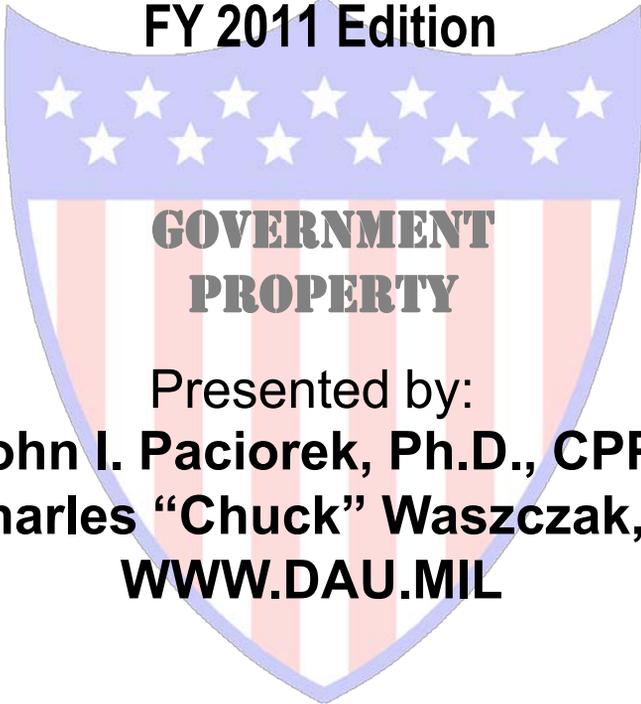




# **NOTETAKER AND READINGS** **CONTRACT PROPERTY ADMINISTRATION AND DISPOSITION FUNDAMENTALS**

**For  
CONTRACTING OFFICERS  
FY 2011 Edition**

A shield-shaped graphic with a blue top section containing white stars and red and white vertical stripes below. The text "GOVERNMENT PROPERTY" is centered within the shield.

**GOVERNMENT  
PROPERTY**

Presented by:  
**Prof. John I. Paciorek, Ph.D., CPPM, CF**  
**Prof. Charles "Chuck" Waszczak, CPCM**  
**WWW.DAU.MIL**







# ELEMENTS OF A CONTRACT & THE PROPERTY ADMINISTRATOR

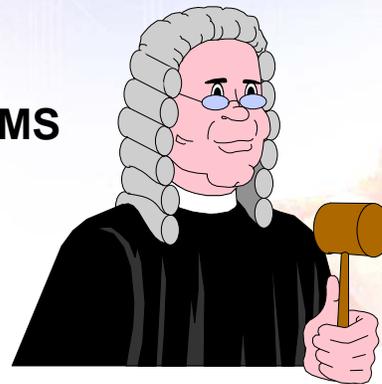


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# ELEMENTS OF A CONTRACT

- LEGAL CAPACITY
- MUTUAL ASSENT
- CONSIDERATION
- CERTAINTY OF TERMS
- LAWFUL PURPOSE



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## TYPES OF CONTRACTS

- **FIXED PRICE**
  - Firm Fixed Price
  - Fixed Price Incentive
  - Fixed Price Economic Price Adjustment
  - Fixed Price Redeterminable
- **COST REIMBURSEMENT**
  - Cost Plus Fixed Fee
  - Cost Plus Award Fee
  - Cost Plus Incentive Fee

And a whole bunch of others...  
T&M, Letter, Labor Hour, BOAs(?),  
IDIQs, etc.



## TYPES OF CONTRACTS

- The Type of Contract awarded affects a number of Property issues
- Two Critical Areas are:
  - **TITLE and**
  - **LIABILITY**



## TYPES OF CONTRACTS

### Property Concerns - TITLE

- TYPE of contract affects TITLE to property

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## TYPES OF CONTRACTS

### Property Concerns - TITLE

- **Fixed Price** - Contractor generally ***has title*** to all property acquired
- **Cost Reimbursement** - Government has title to all property acquired
  - » **CAREFUL!!! WARNING!!!**
  - » **Must comply with Policy, Approvals, Cost accounting standards, etc.**

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## TYPES OF CONTRACTS

### Property Concerns - LIABILITY

- **Fixed Price**
  - Full Risk of Loss
- **Cost Reimbursement & Fixed Price (Non-competitive)**
  - Limited Risk of Loss

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**IMPORTANT CONCERN  
WITH THIS CLASS...**

**READ**

**THE  
CONTRACT!!**

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## **SOME COURT CASES...**

**...as they relate to the Government  
Property Clauses**

### ➤ **The Christian Doctrine**

Court of Claims decision – G.L. Christian and Associates v. United States, 312 F.2d 418 (Ct. Cl. 1963) Hart's Food ASBCA 30756

### ➤ **Hart's Food Services**

*Hart's Food Service, Inc., d/b/a Delta Food Service, 89-2 BCA §21789, ASBCA No. 30756, 3057, 1989 WL 47610 (ASBCA)*

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## **Genesis of Property Administration**

- 1. FAR Part 7 - Acquisition Planning**
  - a. Funding
  - b. Contract Admin
  - c. Government Property
- 2. FAR Part 42 – Contract Administration**
  - a. Perform Property Admin
  - b. Perform Plant Clearance
- 3. Contract Clauses, CLINs, Special Provisions, CDRLs, etc.**
  - FAR 52.245-1 & 9, possibly -2 and others?
- 4. FAR Part 45 – Government Property**

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## OBJECTIVE OF PROPERTY ADMINISTRATION



### IS THIS A WORTHY OBJECTIVE?

“The primary objective of the property administration function is to attain efficient, economic, and uniform management of all Government property required for the performance of contracts. The function is mainly to administer the terms of contract provisions that specify the contractor's obligations to acquire, control, use, care for, report, and dispose of Government property, and to advise contracting activities and other DoD officials of the known level of efficiency of the contractor's management of Government property.”

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## GOVERNMENT PROPERTY ADMIN DUTIES AND RESPONSIBILITIES



- **These duties and responsibilities have been extracted from the various parts and subparts of the FAR**
- **You may perform some or all of these duties, depending upon your respective environment**
- **When delegated for administration, these are performed by either a Property Administrator\* or Industrial Property Management Specialist**



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## GP DUTIES AND RESPONSIBILITIES

### DO THESE DUTIES & RESPONSIBILITIES MAKE SENSE TO YOU?

1. **Administering contract clauses and provisions, requirements, and obligations relating to Government property in the possession of contractors. General clauses include the FAR 52.245 clauses.**

*(FAR 42.302(a)(26))*

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## RESPONSIBILITIES

2. **Researching, evaluating and determining whether the contractor's PMS based upon the voluntary consensus standards or industry leading practice and standards (ILP&S) are appropriate for the contracting situation.**

*(FAR 45.201(c)(4))*

3. **Participating in pre-award surveys and post award conferences.**

*(FAR 42.302(a)(3) & (32))*

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## RESPONSIBILITIES

- 4. Reviewing contracts for Government property clauses, assure that property is appropriately identified in the contract, and that general and special contract provisions dealing with property are included, when applicable.**

*(FAR 42.301 & 42.302(a)(26))*

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## RESPONSIBILITIES

- 5. Assist the contractor property organizations in their understanding of the applicable provisions of Government contracts dealing with property including the Government Property clauses found at FAR 52.245, the Department of Defense Federal Acquisition Regulation Supplement (DFARS) 252.245, and other applicable agency peculiar regulations (look for more involvement with DFARS 211 and IUID!).**

*(FAR 45.101, Definition of PA)*

- 6. Initiating property administration assignment(s) including the establishment of contract property control data files (either manual or automated).**

*(FAR 45.101, Definition of PA)*

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## RESPONSIBILITIES

7. Reviewing and validating reported physical inventory discrepancies and variances to determine actual gains and losses. *(FAR 52.245-1(f)(1)(iv))*
8. Investigating occurrences of loss, theft, damage or destruction (LTDD) of Government property.  
*(FAR 52.245-1(f)(1)(vi))*
9. Providing the CO with recommendations concerning contractor responsibility and liability for LTDD of property on the basis of contract terms and conditions.  
*(FAR 45.104)*

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## RESPONSIBILITIES

### PA's AUTHORITIES!!

10. Granting relief of responsibility for LTDD of Government property on the basis of contract terms and conditions when authorized through the PA's Certificate of Appointment. *(FAR 45.104)*

**ALSO:**

- *Approve the use of a Receipt and Issue System under Records and Material Management*
- *Approve the Waiver of a Final Physical Inventory when GP is to be retained by Contractor for follow-on Contract*
- *Approve the Commingling of GP with Contractor "stuff"*
- *Approve Alternate Record Keeping Requirements*
- *Review/Approve the Contractors Scrap Procedure*
- *...and others!*

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# RESPONSIBILITIES

**11. Performing duties and responsibilities as prescribed by FAR Parts 45 and 52, DFARS Parts 245 and 252 and this manual. (*FAR 42.302(a)(26) & FAR 45.101, Definition of PA*)**

**LOTS OF 'EM!!!**

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# RESPONSIBILITIES

**12. Developing and applying risk based assessment strategies in the performance of property management. (*FAR 42.302(a)(26) & FAR 45.101, Definition of PA*)**

**13. Planning, developing and performing a PMSA to assess and determine the effectiveness of the contractor's property management systems. (*FAR 45.105 & 52.245-1(g)*)**

**14. Evaluating the contractor's internal audit processes, procedures and results as well as assisting in the development of the protocols for their use in evaluating their property managements processes. (*FAR 52.245-1(f)(3)*)**

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## RESPONSIBILITIES

15. Evaluating the contractor's compliance with contractual requirements, VCSs and ILPs, in order to determine the adequacy of the contractor's property management processes throughout the property life cycle. *(FAR 52.245-1(b))*
  
16. Ensuring correction of property management process inadequacies, defects and deficiencies and notifying the contractor when system defects or deficiencies create an unacceptable risk to the Government. *(FAR 52.245-1(b))*

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## RESPONSIBILITIES

17. Advising the CO and other appropriate Government customers regarding the contractor's failure to perform in accordance with contractual requirements. *(FAR 42.302(a)(26) & FAR 45.101, Definition of PA)*
  
18. Notifying the CO in the event of excessive or improper acquisition by the contractor and recommending cost disallowance, or other appropriate remedy. *(FAR 42.302(a)(26) & FAR 45.101, Definition of PA)*

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## RESPONSIBILITIES

**19. Performing program, agency or customer requested reviews of property acquisition, control, management, use, disposition, etc.**

*(FAR 42.302(a)(67))*

**20. Supporting and assisting contractor's personnel, COs, program managers, and other personnel in resolution of property administration matters.**

*(FAR 45.101, Definition of PA)*

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## RESPONSIBILITIES

**21. Reviewing Government-furnished material (GFM), from Management Control Activities, for receipt and reconciliation in accordance with DoD Instruction 4140.1.**

*(FAR 45.101, Definition of PA)*

**22. Providing guidance and direction to all levels of Government and contractor personnel relating to regulatory and contractual Government property requirements**

*(FAR 45.101, Definition of PA)*

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## RESPONSIBILITIES

**23. Ensuring the contractor promptly reports Government property no longer required for performance of the contract for disposition in accordance with contract provisions, clauses and/or special directions.**

*(FAR 52.245-1(f)(1)(viii))*

**24. Supporting the CO, PLCO and other Government representatives to ensure timely, complete and proper disposition of Government property.**

*(FAR 45.101, Definition of PA)*

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## RESPONSIBILITIES

**25. Obtaining and reviewing contractually required reports of property for all assigned contracts, e.g., AF G009 (Government Furnished Material and End Item Transaction Reporting System), NASA 1018 (NASA Property in the Custody of Contractors), Contractor Asset Visibility (CAV), etc.**

*(FAR 42.301 & 42.302(a)(26)*

*& (58))*

**26. Preparing and submitting other reports and data requested by Program Offices, headquarters, etc.**

*(FAR 42.302(a)(58) & (67))*

**27. Requesting supporting property administration.**

*(FAR 42.202(e), 42.302(a)(57) & 45.502))*

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## RESPONSIBILITIES

**28. Performing supporting property administration.** *(FAR 42.202(e), 42.302(a)(57) & 45.502)*

**29. Providing award fee input related to Government property criteria when requested.** *(FAR 42.302(a)(67))*

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## RESPONSIBILITIES

- **30. Recognizing the technical responsibilities of other Government personnel who are involved with Government property, and obtaining their assistance when required. These functions include, but are not limited to, contract administration, plant clearance, contract audit, quality assurance, engineering, pricing, subcontracting, production, transportation, other technical areas and the Defense Contract Audit Agency (DCAA). DCAA assistance and advice on matters involving analyses of the contractor's accounting records, financial aspects of contractor property reports, and on any other appropriate financial audit matters may be obtained through the CO.** *(FAR 45.101, Definition of PA)*



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# THE FEDERAL GOVERNMENT'S POLICY ON PROVIDING GOVERNMENT PROPERTY TO CONTRACTORS



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1



## POLICY ON PROVIDING GP

### FAR 45.102 POLICY

CONTRACTORS ARE ORDINARILY  
REQUIRED TO FURNISH

**ALL PROPERTY**

NECESSARY TO PERFORM  
GOVERNMENT CONTRACTS



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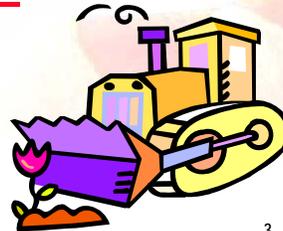
2



## POLICY ON PROVIDING GP

### FAR 45.102

(b) CONTRACTING OFFICERS SHALL PROVIDE PROPERTY TO CONTRACTORS **ONLY** WHEN IT IS **CLEARLY DEMONSTRATED**--



3



## POLICY ON PROVIDING GP

- WHO DOES THE **DEMONSTRATING?**
  - DFARS PGI 245.103(70)(1) - The basis for any decision shall be documented by the **requiring activity** & provided to the contracting officer
- WHAT DOES **CLEARLY DEMONSTRATED** MEAN?
  - DFARS PGI 245.103(70)(2) - ...that each of the requirements of FAR 45.102 are **addressed and documented**...
- WHERE IS THIS **DEMONSTATION** DOCUMENTED?
  - DFARS PGI 245.103(70)(2) - contracting officer shall document **the contracting file**



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4



## POLICY ON PROVIDING GP

### **(1) To be in the Government's Best Interest;**

DFARS PGI 245.103(70)(2)(i) - Discussion should be specific, factual, and where necessary, address actual or projected dollars and percentages. Merely selecting one or two objectives supported by a general, perfunctory discussion does not address this element satisfactorily. Discussion should address the following factors:

- Economy – Furnishing Government property is the lowest cost or price alternative.
- Standardization – There is a critical need for precise replication.
- Security – Government property is needed due to national security issues/concerns.
- Expedite production – Government property is crucial to achieving timely or accelerated delivery of a supply item or service.
- Scarcity – The Government can obtain scarce items, or is the only source of property necessary for successful execution of a contract.
- Maintain the industrial base – Government property is needed to ensure future capability to obtain a particular supply item or service.
- Contract type – Government property will enable the Government to obtain a more favorable contract type.

