

GUIDEBOOK FOR CONTRACT PROPERTY ADMINISTRATION

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INTRODUCTION

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.

INTENT/OUTCOME/PURPOSE

The intent/outcome/purpose of this Guidebook is to provide a policy framework 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).

PROCESS

1. Review Contract. Property Administrators (unless otherwise stated, Property Administrator (PA) means the assigned Industrial Property Management Specialist) shall:

1.1. Review each new contract to determine if property administration is required. Throughout this Instruction, all references to “days” are calendar days.

1.2. Ensure contracts contain appropriate terms and conditions relevant to the property expected to be furnished or acquired; e.g., the FAR clauses at 52.245-1 and 52.245-9, and DFARS clauses 252.211-7007, 252.245-7001, 252.245-7002, 252.245-7003, and 252.245-7004.

1.3. For contingency contracts, advise buying commands to coordinate their requests for property administration with the CENTCOM Contracting Command. See www.c3-training.net.

1.4. Be alert to

1.4.1. Potential or obviously inappropriate instances of Government- furnished or contractor acquired property such as common office items or general purpose equipment.

1.4.2. Contracts where the deliverable end-item is to be delivered/accepted in-place (FOB origin).

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

1.4.4. Unique in-theater contractual and technical requirements, country-to-country agreements, host nation requirements, memoranda of agreement, or treaties. See also DFARS 225.301 and PGI 225.7401.

1.4.5. Contracts with special terms and conditions such as those involving sensitive property (as defined in FAR 45.101), physical inventory performance, demilitarization, or special storage or unique property disposition requirements.

2. Report Contract Deficiency. The PA shall:

2.1. Issue a Contract Deficiency Report (CDR) in Electronic Document Access (EDA) for those contracts lacking appropriate terms and conditions.

2.2. When creating an EDA-CDR, the assigned Contracting Officer shall be identified as the reviewing/validation official; notify the Contracting Officer in writing if use of EDA is not appropriate or unavailable (overseas or remote locations).

3. Assign Contracts. The PA shall assign the following contract types/conditions for property administration:

3.1. Fixed-price contracts where property will be furnished to the contractor.

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 acquisition value exceeding the DoD simplified acquisition threshold and otherwise meeting the requirements of FAR 45.107(d).

3.3. Time and Materials Contracts.

3.4. Cost reimbursement contracts (except when it is clear that no property will be furnished or acquired. For example, contracts involving only engineering services, research/study contracts).

3.5. Top level basic indefinite delivery contracts (IDCs) (provided there is a Government property requirement). IDCs are identified by the letter "D" occupying the ninth position of the PIIN. Although MOCAS treats each IDC order as a separate contract; i.e., performance (shipments, delivery and acceptance) is tracked, money is obligated and payments made at the order level, legally such orders do not stand alone; the basic IDC is the actual contract. Accordingly, PAs shall not assign fixed-price task orders issued under IDCs.

3.6. Delivery orders awarded under Basic Ordering Agreements (BOA) (FAR 16.703), Basic Agreements (BA) (FAR 16.702) or Blanket Purchase Agreements (BPA) where property is to be furnished or acquired. BOAs and BPAs are typically identified by the letter "G" or "A", respectively, occupying the ninth position of the PIIN.

3.7. Letter contracts (FAR 16.603-2). Letter contracts 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).

4. Assign New Contractors. Within 30 days of contract assignment, the PA shall:

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

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

4.3. Obtain the contractor's policies and procedures; review procedures within 45 days of receipt. If the procedures are on their face unacceptable, the PA may grant the new contractor a reasonable amount of time, not greater than 45 days from the initial determination of unacceptability to provide updated procedures. Paragraph 7.6, below, contains minimum requirements for an acceptable property management system.

4.4. If after 45 days the procedures remain unacceptable, the PA shall notify the Contracting Officer.

5. Plan PMSA. The PA shall:

5.1. 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 the revalidation on the results of the last PMSA, the current status of the contractor's property management system and any other sources of reliance including, but not limited to, potential program impact due to property type or criticality, Special Programs' findings, past performance, prior experience with the contractor, contractor procedural changes, other audit findings, past deficiencies and corrective actions, or results of pre-award and post-award conferences. New contractors shall be considered (at least) moderate risk until such time the PA determines the appropriate level of surveillance.

5.2. Choose the appropriate PMSA type as follows:

5.2.1. Standard PMSAs require entrance and exit conferences, detailed tests and formal examination/evaluation of the contractor's property management system.

