



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

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AUG 17 2011

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UNDER SECRETARY OF DEFENSE (PERSONNEL AND  
READINESS)  
ASSISTANT SECRETARY OF THE ARMY FOR  
ACQUISITION, LOGISTICS, AND TECHNOLOGY  
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ASSISTANT SECRETARY OF THE AIR FORCE FOR  
ACQUISITION  
DIRECTOR OF THE DEFENSE AGENCIES  
DIRECTORS OF THE DOD FIELD ACTIVITIES

Subject: DoD Guidebook for Contract Property Administration

The attached draft Guidebook is provided for your comments prior to issuance. This Guidebook will replace DoDI 4161.2-M, DoD Manual for the Performance of Contract Property Administration (1991).

Please provide your comments to this draft update not later than August 31, 2011 to my action officer, Mr. David Guinasso, at 703-588-0754 or [david.guinasso@osd.mil](mailto:david.guinasso@osd.mil).

  
Richard Ginman  
Director, Defense Procurement  
and Acquisition Policy

Attachment:  
As stated

# **DOD GUIDEBOOK FOR CONTRACT PROPERTY ADMINISTRATION**

*Draft Dated 7/28/11*

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# Foreword

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The Government relies on and requires its contractors to provide effective and efficient stewardship of the Government property in their custody. This stewardship responsibility, codified in the Federal Acquisition Regulation (FAR) clauses [52.245-1](#), Government Property, and [52.245-2](#), Government Property Installation Operation Services, is the subject of this Guidebook.

The policies and procedures presented in this Guidebook are designed to implement the requirements of the FAR, facilitate the effective and efficient oversight of contractors, maximize the Department's return on investment and achievement of best value; and protect the Government's interests. The terms and condition of the 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.

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# Chapter 1

## Government Property Stakeholders

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This guidebook sets forth policy and guidance for Government property stakeholders: Program Managers (PMs), Contracting Officers (COs), Contract Specialists (CSs), and Accountable Property Officers, along with those designated the responsibility of oversight of stewardship, including Property Administrators (PAs) and Plant Clearance Officers (PLCOs).

### STAKEHOLDER ROLES

The Government property stakeholder roles can be summarized as follows:

- ◆ The PM is the designated individual with the responsibility to accomplish program objectives for development, production, and sustainment to meet the user's operational needs.
- ◆ The CO is responsible for ensuring contractor compliance with the terms and conditions of the contract, to include contract property management. Note: In the absence of an assigned PA, the CO is also responsible for the PA roles described below, in accordance with agency procedures.
- ◆ The PA is an authorized representative of the CO, appointed in writing by a Certificate of Appointment (and in accordance with agency procedures) to administer the contractual and technical aspects of the Government property provisions, terms, and conditions of Government contracts. Direction for the appointment of PAs is provided in [Defense Federal Acquisition Regulation Supplement \(DFARS\) 245.7001](#).
- ◆ The PLCO is an authorized representative of the CO, appointed in writing by a Certificate of Appointment (and in accordance with agency procedures) to administer the clearance of excess Government property from the contractor's stewardship account. Direction for the appointment of PLCOs and a list of PLCO responsibilities are provided in [Defense Federal Acquisition Regulation Supplement \(DFARS\) 245.7001](#) and [245.7002](#).
- ◆ The Defense Contract Audit Agency (DCAA) is responsible for determining whether contractor costs are reasonable, allowable, or allocable.

## PA RESPONSIBILITIES

PA responsibilities for each aspect of Government property administration are addressed in the related chapters of this Guidebook. The PA's overall responsibilities require the PA to do the following:

- ◆ Plan, develop, and perform a property management system analysis and audits in accordance with [GAO-03-673G](#), Government Auditing Standards (“The Yellow Book”). Audit planning includes conducting a risk analysis by process; establishing audit objectives with stakeholders; determining lots, confidence levels, and data collection methods; scheduling audit visits; and coordinating support.
- ◆ Research, evaluate, and determine the adequacy of the contractor's property management system, including internal audit processes, procedures, and results in accordance with [FAR 9.104-1\(e\)](#).
- ◆ Make recommendations for corrective action and continuous improvement in accordance with [FAR 1.102-4\(e\)](#) and [FAR 52.245-1\(g\)\(3\)](#).
- ◆ Conduct the necessary system analysis or audit to ensure contractor performance and compliance with contract property terms and conditions. The PA determines the schedule and extent of analysis required. This determination must be based on the contractor system's complexity, contractor self-assessment methods, and/or other factors—such as risk to the Government—as identified by the PA. A system analysis must be accomplished as frequently as conditions warrant.
- ◆ Review contracts to recognize the objectives that justify the provision of Government property, and plan surveillance to achieve those objectives in an auditable, efficient manner. For example, use supporting delegations and/or assistance from technical specialists, verify the inclusion of appropriate clauses, ensure Government property is appropriately identified, and confirm that general and special contract provisions are included in the contract.
- ◆ Ensure the contract file identifies stakeholders, includes contract deficiency reports, recognizes the objectives of the business case presented by the PM to comply with the 245 acquisition objectives in the [DoD Procedures, Guidance, and Information \(PGI\)](#), and identifies risks associated with the property list and terms.
- ◆ Evaluate contractor performance with contractual requirements, to include the use of voluntary consensus standards and/or industry leading practices; and ensure consistency with the property life-cycle process outcomes specified in [FAR 52.245-1](#).

- ◆ Notify contractor managerial personnel when the contractor's property control system presents an undue risk to the Government; and monitor the correction of the contractor's property control system.
- ◆ Assist COs, PMs, logisticians, auditors (such as DCAA), and other Government personnel; and advise the CO and/or other Government personnel regarding the contractor's failure to perform in accordance with contractual requirements.
- ◆ Notify the CO and other appropriate Government personnel in the event of excessive or improper acquisition by the contractor, and recommend appropriate remedies.
- ◆ Participate in preaward and post-award surveys to advise on the status of the contractor's property management system and capabilities, and to advise the contractor of its contractual obligations pertaining to the management of Government property.
- ◆ Investigate occurrences of property losses to advise the CO of liability or to relieve the contractor of responsibility. Ensure appropriate actions are taken to manage the risk of future loss.
- ◆ Review contractor-generated reports, such as physical inventory results and reports of loss, damage, destruction, and theft.
- ◆ Perform other property-related responsibilities as prescribed by the FAR, DFARS, Agency regulations and supplements, certificates of appointment, support property delegations, and this Guidebook.
- ◆ Conduct agency, program, and other customer-requested reviews involving contract property.
- ◆ Oversee contractual disposal actions and processing requests for disposal directions.

