for a DECISION TABLE in deciding what is charged direct versus indirect costs.

Section 3.2.3. – Asks the contractor to specify how they will treat ST and STE costs under items (r) and (s).

Part V of the CASB-DS1form deals with depreciating tangible assets, which implies that the acquisition cost of the equipment is not charged direct; rather allowable depreciation is charged to the contract.

Under Section 5.1.0 of the CASB-DS1form there is a list of items which in general application should be charged through depreciation or amortization. These include:

- (e) Machinery and Equipment
- (f) Furniture and Fixtures
- (g) Automobiles and Trucks
- (h) Data Processing Equipment
- (j) Patterns and Dies
- (k) Tools

## 2.0 RECEIPT/IDENTIFICATION

The FAR outcome of **RECEIPT** involves the process of physically receiving incoming property; it is at the point of receipt that the contractor becomes accountable and responsible. It is at this point that property is identified as Government owned.

**Source documents** include receiving reports; **supporting documents** include Government Bills of Lading and packing lists. To test for compliance, the PA shall examine the contractor's receiving controls and procedures, and perform sufficient testing to ensure the contractor:

- Properly identifies property as Government owned in a manner appropriate to the type of property, e.g., stamp, tag, mark, or other identification.
- Accomplishes electronic receipt via Wide-Area Workflow (WAWF). Reference DFARS clause 252.211-7007.<sup>5</sup>
- Obtains the carrier's signature when shortages or other discrepancies are identified at the time of delivery.
- Observes any special handling requirements regarding the receipt of sensitive property, i.e., explosives, corrosives, chemicals, etc., and special storage requirements.
- Promptly notifies the PA when overages, shortages, damages or other discrepancies are discovered upon receipt of GFP.
- Takes actions necessary to adjust, as required, for overages, shortages, damages, and other discrepancies upon receipt of contractor-acquired property.
- Reconciles items received with their incoming documentation, e.g., purchase orders and packing lists.
- Promptly distributes receiving reports to designated control points and records the Government property in the property management records.
- Adequately protects and stores property during the receiving process.
- Properly segregates, stores, and records returnable and reusable containers in the property management system.
- Properly records quantity received, condition, date received, and the information necessary to meet the record reporting requirements of FAR 52.245-1.
- Updates the GFP module (of the DoD Item Unique Identification Registry) as required by DFARS 252.211-7007.\*

\*See "Reporting Government Furnished Property: Vendor Guide" (describes vendor GFP reporting processes and methods in accordance with DFARS 252.211-7007).

<http://www.dodprocurementtoolbox.com/page/gfp/resources>

**Reference:** ASTM Standard Practice for Receiving Property, E2605-08

<sup>5</sup>

*When a DoD Component enters property shipment data in WAWF and the property is bound for a Contractor, the Contractor receives email notification; shipment information will appear in the Contractor's WAWF Property Transfer work folder. Note that both DoD and Contractor must have established the WAWF role of Government Property Shipper and Contractor Property Receiver, respectively.*

### 3.0. RECORDS

The FAR outcome of **RECORDS** involves ensuring that the contractor establishes and maintains records of Government property in accordance with FAR 52.245-1 and any other contract terms and conditions. To test for compliance, the PA shall ensure at a minimum the contractor's property management system meets the data requirements of FAR 52.245-1 and GFP reporting requirements under DFARS 252.211-7007, which requires the following information:

- (1) Received/Sent (shipped) date.
- (2) Status code.
- (3) Accountable Government contract number.
- (4) CAGE code on the accountable Government contract.
- (5) Mark record.
  - (i) Bagged or tagged code (for items too small to individually tag or mark).
  - (ii) Contents (the type of information recorded on the item, e.g., item internal control number).
  - (iii) Effective date (date the mark is applied).
  - (iv) Added or removed code/flag.
  - (v) Marker code (designates which code is used in the marker identifier, e.g., D=CAGE, UN=DUNS, LD=DODAAC).
  - (vi) Marker identifier, e.g., Contractor's CAGE code or DUNS number.
  - (vii) Medium code; how the data is recorded, e.g., barcode, contact memory button.
  - (viii) Value, e.g., actual text or data string that is recorded in its human-readable form.
  - (ix) Set (used to group marks when multiple sets exist).
- (6) Appropriate supply condition code, required only for reporting of reparables, per Appendix 2 of DoD 4000.25-2-M, Military Standard Transaction Reporting and Accounting Procedures Manual ([http://www2.dla.mil/j-6/dlmsso/elibrary/manuals/dlm/dlm\\_pubs.asp](http://www2.dla.mil/j-6/dlmsso/elibrary/manuals/dlm/dlm_pubs.asp)).