5.2.2. Limited PMSAs require informal "desk audits." Unlike Standard PMSAs, which involve plant visits and formal testing/evaluation of contractor processes, Limited PMSAs rely on contractor responses to a series of questions covering each required element of a contractor's property management system. If the Limited PMSA reveals potential deficiencies, the PA may visit the contractor to resolve the issue(s) or conduct a standard PMSA if appropriate.

6. Schedule PMSA. The schedule shall be based on the following:

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

6.2. Moderate Risk. Perform a Standard, Limited PMSA or site visit as frequently as conditions warrant, but at least once every three years.

6.3. Low Risk. Perform a Standard, Limited PMSA or site visit as frequently as conditions warrant, but at least once every three years.

7. Conduct PMSA. For all contractors, the PA shall:

7.1. Conduct PMSA by the date scheduled; or

7.2. Revise or extend the date scheduled based on individual circumstances.

7.3. Exercise reasonable judgment based on facts and data.

7.4. Establish and maintain adequate documentation to support decisions.

7.5. Review contractor written procedures. This review is essential as it provides a sense of the contractor's operation. In general, procedures that are well designed, up-to-date, with strong internal controls will produce consistent results. In contrast, contractor procedures that are obviously neglected can forecast deficiencies.

7.6. Ensure contractor procedures:

7.6.1. Address contract terms and conditions.

7.6.2. Have adequate management and internal control measures such as those necessary for controlling sensitive property.

7.6.3. Establish clear lines of authority and organizational accountability for custodial care (ASTM E 2279-03).

7.6.4. Describes the methods for performing prescribed tasks; e.g., acquisition, receiving, etc.

7.7. Perform risk assessment of the process outcomes identified in FAR 52.245-1, Government Property, and any other contract terms and conditions.

7.8. 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 Contracting Officer. Limited PMSAs do not require prior written notification to the contractor.

7.9. Conduct an Entrance Conference (not required for Limited PMSAs). The PA shall:

7.9.1. Inform the contractor of the scope of review and the timeline for completion.

7.9.2. Establish with the contractor a mutual understanding of audit processes and sampling procedures to be used. However, no prior commitment should be made regarding sampling methods.

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

7.10. Review/test each applicable process (those that apply to a given PMSA) at least once every three years.

7.11. 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 or criteria outlined in paragraphs 10.5.1., 10.5.2. and 10.5.3., below). Less frequent reviews or reviews not performed on-site (for contract closeout purposes for example) require the approval of the PA's supervisor.

7.12. Perform sufficient testing of the following process outcomes, to the extent they apply:

- Acquisition
- Receiving
- Records
- Maintenance
- Subcontractor Control
- Utilization
- Storage
- Consumption
- Physical Inventory
- Disposition/Contract Close-out
- Reports
- Contractor Responsibility and Liability for Property Loss (see paragraph 14)

7.13. Establish Sampling Plan. Sampling is a tool that supports, not supplants, the PA's judgment. Provided the number of transactions or records is large enough to allow a statistically valid sample to be obtained, statistical sampling is the preferred surveillance method, because it is an efficient and unbiased way to evaluate contractor performance. In all cases, populations should encompass the maximum number of items possible within a process segment that have common characteristics. For all Standard PMSAs, the PA shall:

7.14. Determine the appropriate confidence level based on the following:

7.14.1. 97% confidence level (97% confidence of rejecting lots having 10% or more defectives). 97% confidence levels may be used for transaction testing of processes requiring a high degree of accuracy. PAs shall use a 97% confidence level, at a minimum, for processes involving sensitive items.

7.14.2. 95% confidence level (95% confidence of rejecting lots having 10% or more defectives). 95% confidence levels may be used for transaction testing of processes requiring a moderate to high degree of accuracy, not involving sensitive property.

7.14.3. 90% confidence level (90% confidence of rejecting lots having 10% or more defectives). 90% confidence levels are suitable for transaction testing of most contractor property management processes.

7.14.4. Judgment sampling: the process by which a number of areas, items, or actions are selected from the population for analysis, based upon the professional judgment of the reviewer, without meeting random selection and sample size criteria. Judgment sampling is useful for process segments that do not lend themselves to other methods of sampling. For example, when reviewing the contractor's storage areas.