## ETHICS OF CONTRACT PROPERTY ADMINISTRATION

Contract property administration requires that the highest degree of ethical standards be applied by both Government and contractor personnel. Questionable and unethical property practices must be immediately reported by Government personnel through appropriate management levels in accordance with agency regulations.

## Chapter 2

# Acquisition

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Contractors acquire property through various means, including purchase, transfer, and fabrication. A contract might call for new property to be purchased by the contractor for use under the contract. The Government might transfer its own property to the contractor for use under the contract. Or, the contract might call for the contractor to produce—or fabricate—property for the Government. The contractor’s acquisition of property is regulated by [FAR 52.245-1](#), Government Property; the applicable Cost Accounting Standards; and [FAR 52.216-7](#), Allowable Cost and Payment.

Most contractors acquire property through an established purchasing system. Material control organizations initiate purchase requisitions (PRs), which are then submitted to the contractor’s purchasing function. Source documents include Military Standard Requisitioning and Issue Procedures (MILSTRIP) requisitions, purchase orders, transfer documents, petty cash documents, and fabrication orders. Supporting documents include purchase requisitions and engineering change proposals (ECPs). It is the PA’s responsibility to ensure this basic process complies with the related acquisition regulations.

### PA RESPONSIBILITIES

The PA must examine requisition and fabrication procedures, and perform sufficient testing to ensure that the contractor:

- ◆ Has contractual authority for the acquisition of property, including property obtained from Government supply sources.
- ◆ Properly prepares and processes MILSTRIP requisitions, including routing identifiers and priority designators.
- ◆ Provides for internal reviews of available in-house items that are remaining from other (contractual) requirements.
- ◆ Has the necessary internal controls to ensure purchased quantities are reasonable (consistent with the contract type and scope).
- ◆ Performs actions in a timely manner.
- ◆ Maintains adequate support and supporting documentation. This includes 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, for proper charging.

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# Chapter 3

## Receiving

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Receiving involves the process of physically receiving incoming property. It is at the point of receipt when the contractor becomes accountable and responsible for Government property. The contractor also must define an auditable method to document the process of verification and posting of receipts in compliance with [ASTM E2605-08](#), Standard Practice for Receiving Property; or other voluntary consensus standard. Source documents include receiving reports; and supporting documents include Government bills of lading and packing lists.

### PA RESPONSIBILITIES

It is the PA's responsibility to examine the contractor's receiving controls and procedures and perform sufficient testing to ensure that the contractor:

- ◆ Promptly notifies the PA when overages, shortages, damages, or other discrepancies are discovered upon receipt of Government-furnished property.
- ◆ Obtains the carrier's signature when shortages or other discrepancies are identified at the time of delivery.
- ◆ Takes actions necessary to make required adjustments for overages, shortages, damages, and other discrepancies upon receipt of contractor-acquired property.
- ◆ Reconciles property received with documentation, such as 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 accounts for reusable containers in the property management system.
- ◆ Ensures the proper recording of quantity received, condition, date received, and other information necessary to meet the record reporting requirements of [FAR 52.245-1](#).
- ◆ Updates the DoD Item Unique Identification Registry as required by [DFARS 252.211-7007](#), Reporting of Government-Furnished Equipment in the DoD Item Unique Identification (IUID) Registry, as applicable.

## Chapter 4

# Support Property Administration

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The contractor is responsible and accountable for all Government property, including property in the possession of its subcontractors and property at its alternate locations. Included with this responsibility is a contractual obligation to periodically review the adequacy of the subcontractor's property management system. In addition, when property is located at a contractor's alternate site, the contractor's self-assessment program should include periodic reviews and audits necessary to assess the effectiveness of the site's property management system.

The prime PA is responsible for determining the necessity, type, and scope of support property administration (SPA). The sections below provide guidance to property personnel on requesting and accepting SPA for both subcontractor sites and alternate sites of the prime contractor.

### REQUESTING SPA FOR SUBCONTRACTOR SITES

Normally the prime PA will not request SPA at a subcontractor's premises, unless

- ◆ The Government otherwise would incur undue cost;
- ◆ Successful completion of the prime contract is threatened; or
- ◆ The SPA is authorized under [FAR 42.202](#) (f), Assignment of Contract Administration—Special Surveillance.

If the prime contractor is found to have inadequate subcontractor control, the PA must consider whether the value and criticality of the property at the subcontractor's locations increase the Government's risk of incurring undue cost or threaten the successful completion of the prime contract sufficiently to justify obtaining assistance from a supporting PA. If SPA is requested because the prime contractor has inadequate subcontractor control, the SPA delegation should be of limited duration, to be terminated when the prime PA's subcontractor control process is corrected.

The prime contractor is contractually obligated to manage its subcontracts. Accordingly, SPA will not be requested except in the circumstances identified above. In no event will SPA be delegated solely on the basis of a contractor's request.

## REQUESTING SPA FOR ALTERNATE SITES

The prime PA may request SPA at the contractor's alternate site if, in the PA's judgment, the prime contractor's periodic internal reviews and audits of that facility are not adequate to protect the Government's interest. Among the factors to be considered with regard to SPA is whether DoD is already performing property administration at the contractor's alternate site. If so, accepting SPA may not significantly increase the supporting PA's workload.

## PRIME PA RESPONSIBILITIES

The prime PA has the responsibility for determining whether and when SPA will be in the Government's best interests.