The PA shall also ensure the contractor:

- Identifies general-purpose components that are readily removable (to facilitate potential reutilization).
- Maintains in lieu of formal property records a file of appropriately cross-referenced documents evidencing receipt, issue, and use of material issued for immediate consumption (when approved by the PA on a contract-by-contract basis), i.e., a material receipt and issue system.
- Safeguards records from tampering or destruction.
- Establishes property records in a timely manner upon receipt or fabrication.
- Records serial numbers for all weapons.
- Provides a complete, current and auditable trail of all transactions, and contains:
  - The name, part number and description, manufacturer, model number, and National Stock Number (if needed for additional item identification tracking and/or disposition).

**NOTE:** The above data elements may not always apply. For example, some property items do not have model numbers.

- Quantity received (or fabricated), issued, and balance-on-hand.
- Unit acquisition cost (for GFP, the dollar value assigned by the Government and identified in the contract. For contractor-acquired property, unit acquisition cost means the cost derived from the contractor's records that reflect consistently applied generally acceptable accounting principles<sup>6</sup>).

**NOTE:** For contractor-acquired property, depending on the contractor's accounting system, some contractors use a standard cost process (vs. actual cost) that "averages" the acquisition costs obtained on different purchase orders, batches, or lots. For example, due to quantities ordered, the price may be different, e.g., \$.10 one time, \$.06 the next time, \$.12 cents the next time. A system will average the price, and not retain the "actual cost" by purchase order, batch, or lot.

This is sufficient.

- Unique-item identifier or equivalent (if required by contract terms and conditions)

- Unit of measure
- Accountable contract number or equivalent code designation
- Location. Proper documentation of an item's location is a general requirement. Given that some items by their very nature move frequently throughout the day, e.g., aircraft, vehicles, wheeled test stands, laptops, it is not always reasonable to insist upon "real time" location accuracy. PA's should ensure that contractor procedures adequately describe the manner in which property location changes are made.
- Disposition
- Posting reference and date of transaction
- Date placed in service (only required when specified by contract terms and conditions)

In addition to the normal "record to property" analysis, the PA shall perform a "property to record" review. This requires the random selection of property from the floor, and then traced back to the record to assure that a property record was established or is properly maintained.

**NOTES:**

- (1) Once released to the shop floor, material items are typically considered work-in-process.
- (2) Some data elements do not always apply. For example, many property items do not have model numbers.
- (3) In some cases, the prime's subcontractor establishes and maintains the property records required under FAR 52.245-1. For example, where cost reimbursement purchase orders require the subcontractor to acquire property, or when other purchase orders require the delivery/acceptance of items at the subcontractor.

<sup>6</sup>

*Unit Acquisition Cost: Unless there are other special billing or payment instructions specified within the contract, for Government property acquired by the contractor, contractors typically invoice the Government using the vendor price paid, less any discounts, plus allocable indirect costs that are calculated consistently and in accordance with the contractor's normal disclosed accounting practices (which should be in accordance with generally accepted accounting principles).*

#### **4.0. MAINTENANCE**

The FAR outcome of **MAINTENANCE** involves the proper maintenance of equipment, special tooling, and special test equipment.

To test for compliance, the PA shall ensure that the contractor's maintenance program provides for the disclosure and performance of preventative maintenance; the need for and reporting of capital-type rehabilitation and the recording of work performed.

The following guidelines should be used when reviewing/evaluating the contractor's maintenance program.

**NOTE:** evaluating the contractor's maintenance program often requires assistance from other technical personnel such as quality assurance specialists.

- Preventative Maintenance, FAR 52.245-1(f)(1)(ix). The maintenance program should include regularly scheduled inspections, calibration and maintenance performed to sustain suitability for intended use and to detect and correct minor deficiencies before they result in damage to property. Preventative maintenance includes lubrication, servicing, inspection, normal parts replacement to forestall excessive wear, malfunction, or deterioration of production or non-production facilities to ensure effective use for their designated purpose.
  - The program should also identify any special maintenance requirements; procedures and/or instructions should insure that the Government property's maintenance is performed in a timely manner and that all actions are recorded. Work orders and/or instructions for preventative maintenance should assign responsibility and include a checklist identifying all maintenance performed.
  - When performed by equipment operators, preventative maintenance procedures shall identify tasks, checklists, frequencies, recording requirements, and provide for reporting deficiencies when corrective maintenance is required. These procedures and instructions may be based on manufacturer's recommendations; Government instructions or technical manuals/publications, plant experience (peculiar operating conditions); engineering analysis (age and condition), tolerance requirements, safety considerations, Voluntary Consensus Standards, customary commercial practices and Industry leading practices.
- Corrective Maintenance. The maintenance program should provide for corrective actions and repair. This includes the disclosure and/or reporting of deficiencies by operational personnel; disclosure of deficiencies through preventative maintenance and/or inspections; initiating work orders with detailed assignments, guidance, and responsibilities; and recording work accomplished.
- "Capital" type rehabilitation." Work that is conducted outside of normal maintenance obligation; i.e., preventative and corrective maintenance, is considered capital-type rehabilitation (CTR). Contractors are required by FAR 52.245-1 to disclose the need for CTR to the CO. The performance of CTR requires CO authorization. If routine and preventative maintenance and repair is not sufficient to sustain a property item's suitability for intended use, the contractor should notify the CO promptly, and request direction regarding repair or replacement or other actions directed by the Government.
- Property with Technical Maintenance Manuals or Requirements. Maintenance of certain items of Government property must be accomplished in accordance with Government technical publications or manuals, where applicable, or other appropriate technical sources, including manufacturer's maintenance manuals, where available. Both scheduled and non-scheduled maintenance may be required. PAs should be aware that in some instances Government property may, by its nature, require maintenance to be performed by the Government instead of the contractor.