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5



## POLICY ON PROVIDING GP

### **(2) That the overall benefit to the procurement significantly outweighs the increased cost of administration, including ultimate property disposal;**

DFARS PGI 245.103(70)(2)(ii) - Demonstrate that the overall benefit to the acquisition significantly outweighs the increased cost of administration, including property disposal.

(A) Property in the hands of contractors drives program costs. Therefore, in order to make the case that providing Government property to the contractor is worthwhile, the associated costs must be considered and the business decision justified. The costs of Government property removal and disposal, including demilitarization and disposal of environmentally-regulated property, must be included.

(B) Costs must be either less than what the contractor might otherwise incur, or the demonstrated benefit to the Government must outweigh these additional contract costs.

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6



## POLICY ON PROVIDING GP

- (3) That providing the property does **not** **substantially increase** the **Government's risk**;  
and

DFARS PGI 245.103(70)(2)(iii) - Demonstrate that providing the property does not substantially increase the Government's risk.

- (A) Risk must be discussed and documented. A risk analysis is warranted to demonstrate that the Government is not substantially increasing its risk. For example, when furnishing Government property, the Government is ordinarily responsible for suitability of use, timely delivery, and replacement of defective Government property.
- (B) Other risks may need to be considered, discussed, and documented.

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7



## POLICY ON PROVIDING GP

- (4) That Government requirements **cannot** **otherwise be met**

DFARS PGI 245.103(70)(2)(iv) - Document why the furnishing of Government property is critical and significant to meeting acquisition plan objectives.

**For Example, Sole Source procurements, emergency procurements, contingency contracting, etc.**

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8



## Also very important!!

(c) The contractor's inability or unwillingness to supply its own resources **is not sufficient reason** for the furnishing or acquisition of property.

Just because a contractor says, "I want 'X'" does NOT mean that the Government is required to provide "X" to the contractor.

It **MUST** be determined in accordance with FAR 45.102 Policy requirements.

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9



## EXCEPTION TO POLICY!!

(d) ***Exception*** - Property provided under contracts for **repair, maintenance, overhaul, or modification** is **not subject to the requirements of paragraph (b)** of this section.

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10



## **ULTIMATE DECISION**

- **Contracting Officers must make a conscious, deliberate decision to provide Government Property based upon the factors set forth in the FAR Policy.**

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11



# THE CLASSIFICATION OF GOVERNMENT PROPERTY

1-11



## TOPICAL OVERVIEW

- **Property**
- **Government Property**
  - Government Furnished Property
  - Contractor Acquired Property
- **FEDERAL ACQUISITION REGULATION (FAR) Classes/Classifications of Government Property ( For Government Property In the Possession of Contractors)**



# PROPERTY

- Property means all tangible property, both real and personal.



# PROPERTY

- “Personal property” means property of any kind or interest in it
- *except*
  - real property,
  - records of the Federal Government, and
  - naval vessels of the following categories:
    - Battleships;
    - Cruisers;
    - Aircraft carriers;
    - Destroyers; and
    - Submarines.



# PROPERTY

- **Note that condition that it must be TANGIBLE!**
- This is NOT meant to change the LEGAL definition – rather it is to define the application of this term in regard to Government Property is possession of contractors.
- That we, under FAR 45, are ONLY concerned with TANGIBLE PROPERTY.
- We do not require contractors to MANAGE INTANGIBLE assets. There are OTHER clauses for that purpose.



## ORIGINS OF GOVERNMENT PROPERTY

FAR 52.245-1(a) Definitions

**GOVERNMENT PROPERTY:**  
ALL PROPERTY OWNED OR LEASED  
BY THE GOVERNMENT. GP includes  
both Government-furnished property  
and contractor-acquired property.



## ORIGINS OF GOVERNMENT PROPERTY

- **CONTRACTOR  
ACQUIRED PROPERTY**  
52.245-1 (a)

PROPERTY ACQUIRED,  
FABRICATED, OR  
OTHERWISE  
PROVIDED BY THE  
CONTRACTOR FOR  
PERFORMING A  
CONTRACT AND TO  
WHICH THE  
GOVERNMENT HAS  
TITLE

- **GOVERNMENT  
FURNISHED PROPERTY**  
52.245-1(a)

PROPERTY IN THE  
POSSESSION OF, OR  
DIRECTLY ACQUIRED  
BY, THE GOVERNMENT  
AND SUBSEQUENTLY  
FURNISHED TO THE  
CONTRACTOR FOR  
PERFORMANCE OF A  
CONTRACT



## **CLASSIFICATIONS** GOVERNMENT PROPERTY

- MATERIAL – 52.245-1(a)
- SPECIAL TOOLING 2.101
- SPECIAL TEST EQUIPMENT 2.101
- REAL PROPERTY – 52.245-1(a)
- EQUIPMENT – 52.245-1(a)

**NOTE:** EACH CLASS OF PROPERTY HAS  
ITS OWN **QUALIFIERS** AND **DESCRIPTORS**



## ORIGINS OF GOVERNMENT PROPERTY

GOVERNMENT  
FURNISHED PROPERTY

CONTRACTOR  
ACQUIRED PROPERTY

### CLASSES OF GOVERNMENT PROPERTY

MATERIAL  
52.245-1(a)

SPECIAL  
TEST  
EQUIPMENT  
2.101

SPECIAL  
TOOLING  
2.101

EQUIPMENT  
52.245-1(a)

REAL  
PROPERTY  
52.245-1(a)



## MATERIAL 52.245-1(a)

- Material means property that may be **consumed** or **expended** during the performance of a contract, component parts of a higher assembly or items that lose their individual identity through **incorporation** into an end-item.
- Material does **NOT** include equipment, special tooling, special test equipment.



# MATERIAL 52.245-1(a)

- **QUALIFIERS**

- **INCORPORATED**
- **CONSUMED OR**
- **EXPENDED**

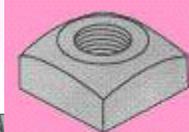
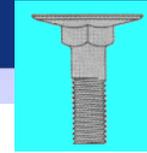


- **DESCRIPTORS**

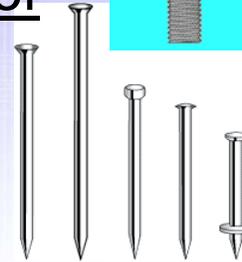
- PARTS
- ASSEMBLIES
- COMPONENTS
- RAW AND PROCESSED MATERIALS
- LIQUIDS



## Some Examples of MATERIAL



Square Nut



Flat Washer





## SPECIAL TOOLING 2.101

- Special Tooling means **jigs, dies, fixtures, molds, patterns, taps, gauges, all components of these items and replacement of these items**, which are of such a **specialized nature** that without substantial modification or alteration their **use is limited** to the development or production of particular supplies or parts thereof or to the performance of particular supplies or to the performance of particular services.
- Special tooling does **not** include material, special test equipment, real property (except foundations and similar improvements necessary for installing special tooling), equipment, machine tools, or similar capital items.



## SPECIAL TOOLING 2.101

### • DESCRIPTORS

- JIGS, DIES, FIXTURES, MOLDS, PATTERNS, TAPS, GAUGES, OTHER EQUIPMENT AND MANUFACTURING AIDS, ALL COMPONENTS OF THESE ITEMS

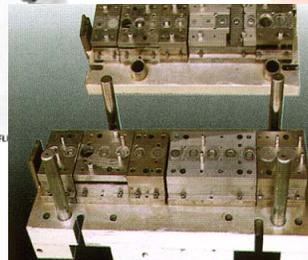
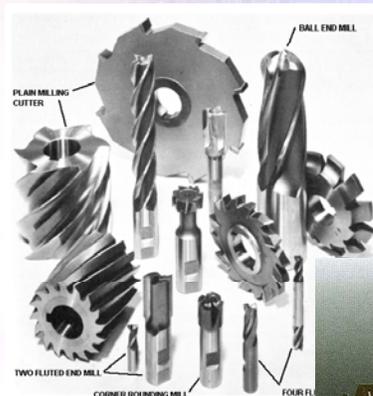


### • QUALIFIERS

- SPECIALIZED NATURE
- WITHOUT SUBSTANTIAL MODIFICATION
- USE IS LIMITED
  - TO THE DEVELOPMENT OR PRODUCTION OF PARTICULAR SUPPLIES OR PARTS OR SERVICES



## Some Examples of SPECIAL TOOLING





## Some Examples of SPECIAL TOOLING



Shipbuilding  
Fixtures

Holding  
Fixtures



Go NO-GO  
Gages



## **SPECIAL TEST EQUIPMENT** **FAR 2.101**

- STE means either single or multipurpose integrated test units engineered, designed, fabricated or modified to accomplish special purpose testing in performing a contract.
- It consists of **items or assemblies of equipment** including **standard or general purpose items** or components that are interconnected and interdependent so as to become a new functional entity for special testing purposes.
- STE does **NOT** include material, ST, real property (Except foundations and similar improvements necessary for installing STE), and equipment items used for general testing purposes or property that with relatively minor expense can be made suitable for general purpose use.



# SPECIAL TEST EQUIPMENT

## FAR 2.101

- **DESCRIPTORS**

- single or multipurpose integrated test units
- items or assemblies of equipment
- standard or general purpose items

- **QUALIFIERS**

- engineered, designed, fabricated or modified to accomplish special purpose testing
- become a new functional entity
- STE does NOT include...property that with relatively minor expense can be made suitable for general purpose use.



## Some Examples of SPECIAL TEST EQUIPMENT



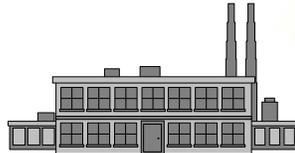
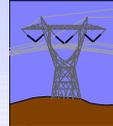


# REAL PROPERTY 45.101

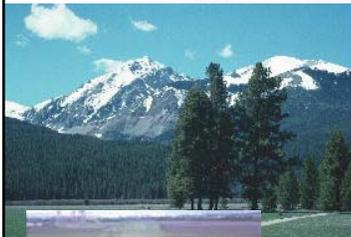


Real property means **land, land rights, buildings, structures, utility systems, steam-generation systems, and equipment attached to and made part of buildings and structures** (such as heating systems).

As such, land rights are considered real property. It does not include foundations and other work necessary for installing special tooling, special test equipment, or equipment.



## Some Examples of REAL PROPERTY

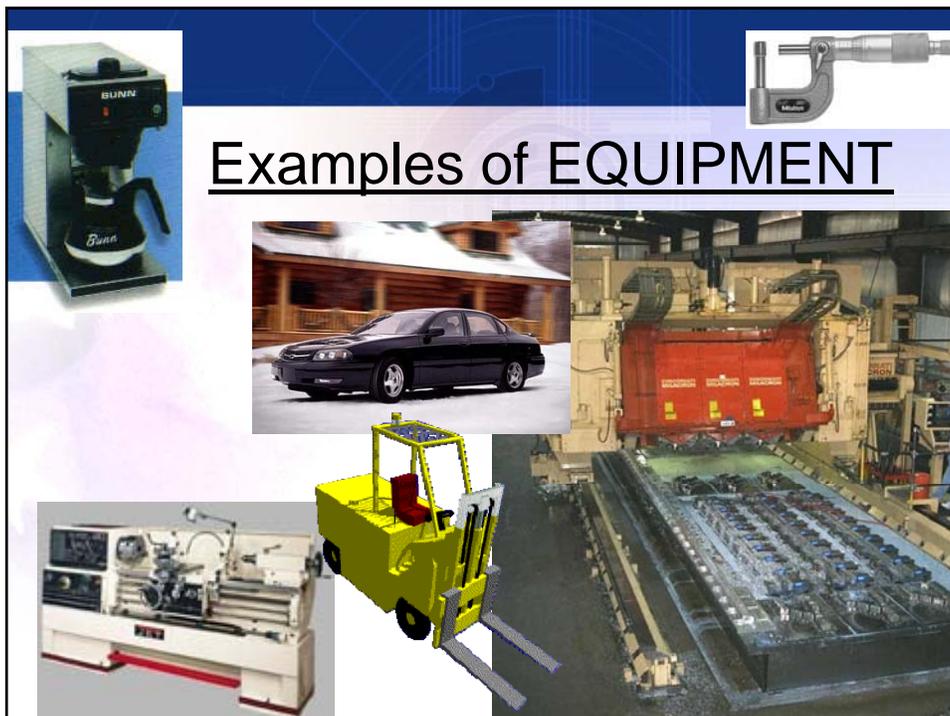




# EQUIPMENT

## 45.101

- means a **tangible** article of personal property that is complete in-and-of itself, durable, nonexpendable, and needed for the performance of a contract.
- Equipment generally has an expected service life of one year or more, and does not ordinarily lose its identity or become a component part of another article when put into use.



## Examples of EQUIPMENT



## SOME MORE EXAMPLES



## OTHER CLASSIFICATIONS OF GOVERNMENT PROPERTY

- **"Sensitive property"** means property potentially dangerous to the public safety or security if stolen, lost, or misplaced, or that shall be subject to exceptional physical security, protection, control, and accountability such as classified property, weapons, ammunition, explosives, controlled substances, radioactive materials, hazardous materials or wastes, or precious metals.



## Some Examples of SENSITIVE PROPERTY



## Some Examples of SENSITIVE PROPERTY



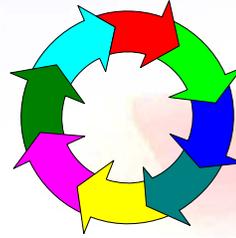


# WHY CLASSIFY?

## PROPER CLASSIFICATION IMPACTS THE FOLLOWING ACTIONS/REQUIREMENTS:

- ACQUISITION, i.e., the ALLOWABILITY of an item
- RECORDS
- STORAGE
- MAINTENANCE
- PHYSICAL INVENTORIES
- CONSUMPTION
- UTILIZATION
- DISPOSITION
- PLUS MORE!