7.14.5. Purposive sampling: the process by which credible known, suspected or reported conditions of a critical or substantial nature are used to select areas, items or actions for review to determine their potential adverse impact.

7.15. Draw samples as follows:

7.15.1. For transactional processes, the population shall consist of the universe of the applicable total transactions occurring in the past year (365 days) (in other words, 365 days prior to the start of the PMSA) or since the prior PMSA, whichever is less, in order to obtain a sufficient number of samples.

7.15.2. For non-transactional processes, the population shall consist of the total number of applicable non-transactional attributes; e.g., a contractor storage site is a non-transactional attribute.

7.16. Analyze Defects. The PA shall:

7.16.1. Analyze defects from both a quantitative (using established statistical sampling tables acceptance and rejection rates for set populations) and qualitative (impact/significance and/or materiality of the defects) perspective.

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

7.16.3. Validate the alignment and consistency of the results of testing against the contractor's written procedures.

7.16.4. Conduct Exit Conference (not required for Limited PMSAs). The PA shall:

7.16.4.1. Inform the contractor of the results of the PMSA.

7.16.4.2. Discuss actions already taken by the contractor, if any, to resolve or correct deficiencies.

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

7.17. For new contractors (contractors never before administered, the PA shall:

7.17.1. Conduct a PMSA (Standard or Limited, as appropriate) within 12 months from the date the new contractor received or acquired the property.

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

8. Conduct Limited PMSA. Where standard PMSAs are not applicable; e.g., low risk contractors, the PA shall:

8.1. Develop a series of questions covering each required element of the contractor's property management system; interview the contractor to determine if the contractor is complying with contract terms and conditions.

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

8.3. Document in a memorandum for the record:

- The list of questions that were developed for each required element of the contractor's property management system, and the contractor's responses
- Documentation to support the adequacy and accuracy of the contractor's responses
- Rationale for the applicability, adequacy, and/or inadequacy determination for each required element of the contractor's property management system
- Findings and conclusions

9. Prepare PMSA Summary Report. Upon completion of the PMSA (either Standard or Limited), the PA shall:

9.1. Forward the PMSA summary report to the assigned Contracting Officer (for Standard PMSAs, the PA should send the summary report to the Contracting Officer within 10 days of the exit conference. For Limited PMSAs, the summary report should be sent within 10 days of the desk audit).

9.2. Ensure PMSA summary report is prepared in accordance with the Business System Analysis Summary Template.

9.3. Provide copies of all other relevant correspondence to the Contracting Officer, requiring activity and program manager.

9.4. Ensure PMSA summary report provides a level of detail necessary to allow the Contracting Officer to determine the significance of any deficiencies, including recommended timeframes for contractor corrective actions and a clear understanding of the work performed and its conclusions. If the Contracting Officer determines that cited deficiencies are not significant, the PA should still seek contractor corrective action. If the contractor does not cooperate, the PA may escalate the matter to the Contracting Officer, notwithstanding the degree of findings or deficiencies.

10. Identify Contractor Future Performance Risk (Risk Identification). Based on PMSA results and other sources of reliance, the PA shall:

10.1. Isolate and analyze root causes, determine relationships to other risks, and express performance risk in terms of probability and consequences. This includes both qualitative and quantitative analyses. Dollar values or amounts of property in a contractor's possession are not meaningful factors for determining performance risk. However, PA's should be mindful of the size and scope of a contractor's property management system in order to prioritize systems of equal risk.

10.2. Identify unfavorable future events ("what could go wrong?").

10.3. Assess the likelihood or probability of unfavorable future events (“is it likely to happen?”).

10.4. Estimate the consequence or impact of those events (“what is the potential impact on the Government if the event occurs?”).

10.5. Assign Risk Rating. Within 10 days of completing the PMSA, the PA shall assign risk ratings (high, moderate, or low) based on the following criteria:

10.5.1. High Risk.

10.5.1.1. Criteria. High Risk means that the contractor’s system has significant deficiencies as determined by the Contracting Officer. High Risk also means that 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.

10.5.2. Moderate Risk.

10.5.2.1. Criteria: 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; 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 also include new contractors whose procedures have not yet been reviewed, or a PMSA has yet to be accomplished; and other contractors (including formerly High Risk contractors) who have completed all corrective actions, but do not yet meet low risk criteria.