#### **5.0. SUBCONTRACT CONTROL**

The FAR outcome of **SUBCONTRACT CONTROL** involves ensuring subcontracts clearly identify assets to be provided and ensure proper flowdown of contract terms and conditions; e.g., extent of liability for property loss; or for property fabricated at the subcontractor, the extent of any restrictions or limitations. In some cases, sub-contractors establish and maintain the property records required under FAR 52.245-1. For

example, where cost reimbursement purchase orders require the subcontractor to acquire property; or when other purchase orders require the delivery/acceptance of items at the subcontractor. FAR 52.245-1 requires the prime contractor to ensure the appropriate flowdown of contract terms and conditions.

To test for compliance, the PA shall examine the contractor's subcontract controls and procedures and perform sufficient testing to ensure the contractor:

- Includes the appropriate flowdown clauses and instructions in its subcontracts.
- Conducts periodic reviews to determine the adequacy of the subcontractors' property management systems.
- Properly administers the risk-of-loss and other provisions flowed-down to subcontractors.

## **6.0. UTILIZATION**

The FAR outcome of **UTILIZATION** involves ensuring the contractor uses Government property only as authorized by the contract. The contractor is also required to promptly report Government property excess to contract requirements (contractor inventory as defined in FAR 45.101 and FAR 52.245-1)

To test for compliance, the PA shall examine the contractor's controls and procedures and perform sufficient testing to ensure the contractor utilizes Government property only as authorized by the contract (see FAR 52.245-1 (c)), FAR 52.245-9, and DFARS 252.251-7001).

The PA may accomplish this using the same samples taken for review of equipment, special tooling, and special test equipment for other processes.

## **7.0. STORAGE**

Although not identified as a specific process outcome within FAR 52.245-1, reasonable and proper storage is an inherent requirement of good stewardship (Reference 52.245-1(b)(1) and (2)).

To test for compliance, the PA shall examine the contractor's facility and perform sufficient testing to ensure that the contractor's procedures address the protection of property both within general-purpose areas, warehouses and defined storage areas.

If necessary, the PA should obtain additional guidance from the original equipment manufacturer. The PA may also consult with other Government functional or technical specialists for assistance in this area.

To test for compliance, the PA shall ensure the contractor:

- Provides adequate protection of property. This includes proper protection from unauthorized removal, pilferage, and theft; protection from water damage, insect and rodent infestation, or from deterioration because of dust, temperature, static electricity and humidity, where applicable. This requirement includes special protection as needed for sensitive property such as hazardous materials, shelf-life items, classified property, etc.
- Keeps storage areas neat, clean and well organized.
- Provides proper storage commensurate with the kinds of property in its possession, including physical security and control of access, especially for property awaiting disposition or plant clearance actions.
- Includes proper protection of property while in outside storage.

## **NOTES:**

1. Commingling is the process by which materials common to multiple projects or contracts are stored in a single location and mixed in a way that material loses its identity or ownership. The concept of commingling applies only to the category of material (while it is still in the stockroom), which by its nature can easily lose its identity as "Government-owned."
2. The disadvantage in commingling is that property can lose its identity as Government property, potentially affecting consumption rates, property losses, Government warranties of suitability for use, proper disposal, and other actions. The PA's determination as to whether commingling is advantageous to the Government should include consideration of the following:
  - If it is practical and economical to combine Government and contractor material property in the manufacturing or processing operation; e.g., when a contractor is using Material

Requirements Planning<sup>7</sup>, Manufacturing Resource Planning<sup>8</sup>, Enterprise Resource Planning, or Just-in-Time type material system.

- If the issue, use, and identification controls are adequate to prevent loss in excess of that which may be reasonable under conditions of segregation.
  - Whether procedures exist for the equitable apportionment of inventory loss.
  - Convenience and apparent ease for the contractor alone is not advantageous to the Government.
3. Consistent with FAR 52.245-1, the PA is required to approve all cases of material commingling. However, if the contract contains DFARS 252.242-7004 (MMAS), PAs need not review/approve commingling of material.
  4. In contrast to commingling, the contractor may “co-locate” contractor-owned property with other types of Government-owned property (Special Tooling, Special Test Equipment, and Equipment) provided such property is properly identified and secured. Co-locating is not considered commingling within the context of FAR 52.245-1.
  5. Common stock materials; e.g. nuts, bolts, and screws, are a good example. While stored in their “original pack” or in sealed bags clearly identified as to ownership, the items are considered to be co-located, rather than commingled. When the bags are opened and the contents poured into a bin the items are commingled as each nut, bolt or screw can no longer be identified as to ownership.