**Impacts the entire property life cycle!**





## The Government Property Clause 52.245-1

This clause can be used by itself  
It must be used in conjunction with 52.245-2 or  
52.245-9



Feb 2011



## 45.107 -- Contract Clauses

- The Contracting Officer must include the Government Property Clause in a contract as per the requirements of the FAR:
- 
- (a)(1) Except as provided in paragraph (d) of this section, the contracting officer shall insert the clause at 52.245-1, Government Property, in—
  - (i) All **cost reimbursement**, time-and-material, and labor-hour type solicitations and contracts; and
  - (ii) **Fixed-price** solicitations and contracts when the Government will provide Government property.



## 45.107 -- Contract Clauses

This clause is also required for:

- (iii) Contracts or modifications awarded under FAR Part 12+ procedures where Government property that exceeds the simplified acquisition threshold\*, as defined in FAR 2.101, is furnished or where the contractor is directed to acquire property for use under the contract that is titled in the Government.

- + FAR Part 12 is for the acquisition of commercial items
- \*\$150,000 except for supplies/services used in contingency operations
  - \*\$250,000 for contracts awarded & performed or purchased in USA
  - \*\$1 million for contracts awarded & performed or purchased outside USA



## 52.245-1 Government Property

1. The Government Property Clause is divided into the following sections:

- (a) Definitions
- (b) Property Management
- (c) Use of Government Property
- (d) Government-Furnished Property
- (e) Title to Government Property
- (f) Contractor Plans and Systems

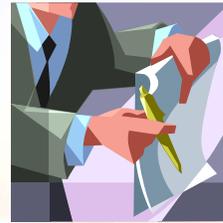




## 52.245-1 Government Property

### 2. Gov't. Property Clause Sections (continued)

- (g) System Analysis
- (h) Contractor Liability for GP
- (i) Equitable Adjustment
- (j) Contractor Inventory Disposal
- (k) Abandonment of GP
- (l) Communication
- (m) Overseas Contracts



## 52.245-1 Government Property

### (a) Definitions:

- **Acquisition cost**: the cost to acquire a tangible capital asset including the purchase price
- **Cannibalize**: removing parts from GP for use or installation on other GP
- **Contractor Acquired Property**: (CAP)
- **Contractor Inventory**: GFP and property acquired by the contractor where the Government has title





## 52.245-1 Government Property

- **Contractor's Managerial Personnel**: Contractor's directors, officers, managers, superintendents, or equivalent who have supervision or direction over all or substantially all of the Contractor's business
- **Demilitarization**: Rendering a product unusable for, and not restorable to, the purpose for which it was designed or is customarily used.
- **Discrepancies Incident to Shipment**: Any differences (count or condition) between items documented to have been shipped & received



## 52.245-1 Government Property

- **Equipment**: a tangible item that is functionally complete for its intended purpose, durable, nonexpendable & needed for contract performance
- **Government Furnished Property**: (GFP)
- **Government Property**: all property owned or leased by the Government including GFP & CAP
- **Material**: Property consumed or expended during the performance of a contract
- **Nonseverable**: property that cannot be removed after construction or installation without substantial loss of value or damage to the installed property or premises where installed



## 52.245-1 Government Property

- **Precious Metals**: Silver, gold, platinum, palladium, iridium, osmium, rhodium, etc.
- **Property**: all tangible property, both real and personal
- **Property Administrator**: authorized representative of the CO appointed IAW agency procedures, responsible for Contract Property Administration
- **Property Records**: records created and maintained by the contractor in support of its stewardship responsibilities for the management of GP



## 52.245-1 Government Property

- **Provide**: to furnish, as in GFP, or to acquire, as in CAP
- **Real Property**: any interest in land, together with the improvements, structures, and fixtures located thereon (see FMR 102-71.20 for full definition)
- **Sensitive Property**: property potentially dangerous to the public safety or security if stolen, lost, or misplaced, or shall be subject to except. physical security, protection, control, & accountability
- **Surplus Property**: excess personal property not required by any Federal agency as determined by the Administrator of the GSA

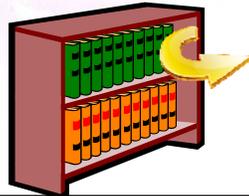


## 52.245-1 (b) Property Management

### (b) Property management

- (1) . The Contractor **shall have a system\*** to manage (control, use, preserve, protect, repair and maintain) Government property in its possession. The system shall be adequate to satisfy the requirements of this clause.

\*Written  
Procedures



\*Application of  
the Procedures



## 52.245-1 (b) Property Management

- The Contractor shall initiate and maintain the processes, systems, procedures, records, and methodologies necessary for effective control of Government property, **consistent with voluntary consensus standards and/or industry-leading practices and standards** for Government property management except where inconsistent with law or regulation.





## 45.103 General

- 45.103 General.
- (a) Agencies shall—
- (1) Allow and encourage contractors to use voluntary consensus standards (see FAR 11.101(b)) and industry-leading practices and standards to manage Government property in their possession;



## FAR 11.101 (b)

Voluntary  
Consensus  
Standards



“Federal Participation in the Development & Use of **Voluntary Consensus Standards** and in Conformity Assessment Activities,” agencies must use voluntary consensus standards, when they exist, in lieu of Government unique standards, except where inconsistent with law or otherwise impractical. (OMB Circular A-119)



## 52.245-1 (b) Property Mgmt

**(2) The Contractor's responsibility extends from the initial acquisition and receipt of property, through stewardship, custody, and use until formally relieved of responsibility by authorized means, including delivery, consumption, expending, sale (as surplus property), or other disposition, or via a completed investigation, evaluation, and final determination for lost, stolen, damaged, or destroyed property.**

Contractor's responsibility is throughout the life-cycle of the Government Property



## 52.245-1 (b) Property Mgmt

**(3) The contractor shall include the requirements of this clause in all subcontracts where GP is furnished or acquired for subcontractor performance.**

Prime Contractor



Subcontractor





## 52.245-1 (c) Use of GP

- **(c) Use of Government property.**
- **(1) The Contractor shall use Government property, either furnished or acquired under this contract, only for performing this contract, unless otherwise provided for in this contract or approved by the Contracting Officer.**



## 52.245-1 (c) Use of GP

- **(c) Use of Government property (continued).**
- **(2) Modifications or alterations of Government property are prohibited, unless they are—**
- **(i) Reasonable and necessary due to the scope of work under this contract or its terms and conditions;**
- **(ii) Required for normal maintenance; or**
- **(iii) Otherwise authorized by the Contracting Officer.**





## 52.245-1 (c) Use of GP

- **(c) Use of Government property (continued).**
- **(3) The Contractor shall not cannibalize Government property unless otherwise provided for in this contract or approved by the Contracting Officer.**



## 52.245-1(d) GFP

### **(d) Government-furnished property**

- (1) The Government shall deliver to the Contractor the GFP described in this contract. The Government shall furnish related data & information needed for the intended use of the property**



- (2) The 2 standard warranties do not apply to property acquired or fabricated by the Contractor & then transferred to another contract with this Contractor**



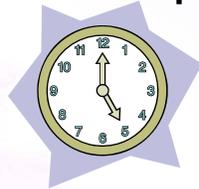
## 52.245-1(d) GFP

- (2) The delivery and/or performance dates specified in this contract are based upon the expectation that the Government-furnished property will be:
  - 1. **Suitable for contract performance** 
  - 2. Will be **delivered to the Contractor by the dates stated in the contract.**



## 52.245-1(d) GFP

- (i) If the property is not delivered to the Contractor by the dates stated in the contract, the Contracting Officer shall, upon the **Contractor's timely written request**, consider an equitable adjustment to the contract.





## 52.245-1(d) GFP

- (ii) In the event property is received by the Contractor (or for Government-furnished property after receipt and installation) in a condition not suitable for its intended use, the Contracting Officer shall, **upon the Contractor's timely written request**, advise the Contractor on a course of action to remedy the problem. Such action may include repairing, replacing, modifying, returning, or otherwise disposing of the property at the Government's expense.
  - Upon completion of the required action(s) the Contracting Officer shall consider an equitable adjustment to the contract (see also paragraph (f)(1)(ii)(A) of this clause).



## 52.245-1(d) GFP

- (iii) The Government may, at its option, furnish property in an “as-is” condition. The Government provides no warranty and any repairs, replacement, and/or refurbishment shall be at Contractor’s expense.

“as-is”



“no warranty”



## 52.245-1(d) GFP

(3)(i) The CO may by written notice, at any time:

(A) **Increase**  or **decrease**  the amount of GFP under this contract.

(B) **Substitute** other GFP for the property previously furnished... 

(C) **Withdraw authority to use** property. 

CO shall consider an equitable adjustment to contract.



## 52.245-1 (e) Title to GP

### (e) Title to Government Property



(1) The Government shall retain title to all GFP.

Title to GP shall not be affected by its incorporation into or attachment to any property not owned by the Government, nor shall GP become a fixture or lose its identity as personal property by being attached to RP.





## 52.245-1 (e) Title to GP

### (e)(2) Fixed Price Contracts

- (i) All GFP & CAP where title vests in the Government are subject to the provisions of this clause.
- (ii) Title vests in the Government for all property acquired or fabricated by the Contractor IAW the financing provisions or other specific requirements for passage of title in the contract.

Under FP contracts (without financing arrangements) the Contractor retains title to all acquired property except for deliverable end items.



## 52.245-1 (e) Title to GP

### (e)(2)(iii)

(A) For material **purchased as a direct item of cost** to the contract (IAW contract), the Gov't will take title upon vendor's delivery of such material; and...





## 52.245-1 (e) Title to GP

### (e)(2)(iii)

**(B) Title to all other property shall pass to and vest in the Government upon—**



**(1) Issuance of the material for use in contract performance**

**(2) Commencement of processing...**



**(3) Reimbursement of cost of the material by the Gov  
(whichever is first).**



## 52.245-1 (e) Title to GP

**(3) Title under CR/T&M or CR/CLINs in FP contracts:**

**(i) Title to all property purchased by the contractor for which the contractor is entitled to be reimbursed as a direct item of cost under this contract shall pass to & vest in the Government upon vendor's delivery of such property**

**(ii) Title to all other property (with reimbursable costs to Contractor) vests in the Gov't upon:**

**(a) Issuance of the property for use in contract performance**

**(b) Commencement of processing**

**(c) Reimbursement of cost by the Government whichever occurs first**





## 52.245-1 (f) Contractor Plans & Systems



### (f) Contractor plans and systems

Contractors shall develop property management plans and systems at the contract, program, site or entity level that reflect their efforts to obtain best value. Such plans and systems shall enable the following **outcomes**:



## 52.245-1 (f) Contractor Plans & Systems

- (i) Acquisition of Property
- (ii) Receipt of GP
- (iii) Records of GP
- (iv) Physical Inventory
- (v) Subcontract Control
- (vi) Reports
- (vii) Relief of Stewardship Responsibility
- (viii) Utilizing GP
- (ix) Maintenance
- (x) Property Closeout



Life-cycle of  
Government  
Property

These outcomes or processes will be discussed later.



## 52.245-1 (g) System Analysis

### (g) System Analysis

- (1) The Government shall have access to the Contractor's premises and all GP, at reasonable times, for the purpose of reviewing, inspecting, & evaluating the Contractor's PM plans, systems, procedures, records, etc.
- (2) Records of GP shall be available to authorized Gov't personnel



## 52.245-1 (g) System Analysis

- (3) Should it be determined by the Gov't that the Contractor (or sub's) Prop Man practices are inadequate or not acceptable for effective management & control of GP or present an undue risk to the Gov't, the Contractor shall prepare a corrective action plan when requested by the PA and take necessary corrective action

Prime Contractor

Subcontractor





## 52.245-1 (g) System Analysis

- (4) The Government shall ensure Government access to subcontractor premises, and all GP located at sub's premises, for the purposes of reviewing, inspecting & evaluating the sub's property management plan, systems, procedures, records, & supporting documentation that pertains to Government property.



## 52.245-1 (h) Contractor Liability

### (h) Contractor liability for Gov't Property

- (1) Unless otherwise provided for in the contract, the contractor shall not be liable for LTDD to GP furnished or acquired under the contract, except where the following applies:





## 52.245-1 (h) Contractor Liability

- (i) The risk that is covered by insurance or when the Contractor is to be reimbursed (to the extent of such insurance or reimbursement).
- (ii) The LTDD is the result of willful misconduct or lack of good faith on the part of the contractor's managerial personnel.



## 52.245-1 (h) Contractor Liability

- (iii) The CO has, in writing, revoked the Gov'ts assumption of risk for loss, theft, damage, or destruction per paragraph (g) of this clause that the Contractor's property management practices are inadequate, &/or present an undue risk to the Gov't, & the Contractor failed to take timely corrective action.





## 52.245-1 (h) Contractor Liability

- (2) The contractor shall take all reasonable actions necessary to protect the GP from further LTDD. The contractor shall separate damaged & undamaged GP & take other such action as directed by the PA.**



## 52.245-1 (h) Contractor Liability

- (3) The contractor shall do nothing to prejudice the Government's rights to recover against 3<sup>rd</sup> parties for any LTDD of GP.**
- (4) Upon request by the CO, the contractor shall, at Government's expense, furnish to the Government all reasonable assistance & cooperation, including the prosecution of suit...**





## 52.245-1 (h) Contractor Liability

**\*Alternate I: (h)(1) of basic clause**

**“The contractor assumes the risk of, and shall be responsible for, any loss, theft, damage, or destruction of GP upon its delivery to the contractor as GFP. However, the contractor is not responsible for reasonable wear & tear or for GP properly consumed in performing this contract.**



**\*Please Note: Per FAR 45.104 (Oct 2010) Generally, Contractors are not held liable for LTDD of GP under the following types of contracts: CR, T & M, Labor-hour, & FP contracts awarded on the basis of submission of certified cost or pricing data.**



## 52.245-1 (i) Equitable Adjustment

**Equitable adjustments under this clause shall be made IAW the procedures of the Changes clause. The Government shall not be liable to suit for breach of contract for the following:**



- (1) Any delay in delivery of GFP**
- (2) Delivery of GFP in a condition not suitable for its intended use**
- (3) An increase, decrease, or substitution of GFP**
- (4) Failure to repair or replace GP for which the Government is responsible**



## 52.245-1 (j) GP Disposal



### **(j) Contractor Inventory Disposal**

Except as otherwise provided for in the contract, the contractor shall not dispose of Government property until authorized to do so by the PLCO.