When the prime PA determines that SPA for a subcontractor is appropriate, the PA must also determine whether the prime contractor will accept the findings of an SPA. This is necessary because the Government does not have a contractual relationship with the subcontractor; rather, the prime contractor has that contractual relationship—known as privity of contract—with the subcontractor. Therefore, the prime PA must have the permission of the prime contractor before a supporting PA may be allowed to enter a subcontractor's facility to perform surveillance. That permission, and the agreement to accept the findings of the supporting PA, must be in writing.

However, if a subcontractor has prime contracts administered by DoD, the prime PA does not need the contractor's consent to request occasional assistance from the PA or other Department functional specialists with cognizance of that subcontractor. In that way, the prime PA may ascertain the overall status of the subcontractor's property management system. If such a request for occasional assistance makes the prime PA aware of deficiencies in the subcontractor's property management system, he or she must determine whether the prime contractor knew of the deficiencies and whether corrective actions were implemented.

The prime contractor's permission is not needed to request SPA if Government property is at the contractor's alternate locations, because the contractual relationship between the Government and the contractor extends to all the contractor's alternate locations.

Since the contractor's contract costs or prices normally are based on direct charges or overhead rates that include the cost of performing surveillance of subcontractors, the PA must coordinate with the Administrative Contracting Officer (ACO) before requesting SPA. The ACO may determine that consideration should be sought, depending upon the amount of overhead costs the contractor will save by having the Government perform the contractor's required subcontractor surveillance.

The prime PA will prepare a request for SPA and forward it to the PA assigned to the subcontractor or alternate site. If there is no PA assigned, the request will be forwarded to the Team Leader of the Property Division Team responsible for the geographic area where the subcontractor or alternate site is located.

The request for SPA must include the following minimum information and documentation:

- ◆ The name and address of the prime contractor.
- ◆ The prime contract number.
- ◆ The name and address of the alternate site or subcontractor that will have possession of the property.
- ◆ A copy of the subcontract, purchase order, inter-organizational transfer (IOT), interdivisional work authorization (IDWA), assist work authorization (AWA), or other document to which the property is accountable at the alternate site or subcontractor. Note that it is not necessary to forward a copy of the prime contract to which the property is accountable.
- ◆ A list of property to be furnished and/or a statement as to whether property will be acquired at the alternate site or by the subcontractor.
- ◆ The specific extent of support required, such as:
  - Extent of Property Management System Audit (PMSA) to be performed.
  - Prompt notification to the prime PA and investigation of property loss.
  - Forwarding copies of all system summary reports and risk assessments.
  - Identifying any required special-emphasis surveillance.
  - Any limits on the delegation, such as limiting the SPA's responsibility in cases of property loss.

The prime PA must maintain an SPA file of all outgoing delegations, and this file must become part of the Property Administration file. At a minimum, the SPA file should consist of:

- ◆ The prime contractor's written consent to SPA and agreement to accept the findings of the SPA.
- ◆ Documentation of coordination with CO.
- ◆ A copy of the original SPA request.

- ◆ Support documentation pertinent to the original request.
- ◆ The Support Property Administrator's acceptance of the delegation.
- ◆ The system summary reports and risk assessments for the subcontractor or alternate site.

The prime PA must accept the findings of the delegated supporting PA and advise the prime contractor of the results of property management reviews, including deficiencies. The prime PA must incorporate the findings of the delegated supporting PA when reviewing the prime contractor's subcontractor control processes. The prime contractor's actions in response to any deficiencies identified at the subcontractor or alternate site will be among the factors considered in determining the adequacy of the prime contractor's subcontractor control.

Prime PAs must review all SPA delegations during system analysis preparation for changes, additions, or deletions.

## SUPPORTING PA RESPONSIBILITIES

Supporting PAs must promptly accept requests for SPA. If a supporting PA receives a request that they believe will give them an excessive workload, they should bring it to the attention of their Supervisor. If the request is not complete, the supporting PA must request clarification and inclusion of pertinent documents from the prime PA in the most expeditious manner possible before accepting the assignment.

The supporting PA must provide prime PAs with copies of system summary reports and risk assessment narratives, and notify them by 30 October each year of the PMSA schedule for the delegated subcontractor or alternate site.

# Chapter 5

## Records

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The contractor is required to establish and maintain records of Government property in accordance with [FAR 52.245-1](#) and any other contract terms and conditions. (Note: This requirement does not extend to material released to the shop floor as work in process.)

### PA RESPONSIBILITIES

The PA must ensure that the contractor:

- ◆ Identifies general-purpose components that are readily removable, to comply with the disposition paragraph of [FAR 52.245-1](#). Such items must be clearly reflected on inventory disposal schedules to augment 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).
- ◆ Safeguards records from tampering or destruction.
- ◆ Establishes records for all property in a timely manner upon receipt or fabrication.
- ◆ Ensures weapons records include all serial numbers.
- ◆ Provides a complete, current, and auditable trail of all transactions, to include:
  - Name, part number, description, manufacturer, model number, and National Stock Number (if needed for additional item identification tracking and/or disposition). These data elements may not always apply. For example, some property (e.g., material) items do not have model numbers.
  - Quantity received (or fabricated), issued, and balance on hand.
  - Unit acquisition cost, which, for Government-furnished property, means 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.

Note: For contractor acquired property, depending on the contractor's accounting system, some contractors use a standard (as opposed to actual) cost process that "averages" the acquisition costs obtained on different purchase orders, batches, or lots. For example, due to differing quantities ordered, the price may be \$0.10 one time, \$0.06 the next time, and \$0.12 another 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.
- Disposition.
- Posting reference and date of transaction.
- Date placed in service, if required by contract terms and conditions.

## Property-to-Record Review

In addition to the normal "record to property" analysis, the PA must perform a "property to record" review. This entails randomly selecting property from the floor and tracing it back to the record, to ensure that a record has been generated or is being maintained.

## Identification of Control and Ownership Levels

Ideally, contractor records of controlled property should identify the appropriate level of control, ownership, and other information that fulfills organizational objectives, as explained in [ASTM E2279-03](#) or other voluntary consensus standard. In lieu of such identification, it is sufficient for the contractor's property management system to contain this necessary information.