10.5.3. Low Risk.

10.5.3.1. Criteria: Low Risk means that the contractor’s auditable processes are consistent with all contract terms and conditions, are embedded within the organization and supported throughout all levels of management. Low risk can also mean that the contractor focuses continually on improving its processes through both incremental and technological improvements. The system is well-managed, effective and

efficient; processes produce consistent positive results; cost, schedule, performance or other contractual requirements are not in danger of being compromised, and there are adequate internal controls in place and no known significant deficiencies. New contractors should not be rated low risk until a satisfactory track record is established.

11. Monitor Contractor Corrective Actions.

11.1. Once the contractor completes all corrective actions (and notifies the Contracting Officer in writing), the PA shall perform a re-analysis of applicable processes to ensure that the contractor's corrective actions are implemented and working as intended. If a re-analysis requires additional transactional testing, the re-analysis should take place only after sufficient transactions are available.

11.2. In the event additional deficiencies are found during the re-analysis, the PA shall notify the Contracting Officer. PA's shall also notify the Contracting Officer of contractor deficiencies revealed outside the PMSA process. For example, if the contractor's procedures (original submission) are unacceptable.

12. Ensure Contractor Reporting of Property Loss. Consistent with DFARS 252.245-7002, Reporting Loss of Government Property, the PA shall ensure the contractor reports property losses to the DCMA Lost, Theft, Damaged and Destroyed (LTDD) eTool (including the "contractor narrative" section), the information required of FAR 52.245-1(f)(vi)(B)(1) through (13) (note: this is a separate requirement from reporting requirements under the Aircraft Mishap Notifications Instruction (DCMA INST 8210.2) and DoDI 6055.07, Mishap Investigation, Reporting, and Record Keeping). Property loss under this section includes those occurring under DFARS 252.228-7001 Ground-and-Flight Risk.

Provided the contractor reports property losses to the DCMA etool, additional written reporting/narratives from the contractor are not necessary.

13. Determine Contractor Responsibility and Liability for Property Loss. The PA shall, within 90 days of receiving an acceptable report from the contractor, either manually or electronically via the LTDD eTool application:

13.1. Review applicable contract terms and conditions;

13.2. Determine if the loss was the result of purposeful destructive testing, fair wear and tear or manufacturing defects;

13.3. Assess whether the loss involves inventory adjustments of nonsensitive consumable materials due to normal and reasonable process variation;

13.4. Determine causality; assess if the loss was caused by deficiencies in the contractor's property management system, in which case the PA shall notify the Contracting Officer consistent with the requirements of paragraph 13.2., above.

13.5. Report the incident to DSS and Command Security (if the lost property contains or potentially contains classified or sensitive data);

13.6. Ensure the contractor updates the DoD Item Unique Identification Registry as required by DFARS 252.211-7007, to the extent applicable; and

13.7. Initiate a Course of Action. Based upon the findings and conclusions resulting from the actions described in paragraphs 13.1. through 13.4., above, the PA shall:

13.7.1. Recommend to the Contracting Officer that the contractor:

13.7.1.1. Be held responsible and liable for the item's unit acquisition cost (in full or in part), or

13.7.1.2. Repair or replace the property, or

13.7.1.3. Provide other consideration as may be appropriate to the circumstances; e.g., scrap or salvage value, or

13.7.2. Relieve the contractor of responsibility (FAR 45.105(d)), consistent with the PAs Certificate of Appointment authority; relief of responsibility can be either for the repair or replacement of the item, or for the item itself.

14. Hold Contractor Responsible and Liable. The Contracting Officer may hold the contractor liable for property loss when:

14.1 The property loss results from willful misconduct or lack-of-good faith on the part of contractor's managerial personnel (FAR 52.245-1(h)(1)(ii)).

14.2. The Government's assumption of risk for property loss was previously withdrawn (FAR 45.104(b)).

14.3. Otherwise authorized in accordance with contract terms and conditions.

14.4. The loss is covered by insurance or the contractor is otherwise reimbursed.

ACQUISITION

The FAR outcome of Acquisition involves the contractor's acquisition of property by various means, including purchase, transfer, and fabrication. The contractor's acquisition of property is governed by FAR 52.245-1, 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, which are then submitted to the contractor's purchasing function. Source documents include MILSTRIP requisitions, purchase orders, transfer documents, petty cash documents, and fabrication orders. Supporting documents include purchase requisitions and engineering change proposals.

To test for compliance, the Property Administrator (PA) shall examine requisition and fabrication procedures, and perform sufficient testing to ensure 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 excess to other (contractual) requirements.
- Has the necessary internal controls to assure that quantities purchased are reasonable (consistent with contract type and scope).
- Performs actions in a timely manner.
- 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.