The basic requirements for disposal include:

- (1) Scrap to which the Government has obtained title under paragraph (e) of this clause.
  - (i) Contractor with an approved scrap procedure.
  - (ii) Contractor without an approved scrap procedure
- (2) Predisposal requirements



## 52.245-1 (j) GP Disposal

- (3) Inventory disposal schedules
- (4) Submission requirements
- (5) Corrections
- (6) Post submission adjustments
- (7) Storage
- (8) Disposition instructions
- (9) Disposal proceeds
- (10) Subcontractor inventory disposal schedules



Property Disposal will be covered in more detail later in this course.



## 52.245-1 (k) Abandonment of GP



- **(k) Abandonment of Government Property**
- **(1) The Government shall not abandon sensitive Government property or termination inventory without the Contractor's written consent.**



- **(2) The Government, upon notice to the Contractor, may abandon any nonsensitive Government property in place, at which time all obligations of the Government regarding such property shall cease.**



## 52.245-1 (l) Communication

- **(l) Communication**
- **All communication under this clause shall be in writing.**





## 52.245-1 (m) Overseas Contracts

- **(m) Contracts outside the United States**
- If this contract is to be performed outside of the U.S. and its outlying areas, the words “Government” and “Government-furnished” (wherever they appear in this clause) shall be construed as “United States Government” and “United States Government-furnished,” respectively.



## 52.245-1(ALT. II)

- **USE Alt II with non-profit institutions such as colleges and universities.** 
  - Clause requirements found in FAR 45.107(a)(3)
- **35.014 -- Government Property and Title.**
- **(a) The requirements in Part 45 for establishing and maintaining control over Government property apply to all R&D contracts.**
- **Specifies who has title to the property**
- **The Office of Naval Research (ONR) is generally responsible for contracts with non-profit institutions**





## 52.245-1(ALT. II)

- (e)(3) Title to property (and other tangible personal property) purchased with funds available for research and having an acquisition cost of **less** than **\$5,000** **shall vest in the Contractor** upon acquisition or as soon thereafter as feasible; **provided** that the Contractor obtained the Contracting Officer's approval before each acquisition.



## 52.245-1(ALT. II)

- Title to property purchased with funds available for research and having an acquisition **cost of \$5,000 or more** shall vest **as set forth in this contract**. If title to property vests in the Contractor under this paragraph, the Contractor agrees that no costs shall be allowed for any depreciation, amortization, or use under any existing or future Government contract or subcontract thereunder.





## 52.245-1(ALT. II)

- The **Contractor** shall furnish the **Contracting Officer** **a list** of all property to which title is vested in the Contractor under this paragraph within **10 days** **following the end of the calendar quarter** during which it was **received**.



## 52.245-1(ALT. II)

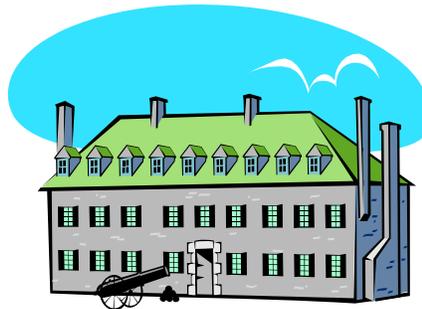
- Vesting title under this paragraph is subject to civil rights legislation, **42 U.S.C. 2000d**. Before title is vested and by signing this contract, the Contractor accepts and agrees that—



- “No person in the United States or its outlying areas shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under this contemplated financial assistance (title to property).”

# Government Property Installation Operation Services FAR 52.245-2

For use on military bases and installations  
This clause must be used with FAR 52.245-1



1-11



## 52.245-2 Government Property (Installation Operations for Services)

- (1) FAR 45.107 Policies and Procedures
- (2) FAR 52.245-2 GP Installation Ops for Services
  - (a) GP furnished "as is, where is" condition
  - (b) Responsibility for repair or replacement of Gov't Property that is L, D, D
  - (c) Abandonment of Gov't rights & title
  - (d) GP governed by the GP Clause
  - (e) Property to be provided under this clause





## **52.245-2 Government Property (Installation Operations for Services)**

45.107 (b) The C.O. ***shall insert*** the clause at 52.245-2, Government Property (Installation Operations for Services), in service contracts to be performed on a Government installation when GFP will be provided for initial provisioning only and the Government is not responsible for repair or replacement.



## **52.245-2 Government Property (Installation Operations for Services)**

The Government Property Clause at 52.245-2, Installation Operations for Services, must be used in conjunction with the Government Property Clause at 52.245-1 to protect the Government's interests in this property.





## 52.245-2 Government Property (Installation Operations for Services)

- (a) The Government Property listed in paragraph (e) of this clause is furnished to the Contractor in an **“as-is, where-is”** condition.

Since the property is furnished in an “as-is” “where-is” condition the Government has no obligation to restore, rehabilitate, or replace it. The Contractor must bear those costs.



## 52.245-2 Government Property (Installation Operations for Services)

- (a) The Government makes **no warranty** regarding the suitability for use of the Government Property specified in this contract.

**NO WARRANTY**



## **52.245-2 Government Property (Installation Operations for Services)**

- (a) The Contractor has the opportunity to inspect the Government Property specified in the solicitation.



## **52.245-2 Government Property (Installation Operations for Services)**

- (b) The Government bears no responsibility for repair or replacement of any lost, stolen, damaged or destroyed Government property.





## **52.245-2 Government Property (Installation Operations for Services)**

(b) If Government Property is lost, damaged, or destroyed or when it is no longer usable, the Contractor shall be responsible for replacement of the property at Contractor expense.



## **52.245-2 Government Property (Installation Operations for Services)**

(b) The Contractor has title to all replacement property and shall be responsible for contract performance.





## **52.245-2 Government Property (Installation Operations for Services)**

(c) Unless the C.O. determines otherwise, the Government abandons all rights & title to unserviceable and scrap property resulting from contract performance.

unserviceable



## **52.245-2 Government Property (Installation Operations for Services)**

(c) Upon notification to the C.O., the Contractor shall remove such property from the Government premises and dispose of it at Contractor expense.

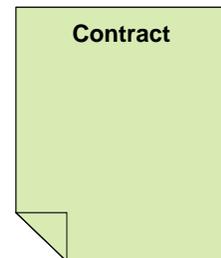




## 52.245-2 Government Property (Installation Operations for Services)

(d) Except as provided in this clause, Government Property furnished under this contract shall be governed by the GP Clause in this contract.

FAR 52.245-1 Government Property



## 52.245-2 Government Property (Installation Operations for Services)

(e) Government Property provided under this clause: (it must be listed)

---

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Note: A list of the Government property provided under this clause must be provided. This list is used to distinguish the property that is furnished without a warranty (“as-is” “where-is”) from that which has a warranty.

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# USE AND CHARGES – **FAR 52.245-9** A FORGOTTEN CLAUSE & MORE...



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## What's the Difference Between the Two?



**Aircraft Carrier**

### Carrier Task Force



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## What's the Difference Between the Two?

**FAR 52.245-1**



**FAR Part 7  
FAR Part 45  
Solicitation  
Property Plan  
Eval Criteria  
FAR 52.245-1  
FAR 52.245-9  
Property Listing  
Property Admin**



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# EUREEKA!!!

1. Government property does not sail alone!!
2. When -1 is used then so will -9, Use & Charges clause!

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## Something Missing??



**IS USE & CHARGES  
MORE THAN JUST A  
CLAUSE?**

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## USE & CHARGES CONCEPT/CONTINUUM

**CONTRACT FORMATION**

➤ **CLAUSE SELECTION**

**PRE-AWARD**

➤ **PRICE EVAL TOOL**

**POST-AWARD**

➤ **CLAUSE  
APPLICATION**

**CONTRACT PHASES**

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# USE & CHARGES PRE-AWARD EVALUATION TOOL

## ➤ THE DIRECTION - FAR 45.103(a)(2)

### AGENCY – THOU SHALT...

- Level That Playing Field!!
- Eliminate Competitive Advantage!!



## ➤ THE “CONCEPTUAL How-To” GUIDANCE – FAR 45.202(a) Evaluation Procedures

- Consider Any Potential Unfair Advantage
- Adjust Offers for Eval Purposes Only - Apply a Rental Equivalent



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# USE & CHARGES PRE-AWARD EVALUATION TOOL

## ➤ MECHANICS of “How-To” GUIDANCE - FAR 45.201(c) Solicitation

1. Describe Evaluation Procedures
2. Include Rental Charges or Equivalentents etc. to be Evaluated
3. Obtain from the Offerors:

*“The amount of rent that would otherwise be charged in accordance with FAR 52.245-9, Use and Charges”*

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# USE & CHARGES PRE-AWARD EVALUATION TOOL

- Post-Award Rent-Charging “Concept” applied, Pre-Award!
- Use FAR 52.245-9(e) “Rental charge” in conjunction with FAR 45.201(c) solicited info!!
- An Simple Example follows...



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## SUREFIRE MISSILE PROGRAM SOLICITATION

### GOVERNMENT PROPERTY SOLICITATION INFORMATION REQUEST

GOV Property ID	Current Owning Contract #	Adv Auth Obtained ? (Y/N)	Date When Avail?	Concur Use? (Y/N)	Amt Resp Use (hrs) (Prop /Own)	Appraisal Rental Equiv
Req by 45.201(c)(1)	Req by 45.201(c)(1)	Req by 45.201(c)(1)	Req by 45.201(c)(2)	Req by 45.201(c)(2)	Req by 45.201(c)(2)	Req by 45.201(c)(3)
Col #1	Col #2	Col #3	Col #4	Col #5	Col #6	Col #7

Illustration #1

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 <b>SUREFIRE MISSILE PROGRAM XYZ COMPANY PROPOSAL GOVERNMENT PROPERTY SOLICITATION <u>RESPONSE</u></b>						
Gov Property ID	Current Owning Contract #	Adv Auth Obtained ? (Y/N)	Date When Avail?	Concurrent Use? (Y/N)	Amt Resp Use (hrs) (Prop /Own)	Appraisal Rental Equiv
Col #1	Col #2	Col #3	Col #4	Col #5	Col #6	Col #7
1. 60 Ton Forging Press, Serial # 1234	F33653-10-C-7895	Y Attach Written Auth	Upon contract award	Y	108/612 (720 hrs/mo) cap	\$10,000 per mo
2. Item Nom., Serial # 2543	F33653-10-C-7895	Y	Upon contract award	Y	252/468	\$7,000 per mo
3. Item Nom., Serial # 7856	F33653-10-C-7895	Y	Upon contract award	Y	360/360	\$5,000 per mo
4. Item Nom., Serial # 0839	F33653-10-C-7895	Y	Upon contract award	Y	468/252	\$3,500 per mo

**Illustration #2**      11

 <b>SUREFIRE MISSILE PROGRAM XYZ COMPANY PROPOSAL GOVERNMENT PROPERTY SOLICITATION <u>RESPONSE</u></b>			
Government Property Identification	Amount Respective Use (hrs) (Prop /Own)	Appraisal Rental Equiv	PCO EXTENSION
Column #1	Col #6	Col #7	Col #8
1. 60 Ton Forging Press, Serial # 1234	108/612 (720 hrs/mo capacity)	\$10,000 per month	\$1500/mo
2. Item Nom., Serial # 2543	252/468	\$7,000 per mo	\$2450/mo
3. Item Nom., Serial # 7856	360/360	\$5,000 per mo	\$2500/mo
4. Item Nom., Serial # 0839	468/252	\$3,500 per mo	\$2275/mo
<b>TOTAL RENTAL CHARGES PER MONTH.....</b>			<b>\$8725/mo</b>

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**Illustration #3**  
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**SUREFIRE MISSILE PROGRAM  
SOLICITATION  
GOVERNMENT PROPERTY  
RENTAL EQUIVALENT SUMMARY**

Company Name	Using On-hand Government Property? Y/N	PCO Calculated Monthly Rental Equivalent	Contract Life Rental Equivalent (36 months)
ABC Company	Y	\$4,250	\$153,000
LMN Company	Y	\$13,750	\$495,000
WAZ Company	N	na	na
XYZ Company	Y	\$8,725	\$314,100

**Illustration #4**

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**SUREFIRE MISSILE PROGRAM SOLICITATION**

**GOVERNMENT PROPERTY  
RENTAL EQUIVALENT SUMMARY**

Company Name	Using On-hand Government Property? Y/N	PCO Calculated Monthly Rental Equivalent	Contract Life Rental Equivalent (36 months)	<i>FOR PROPOSAL EVALUATION PURPOSES ONLY</i> Offer Adjustment – Cumulative Rental Equivalent Factor
ABC Company	Y	\$4,250	\$153,000	+ \$153,000
LMN Company	Y	\$13,750	\$495,000	+ \$495,000
WAZ Company	N	na	na	0
XYZ Company	Y	\$8,725	\$314,100	+ \$314,100

**Illustration #5**

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## USE & CHARGES PRE-AWARD EVALUATION TOOL

- It's not intuitive – PCO has to research the “Regs”
- A Property Solicitation Provision would help!

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## CONTRACT FORMATION CLAUSE SELECTION

- Use & Charges Clause Selection is not difficult!!

1. FAR 45.107
2. “The Formula”

**Property on Contract = FAR 52.245-1 + FAR 52.245-9**

3. When the model contract is drafted (solicitation), FAR 52.245-9 should be included, as well as the resulting contract!!