## Subcontractor Responsibility for Records

In some cases, subcontractors establish and maintain the property records required under [FAR 52.245-1](#). For example, when cost-reimbursement purchase orders require the subcontractor to acquire property; or when other purchase orders require the delivery/acceptance of items at the subcontractor's location. Records created by a subcontractor must be incorporated into the prime's contract property account. Reports of a property loss, of excess property, and of a final zero balance on the contract property account are submitted to the Government through the prime for all alternate locations of contract performance.

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## Chapter 6

# Maintenance

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Ensuring proper maintenance of equipment, special tooling, and special test equipment is a critical element of contract property administration. The guidelines below apply to the PA's review and evaluation of the contractor's maintenance program.

### PA RESPONSIBILITIES

The PA must ensure that the contractor's maintenance program provides for the disclosure and performance of preventive and corrective maintenance, the need for and reporting of Capital-Type Rehabilitation (CTR), and the recording of work performed. The PA should be aware that:

- ◆ An adequate evaluation of the maintenance program may require assistance from appropriate technical personnel, such as Quality Assurance Specialists.
- ◆ 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 any available manufacturer's maintenance manuals.
- ◆ Both scheduled and non-scheduled maintenance may be required.
- ◆ In some instances Government property may, by its nature, require maintenance to be performed by the Government instead of the contractor. For example, calibration may require equipment that is kept on an installation.

### PREVENTIVE MAINTENANCE

In accordance with [FAR 52.245-1](#), paragraph (f)(1)(ix), the contractor's maintenance program should include regularly scheduled inspections. In addition, the program should include calibration and maintenance to sustain suitability for the intended use and to detect and correct minor deficiencies before they result in damage to property. Preventive maintenance includes lubrication; servicing; inspection; and normal parts replacement to forestall excessive wear, malfunction, or deterioration.

The program should also identify any special requirements, procedures, and/or instructions to ensure that the property's maintenance is performed in a timely manner and that all actions are recorded. Work orders and/or instructions for pre-

ventive maintenance should assign responsibility and include a checklist identifying all maintenance performed.

When performed by equipment operators, preventive maintenance procedures must identify tasks, checklists, frequencies, and recording requirements; and they must include the reporting of 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 also should provide for corrective actions and repair. This includes:

- ◆ The disclosure and/or reporting of deficiencies by operational personnel;
- ◆ Disclosure of deficiencies through preventive maintenance and/or inspections;
- ◆ Initiation of work orders with detailed assignment, guidance, and responsibilities; and
- ◆ Recording work accomplished.

## CAPITAL-TYPE REHABILITATION

Work that is outside of the normal maintenance obligation—preventive and corrective maintenance—is considered capital-type rehabilitation. Contractors are required by [FAR 52.245-1](#) to disclose the need for CTR and report this requirement to the Contracting Officer, because the performance of CTR requires CO authorization. If routine and preventative maintenance and repair are not sufficient to sustain a property item's suitability for intended use, the contractor should notify the CO promptly and request direction regarding repair, replacement, or other actions directed by the Government.

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## Chapter 7

# Subcontract Control

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Subcontract control involves ensuring subcontracts clearly identify assets to be provided and ensuring the proper flow-down of prime contract terms and conditions (such as extent of liability for property loss or property fabricated at the subcontractor premises). See [Chapter 5](#) for information on subcontractor records responsibilities.

### PA RESPONSIBILITIES

The PA must examine the prime contractor's subcontract controls and procedures and perform sufficient testing to ensure that the contractor:

- ◆ Includes the appropriate flow-down clauses and instructions in its subcontracts as required by [FAR 52.245-1](#), paragraph (v).
- ◆ Conducts periodic reviews to determine the adequacy of its subcontractors' property management systems.
- ◆ Properly administers the risk-of-loss and other provisions flowed down to its subcontractors.

## Chapter 8

# Utilization

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Property utilization requirements are meant to ensure the contractor uses Government property only as authorized by the contract. The contractor is also required to promptly report Government property that is in excess of contract requirements.

Property with a known future use that has projected periods of dormancy should be reviewed to determine whether non-interference use may have mutual benefits for the Government and contractor. A request for non-interference use may be initiated by the contractor to the CO, who may provide the authorization and terms.

### PA RESPONSIBILITIES

The PA must ensure utilization compliance in accordance with [FAR 52.245-1](#) (c); [FAR 52.245-9](#), Use and Charges; and [DFARS 252.251-7001](#), Use of Interagency Fleet Management System (IFMS) Vehicles and Related Services. It is the PA's responsibility to examine the contractor's controls and procedures, and perform sufficient testing to ensure the contractor utilizes Government property only as authorized by the contract.

## Chapter 9

# Storage

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Storage requirements call for adequate protection of Government property when not in use. This includes proper protection from unauthorized removal, pilferage, and theft; and protection from water damage, insect and rodent infestation, and deterioration from dust, temperature, static electricity and humidity. Storage areas should be kept neat, clean, and organized.

### PA RESPONSIBILITIES

The PA must ensure that the contractor's storage methodology:

- ◆ Is commensurate with the types of property in the contractor's possession and is documented in the contractor's procedures.
- ◆ Provides proper physical security and control of access for all property, including that awaiting disposition/plant clearance. The PA must examine the contractor's facility and perform sufficient testing to ensure that the contractor's procedures address the protection of property within general-purpose warehouses and other storage areas.
- ◆ Is augmented, where applicable, to address special protection for sensitive property, hazardous materials, shelf-life items, classified property, material storage compatibility, and so on.
- ◆ Includes proper protection of property while in outside storage.

If necessary, the Property Administrator (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.

### BONDED STORAGE

Unless there is a need to defer payment of duties on Government property until it is sold, bonded storage is generally inappropriate. Unlike conventional storage facilities, bonded warehouses are authorized by local customs authorities to store goods on which the payment of duties is deferred until the goods are sold. These goods remain off-shore, in effect, for customs purposes. As a result, the costs associated with legally landing them can be postponed until they are actually purchased. If the contract requires bonded storage, clarification should be sought from the Procuring Contracting Officer.