<sup>7</sup>

*Also known as MRP.*

<sup>8</sup>

*Also known as MRPII.*

## 7.1. CONSUMPTION

Consumption involves the process of incorporating material into an end-item or otherwise using/consuming material in contract performance. Although not identified as a specific process outcome within FAR 52.245-1, the contractor's consumption process requires testing similar to that of other lifecycle processes.

The consumption process relates to the requirements of FAR 31.201-3, which addresses overall reasonableness of incurred costs. Within this context, "a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business."

Consumption is driven by the contractor's environment; i.e., production versus research and development, overhaul and maintenance versus testing. For example:

- In a production environment, consumption rates, including scrap, may be clearly spelled out in the contract or through the contractor's material requirements lists, bills of materials, scrap rates, and master production schedules.
- In an overhaul and maintenance environment, consumption may be on an "as needed" basis driven by the scope of work specified in the contract and "out of scope" work disclosed after tear down of the reparable.
- In a research and development environment, material requirements may be vague and driven largely by an engineer's individual program requirements, interim engineering drawings, or testing parameters.

The consumption process generally consists of four elements:

- The first element consists of the issuance of material in reasonable and proper quantities for the work being performed. Issuance can generally be controlled through effective systems that ensure materials are issued only for authorized requirements and only to authorized personnel. Additional factors to be considered by the PA are: shelf-life; "first in, first out," processes; lotting; serially numbered items; parts mortality and allowable scrap rates; attrition; and sensitive property.
- The second element consists of the actual incorporation, or expenditure of material into a higher assembly, end item, or through testing. This element includes the attachment or incorporation of consumable material into higher assemblies.
- The third element consists of the return of any unused portions of the material to stock or stores and its annotation on the records or re-establishment of the records with appropriate supporting documentation.
- The fourth element consists of parts or components removed or recovered from repair, rework, testing, or cannibalization. These parts are sometimes returned to stock or stores with the prospect of future use or disposal, dependent upon their condition; e.g., reparable status, shelf-life, life expectancy, scrap, or salvage. In some cases, contracts authorize the abandonment of parts to the contractor.

To test for adequacy, the PA shall review the contractor's consumption practices for material through the assessment of material requirements and calculations of the actual consumption of material to ensure that material is consumed in reasonable quantities.

Once released from a stock room or other control activity to the consuming area; i.e., shop floor material is considered "work in process." Work in process (WIP) is defined as material that has been released to manufacturing, engineering, design or other services under the contract and includes undelivered manufactured parts, assemblies, and products, either complete or incomplete.

In general, once released to the consuming area, i.e., "shop floor", contractors commingle Government-owned, contractor-owned, and WIP material without physical segregation or identification to the individual contracts. The extent to which the material is properly managed can be deduced from the consumption analysis, e.g., by comparing the quantities released with quantities consumed, allowing for reasonable scrap and spoilage rates. An excessive or unreasonable quantity of material released from stock for the purpose of avoiding record keeping is indicative of a significant deficiency.

**Determining Unreasonable Consumption.** As a general rule, material consumption is considered unreasonable if consumption exceeds amounts supported by bills of material, material requirements lists, or similar material planning documents (including reasonable mortality or attrition rates). In an overhaul and

maintenance environment, reference should be made to material requirements identified in repair analysis documents. In a research and development environment, PAs may have to seek the assistance of Government technical experts such as quality assurance representatives or engineers.

Remedies for Unreasonable Consumption. Unreasonable consumption of Government materials is not considered a property loss under the risk-of-loss provisions. In cost-type contracts where unreasonable consumption is found, the PA should recommend the CO consider a cost disallowance action under FAR Part 31 cost principles. In fixed-priced contracts where unreasonable consumption is found, the PA will forward the case to the CO, who will in turn determine whether or not consideration should be requested from the contractor. Unreasonable consumption may also be addressed under an MMAS (Reference: DFARS 252.242-7004).

## **8.0. PHYSICAL INVENTORY**

The FAR outcome of **PHYSICAL INVENTORY** involves ensuring that quantities on hand are known and recorded. Generally, few contracts contain terms and conditions for frequency of physical inventories or inventory accuracy.

FAR 52.245-1 requires contractors to perform periodic physical inventories upon contract completion or termination. [NOTE: this requirement does not extend to material released to the shop floor as WIP].

FAR 52.245-1 (f)(iv) grants the PA sufficient authority to waive/exempt contractors with adequate systems from performing an additional physical inventory at contract closeout.