**It doesn't ALWAYS Happen!!**

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# POST-AWARD CLAUSE APPLICATION

## ❖ Five Differing Applications of FAR 52.245-9

1. Provide GP Post-Award
2. Rent-free Conditional use by Non-profits
3. Use of GP on “other” Fixed-Price contracts
4. Use of GP on Cost-reimbursement Contracts
5. Use of GP on Contractor’s Commercial Work



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# CLAUSE APPLICATION

## • The “Players”

- Contractor
- ACO
- PCO
- Requiring Activity
- Property Administrator
- Industrial Engineer/Specialist
- Contractor-hired Appraiser
- Department of Justice



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## AUTHORIZED USE

### FAR 52.245-9(b)

- All Use of Government Property must be **“AUTHORIZED”**
  - Initially via the Contract by PCO
  - NO BLANKET authority – only specific!!
  - **Stewardship responsibilities** not Owner rights
  - Rental requests constitute an **ADDITIONAL AUTHORIZATION**
    - **ADDED** to initial authorization
    - **DOES NOT MODIFY IT OR REPLACE ORIGINAL AUTHORIZATION!**

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## CLAUSE APPLICATION

- FAR 52.245-9
  - (a) Definitions
  - (c) Rental – Authorized rental use limitations & Government Rights to terminate use
  - (d) Controls in the Process
    - Identifies ACO as the “Go-To”
    - Identifies three pieces of needed info
      1. What Property?
      2. For How Long?
      3. Compute an Estimated Rental Charge
    - Don't ANTICIPATE APPROVAL
    - Rental Use **SHALL NOT** interfere with Primary Use

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20



# CLAUSE APPLICATION

- **FAR 52.245-9**
  - (e) Calculating the Rental – applies to:
    1. Real Property
    2. Special Tooling
    3. Special Test Equipment
    4. Equipment



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21



# CLAUSE APPLICATION

- **FAR 52.245-9(e) Calculating the Rental**
  - **Three Methods**
    1. The Appraisal Method – Easier with Real Property and Equipment
    2. The Formula Method – Easier with ST and STE
    3. Alternative Method – Contractor proposed



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## Rental Calculation Methods

### ➤ Appraisal Method

#### CALCULATION

Property Appraisal x Rental Time = Rental Charge

### ➤ Formula Method

#### FORMULA

Acquisition Cost x 2% x Rental Time ÷ 720 = Rental Charge

### ➤ Alternative Method

#### CONTRACTOR PROPOSED

If monthly or time-based rental impractical or unreasonable

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23



## CLAUSE APPLICATION

- FAR 52.245-9(f) – Where Does the Check Go?
  - “Treasurer of US” via the ACO **UNLESS!!**
  - If CO negotiates “consideration” then benefit of Rental goes to the Contract effort! (***CAUTION – Augmentation of Funds is ILLEGAL!!***)
  - Rental payments don’t mean “unlimited use”

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24



# CLAUSE APPLICATION

- FAR 52.245-9(g) “The Government Might change it’s Mind”

**Contractor BEWARE!!**



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25



# CLAUSE APPLICATION

- FAR 52.245-9(h) – Unauthorized Use (Enforcement)
  - A violation of 18 U.S.C. 641. Public Money, Property or Records
  - Department of Justice via your local Federal prosecutor!

**NO ACO or PCO involvement here!!**





**We Thank You!!**

*The End*



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27

# DFARS CLAUSES



WAZ - FEB 2011

1

## DFARS CASE 2008 – D049 FINAL RULE – Feb 2011



**Reporting of  
Government Property Lost,  
Stolen,  
Damaged, or Destroyed**



WAZ - FEB 2011

2



## What's Changed?

**245.102 Policy.**

**Paragraph (5) is added to DFARS 245.102**



**(5) Reporting loss of Government property. The Defense Contract Management Agency (DCMA) eTools software application is the DoD data repository for reporting loss of Government property in the possession of contractors. The requirements and procedures for reporting loss of Government property to eTools are set forth in the clause at 252.245-7002, Reporting Loss of Government Property, prescribed at 245.107.**

WAZ - FEB 2011

3



## What's Changed?

**245.107 Contract Clauses -**

**Paragraph (c) is added to DFARS 245.107**

**(c) Use the clause at 252.245-7002, Reporting Loss of Government Property, in solicitations and contracts that contain the clause at FAR 52.245-1, Government Property.**



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4



## DFARS Clause 252.245-7002

### REPORTING LOSS OF GOVERNMENT PROPERTY (FEB 2011)

(a) *Definitions*

**Loss of Government property** means unintended, unforeseen, or accidental loss, damage, or destruction of Government property that reduces the Government's expected economic benefits of the property. Loss of Government property does not include purposeful destructive testing, obsolescence, normal wear and tear, or manufacturing defects. Loss of Government property includes, but is not limited to—



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5



## DFARS Clause 252.245-7002

- (1) Items that cannot be found after a reasonable search;
- (2) Theft;
- (3) Damage resulting in unexpected harm to property requiring repair to restore the item to usable condition; or
- (4) Destruction resulting from incidents that render the item useless for its intended purpose or beyond economical repair.



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6



## DFARS Clause 252.245-7002

### (a) Definitions

**Unit acquisition cost means—**

- (1) For Government-furnished property, the dollar value assigned by the Government and identified in the contract; and
- (2) For Contractor-acquired property, the cost derived from the Contractor's records that reflect consistently applied, generally acceptable accounting principles.



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7



## DFARS Clause 252.245-7002

### (b) Reporting loss of Government property.

- (1) The Contractor **shall use** the Defense Contract Management Agency (DCMA) **eTools** software application **for reporting loss of Government property**. Reporting value shall be at unit acquisition cost. The eTools "LTDD of Government Property" toolset can be accessed from the DCMA home page External Web Access Management application at:  
<http://www.dcmil/aboutetools.cfm> .



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8



## DFARS Clause 252.245-7002

### (b) Reporting loss of Government property.

- (2) Unless otherwise provided for in this contract, the requirements of paragraph (b)(1) of this clause do not apply to normal and reasonable inventory adjustments, i.e., losses of low-risk consumable material such as common hardware, as agreed to by the Contractor and the Government Property Administrator. Such losses are typically a product of normal process variation. The Contractor shall ensure that its property management system provides adequate management control measures, e.g., statistical process controls, as a means of managing such variation.



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9



## DFARS Clause 252.245-7002

### (b) Reporting loss of Government property.

- (3) The Contractor shall report losses of Government property outside normal process variation, e.g., losses due to—
- (i) Theft;
  - (ii) Inadequate storage;
  - (iii) Lack of physical security; or
  - (iv) “Acts of God.”
- (4) This reporting requirement does not change any liability provisions or other reporting requirements that may exist under this contract.



(End of clause)  
WAZ - FEB 2011

10

## DFARS CASE 2008 – D050 FINAL RULE – Feb 2011



# Marking of Government-Furnished Property



WAZ - FEB 2011

11

## What's Changed?



### 245.102 Policy.

Paragraph (4) is added to DFARS 245.102

#### (4) *Government-furnished property identification.*

- (i) It is DoD policy that Government furnished property be tagged, labeled, or marked based on DoD marking standards (MIL Standard 130) or other standards, when the requiring activity determines that such items are subject to serialized item management (serially managed items). The **list of Government-furnished property subject to serialized item management will be identified in the contract** in accordance with PGI 245.201–71, GFP attachments to solicitations and awards.

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## What's Changed?

### (4) Government-furnished property identification.

#### (ii) Exceptions. The Contractor will not be required to tag, label, or mark—

(A) Government-furnished property that was previously tagged, labeled, or marked;

(B) Items, as determined by the head of the agency, that are to be used to support a contingency operation; or to facilitate defense against or recovery from nuclear, biological, chemical, or radiological attack;



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## What's Changed?

### (4) Government-furnished property identification.

#### (ii) Exceptions. The Contractor will not be required to tag, label, or mark—

(C) Items for which a determination and findings has been executed concluding that it is more cost effective for the Government requiring activity to assign, mark, and register the unique item identification after delivery of an item acquired from a small business concern or a commercial item acquired under FAR part 12 or part 8.

(1) The determination and findings shall be executed by—

(i) The Component Acquisition Executive for an Acquisition Category (ACAT) I program; or

(ii) The head of the contracting activity for all other programs.

(2) A copy of the executed determination and findings shall be provided to the DoD Unique Item Identification Policy Office at this address: OUSD (AT&L) DPAP/Program Development and Implementation, Room 3B855, 3060 Defense Pentagon, Washington, DC 20301-3060; or by facsimile to 703-602-6047.



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## What's Changed?

### (4) Government-furnished property identification.

(ii) *Exceptions.* The **Contractor will not be required** to tag, label, or mark—

- (D) Items that are contractor-acquired property;
- (E) Property under any statutory leasing authority;
- (F) Property to which the Government has acquired a lien or title solely because of partial, advance, progress, or performance-based payments;
- (G) Intellectual property or software; or
- (H) Real property.



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## What's Changed?

### 245.107 Contract Clauses -

Paragraph (b) is added to DFARS 245.107



(b) Use the clause at 252.245–7001, Tagging, Labeling, and Marking of Government-Furnished Property, in solicitations and contracts **that contain the clause at FAR 52.245–1, Government Property.**

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## DFARS Clause 252.245-7001

### TAGGING, LABELING, AND MARKING OF GOVERNMENT-FURNISHED PROPERTY (FEB 2011)

**(a) Definitions**

**Serially-managed item** means an item designated by DoD to be uniquely tracked, controlled, or managed in maintenance, repair, and/or supply systems by means of its serial number.



WAZ - FEB 2011

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## DFARS Clause 252.245-7001



- (b) The Contractor shall tag, label, or mark Government-furnished property items identified in the contract as subject to serialized item management (serially managed items).**
- (c) The Contractor is not required to tag, label, or mark Government-furnished property previously tagged, labeled, or marked.**



(End of clause)

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18



*The End*



WAZ - FEB 2011



# PROPERTY MANAGEMENT SYSTEM



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## -1 CLAUSAL REQUIREMENTS

### (b) Property management

- Contractor **shall have a system**
- It shall be **adequate to satisfy** clause requirements
- Contractor **shall** initiate and maintain effective **control** of **Government property**
- Consistent with **voluntary consensus standards** and/or **industry-leading practices** and standards
- **Shall disclose** any **PLANNED, significant changes** to property management system to the Property Administrator



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## -1 CLAUSAL REQUIREMENTS



### (f) Contractor plans and systems

- Contractors **shall develop** property management plans, and **systems**, and procedures

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## DEFINITION OF “SYSTEM”



### **SYSTEM:**

1. Any organized assembly of resources and procedures united and regulated by interaction or interdependence to accomplish a set of specific functions.
2. A collection of personnel, equipment, and methods organized to accomplish a set of specific functions.
3. A regularly interacting or interdependent group of items forming a unified whole <http://www.m-w.com/dictionary/system>

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## DEFINITION OF "SYSTEM"

### PROPERTY MANAGEMENT SYSTEM:

- FAR 45.101 doesn't give precise definition to the term, but...



... we can distill the essence from FAR 52.245-1!

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## DEFINITION OF "SYSTEM"

### "SYSTEM" - IN PMS CONTEXT:

- Must have WRITTEN PROCEDURES
- There must be APPLICATION COMPLIANCE



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## DEFINITION OF “SYSTEM”

### “SYSTEM” - IN PMS CONTEXT:

#### FAR 52-245-1(b), Property Management

- (1) “The Contractor shall have a system to manage...  
...the Contractor shall initiate and maintain the processes, systems, procedures, records, and methodologies necessary for effective control of Government property, consistent with voluntary consensus standards and/or industry-leading practices and standards for Government property management...”

**This means they will have WRITTEN PROCEDURES!!!**

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## DEFINITION OF “SYSTEM”

### “SYSTEM” - IN PMS CONTEXT:

#### FAR 52-245-1(f), Contractor Plans and Systems

- (3) “The Contractor shall establish and maintain procedures necessary to assess its property management system effectiveness, and shall perform periodic internal reviews and audits.” Material or significant findings and/or results of such reviews and audits pertaining to Government property shall be made available to the Property Administrator.”

**This means they will have APPLICATION COMPLIANCE!!**

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## CONTRACTUAL ELEMENTS

### System elements specified by FAR

- FAR 52.245-1(f) - Contractor Plans and Systems
  - (i) Acquisition of Property
  - (ii) Receipt of Government Property
  - (iii) Records of Government Property
  - (iv) Physical inventory
  - (v) Subcontractor control
  - (vi) Reports
  - (vii) Relief of stewardship responsibility
  - (viii) Utilizing Government property
  - (ix) Maintenance
  - (x) Property closeout



**ALSO – elements subsumed in those above PLUS Disposition!**

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## NEW USES OF VCS's

### FAR DEFINITION OF VCS's

#### FAR 2.101 - Definition

**“Voluntary Consensus Standards” means common and repeated use of rules, conditions, guidelines or characteristics for products, or related processes and production methods and related management systems. Voluntary Consensus Standards are developed or adopted by domestic and international voluntary consensus standard making bodies.**

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## NEW USES OF VCS's

### EXAMPLES OF VCS's

Deutsches  
Institut für  
Normung (DIN)

**ASCE** American Society  
of Civil Engineers

**ASME**



**NEMA**  
DICON

American Water Works Association  
The Authoritative Resource on Safe Water™

**ANACE**  
THE CORROSION SOCIETY



American  
Petroleum  
Institute

International  
Organization for  
Standardization (ISO)



**AAMI**  
International  
Electrotechnical  
Commission



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## NEW USES OF ILP's

### FAR DEFINITION OF ILP's

- THERE IS NO FAR DEFINITION OF "INDUSTRY LEADING PRACTICE!!"
- HOWEVER,...something close is the following definition of "**BEST PRACTICE**"

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## NEW USES OF ILP'S

### “BEST PRACTICE”

- A best practice is composed of policies, principles, standards, guidelines and procedures that contribute to the highest, most resource-effective performance of a discipline. Best practices are based upon a broad range of experience, knowledge and extensive work with industry leading clients.