## COMMINGLING

Commingling is the process by which materials common to multiple projects or contracts are stored in a single location where, upon being mixed with other materials, they lose their identity or ownership. For example, while stored in sealed bags that are clearly identified as to ownership, stock materials such as nuts, bolts, and screws are considered to be co-located rather than commingled. When the bags are opened and the contents poured into a bin with other stock materials, the items have been commingled, such that the ownership of each nut, bolt or screw cannot be identified.

The disadvantage in commingling lies in the fact that property can lose its identity as Government property, thereby potentially affecting consumption rates, property losses, Government warranties of suitability for use, and disposal actions. Convenience and apparent ease for the contractor alone is not advantageous to the Government. The PA's determination as to whether commingling is advantageous to the Government should include consideration of the following:

- ◆ Whether it is practical and economical to combine Government and contractor material property in the manufacturing or processing operation; for example, when a contractor is using a Material Requirements Planning (MRP), Manufacturing Resource Planning (MRPII), Enterprise Resource Planning (ERP), or Just-in-Time (JIT) type of material system.
- ◆ Whether 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.

In contrast to commingling, the contractor may “co-locate” contractor-owned property with other types of Government-owned property (for example, 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 the property clause.

As an example of this contrast, consider common stock materials, such as nuts, bolts, and screws. While stored in their original packaging 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.

# Chapter 10

## Consumption

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As it pertains to Government property, consumption is the process of incorporating material into an end-item or otherwise consuming it in the performance of a contract. This process directly relates to the requirements of [FAR 31.201-3](#), Contracts with Commercial Organizations—Determining Reasonableness. 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 DRIVERS

Consumption is driven by the contractor’s environment—specifically, a production, overhaul and maintenance, or research and development environment:

- ◆ 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, spoilage 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.

### CONSUMPTION PROCESS

The consumption process generally consists of four elements:

1. The first element involves issuance of material in reasonable and proper quantities for the work being performed. Issuance generally can 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.
2. The second element in the consumption process 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.
  3. The third element is 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.
  4. 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, depending on their condition; for example, reparable status, shelf life, life expectancy, scrap, or salvage. In some cases, contracts authorize the abandonment of parts to the contractor.

To ensure the material is consumed in reasonable quantities, the PA must review the contractor's consumption practices and assess material requirements and calculations of the actual material consumption to ensure the material is consumed in reasonable quantities.

Material becomes "work in process" (WIP) once it released from a stock room or other control activity to the consuming area, such as the shop floor. More specifically, 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 material has been released to the consuming area, contractors may 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; for example, 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 indicates a significant deficiency.

## UNREASONABLE CONSUMPTION

As a general rule, material consumption is considered unreasonable if it 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 (QARs) or engineers.

### Remedies for Unreasonable Consumption

Unreasonable consumption of Government materials is not considered property loss under the risk-of-loss provisions. In a cost-type contract where unreasonable consumption is found, the PA must recommend that the ACO consider a cost disallowance action under the cost principals of [FAR Part 31](#), Contract Cost Principles and Procedures. In fixed-priced contracts where unreasonable consumption is found, the PA will forward the case to the ACO, who must determine whether consideration should be requested from the contractor. Unreasonable consumption may also be addressed under [DFARS 252.242-7004](#), Material Management and Accounting System.

# Chapter 11

## Physical Inventory

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A physical inventory is a process of ensuring that quantities on hand are known and recorded. Generally, few contracts contain terms and conditions for frequency of physical inventories or inventory accuracy. In such cases, the contractor should document, within its property management procedure, the physical inventory frequency and levels of accuracy it seeks to achieve.

[FAR 52.245-1](#) requires contractors to perform physical inventories periodically and upon contract completion or termination. (Note: This requirement does not extend to material released to the shop floor as WIP.) Depending on the circumstances, requiring the contractor to perform a separate, complete physical inventory of the Government property accountable to the contract being closed out may not be necessary. For example, if within the past few months, the contractor has completed a physical inventory of all property in its possession in accordance with its regular physical inventory cycle, this inventory may satisfy the requirements of the clause.

### PA RESPONSIBILITIES

The PA must ensure that the contractor periodically performs, records, and discloses physical inventory results. The PA also must ensure that the contractor:

- ◆ Performs required physical inventories commensurate with the associated requirements to support the Accountable Property System of Record (ASPR) for the kinds of property in its possession. For example, an annual inventory is required for sensitive property.
- ◆ Does not allow those who maintain the records, or are responsible for the custody of the property, to perform the physical inventories.
- ◆ Performs physical inventories promptly upon contract completion or termination, unless waived by the PA.
- ◆ Locates and counts property, compares the results of the physical inventories to property management records, properly records losses and adjustments to the property management records, and discloses the overall results.
- ◆ Ensures distribution of inventory adjustments for the Accountable Property Officer to update the ASPR when appropriate to maintain auditable records in accordance with [DoDI 5000.64](#).

## Chapter 12

# Disposition/Contract Close-Out

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Property disposition/contract closeout 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.

### PA RESPONSIBILITIES

The PA must ensure that the contractor:

- ◆ Conducts in-house screening of excess property upon contract completion or when determined to be excess to the contract requirements.
- ◆ Follows contractual directions for the shipment of specific items when no longer required.
- ◆ Promptly reports excess property via complete and accurate reports in the manner prescribed by the contract and written procedures.
- ◆ Obtains proper authority for timely 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, and ensures transaction data are properly posted to property records.
- ◆ Provides contract close-out letters reflecting zero balance of property in a timely manner.
- ◆ Updates the DoD Item Unique Identification Registry as required by [DFARS 252.211-7007](#), as applicable.

# Chapter 13

## Reports

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The PA is responsible for reviewing the contractor's report preparation controls and procedures, and performing sufficient testing to ensure that the contractor promptly investigates and furnishes contractually required reports.

### REPORTS ON PROPERTY LOSS

Contractors must describe the methods and designate the personnel titles assigned for the input of reports of loss to the LTDD eTool, or identify the alternative process in their written procedures. Reports on incidents of property loss must include the following:

- ◆ The date of the incident, if known.
- ◆ The property name, commercial description, manufacturer, model number, and National Stock Number (NSN) if applicable.
- ◆ The quantity.
- ◆ The Item Unique Identifier if applicable and available.
- ◆ The accountable contract number.
- ◆ A statement indicating a current or future need.
- ◆ Acquisition costs or, if applicable, estimated scrap proceeds and estimated repair or replacement costs.
- ◆ All known interest in commingled property.
- ◆ Cause 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.
- ◆ The last known location of the property.