To test for compliance, the PA shall ensure the contractor:

- Documents within its property management procedure the physical inventory frequency and levels of accuracy it seeks to achieve.
- Performs required physical inventory commensurate with the kinds of property in its possession; discloses physical inventory results.
- Does not allow those who maintain the records, or are responsible for the custody of the property, to perform the physical inventory (a necessary internal control). PAs should use proper business judgment when reviewing smaller contractors who may not be able to fully meet this requirement.
- Locates and counts property, compares the results of the physical inventory to property management records, properly records both loss of Government property (as defined in FAR 45.101 and DFARS 252.245-7002) and (reasonable) physical adjustments of material.
- In the case of contract closeout and/or terminations, ensures property is physically inventoried and/or accounted for. See separate guidance on Disposition/Contract closeout.

**NOTE:** Depending on the circumstances, requiring the contractor to perform a separate, complete physical inventory of Government property upon contract close out may not be necessary. For example, if within the past few months the contractor completed a physical inventory in accordance with its regular physical inventory cycle, this inventory may satisfy FAR physical inventory requirements. The status of the contractor's property management system, i.e., approved or disapproved, is also a factor.

## **9.0. PROPERTY CLOSEOUT**

The FAR outcome of **PROPERTY CLOSEOUT** includes both Disposition and Contract Closeout actions. It involves the proper disposal of contractor inventory and the adjudication of property loss cases. Source documents include inventory schedules; supporting documents include close-out letters.

To test for compliance, the PA shall ensure the contractor:

- Conducts in-house screening of excess property upon contract completion or when determined to be excess to contract requirements.
- Promptly reports excess property (including property destined for transfer of accountability) to the Plant Clearance Automated Reutilization Screening System (PCARSS); reports are complete and accurate. See DFARS 252.245-7004.
- Requests contractual transfers of accountability (or authorized use) as necessary and appropriate. Requests must be in writing, and signed by an individual authorized to bind the contractor. NOTE: reporting property to PCARSS does not constitute a request for contractual accountability.
- Obtains proper authority for disposition.
- Disposes of property within a reasonable amount of time after disposal authority is received.
- Removes or erases identification tags or other Government markings from property before disposal, where applicable.
- Maintains support and supporting documentation; ensures transaction data is properly posted to property records.
- In the case of contract closeout or termination, performs a physical inventory and/or otherwise accounts for remaining property; provides in a timely manner contract close out letters reflecting a property zero balance.
- Updates the DoD Item Unique Identification Registry as required by DFARS 252.211- 7007, as applicable.

## **10.0. MOVEMENT**

Although not identified as a specific process outcome within FAR 52.245-1, properly documenting the physical movement of property is an inherent part of good stewardship.

The basic objective in testing movement is to ensure:

- Government property is moved under proper authority--with appropriate documentation and adequate protection.
- Location changes are posted to the records in a reasonable amount of time.
- Assessing the protection of Government property in-use or in-transit is generally accomplished by day-to-day observations of contractor actions. To the extent possible, property personnel with visibility of contractor operations should monitor contractor protection of Government property being prepared for or while in-transit.
- Source documents include issue slips, shipping tickets, location change orders, custodial transfer documents, maintenance work order that require the movement of Government property, routers/travelers and other similar documents and shall be for the time period of one year or back to the last property management system audit, whichever is less.

To test for compliance, the PA shall ensure the contractor:

- Has an effective process established for movement of Government property while in-use, in and out of storage, or in-transit, e.g., movement to-and-from alternate locations or subcontractors/vendors.
- Reports property loss (See definition of property loss in FAR 52.245-1) in a timely manner. The overall effectiveness of the process may be assessed based on the frequency and magnitude of property loss occurring while property is in movement. Where losses are frequent and due to movement related circumstances, a significant deficiency may exist.

#### **11.0. CONTRACTUAL TRANSFERS OF PROPERTY ACCOUNTABILITY**

- All Government contract property (whether GFP contractor acquired), as defined at DoDI 4161.02, must be contractually accountable to a contract, and only one contract at a time. Although accountable to only one contract at a time, contract terms and conditions may allow property to be used ("authorized use") on other contracts. Reference: FAR 52.245- 9, "Use and Charges."
- Contractual transfers of property accountability (from one contract to another) must be accomplished by contract modification of both gaining and losing contracts via a Standard Form (SF) 30. No other forms, e.g., DD 1149s, or documents are authorized.
- All contract modifications shall use the fillable PDF formats prescribed at PGI 245.103-72.
- Contract modifications shall include (add to the contract) FAR 52.245-1 and its associated (required) DFARS clauses (at a minimum) to the extent that the gaining contract lacks required clauses. Reference: DFARS 245-107, "Contract Clause" and PGI 245-1.

**NOTE:** In lieu of transferring material (not equipment, special test equipment or special tooling), the CO may authorize the contractor to credit the costs of contractor-acquired property (material only) to the losing contract, and debit the gaining contract with the corresponding cost, when such material is needed for use on another contract.