• (Attributed to The Gartner Group, footnote #32 in the book, “Real Process Improvement Using the CMMI,” by Michael West, West West, P.167)

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## INDUSTRY LEADING PRACTICES

- CONCEPTUALIZATION FROM THE DOD PROPERTY MANUAL REWRITE TEAM
  - Industry leading practices (ILP) are generally accepted processes, including best practices, that have been proven throughout related businesses, to be **managerially and economically effective, efficient, and successful** at meeting particular objectives of a contractor's management system, and where specified, in compliance with the **required Government Outcomes.**

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## INDUSTRY LEADING PRACTICES

- **CONCEPTUALIZATION FROM THE DOD PROPERTY MANUAL REWRITE TEAM**
  - The ILP should be based on **empirical research, evidence and literature** pertaining to that business practice, product or system as a “leading” practice. In order for a process to become an ILP, it should be widely used. Generally, there should be supporting historical data from an accepted source, e.g., trade publications, literature, etc., to support that process as being **repeatable, efficient, measurable, and verifiable.**

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## INDUSTRY LEADING PRACTICES

- **For Example - There are numerous Government Accountability Office (GAO) reports that clearly define, describe and document ILPs, e.g., GAO Report 02-447G, entitled “Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property.”**  
**<http://www.gao.gov/new.items/d02447g.pdf>**

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## INDUSTRY LEADING PRACTICES

- **FLEXIBILITY** on the part of the Government Property Administrator
- With the rapid rate of technological and business systems development it is anticipated that numerous new processes will emerge
  - In such cases there may not be a developed body of literature supporting these processes
  - As such the PA needs to be open to the use of **emerging processes as a potential ILP.**

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## NEW USES OF ILP'S

### Remember tho', when defining an ILP, consider...

- **Efficacy** – Does the practice have the “power to produce a superior positive effect?”
- **Support in Literature** – Does the practice stand the test of being extolled in writing as a “lead” or “best practice?”
- **Research** – Is the practice supported by underlying analysis and basic study; evolving into a “lead” or “best practice?”

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## NEW USES OF VCS's

### EXAMPLES OF ILP's



Treasury Board of Canada  
Secrétariat

Secrétariat du Conseil du Trésor  
du Canada



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## PA PMS RESPONSIBILITIES

- **Planning, developing and performing** a PMSA to assess and determine the effectiveness of the contractor's property management systems
- **Evaluating** the contractor's internal audit processes, procedures and results as well as **assisting** in the development of the protocols for their use in evaluating their property management processes
- **Evaluating** the contractor's compliance with contractual requirements and ILP&S, in order to determine the adequacy of the contractor's property management processes throughout the property life cycle

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## CO's PMS RESPONSIBILITIES

- 1. Request Contractor PMS Corrective Action**
- 2. Withdraw Assumption of Risk when Advised by the PA Based upon PMS fault/failure**

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## RESOURCES

- **RECOMMENDED RESOURCES**
  - **CRITICAL:**
    - FAR Part 45
    - FAR Clause 52.245-1

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# THE ACQUISITION OF GOVERNMENT PROPERTY

A Process/Outcome



1-11

1



## ACQUISITION

- It is a **CONTRACTUAL** requirement that contractors have a process/outcome for managing the **ACQUISITION** of **PROPERTY**. This property may already be Government Property or it may become Government Property at some future date.



2



## APPLICABLE VCS

- There are no voluntary consensus standards for the acquisition of Government Property.

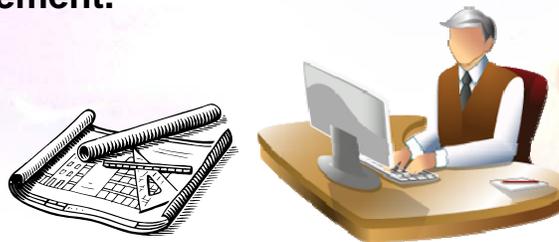


3



## THE ACQUISITION PROCESS

- FAR 52.245-1(f)(1)(i) Acquisition of Property
  - The contractor shall document that all property was acquired consistent with its engineering, production planning, material control operations, and/or cost accounting disclosure statement.



4



## ACQUISITION

### Government Property definition:

This includes “all property owned or leased by the Government. Government property includes both Government-furnished and Contractor-acquired Property.”

The Government specifies when it has title to Government Property via the contract and the Government Property Clause.



5



## ACQUISITION

Government Furnished Property (GFP) is defined in 52.245-1 as:

“property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract.”

The Government always has title to Government Furnished Property.

FAR 45.401





## ACQUISITION

**Contractor Acquired Property (CAP) is defined in FAR 52.245-1 as:**

“property acquired, fabricated, or otherwise provided by the contractor for performing a contract and to which the **Government** has title.”



The Government specifies when it has title to CAP via the contract and the Government Property Clause.

7



## ACQUISITION OF GFP

- GFP may come into the possession of the contractor if it is :
  - PUSHED
  - PULLED or
  - TRANSFERRED



DD FORM 1348

8



## ACQUISITION OF GFP

Government Furnished Property may be pushed:

- Government activities may **DIRECT SHIP** GFP to contractors with **NO ACTIONS** on the part of the Contractor.
  - GFP is specified in the contract
  - **GOVERNMENT** ships the property
  - **CONTRACTOR** needs to take no action to acquire the property
  - **CONTRACTOR** receives the property into their Property Management System



**NOTE: TECHNICALLY THIS IS NOT AN ACQUISITION AS THE CONTRACTOR IS NOT RESPONSIBLE FOR THE ACT OF ACQUIRING THE GFP.**

9



## ACQUISITION OF GFP

• Government Furnished Property may be pulled:

- This may happen when the Contractor requisitions the GFP that is required for contract performance.
- Requisition method specified in the contract
  - Military Standard Requisitioning and Issuance Procedures (MILSTRIP)
    - DoD 4000.25-1-M
  - MILSTRIP MANUAL on the WEB  
<http://www.dla.mil/j-6/dlms/eLibrary/Manuals/MILSTRIP/Default.asp>
  - FEDSTRIP (another method)



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## ACQUISITION OF GFP

- “PULLED” GFP
  - In order for GFP to be “pulled” the Contractor must have the **AUTHORITY** to **REQUISITION** GFP through the MILSTRIP SYSTEM
    - References:
      - FAR Part 51
      - DFARS Part 251
      - Check associated clauses



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## ACQUISITION OF GFP

- “PULLED” GFP
  - CONTRACTOR MAY BE LIMITED TO REQUISITIONING ONLY CERTAIN ITEMS OF GOVERNMENT PROPERTY THROUGH THE MILSTRIP SYSTEM
  - Procurement activities establish a MANAGEMENT CONTROL ACTIVITIES (MCA) to SCREEN all MILSTRIP requisitions to ensure contractor requisitions ONLY that “stuff” that is AUTHORIZED
    - DoD 4140.1-R, May 23, 2003 (Chapter 5.11)
      - <http://www.dtic.mil/whs/directives/corres/html2/p41401r.htm>



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## ACQUISITION OF GFP

- “PULLED” GFP
  - CONTRACTORS SHALL PROVIDE PROCEDURES TO ADDRESS THIS PROCESS IN THEIR PROPERTY MANAGEMENT SYSTEM WHERE MILSTRIP REQUISITIONS ARE AUTHORIZED.



- Critical aspects
  - Force Activities Designators
  - Priority designators

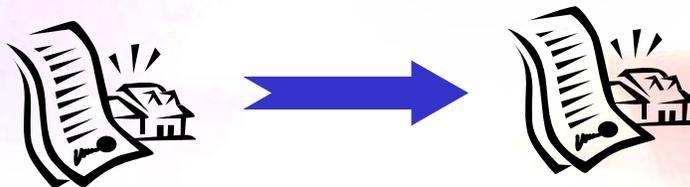
<http://www.dla.mil/J-4/publication.asp#Customer>

13



## ACQUISITION OF GFP

- GFP BY TRANSFER
  - GFP MAY COME INTO EXISTENCE BY TRANSFER OF PROPERTY FROM ONE CONTRACT TO ANOTHER



14



## ACQUISITION OF GFP

- WHERE CAP IS TRANSFERRED FROM CONTRACT #1 to CONTRACT #2 – with no costs transferred – it becomes GFP to Contract # 2.
- BOTH CONTRACTS MUST AUTHORIZE THE TRANSFER.



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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- **ACQUISITION** may take many different forms and may use many different processes:
  - Acquiring items from a vendor/subcontractor
  - Fabricating items in-house
  - Issuing items from contractor-owned stores/stock and stockrooms
  - Transfer
  - Reutilization
  - Lease

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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- **PURCHASE** from Vendor
  - Contractor issues a P.O. or Subcontract with a vendor or supplier
- **ISSUANCE** from Stock
  - Contractor may already have an item in his/her stockroom and may issue it and use it on the contract.

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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- **FABRICATED PROPERTY**
  - Though not specifically called out as such the **GOVERNMENT** takes title to property that is **FABRICATED** under cost reimbursement type contracts
    - E.g., parts machined from raw materials
    - Special tooling fabricated in the contractor's tool shop.



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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- **TRANSFER** of Property
  - Contractor may use a system to move property, generally material, from one contract to another **WITH ITS ASSOCIATED COSTS**, i.e., generally crediting the losing contract and debiting the gaining contract.
  - The Material Management Accounting System (More on this later)
    - DFARS 242.72 and
    - DFARS 252.242-7004

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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- **LEASING OF PROPERTY**
  - If a contractor **LEASES** property (Even under a Cost Reimbursement contract, it **DOES NOT** become **Government Property**.
    - If the **Contractor leases property**, that property is bound by the terms and conditions of the Lease – and the “LESSOR” still retains title to it!

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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- **LEASING** OF PROPERTY
- If the **GOVERNMENT leases the property**, then the Government **TASKS** the Contractor to **MANAGE** that property as GFP – because the contractor has an obligation to return it to the Government, and the Government to return it to the **LESSOR**.

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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- **ALL ACQUISITIONS MUST** BE SUPPORTED BY A **VALID NEED OR REQUIREMENT**. Some Examples:
  - Engineering Requirements in **R&D**
  - Bill of Material (BOM), Material requirements list (MRL), Drawings or Blueprints in a **Production** setting
  - Contractual Unit requirements in an **O&M or Services** setting
- When a contractor acquires an item or items there must be supporting documentation for that item/asset and its **NEED/REQUIREMENT** in and for performing the contractually required work

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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- **TITLE TO CAP IS DRIVEN BY MULTIPLE FACTORS:**
  - TYPE OF CONTRACT
  - COST PRINCIPLES
  - COST ACCOUNTING STANDARDS
  - CONTRACTOR'S ACCOUNTING POLICIES AND PROCEDURES

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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- **TYPES OF CONTRACTS**
- **TWO BROAD PRICING ARRANGEMENT**



24



## CONTRACTOR ACQUIRED PROPERTY (CAP)

- TITLE TO PROPERTY UNDER FIXED PRICE CONTRACTS
  - Generally **CONTRACTORS** retain title to **ALL** property Acquired under FIXED PRICE CONTRACTS
  - The Government only obtains title to the **DELIVERABLE END ITEM** specified in the contract through Contract Line Item Numbers (CLIN)

NOTE: Financing Provisions have  
An impact on title



25



## CONTRACTOR ACQUIRED PROPERTY (CAP)

- TITLE TO PROPERTY UNDER FIXED PRICE CONTRACTS
  - If there is a **CLIN** directing the contractor to acquire **MATERIAL**, FOR THE GOVERNMENT, as a **DIRECT ITEM OF COST**
  - TITLE VESTS in the GOVERNMENT:
    - VENDOR's DELIVERY
  - TITLE to all other material vests in the GOVERNMENT
    - Issuance of Material
    - Commencement of Processing of Material or its use
    - Reimbursement of the cost,
    - Whichever comes first!

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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- **TITLE TO PROPERTY UNDER FIXED PRICE CONTRACTS**
  - **TITLE** to each item of **EQUIPMENT, SPECIAL TEST EQUIPMENT AND SPECIAL TOOLING**  
**ACQUIRED** by the **CONTRACTOR**  
**FOR THE GOVERNMENT**
  - shall pass to and **VEST in the GOVERNMENT** when:
    - Its **USE COMMENCES** or
    - When the Government has **PAID** for it,
    - **Whichever is earlier,**
    - Whether or not title previously vested in the Government.

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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- **TITLE TO PROPERTY UNDER COST REIMBURSEMENT CONTRACTS**
  - **TITLE** to **ALL PROPERTY** purchased by the contractor for which the contractor is **ENTITLED** to be **REIMBURSED**  
as a **DIRECT ITEM OF COST** shall pass to and **VEST IN THE GOVERNMENT** upon **VENDOR'S DELIVERY**

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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- TITLE TO PROPERTY UNDER COST REIMBURSEMENT CONTRACTS
  - TITLE to ALL OTHER PROPERTY
  - The cost of which is reimbursable to the contract, shall pass to and vest in the **GOVERNMENT** upon –
    - Issuance of Material
    - Commencement of Processing of Material or its use
    - Reimbursement of the cost,
    - Whichever comes first!

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## CONTRACTOR ACQUIRED PROPERTY (CAP)

- What does ENTITLED to be REIMBURSED mean???
  - Cost must be:
    - REASONABLE
    - ALLOCABLE and
    - ALLOWABLE
- } FAR PART 31

30



## REASONABLE

- **FAR 31.201-3**
  - (a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a reasonably prudent person in the conduct of competitive business.

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## REASONABLE

- Reasonableness can be determined by the Terms and conditions of the Contract
  - Items specifically called out to be acquired
- Reasonableness can be determined by reviewing drawings, blueprints, bills of material, or other documents showing:
  - Need of the item
  - Quantity needed
- Contract requirements



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## ALLOCABLE

- FAR 31.201-4
  - A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship.



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## ALLOWABLE

- FAR 31.201-2
  - (a) A cost is allowable only when the cost complies with all of the following requirements:
    - (1) Reasonableness.
    - (2) Allocability.
    - (3) **Standards promulgated by the CAS Board**, if applicable; otherwise, **generally accepted accounting principles** and practices appropriate to the circumstances.
    - (4) Terms of the contract.
    - (5) Any limitations set forth in this subpart.