- ◆ 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 such material.

The PA also must ensure that the contractor's procedures require the immediate reporting (via telephone or personal contact) of any loss of arms, ammunition, or 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 also must notify the local Federal Bureau of Investigation; Bureau of Alcohol, Tobacco, and Firearms; and local police, as appropriate.

Consistent with [FAR 52.245-1](#), the PA may waive contractor reporting of wartime property losses (that is, losses resulting from hostile action by enemy forces) on an incident-by-incident basis. Instead, such reporting may be accomplished on a regular basis as agreed to between the PA and contractor, and 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 must review contractor records, internal controls, and supporting documentation, and make liability determinations during the PMSA.

## REPORTS OF INVENTORY, AUDIT, AND REVIEW RESULTS

Reports of physical inventory results should include the date(s) on which 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 must include the performance date, the functional area reviewed, a summary of the findings, and any corrective action plan.

### PMSA Summary Report

Upon completion of either a standard or limited PMSA, the PA must forward the PMSA summary report to the ACO. Within 10 days of receiving the PMSA summary report, the ACO must determine whether the deficiencies are significant. If the deficiencies are significant, the ACO must require the contractor to submit a written response, including a corrective action plan, the sufficiency of which the ACO must determine (in consultation with the PA) within 30 days of its receipt. If the contractor's written response does not sufficiently address the deficiencies, the ACO must follow the steps outlined in [PGI 245.105](#) (3), Final Determination. If the ACO determines that the deficiencies are not significant, the PA still should seek contractor corrective action. If the contractor does not cooperate (and notwithstanding the degree of a finding or deficiency), the PA may escalate the matter to the ACO.

For standard PMSAs, the PA should send the summary report to the ACO within 10 days of the exit conference. For limited PMSAs, the PA should send the summary report to the ACO within 10 days of the desk audit.

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# Chapter 14

## Contractor Self-Assessments

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The contractor is required, under [FAR 52.245-1](#), to perform self-assessments evaluating the effectiveness of the contractor's property management system. The contractor must 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 from a property management system analysis performed in accordance with DoD 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 self-assessment.

### BACKGROUND

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

Before [FAR 52.245-1](#) was revised in 2007, many contractors used their own property management self-assessment (internal assessment/audit) programs. The revised clause established the concept as a contractual requirement for all. These self-assessment requirements are in addition to the audit requirements set forth in [Office of Management and Budget \(OMB\) Circular A-133](#), as well as any other statutory requirements (such as the [Sarbanes-Oxley Act of 2002](#) and the [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—formal/structured and informal. Formal/structured assessments are based on the following:

- ◆ The standards in [GAO-03-673G](#), The Yellow Book.
- ◆ DoD's traditional 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 International Organization for Standardization (ISO) process reviews. Note: an ISO audit, internal or external, does not totally fulfill this requirement, as the ISO standards do not address all of the process requirements set forth in [FAR 52.245-1](#).
- ◆ Any combination of the above.

Informal assessments:

- Are less structured and less complex,
- Involve walk-throughs and interviews/discussions with personnel, and
- Include double-checking property records and documentation.

Contractor self-assessments may range from simple reviews and/or validations to highly complex audits and assessments, depending on the complexity of the contractor's property management system. It is recognized that small business concerns typically will not have as sophisticated, detailed, and extensive a self-assessment program as major contractors. The PA must use good judgment to ensure that the program provides sufficient oversight without needlessly burdening the contractor.

## OBJECTIVITY

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. Ideally this would be achieved by having the analysis performed by an independent party not associated with the property organization. However, 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 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.

## AUDIT PROGRAM AND WRITTEN PROCEDURES

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

The contractor's written procedures should adequately address the:

- ◆ Audit or assessment methodologies to be used; for example, [GAO-03-673G](#), The Yellow Book; maturity models; metrics and statistical process controls; and audit protocols.
- ◆ Confidence rate and methodology used to compute it.
- ◆ Party responsible for performing the audit.
- ◆ Audit frequency.
- ◆ 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.

## PA VALIDATION OF CONTRACTOR SELF-ASSESSMENT

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

If the results of the self-assessment 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:

- ◆ Visual observations conducted during the contractor's internal audit; and/or

- ◆ A judgment sampling of the contractor's work papers, verifying the reliability, validity, accuracy, and completeness of the data.

It is advisable that the PA 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.

## USING CONTRACTOR 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 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 review frequency. Based on past performance and current internal audit findings, the PA may exempt certain (compliant) processes from the PA's current-year PMSA.

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 used by the Government, the presumption is that the PA will integrate the contractor's self-assessment results within the overall audit. The PA must 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, as 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.
- ◆ Class of defects such as major and minor; for example, major defects would generally require lower AQLs than those for minor defects.

- ◆ The record of the quality level of previously submitted lots.

Note that, if the contractor will be using [ASTM 2234](#) or other voluntary consensus standard to identify a defect, it is imperative that the contractor define “defect” and the differences between major, minor, and critical defects.

When systemic or significant findings are 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 must not use the information provided by the contractor through the internal audit process as the sole foundation for evaluating the contractor’s self-assessment program, especially where the contractor has corrected the deficiencies or has made (or is making) a good-faith effort to correct the deficiencies.

Where the contractor has not made a good-faith effort to correct those deficiencies disclosed through the internal audit, or if the corrective actions are insufficient or are not being completed in a timely manner, the contractor’s findings must be incorporated into the PMSA.

## INTERNAL AUDIT AND ASSESSMENT RECORDS

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

# Appendix A

## Statistical Sampling Tables

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The statistical sampling tables below relate Government property sampling plans using various levels of confidence.