#### **12.0. REPORTS**

The FAR outcome of **REPORTS** involves reviewing the contractor's report preparation controls and procedures. The PA shall perform sufficient testing to ensure the contractor promptly investigates and furnishes contractually required reports. This includes reporting of all incidents of property loss; such reports must include:

- Date of incident if known.
- Name, commercial description, manufacturer, model number, and national stock number if applicable
- Quantity
- Unique Item Identifier if applicable and available
- Accountable contract number
- A statement indicating current or future need
- Acquisition cost or, if applicable, estimated scrap proceeds, estimated repair or replacement costs
- All known interest in commingled property

- Root cause analysis and corrective actions taken or to be taken to prevent recurrence.
- A statement that the contractor will return to the Government any amounts that the contractor may receive from insurance for the lost, stolen, damaged, or destroyed Government property.
- Copies of all supporting documentation.
- Last known location
- A statement that the property did or did not contain sensitive or hazardous material and proof that the appropriate agencies were notified if the property contained sensitive or hazardous property

The PA shall also ensure that the contractor's procedures require the immediate reporting (telephone or personal contact) of loss of Arms, Ammunition and Explosives to the PA and Defense Security Service, Attention: Director for Industrial Security. Such reporting should be confirmed in writing as soon as possible. The PA shall also notify the local Federal Bureau of Investigation, Bureau of Alcohol Tobacco and Firearms, and local police, as appropriate.

Wartime property losses (a result of hostile action by enemy forces): Contractor reporting may be accomplished on a regular basis as agreed to between the PA and contractor, as documented in the contractor's procedure. The information required by FAR 52.245-1 is still required, notwithstanding the frequency of reporting. The PA shall review contractor records, internal controls and supporting documentation, and make liability determinations during the PMSA.

Reports of physical inventory results should include the date(s) the inventory was performed and a statement as to the findings, including a list of all items whose physical inventory count varied from the record balance, both positive and negative.

Reports of significant findings and/or results of internal reviews and audits shall include the performance date, the functional area reviewed, a summary of the findings, and any corrective action plan.

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*Debit/credit transactions are financial accounting transactions. Debit/credit transfers are typical of (but not limited to) Material Management and Accounting Systems. Debit/credit transfers are not transfers of accountability under FAR 45.106; by extension, contract modifications are not used to accomplish debit/credit transfers.*

## 13.0. CONTRACTOR INTERNAL ASSESSMENT OR SELF-AUDITS

Contractor's Internal Assessment or Self-Audit of their Property Management System References:

FAR – Part 45, "Government Property"

FAR - 52.245-1, "Government Property"

Purpose. The purpose of this document is to provide guidance to property personnel on an approach for evaluation of this requirement within the scope of the PMSA.

FAR 52-245-1(b)(4) requires contractors to perform self-assessments to evaluate their property management system effectiveness and disclose significant findings to the PA. If the self-assessment provides a confidence level of the effective management and/or control of Government property comparable to that afforded by a property management system analysis performed in accordance with Government requirements, the PA should integrate the contractor's self-assessment results within the overall audit.

The degree of integration depends on the level of reasonable assurance afforded by the contractor's self-assessment.

Background. A self-assessment process that discovers deficiencies, identifies root causes, and implements effective corrective action is indicative of a healthy property management system.

Prior to the publishing of the revised FAR 52.245-1, many contractors had in place their own property management self-assessment (internal assessments/audits) programs. FAR 52.245-1 created the contractual requirement. Accordingly, today, all contractors are contractually required to perform internal assessments and/or audits on their property management system(s) in accordance with FAR 52-245-1(b)(4), and disclose their significant findings to the PA.

These self-assessment requirements are in addition to those audit requirements set forth in Office of Management and Budget Circular A-133 as well as any other statutory requirements; e.g., Sarbanes-Oxley Act of 2002, Securities Exchange Act of 1934. Some contractors have comprehensive internal control programs that integrate these requirements into a corporate approach.

Process. Contractor self-assessments typically fall under two constructs:

1. Formal/structured. Based on:

Generally Accepted Government Audit Standards

- Traditional DoD approach (paralleling the audit requirements of the Property Management on Government Contracts Instruction or DoD 4161.2-M, "DoD Manual for the Performance of Contract Property Administration").
- Maturity models—with appropriate process-oriented criteria.
- Metrics and statistical process control techniques, or ISO process reviews. NOTE: ISO audits, internal or external, do not totally fulfill this requirement, as they do not typically address all of the process requirements set forth in the FAR 52.245-1.
- International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors)

[or a combination of the above]

2. Informal

- Less structured; less complex, walk-throughs
- Interviews/discussions with personnel
- Double checking property records/documentation

Contractor self-assessments may range from simple reviews and/or validations to highly complex audits and assessments, dependent on the complexity of the contractor's property management system. Many small business concerns do not have sophisticated, detailed and extensive self-assessment programs. The PA must use good judgment to ensure that the program provides sufficient oversight without needlessly burdening the contractor.