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## COST ACCOUNTING STANDARDS

- **30.101 Cost Accounting Standards.**
  - (a) Public Law 100-679 (41 U.S.C. 422) requires certain contractors and subcontractors to comply with Cost Accounting Standards (CAS) and to disclose in writing and follow consistently their cost accounting practices.
- **30.201-4 Contract clauses.**
  - (a) Cost accounting standards.
    - (1) The contracting officer shall insert the clause at FAR 52.230-2, Cost Accounting Standards, in negotiated contracts

35



## COST ACCOUNTING STANDARDS

- **COST ACCOUNTING STANDARDS AFFECT THE WAY CONTRACTORS CAN CHARGE US FOR PROPERTY**
  - For example – whether or not contractors may direct charge us for “GENERAL PURPOSE EQUIPMENT”
- **CAS 402 – CONSISTENCY**
  - Kitchen English...
    - BUY Like Item,
    - USE for Like Purpose,
    - THEN KR MUST CHARGE in Like FASHION
- **[http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/FARapndx1.htm#P1185\\_222409](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/FARapndx1.htm#P1185_222409)**

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## COST ACCOUNTING STANDARDS

- PAs need to have **ACCESS TO** and **READ** and **UNDERSTAND** the contractor's Disclosure Statement
  - CASB-DS-1 FORM
  - [http://www.whitehouse.gov/OMB/procurement/casb\\_ds-1.pdf](http://www.whitehouse.gov/OMB/procurement/casb_ds-1.pdf)
  - [http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/FARapndx1.htm#P332\\_70916](http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/FARapndx1.htm#P332_70916)
- Do a Search on Google for "Cost Accounting Standards Disclosure Statements"
  - Lots of hits
    - <http://www.utah.edu/govacct/d1.htm>
    - <http://www.rgs.uky.edu/ospa/cas/dsmc.pdf>
    - [http://research.uiowa.edu/dsp/main/downloads/ds2\\_rev1.pdf](http://research.uiowa.edu/dsp/main/downloads/ds2_rev1.pdf)

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## APPROVALS

- DOES THE CONTRACTOR REQUIRE OUR APPROVALS PRIOR TO ACQUIRING PROPERTY FOR THE GOVERNMENT?
  - GENERALLY NO!
  - BUT SOMETIMES MAYBE! See next slide

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## APPROVALS

- **FAR 52.244-2 SUBCONTRACTS CLAUSE**
  - If the contractor **DOES NOT** have an **approved Purchasing System**, consent to subcontractor is **required** for **ANY SUBCONTRACT** that
    - Is Cost Reimbursement
    - Is FP and exceeds the Simplified Acquisition Threshold or 5% of the total cost of the contract.
      - FAR 52.244-2(c)
  - Or any items specified in the contract
    - FAR 52.244-(3)

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## PA ACTIONS

- If PA finds items that he/she believes are not allowable, the PA shall notify the ACO and request review by the ACO and the COGNIZANT DCAA Auditor for compliance with the contractor's Disclosure statement and CAS applicability.
- PA may also recommend to the ACO **DISALLOWANCE** of the **REIMBURSEMENT** OF THE COST for the item.



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## OTHER CONCERNS

- **TITLE TO PROPERTY CHARGED INDIRECT**
  - There is some debate raging from a tax standpoint that says the Government has title to Property Charged through overhead/indirect
  - TODAY, we do NOT manage indirect property as Government Property for purposes of the Government Property Clause.

41



## REFERENCES

- **Purchasing and Materials Management. Dobler, Burt and Lee. 1990. McGraw Hill.**
- **The Purchasing Handbook. Fearon, Dobler and Killen. 1993. McGraw Hill.**
- **Government Contracts Guidebook. Arnavas. West Publications. 2005**
- **The Standard Property Book. The National Property Management Association, 1999.**

42

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# RECEIVING

Receiving Government Property is a process or outcome.



1-11

1



# RECEIVING

## CONTRACTUAL REQUIREMENT

52.245-1(f)(1)(ii) Receipt of GP

The Contractor shall **receive** GP (document the receipt), record (the information necessary to meet the record requirements of paragraph (f)(1)(iii)(A)(1) through (5) of this clause, identify (as Gov't owned) in a manner appropriate to the type of property, (e.g., stamp, tag, mark, or other identification), and manage any discrepancies incident to shipment.



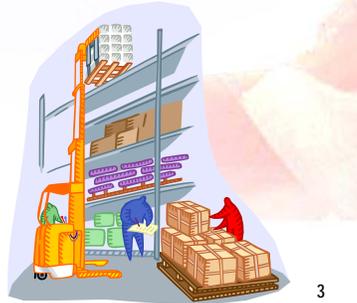
2



## RECEIVING

It is an **industry leading practice** that contractors:

- **Receive** Property (this includes documenting the **receipt**);
- **Record** the receipt and the information related to that property;
- **Identify** the Property (see identification), and
- **Manage any discrepancies** incident to shipment.



3



## RECEIVING

The American Society for Testing and Standards (ASTM) has published guidance for an effective and efficient system for receiving property. ASTM E2605 covers the process for verifying, recording, and reporting receipt of tangible personal property (that is, equipment, supplies, and material).

4



## RECEIVING

The Contractor becomes accountable and responsible for Government Property when it is received. At that time the Contractor assumes stewardship for the property.

The PA must ensure that the contractor's procedures provide for proper documentation upon receipt, and also for actions pursuant to discrepancies, inspection, identification, calibration, movement to storage or using areas, and control of misdirected shipments.



5



## RECEIVING

Most of the specific functions or sub processes under **receiving** are common to all classes of property; however, in coordination with the contractor's PMS the PA will have to determine the difference in requirements among the **receiving** functions for various types of property, e.g.,

Explosives,  
Nuclear,  
Hazardous, etc.



6



## RECEIVING

### Receiving Process Controls.

There are numerous methods and systems for controlling the **receipt** of GP. The **receiving** process may consist of the following controls:

- Notification** to **receiving** department of due-in assets,
- Physical delivery** and Initial **inspection** of the property...

7



## RECEIVING

- **Receiving** Process Controls (continued)
  - **Reconciliation** of assets **received** against due-in records and
  - **Preparation** of **receiving** documents, i.e., RRs
  - **Release of assets** from **receiving** activity,
  - Quality or technical acceptance **inspection** as required,
  - **Identification** as required, and
  - **Distribution** of assets and documentation.

8



## RECEIVING PROCESS

1. **NOTIFICATION** to **Receiving** Department of due-in assets. Receiving documents and due-in data are provided for comparison with items physically **received**, as well as for proper posting to the accounting records.



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## RECEIVING PROCESS

2. PHYSICAL DELIVERY AND INITIAL INSPECTION of the property.

Upon delivery, an inspection is conducted to ascertain that there is no obvious or visible damage and the quantity of pallets, boxes or containers agrees with the transportation document.



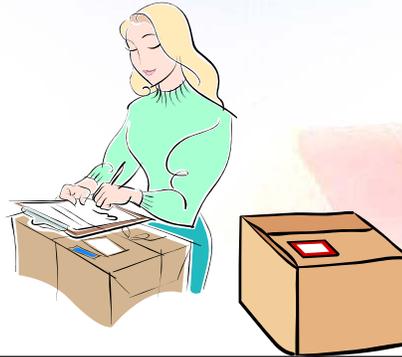
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## RECEIVING PROCESS

### 3. DISCREPANCIES

- Identification and resolution of discrepancies may occur at any time in this process. These actions may be accomplished either manually or through electronic methods.



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## RECEIVING PROCESS

### 4. RECONCILIATION of assets received.

For contractor's using due-in records, the assets received will be reconciled against the due-in record.

If a Government supply source discrepancy is noted at this time, a "Supply Discrepancy Report" (SDR), SF 364, will be prepared by the appropriate Government representative, unless contractor preparation of the form is contractually specified.



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## RECEIVING PROCESS

5. RECEIVING REPORTS (RR) are prepared at this time in a manner that clearly indicates the quantity and condition of the property at time of receipt and any discrepancies noted, including:

Overages,  
Shortages,  
Incorrect item(s),  
Misdirected shipments, and/or  
Damage disclosed during the receiving operation.



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## RECEIVING PROCESS

### Supporting Documentation to Receiving Report

Documentation attached to the Receiving Report may include the following:

- Freight bill,
- Bill of lading,
- Packing list,
- Government shipping document (DD Forms 250, "Material Inspection and Receiving Report";
- DD Form 1149 "Requisition and Invoice/Shipping Document" or
- DD Form 1348 "DOD Single Line Item Requisition System Document (Manual)" and
- Discrepancy report(s).

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## RECEIVING PROCESS

### 6. RELEASE OF ASSETS from receiving organization.

After the receiving department prepares and processes appropriate documentation, the assets are generally be released for quality or technical acceptance inspection, storage, or use as required.

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## RECEIVING PROCESS

### 7. INSPECTION:

The Receiving Department or other contractor activity designated the quality control responsibility may be responsible for a more stringent inspection than provided by the supplier's inspection processes.



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## RECEIVING PROCESS

### Inspection (Cont'd)

The contractor's procedures should clearly outline the **inspection responsibilities** and indicate the types of GP that require further technical inspection, operational or acceptance test, and/or calibration **before completion of final acceptance** and transfer to storage, stockroom, or release for use authorized by contract terms.



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## RECEIVING PROCESS

### 8. DISTRIBUTION OF ASSETS.

Upon completion of any required quality inspection, acceptance testing, and/or physical identification, the asset is delivered to the appropriate storage area, stockroom, or released for use as authorized by contract terms.



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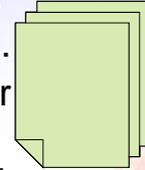
## RECEIVING PROCESS

### 8. DISTRIBUTION OF THE RECEIVING REPORT (RR)

Concurrent with the distribution of assets, the associated receiving notification is distributed.

This distribution may be done electronically or manually.

This distribution generally includes a copy being retained in the Receiving Department files, one or more copies to purchasing, a copy to the department to which the asset is delivered, and a copy to the Accounting Department for use as a voucher for invoices.



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## RECEIVING DISCREPANCIES

According to 52.245-1 (f)(1)(ii)(A) **GFP**:

The Contractor shall furnish a written statement to the PA containing all relevant facts, such as cause or condition and a recommended course(s) of action, if overages, shortages, or damages and/or other discrepancies are discovered upon receipt of **GFP**.

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## RECEIVING DISCREPANCIES

### DISCREPANCIES (Cont'd)

Before acceptance of the shipment, the carrier's signature should be obtained to acknowledge any discrepancies. A "Transportation Discrepancy Report" (TDR), SF 361, will be prepared by the appropriate **Government** representative, unless contractor preparation of the form is contractually specified, to report discrepant conditions disclosed as a result of the inspection, when appropriate.

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## RECEIVING DISCREPANCIES

Transportation Discrepancies.

When transportation discrepancies are noted, including those requiring preparation of the SF 361, the PA should assure the matter is referred to the cognizant Transportation Specialist (If one exists) and/or the responsible contractor organization.



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## RECEIVING PROCESS

### DISCREPANCIES (Cont'd)

- The authorized use of the SF 361 is addressed in the "Joint" service and agency regulation, AR 55-38, NAVSUPINST 4610.33C, AFR 75-18, MCO P4610.19D, and DLAR 4500.15.



[http://www.transcom.mil/j5/pt/dtrpart2/dtr\\_part\\_ii\\_210.pdf](http://www.transcom.mil/j5/pt/dtrpart2/dtr_part_ii_210.pdf)

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## RECEIVING DISCREPANCIES

According to 52.245-1 (f)(1)(ii)(B) **CAP**:

The Contractor shall take all actions necessary to adjust for overages, shortages, damage and/or other discrepancies discovered upon **receipt**, in shipment of **CAP** from a vendor or supplier, so as to ensure the proper allocability and allowability of associated costs.

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## RECEIVING DISCREPANCIES

- The PA's review of the contractor's **receiving** procedures must ensure that they clearly address all types of discrepancies incident to shipments and/or receipts of GP.
- These may include Gov't supply source via GBL or parcel post shipments, contractor and/or vendor to contractor shipments by means of Commercial Bills of Lading, Freight Way Bills, etc.

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## RECEIVING

- **Subsidiary/Alternate Receiving Areas.**
  - Subsidiary **receiving** areas in outlying locations are usually responsible for performing the same processes as the main **receiving** areas and should be required to submit necessary documentation to the main **receiving** activity.
  - Contractor's Written Procedures need to ensure discussion of this action, i.e., the use of alternate or subsidiary receiving areas.

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## RECEIVING

- The PA's review of contractor **receiving** processes shall include local "subsidiary" **receiving** actions under the direct control of the contractor. Subsidiary contractor processes shall be required, by operation of the contractor's procedures, to maintain the same level of posting controls required of the primary **receiving** area.

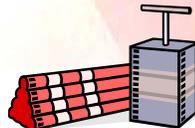
27



## RECEIVING

**SPECIALIZED RECEIPT** of Government Property.

Some contractors maintain separate **receiving** areas that specialize in the **receipt**, inspection, identification, and release of GP for certain classes of property, e.g., sensitive, classified, etc.



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## RECEIVING

### HANDLING OF IN-HOUSE FABRICATED ITEMS FOR RECEIVING PURPOSES.

Normally, ST, STE, or other items fabricated in-house do not go through **receiving**. Care should be taken to ensure that these items are recorded on the stewardship records upon completion of the fabrication in accordance with the contractor's established procedures.



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# IDENTIFICATION

## A PROCESS REQUIREMENT



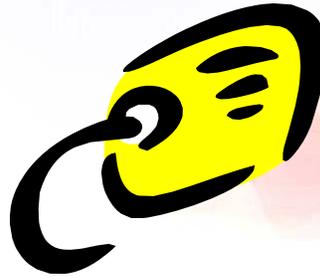
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1



# IDENTIFICATION

- It is a **STANDARD INDUSTRIAL PRACTICE** for activities to perform the **IDENTIFICATION FUNCTION**.



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# IDENTIFICATION

## CONTRACTUAL REQUIREMENT...

### FAR 52.245-1(f)(1) “Contractor Plans and Systems”

Contractors shall develop property management plans, systems, and procedures at the contract, program, site or entity level to enable the following outcomes:

- (ii) **Receipt of Government Property.** The Contractor shall receive Government property (document the receipt), record (the information necessary to meet the record requirements of paragraph (f)(1)(iii)(A)(1), (2), (3), (4) and (5) of this clause), **identify (as Government owned) [in a manner appropriate to the type of property, e.g., stamp, tag, mark, or other identification]** and manage any discrepancies incident to shipment.

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# IDENTIFICATION

## THE STANDARD...



- ***THERE ain't one HERE – THE VOLUNTARY CONSENSUS STANDARD IS NOT YET IDENTIFIED NOR DEFINED***

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# IDENTIFICATION

## THE GUIDANCE...



- FAR 52.245-1(f)(1)(ii) - Receipt of GP
- DFARS 252.211-7003 - Item Identification and Valuation
- DFARS 252.211-7006 - Radio Frequency Identification
- DFARS 252.211-7007 - Reporting of Government-Furnished Equipment in the DoD Item Unique Identification (IUID) Registry
- DFARS 252.211-7008 - Use of Government-Assigned Serial Numbers
- **DFARS 252.245-7001** - Tagging, Labeling, and Marking of Government-Furnished Property
- **Contract specific?**

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Others coming soon?