*Table A-1. Double Sampling Plan  
(90% confidence of rejecting lots having 10% or more defectives)*

Lot Range	Sample Size 1	Accept if defects in Sample 1 are...	Reject if defects in Sample 1 are...	Continue with Sample 2 if defects in Sample 1 are	Sample Size 2	Accept if sum of defects in samples 1 and 2 is less than or equal to...	Reject if sum of defects in samples 1 and 2 is equal to or more than...
1-18	All	0	1	-	-	-	-
19-50	18	0	1	-	-	-	-
51-90	21	0	2	1	21	1	2
91-150	25	0	3	1 or 2	25	2	3
151-400	32	0	4	1, 2, or 3	32	3	4
401-10,000	34	0	4	1, 2, or 3	34	3	4
10,001-35,000	40	0	5	1, 2, 3, or 4	40	4	5
35,001-100,000	46	0	6	1, 2, 3, 4, or 5	46	5	6
100,000+	52	0	7	1, 2, 3, 4, 5, or 6	52	6	7

*Table 2. 95% Confidence Double Sampling Plan  
(95% confidence of rejecting lots having 10% or more defects)*

Lot Range	Sample Size 1	Accept if defects in Sample 1 are...	Reject if defects in Sample 1 are...	Continue with Sample 2 if defects in Sample 1 are	Sample Size 2	Accept if sum of defects in samples 1 and 2 is less than or equal to...	Reject if sum of defects in samples 1 and 2 is equal to or more than...
1-22	All	0	1	-	-	-	-
23-50	22	0	1	-	-	-	-
51-90	25	0	2	1	25	1	2
91-150	30	0	3	1 or 2	30	2	3
151-400	37	0	4	1, 2, or 3	37	3	4
401-10,000	39	0	4	1, 2, or 3	39	3	4
10,001-35,000	45	0	5	1, 2, 3, or 4	45	4	5
35,001-100,000	52	0	6	1, 2, 3, 4, or 5	52	5	6
100,000+	58	0	7	1, 2, 3, 4, 5, or 6	58	6	7

*Table 3. 97% Confidence Double Sampling Plan  
(97% confidence of rejecting lots having 10% or more defects)*

Lot Range	Sample Size 1	Accept if defects in Sample 1 are...	Reject if defects in Sample 1 are...	Continue with Sample 2 if defects in Sample 1 are	Sample Size 2	Accept if sum of defects in samples 1 and 2 is less than or equal to...	Reject if sum of defects in samples 1 and 2 is equal to or more than...
1-25	All	0	1	-	-	-	-
26-50	25	0	1	-	-	-	-
51-90	28	0	2	1	28	1	2
91-150	33	0	3	1 or 2	33	2	3
151-400	41	0	4	1, 2, or 3	41	3	4
401-10,000	43	0	4	1, 2, or 3	43	3	4
10,001-35,000	50	0	5	1, 2, 3, or 4	50	4	5
35,000-100,000	56	0	6	1, 2, 3, 4, or 5	56	5	6
100,000+	63	0	7	1, 2, 3, 4, 5, or 6	63	6	7

Note: The Generally Accepted Government Auditing Standards in [GAO-03-673G](#) (The Yellow Book) do mandate what confidence level to use. The PA must support a decision to use a 90, 95, 97, or 100 percent confidence level based on the potential impact of a systemic deficiency (risk). The sampling for a performance audit must not be confused with confidence levels for physical inventory verifications that are provided in [DoDI 5000.64](#).

# Appendix B

## Guidance on Significant/Systemic Findings

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### SIGNIFICANT FINDINGS

Section 893(f)(4) of the [Ike Skelton National Defense Authorization Act for Fiscal Year 2011](#) defines the term “significant deficiency” to mean a shortcoming in the system that “materially affects” DoD’s and the contractor’s ability to “rely upon the information produced by the system that is needed for management purposes.”

The term “significant” is comparable to the term “material” as used in the context of the standards in [GAO-03-673G](#), The Yellow Book. A significant deficiency is of such consequence or importance that it can increase the risk of unsuccessful contract performance. A significant deficiency can be established based on one criterion or several. For example, a large number of small findings taken in their totality can be potentially critical to contract performance and thus significant. Because the significance of a deficiency is often a question of degree, it cannot always be determined by general propositions.

Significant deficiencies are not always systemic. For example, records or storage deficiencies that might be insignificant for most property may very well be significant for arms, ammunition, and explosives.

Significant findings differ from minor findings and record variances, employee errors, or “mistakes” such as posting errors that can be easily corrected, usually on the spot. In such cases, the PA must note in the PMSA summary whether the finding was corrected.

### SYSTEMIC FINDINGS

Findings of systemic deficiencies pertain to deficiencies that impact, or are found throughout, a contractor’s management system. They are, by their very nature, considered significant.

Such deficiencies tend to be “hardwired” into a contractor’s procedures and systems. In such cases, even if an employee adheres strictly to the contractor’s procedures, deficiencies still can result.

Systemic deficiencies also can result despite a contractor’s sound written procedures. For example, the contractor deploys a new property management or information technology system; and although the system is adequate in every respect,

contractor employees are not sufficiently trained in its use (poor management/implementation). As a result, the system is fraught with data errors. In this case, although the system is not “hardwired” to produce bad data, bad data are what it produces. Such a situation usually requires the contractor’s managerial personnel (see [FAR 45.101](#)) to make substantive changes to the contractor’s overall operation.

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# Appendix C

## Guidance on Scrap Processing

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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, and/or
- ◆ Characteristics or components dangerous to public health or safety.

Such scrap property may require physical segregation, unique disposal processing, or separate plant clearance reporting.

## PA RESPONSIBILITIES

The PA must ensure that the contractor properly disposes of scrap as follows:

- ◆ In general, the contractor's procedures address disposal of the following types of scrap:
  - Unserviceable end-items beyond economical repair (meeting the [DFARS](#) 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, such as production (shavings and trimmings), engineering, and research and development.
  - Other types of scrap, such as serviceable property downgraded to scrap, may be disposed of for its basic material content by direction of the Plant Clearance Officer (PLCO).
- ◆ Unless the PA or PLCO determines otherwise, contractor- and Government-owned scrap may be commingled, thus losing their identity as Government property. Once the scrap property loses its identity as Government property, the record requirements of [FAR 52.245-1](#) (f) (iii) (A) (1) through (10) do not apply.