RECEIVING

The FAR outcome of Receiving involves the process of physically receiving incoming Government property; it is at the point of receipt that the contractor becomes accountable and responsible. Source documents include receiving reports. Supporting documents include Government Bills of Lading and packing lists.

To test for compliance, the Property Administrator (PA) shall examine the contractor's receiving controls and procedures and perform sufficient testing to ensure the contractor:

- Obtains the carrier's signature when shortages or other discrepancies are identified at the time of delivery.
- Promptly notifies the PA when overages, shortages, damages or other discrepancies are discovered upon receipt of Government-furnished property.
- Takes actions necessary to adjust, as required, for overages, shortages, damages, and other discrepancies upon receipt of contractor-acquired property.
- Reconciles property received with 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.
- Ensures the proper recording of quantity received, condition, date received, and the 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](#), as applicable.

RECORDS

The FAR outcome of Records involves ensuring that the contractor establishes and maintains the 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).

To test for compliance, the Property Administrator (PA) shall ensure the contractor:

- Identifies general-purpose components that are readily removable to comply with the disposition paragraph of FAR 52.245-1(j). 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.
- Contractor establishes records for all property in a timely manner upon receipt or fabrication.
- Records of weapons include all serial numbers.
- Provides a complete, current and auditable trail of all transactions, and contain:
 - The name, part number and 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 means: 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 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
- Disposition
- Posting reference and date of transaction
- Date placed in service (not needed unless required by contract terms and conditions)

In addition to the "record to property" analysis, the PA shall perform a "property to record" review. This entails the random selection of property from the floor with the property then being traced back to the record to assure that a record has been generated or is being maintained.

Ideally, contractor records of controlled property should identify the appropriate level of control, ownership, and other information that fulfills organizational objectives (reference ASTM E 2279-03). However, in lieu of such identification, it is sufficient for the contractor's property management system to contain this necessary information.

In some cases, subcontractors 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.

MAINTENANCE

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

To test for compliance, the Property Administrator (PA) shall ensure that the contractor's maintenance program provides for the disclosure and performance of preventive 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.

- Preventive 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. Preventive 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, preventive 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 preventive maintenance and/or inspections; initiating work orders with detailed assignment, guidance, and

responsibilities; and recording work accomplished.

- **Capital Type Rehabilitation.** Work that is outside of the normal maintenance obligation; i.e., preventive 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 Contracting Officer (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.

SUBCONTRACT CONTROL

The FAR outcome of Subcontract Control involves ensuring subcontracts clearly identify assets to be provided and ensure proper flow-down of contract terms and conditions; e.g., extent of liability for property loss; or for property fabricated at the sub contractor, 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 sub contractor to acquire property; or when other purchase orders require the delivery/acceptance of items at the sub contractor. FAR 52.245-1 requires the prime contractor to ensure the appropriate flow down 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 flow-down clauses and instructions in its sub contracts.
- Conducts periodic reviews to determine the adequacy of the sub contractors' property management systems.
- Properly administers the risk-of-loss and other provisions flowed-down to sub contractors.

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)

To test for compliance, the Property Administrator 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](#)).

STORAGE

Reviewing storage is the process of ensuring the contractor provides for adequate protection for Government property when not in use. 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. Storage areas should be kept neat, clean and organized. 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.

To test for compliance, the PA shall ensure the contractor's storage methodology:

- Is commensurate with the kinds of property in their possession and documented in the contractor's procedure.
- Provides proper storage including physical security and control of access, including property awaiting disposition/plant clearance. 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 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, etc.
- Includes proper protection of property while in outside storage.

Bonded Storage. Unlike conventional storage facilities, bonded warehouses are authorized by local customs authorities to store goods on which payment of duties is deferred until the goods are sold. These goods remain off-shore, in effect, for customs purposes. As a result, costs associated with legally landing them can be postponed until they are actually purchased. The primary advantage of bonded storage is that it eliminates the exporter's exposure to customs and tax expenses for unsold goods, although there are other advantages (Nowek, Derek, source: Worldwide Web). Unless there is a need to defer payment of duties on Government property until it is sold, bonded storage is generally inappropriate. 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 and are mixed so as to lose their 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 identification as Government-owned. Consistent with FAR 52.245-1, the PA is required

to approve all cases of material commingling (in the case of DoD, for those situations not covered by an MMAS). To the extent the contract contains the DFARS clause at 252.242-7004, PAs need not review/approve commingling of material.