To the extent possible, depending on the circumstances, contractor self-assessments should provide a level of objectivity as close as possible to that of a PMSA performed by the Government. Ideally, this is achieved by having the analysis performed by an independent party not associated with the property organization. Sufficient objectivity may be attained by having the assessment performed by property personnel from another location.

In situations where the contractor's operation is relatively small the PA may allow the same people who have custody of the Government property to perform the audit, subject to review by higher-level contractor personnel. If requiring an independent party is not practical or not the optimal way to perform the self-assessment, the PA must document why the method used provides sufficient objectivity to evaluate the effectiveness of the property management system. This is particularly important if the PA intends to integrate the contractor's self-assessment results within the overall audit. In any event the procedures should identify the personnel responsible for performing the self-assessment.

The contractor's audit program as set forth in their property management system should address each of the applicable FAR mandated property management life-cycle processes.

The contractor's written procedures should address the:

- Audit or assessment methodologies to be used; e.g., Generally Accepted Government Auditing Standards, Maturity Models, metrics and statistical process controls, the Instruction's audit protocols.
- Confidence rate and methodology used to compute this rate
- The party responsible for performing the audit
- Frequency of audit
- Processes and outcomes subject to review
- Support documentation and audit evidence
- Requirement for the PA to be notified of significant findings and/or results of such reviews and audits pertaining to Government property
- Reporting requirements and timely distribution of audit and assessment reports
- Corrective action(s) requirements

Many contractors elect to review their own company-owned property during the FAR self-assessment. This is permissible, though not required. Contractor property should not be included in the PA's sampling plan.

### 13.1. Validation of Contractor's Self-Assessment

The PA shall review the documentation of the internal audit and assessment for compliance with the procedures set forth in the contractor's property management system or other contractual requirements.

If self-assessment results are to be used to evaluate the contractor's risk level or to be integrated into the PMSA, the PA must validate the contractor's internal audit practices through either:

- Visual observation conducted during the contractor's internal audit and/or
- Judgment sampling of the contractor's work papers, verifying the reliability, validity, accuracy and completeness of the data

It is advisable to walk through the self-assessment with the contractor to gain an understanding of the program, how it works, and what it is expected to achieve. The purpose of this validation will be to confirm that the contractor's self-assessment methodologies and techniques provide the same confidence level (90 percent) used by the Government.

### 13.2. Using the Contractor's Self-Assessment Results in Assessing Risk and Performing PMSAs

The results of the contractor's internal audit should not be the sole basis for evaluating the contractor's property management system. Elements of the contractor's internal audit may be used as a factor in assigning a risk level. Where it has been determined by the PA, through visual observation, judgment sampling, or through the PMSA process, that the contractor's internal audits are reliable, valid, accurate and complete, the PA may reduce the risk assessment level with a commensurate reduction in the frequency of review.

Based upon past performance and current internal audit findings, the PA may exempt certain (compliant) processes from the PA's current year PMSA. In no instance shall PAs exempt review of a process any more than the allowable time frame of three years.

The PA may, depending on the circumstances, either integrate the contractor's self-assessment results within the overall audit, or conduct the audit independently. This decision depends largely on the type and scope of contractor operations, level of risk, and degree of confidence in the contractor's property management system. The reliability, validity, accuracy, and completeness of the contractor's self-assessment are factors to consider in deciding whether and how much to integrate its results within the overall audit.

If the contractor's self-assessment methodologies and techniques provide the same confidence level (90 percent) used by the Government the presumption is that the PA will integrate the contractor's self-assessment results within the overall audit. The PA shall describe the extent of integration of the contractor's self-assessment and the rationale in both the PMSA plan and the PMSA Summary Report.

Some contractors are using the Acceptable Quality Level AQL 6.5 end-item inspection quality standard rather than the DoD double sampling plan. This is permissible; use of AQL 6.5 produces results comparable to the DoD double sampling plan. However, PAs should be alert to:

- Process preferences: Some processes are deemed high risk versus low risk– and as such these may require higher AQLs or permit lower AQLs than process capabilities would indicate
- Classes of defects such as major and minor: major defects would generally require lower AQLs than those for minor defects
- The acceptable quality level of previously submitted lots

**NOTE:** If the contractor will be using ASTM 2234, then it is imperative they define "defect" and the differences between major, minor, and critical defects.

When there are systemic or significant findings disclosed as a result of the contractor's internal audit, the PA should confirm the accuracy of such findings and the sufficiency of the corrective actions.

The PA shall not use the information provided by the contractor through the internal audit process as the sole foundation for evaluating the contractor's property management system, especially where the contractor has corrected the deficiencies or has made or is making a good-faith effort to correct the deficiencies. If a contractor self-identifies deficiencies discovered through the internal audit process and has corrected them or is taking timely, effective action to correct them, the PA shall not identify them as deficiencies in the Business System Analysis Summary.

### 13.3. Internal Audit and Assessment Records.

The PA shall include a copy of the contractor's internal audit or assessment report in the PMSA file.