- ◆ Production scrap does not warrant physical segregation and may be commingled and disposed of with contractor-owned scrap.
- ◆ The cognizant DCAA office has determined whether the contractor's disclosed accounting practices (Cost Accounting Standards Board 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](#)).
- ◆ The contractor's procedure allows for effective and efficient sales processes enabling reasonable returns based on scrap market value.
- ◆ Usable (non-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 (for example, printed circuit boards or lead).
- ◆ Proceeds from sales of scrap are deposited in accordance with [FAR 45.604-4](#).

Note: 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.

# Appendix D

## Guidance on Arms, Ammunition, and Explosives

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All contracts involving arms, ammunition, or explosives (AA&E) mandate the application of the [DoD 4145.26-M](#), DoD Contractor's Safety Manual for Ammunition and Explosives. DoD contract safety is responsible for ensuring contractors adhere to that manual. Physical security surveys conducted by the Defense Security Service (DSS) are limited to AA&E and are separate from the PMSA. However, 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) or Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) presence; or a local police force.

### PA RESPONSIBILITIES

For contractors with AA&E, the PA must:

- ◆ 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 (see DFARS [223.370-3](#), [223.7201](#), [223.7002](#), and [252.211-7007](#)) 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 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.
- ◆ Advise all concerned elements, including the cognizant Contract Safety Specialist/Manager, of the facts surrounding any incident (property loss, for example) involving AA&E.

- ◆ Ensure that the contractor's procedures require the immediate reporting (via telephone or personal contact) of any loss of AA&E 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, ATF, and police force, as appropriate.

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# Appendix E

## Resources

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This appendix provides links to online resources that offer supplemental information on contract property administration.

### TOOLS

The following systems and Websites are available as contract property administration tools:

- ◆ The Accountable Property System of Record (ASPR) provides Government officials with data to base decisions that meet the on-going demands for property. Information retained in the APSR includes stock numbers, locations, point of contact, and other elements that ensure visibility and economy of supply.
- ◆ The [Federal Logistics Information System Web Query](#) (WebFLIS) system provides information about supply items, such as the National Stock Number, part number, item name, and manufacturer.
- ◆ [Wide Area Workflow](#) (WAWF) is a secure Web-based system for electronic invoicing, receipt and acceptance.
- ◆ [External Web Access Management](#) (EWAM) allows users to apply for access to electronic tools and applications, including the LTDD e-tool mentioned in [Chapter 13](#).
- ◆ The Defense Procurement and Acquisition Policy (DPAP) [Website](#) offers updates concerning policy and regulatory guidance.
- ◆ Defense Acquisition University's [Acquisition Community Connection](#) provides a Government Property Community of Practice, including sample documents, templates, and forms.
- ◆ [DoD 4160-21-M](#), the Defense Demilitarization Manual, assigns responsibilities and provides procedures for assessing demilitarization (DEMIL) requirements and performing physical DEMIL of DoD personal property.
- ◆ The [Defense Logistics Agency Disposition Services website](#) offers links to a variety of disposal management resources.
- ◆ [The Yellow Book](#) is the source of Government Auditing Standards, also known as Generally Accepted Government Auditing Standards.

# FORMS

Forms related to contract property administration include the following:

- ◆ [DoD Form 1149](#), Requisition and Invoice/Shipping Document, is used in accordance with [DFARS 245.7101-2](#) for transfer and donation of contractor inventory. Donations of industrial plant equipment may be shipped via DD Form 1149. This form may also be used to consolidate contractor inventory redistribution system-directed shipments going to the same destination.
- ◆ [DD Form 1348-1](#), DoD Single Line Item Release/Receipt Document is used in accordance with [DFARS 245-7101-3](#) for shipments of excess industrial plant equipment and contractor inventory redistribution system (CIRS) inventory.
- ◆ [DD Form 1423](#), Contract Data Requirements List, used to specify the contract data requirements authorized for a specific acquisition under the contract.
- ◆ [DD Form 1640](#), Request for Plant Clearance, is used in accordance with [DFARS 245.7101-4](#) to request plant clearance assistance or transfer plant clearance.
- ◆ Standard Form (SF) 97, Certificate of Release of a Motor Vehicle (Agency Record Copy), is used in accordance with [DFARS 245.7101-1](#) for transfers, donations, and sales of motor vehicles. The CO executes the SF 97 and furnishes it to the purchaser.

# Appendix F

## Abbreviations

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The following list identifies the abbreviations that appear in this guidebook.

AA&E: Arms, Ammunition, and Explosives

ACO: Administrative Contracting Officer

ATF: Bureau of Alcohol, Tobacco, Firearms and Explosives

ASPR: Accountable Property System of Record

AWA: Assist Work Authorization

CO: Contracting Officer

CS: Contract Specialist

CTR: Capital-Type Rehabilitation

DCAA: Defense Contract Audit Agency

DEMIL: Demilitarization

DFARS: Defense Federal Acquisition Regulation Supplement

DoD: Department of Defense

DSS: Defense Security Service

ECP: Engineering Change Proposals

ERP: Enterprise Resource Planning

FAR: Federal Acquisition Regulation

FBI: Federal Bureau of Investigation

FIFO: First-in, First-out

FLIS: Federal Logistics Information System

IDWA: Interdivisional Work Authorization

IFMS: Interagency Fleet Management System

IOT: Inter-Organizational Transfer  
ISO: International Organization for Standardization  
IUID: Item Unique Identification  
JIT: Just-in-Time  
LTDD: Lost, Theft, Damaged, and Destroyed  
MILSTRIP: Military Standard Requisitioning and Issue Procedures  
MRP: Material Requirements Planning  
MRPII: Manufacturing Resource Planning  
NSN: National Stock Number  
OMB: Office of Management and Budget  
PA: Property Administrator  
PGI: Procedures, Guidance, and Information  
PLCO: Plant Clearance Officer  
PM: Project Manager  
PMSA: Property Management System Audit  
PR: Purchase Requisition  
QAR: Quality Assurance Reviewer  
SPA: Support Property Administration