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. 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; e.g., when a contractor is using a Material Requirements Planning (MRP), Manufacturing Resource Planning (MRPII), Enterprise Resource Planning, or Just-in-Time type 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.

Convenience and apparent ease for the contractor alone is not advantageous to the Government.

In contrast to commingling, the contractor may “co-locate” contractor-owned property with other types of Government-owned property (Special Tooling, Special Test Equipment, Equipment) provided such property is properly identified and secured. Co-locating is not considered commingling within the context of the property clause.

Common stock materials; e.g. nuts, bolts, and screws, are a good example. While stored in “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.

CONSUMPTION

The FAR outcome of Consumption involves 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](#), which addresses overall reasonableness of contractor 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 Property Administrator (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 may commingle Government-owned, contractor-owned, and work-in-process 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 shall recommend the Contacting Officer 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; the CO shall determine whether or not consideration should be requested from the contractor. Unreasonable consumption may also be addressed under the Material Management Accounting System, [DFARS 252.242-7004](#).

The FAR outcome of physical inventory involves to 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 periodic physical inventories and upon contract completion or termination. [Note: this requirement does not extend to material released to the shop floor as work in process]. 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 month 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 this paragraph.

FAR 52.245-1 (f)(iv) grants the Property Administrator (PA) with 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 periodically performs, records, and discloses physical inventories results. The PA shall also ensure the contractor:

- Performs required physical inventories commensurate with the kinds of property in its possession.
- 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 overall results.

DISPOSITION

The FAR outcome of 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.

To test for compliance, the Property Administrator 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 to the Plant Clearance Automated Reutilization and Screening System; reports are complete and accurate.
- 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; ensures transaction data is properly posted to property records.
- Provides contract close out letters reflecting property zero balance in a timely manner.
- Updates the DoD Item Unique Identification Registry as required by DFARS [252.211-7007](#), as applicable.

REPORTS

The FAR outcome of Reports involves reviewing the contractor's report preparation controls and procedures. The Property Administrator (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 NSN if applicable
- Quantity
- Unique Item Identifier if applicable and available
- Accountable contract number
- A statement indicating current or future need
- Acquisition costs or, if applicable, estimated scrap proceeds, 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.
- 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) 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). Consistent with the FAR 52.245-1, the PA may waive contractor reporting on an incident-by-incident basis. Instead, 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.

SAMPLING TABLES

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 Equals or is Less Than	Reject if Sum of Defects in Samples 1 and 2 Equals or Exceeds
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

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 Equals or is Less Than	Reject if Sum of Defects in Samples 1 and 2 Equals or Exceeds
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

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 Equals or is Less Than	Reject if Sum of Defects in Samples 1 and 2 Equals or Exceeds
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
100,00 +	63	0	7	1,2,3,4,5, or 6	63	6	7

CONTRACTOR'S INTERNAL ASSESSMENT OR SELF-AUDITS

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

FAR 52-245-1(f)(3) requires contractors to perform self-assessments to evaluate their property management system effectiveness. The clause requires the contractor to disclose significant findings to the Property Administrator (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 DCMA 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.

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. The FAR clause established the concept as a contractual requirement for all. 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(f) (3), 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. Contractor self-assessments typically fall under two constructs:

1. Formal/structured. Based on:
 - Generally Accepted Government Audit Standards
 - DCMA'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 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 the FAR clause, FAR 52.245-1
- 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. 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.

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 DCMA. Ideally this would be 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:

- A 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
- 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.

Property Administrators' 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 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 either:

- visual observations 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.

Using the Contractor's Self-Assessment Results in Assessing Risk and/or in 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 the certain (compliant) processes from the PA's current year PMSA. In no instance shall review of a process/process segment be exempted 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) 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 AQL's or permit lower AQL's than process capabilities would indicate.
- Class of defects such as major and minor: major defects would generally require lower AQL's than those for minor defects.
- The record of the quality level of previously submitted lots.

Note: If the contractor will be using ASTM 2234, then it is imperative that the contractor define “defect” and the differences between major, minor, and critical defects, as well as what is a defect.

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 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 shall be incorporated into the PMSA.

Internal Audit and Assessment Records. The PA shall include a copy of the contractor’s internal audit or assessment report in the PMSA file.