## 14.0. ARMS, AMMUNITION & EXPLOSIVES

All contracts involving ammunition or explosives mandate the application of the DoD 4145.26- M, "DoD Contractor's Safety Manual for Ammunition and Explosives."

**NOTE:** Physical security surveys conducted by DSS are limited to arms, ammunition and explosives (AA&E), and are separate from the PMSA. This process may differ for contracts involving special programs and contractors located overseas or in contingency operations. For example, DSS does not have security responsibilities for AA&E stored overseas, and there may not be a local Federal Bureau of Investigation (FBI), Bureau of Alcohol, Tobacco and Firearms (BATF) presence, or local police, etc.

For contractors with AA&E, the PA shall:

- Maintain close contact with DSS to ensure AA&E contractors are receiving physical security inspections as required by DoD 5100.76-M, Physical Security of Sensitive Conventional Arms, Ammunition and Explosives (Reference: DFARS 223.370-3, 223.7201, 252.223-7002, 252.223-7007) at contractor facilities, and DoD 4145.26-M, "DoD Contractor's Safety Manual for Ammunition and Explosives."
- Exchange respective system analysis summaries performed at AA&E contractors with DSS to enhance overall property management at these locations.
- Ensure that contractor procedures provide specific and detailed requirements, particularly with regard to receipt, accountability, in-process control, storage, movement and protection, physical security, periodic inventories, and disposition.
- Ensure that the contractor's procedures require the immediate reporting (telephone or personal contact) of loss of arms, ammunition and explosives to the PA and DSS, Attention: Director for

- Industrial Security. Such reporting should be confirmed in writing as soon as possible.
- Notify the local FBI, BATF, as appropriate.

**15.0. SCRAP PROCESSING**

The processing and disposal of Government-owned scrap generated on Government contracts can differ depending on the circumstances. For example, the scope of work may create scrap containing:

- Sensitive items
- Hazardous materials or wastes
- Classified or otherwise controlled items
- Precious or strategic metals
- Characteristics or components dangerous to public health or safety

Some scrap property may require physical segregation, unique disposal processing or separate plant clearance reporting. To test for compliance, the PA shall ensure the contractor properly disposes of scrap. In general, contractor procedures should address the following:

- Unserviceable end-items beyond economical repair (meeting the DFARS 252.245- 7004(a)(2) definition of scrap) or scrap parts removed from end-items as a result of the repair, maintenance, overhaul, or modification process.
- Scrap left over from production operations, i.e., production scrap (shavings and trimmings), engineering, research, and development.
- Production scrap does not warrant physical segregation and may be commingled and disposed of with contractor owned scrap.
- Other types of scrap; e.g., serviceable property downgraded to scrap, may be disposed of for its basic material content by direction of the PLCO.

The PA shall ensure that:

- The cognizant DCAA office has determined if the contractor's disclosed accounting practices (CASB DS-1) are adequate and, if so, that the contractor properly credits scrap sales proceeds to an appropriate overhead pool, in order to benefit all government contracts (for contractors meeting the requirements of FAR 30.201).
- Ensure the cognizant PLCO has determined (or has been consulted to determine if) the contractor's procedure allows for effective and efficient sales processes enabling reasonable returns based on scrap market value.
- Usable (not-scrap) property is not processed through the contractor's scrap operation unless directed by the PLCO.
- Sensitive scrap is processed according to the individual requirements for that type of sensitivity (PCBs, lead, etc.).
- Sales proceeds are generally deposited as miscellaneous receipts to the U.S. Treasury (Reference: 31 U.S.C. 3302, FAR 45.604-3).

**NOTE:** Unless the PA or PLCO determine otherwise, contractor and Government owned scrap are usually commingled, thus losing their identity as Government property. Once commingled, ownership cannot be easily identified, thus the record requirements of FAR 52.245-1(f) (iii) (A) (1) through (10) do not apply. On occasion, for example, due to contract terms and conditions, the volume and type of scrap (such as a large volume of strategic metals) may justify the requirement for a separate plant clearance case.

**GLOSSARY**

AA&E	arms, ammunition & explosives
AQL	acceptable quality level
ASTM	American Society of Testing and Materials

BATF	Bureau of Alcohol, Tobacco and Firearms
BSAS	Business System Analysis Summary
CAGE	Commercial and Government Entity
CAR	Corrective Action Report
CAS	cost accounting standards
CDR	Contract Deficiency Report
CO	contacting officer
CTR	capital-type rehabilitation
DCAA	Defense Contract Audit Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DODI	Department of Defense Instruction
DSS	Defense Security Service
EDA	Electronic Document Access
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
GFP	Government-furnished property
MMAS	Material Management and Accounting System
PA	property administrator
PCARSS	Plant Clearance Automated Reutilization Screening System
PIIN	procurement instrument identification number
PLCO	plant clearance officer
PM	program manager
PMSA	Property Management Systems Analysis
SPA	support property administrator
WAWF	Wide Area Workflow
WIP	work in process