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# IDENTIFICATION

## DEFINITION

**A: AN ACT OF IDENTIFYING:**   
**THE STATE OF BEING IDENTIFIED**



**B: EVIDENCE OF IDENTITY**

– IDENTITY - THE CONDITION OF BEING THE SAME WITH SOMETHING DESCRIBED OR ASSERTED <ESTABLISH THE *IDENTITY* OF STOLEN GOODS>

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# IDENTIFICATION

## IS BOTH

1. **THE ACTION OF DETERMINING AND CLASSIFYING WHAT THE PROPERTY IS;**

...BUT IT IS ALSO

2. **THE PHYSICAL EVIDENCE THAT A PIECE OF DESCRIBED PROPERTY EXISTS AND IS THE VERY SAME ITEM THAT IS DESCRIBED OR ASSERTED (IDENTITY).**

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# IDENTIFICATION

- **It is the CONTRACTOR'S responsibility to establish the PROCESS, i.e., the methods and methodologies, to accomplish this process in accordance with & using:**
  - **INDUSTRY LEADING PRACTICES and**
  - **VOLUNTARY CONSENSUS STANDARDS (VCS)**

**NOTE: The citation of any VCS within this education presentation does not imply its endorsement or contractual requirement by the Department of Defense or the United States Federal Government.**

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# IDENTIFICATION

*(...here's the catch..)*

- **CONTRACTORS CAN:**
  1. Define their own process for Identification, or
  2. Justify use of an 'Industry Leading Practice' or
  3. Help define & use a 'Voluntary Consensus Standard'



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# PURPOSE OF IDENTIFICATION

The Standard Property Book, ASSET Management for the New Millennium, (NPMA) describes 'Identification' as follows:

- ***"The primary purpose of asset identification (tagging) is to readily identify ownership. By tagging items, companies can defend their rightful ownership should a dispute exist, and can keep track of items for tax, audit, depreciation, and/or insurance purposes. Although the specific coding and/or method to be employed is completely at the organization's discretion, whatever method is selected must be clearly identified in the organization's policies and procedures."***

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# TERMINOLOGY OF IDENTIFICATION

- **Identification methods are numerous**  
– from a simple mark on the item, to a barcode, to the more elaborate tagging by electronic transmitters

## •Mature & Arriving Methods Of Identification

- Labels
- Bar Codes
- UID (Unique Identifier)
- RFID (Radio Frequency Identification)
- Bio-metrics
- Nano Technology

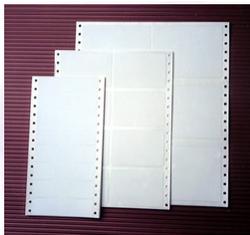
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# TERMINOLOGY OF IDENTIFICATION

## LABELS



### Paper Considerations:

- Are they on or off?
- Lower cost option?
- More permanent than pen marking?
- Visual location/reading

### Other Material Considerations:

- More permanent
- Costs more
- Attachment method
- Tougher to remove

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Gun Type Labels



# TERMINOLOGY OF IDENTIFICATION



## BAR CODING



- **Bar Code Considerations:**
- Hand-held scanning instead of visual
- More Permanent
- Costs more... **BUT** – Added capabilities!
- Reduced error rate for inventory purposes

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# TERMINOLOGY OF IDENTIFICATION



## UID AS IDENTIFICATION

- Initially developed to solve financial accountability issues!!
- MIL-STD-130L
- Types
  - 2-d Bar Code
  - Linear Bar Code In 1,2, Or 3 Parts
  - Human Readable

### What you see:



### What the Reader sees:

[>RSDDGSMFR  
0CVA5 GSSER 786950  
RS EoT

- CONSIDERATIONS:**
- System Cost
  - Multiple form ID required

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# TERMINOLOGY OF IDENTIFICATION



## RADIO FREQUENCY IDENTIFICATION

### TWO FORMS

1. Active RFID
2. Passive Radio Frequency ID

*First envisioned as a Supply Chain Tool!!*



### CONSIDERATIONS:

- Cost
- Need multiple forms of ID
- Inventory ease
- Readability an issue?

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# TERMINOLOGY OF IDENTIFICATION



## BIO-METRICS

- Retinal Scan 
- Finger Print
- Palm Identification



**PREVENT  
"Buddy  
Punching"**



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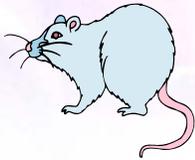
# TERMINOLOGY OF IDENTIFICATION



## NANO TECHNOLOGY

### NANO Transponder & Reader

- Tracking possibilities are in development...



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# IDENTIFICATION



## Conclusions –

- What forms of IDENTIFICATION will the contractor use?
- Will it/they be SUITABLE to PROPERLY IDENTIFY & DISTINGUISH Government Property in their possession?
- Will you be prepared evaluate their ILP or VCS?

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# IDENTIFICATION

- **RECOMMENDED RESOURCES**

- **CRITICAL:**

- **USEFUL:**

- **TEXTS** – See Bibliography @ end of Presentation
    - **REFERENCE:** “Identification,” Chuck Waszczak, NCMA 2005 NES Proceedings

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# TEXTS & REFERENCES

1. **The Standard Property Book, *Asset Management For The Millennium*, First Edition.**  
**Editor in Chief, William M. Whittington, CPPM**  
**Publisher: National Property Management Association**
2. **DoD Standard Practice, Military Marking For Shipment And Storage, MIL-STD-129P, w/Chg 3, 29 October 2004**  
**[http://www.acq.osd.mil/loq/rfid/MIL-STD-129P-chg3-29Oct04%20\(2\).pdf](http://www.acq.osd.mil/loq/rfid/MIL-STD-129P-chg3-29Oct04%20(2).pdf)**
3. **DoD Standard Practice, Identification Marking of U.S. Military Property, MIL-STD-130N, w/chg 1, 17 December 2007**  
**<http://www.uidsolutions.com/c/cnt/down/MIL-STD-130MChange1.pdf>**  
**Change analysis -**  
**<http://www.uidsupport.com/images/MILSTD130NChangeBriefing.pdf>**

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## TEXTS & REFERENCES

4. Unique Identification (UID) - <http://www.acq.osd.mil/dpap/UID/>
5. Proposed Rule, “Defense Federal Acquisition Regulation Supplement; Reports of Government Property (DFARS Case 2005-D015)”  
<http://www.acq.osd.mil/dpap/dars/dfars/changenotice/2006/20060321/E6-3993.htm>
6. DoD Unique Identification (UID) Briefing, May 2005  
[http://www.ntsc.navy.mil/Resources/Library/Acqguide/UID%20Brief%20-%20May%202005.ppt#256,1,DoD%20Unique%20Identification%20\(UID\)](http://www.ntsc.navy.mil/Resources/Library/Acqguide/UID%20Brief%20-%20May%202005.ppt#256,1,DoD%20Unique%20Identification%20(UID))
7. UID Forum – Implementation Strategies for Programs and Suppliers, <http://www.uidforum.com/>

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# RECORDS of GOVERNMENT PROPERTY



1-11

## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(1)(iii) Records of GP**

The Contractor shall create and maintain records of all Government property accountable to the contract, including GFP & CAP.



## GOVERNMENT PROPERTY RECORDS

A record is an account, chronicle, or documentation of an event or process that is captured or written in hard copy (paper, book, film, photograph) or electronic copy (digital mode, computer files). Records preserve knowledge, information, data, etc. and may be retained as evidence or testimony.



## GOVERNMENT PROPERTY RECORDS

The Government Property Clause at 52.245-1 requires the Contractor to develop property management plans, systems, and procedures at the contract, program, site or entity level to enable the ten outcomes/processes.

**Entity:** an agency, institution or organization



## GOVERNMENT PROPERTY RECORDS

The Contractor must maintain accurate records of all the processes included in FAR 52.245-1. Records permit verification that the Contractor is conforming to contract requirements with respect to the management of GP. Records are essential for auditing the Contractor's Property Management System and are used to verify process conformity for all outcomes listed in 52.245-1.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(1)(iii) Records of GP**

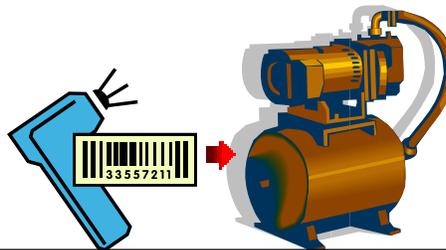
(A) Property records shall enable a complete, current, auditable record of all transactions and shall, unless otherwise approved by the PA, contain the following:



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(1)(iii) Records of GP**

(A)(1) The name, part number & description, manufacturer, model number, and NSN (if needed for additional item identification tracking and/or disposition).



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(1)(iii) Records of GP**

(A)(2) Quantity received (or fabricated), issued, and balance-on-hand.

Examples: Shipping, Receiving, Transfer, Inspection, Issue, Documents, Reports, Records...

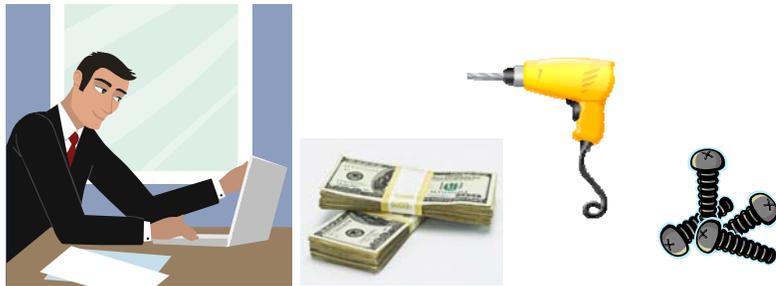


## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(1)(iii) Records of GP**

#### **(A)(3) Unit Acquisition Cost**

Note: The unit cost may be difficult to obtain in some situations such as when acquiring quantities of nails, rivets, nuts, bolts, screws, washers, etc.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(1)(iii) Records of GP**

**(A)(4) Unique-item identifier or equivalent (if available and necessary for individual item tracking).**

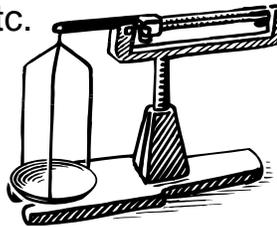
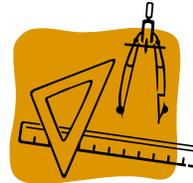


## GOVERNMENT PROPERTY RECORDS: 52.245-1

### (f)(1)(iii) Records of GP

(A)(5) Unit of measure:

example: inch, foot, yard, quart,  
gallon, barrel, centimeter, meter,  
ounce, pound, ton, milligram,  
gram, kilogram etc.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### (f)(1)(iii) Records of GP

(A)(6) Accountable contract  
number or equivalent  
code designation.

An equivalent code is  
acceptable as long as it  
can be traced back to the  
original contract.



**GOVERNMENT  
CONTRACT**

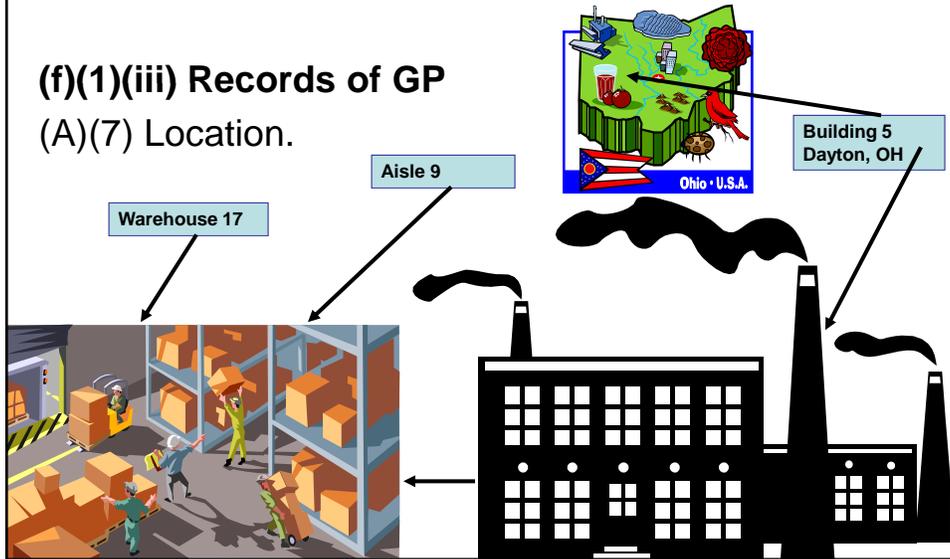
Equivalent Code: 108 TVR

Contract Number: 1826472943872



# GOVERNMENT PROPERTY RECORDS: 52.245-1

**(f)(1)(iii) Records of GP**  
(A)(7) Location.



# GOVERNMENT PROPERTY RECORDS: 52.245-1

**(f)(1)(iii) Records of GP**  
(A)(8) Disposition



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(1)(iii) Records of GP**

(A)(9) Posting reference  
and date of transaction.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(1)(iii) Records of GP**

(A)(10) Date placed in  
service.

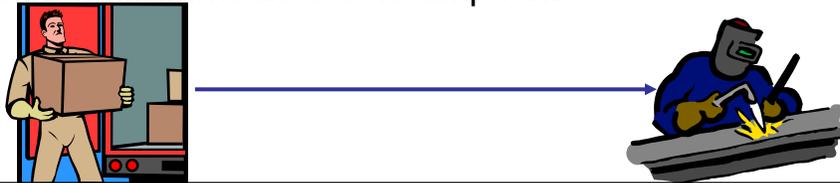


## GOVERNMENT PROPERTY RECORDS: 52.245-1

### (f)(1)(iii) Records of GP

(B) Use of Receipt and Issue System for Government Material.

When approved by the PA, the Contractor may maintain, in lieu of formal property records, **a file of appropriately cross-referenced documents** evidencing receipt, issue, & use of material that is issued for immediate consumption.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### (f)(1)(iv) Physical Inventory

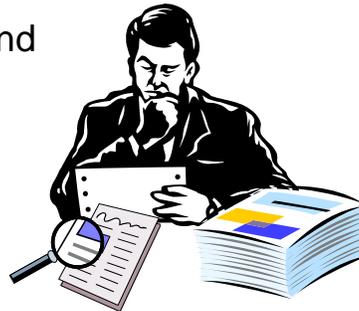
The Contractor shall periodically perform, **record**, and disclose physical inventory results. A final physical inventory shall be performed upon contract completion or termination. The PA may waive this final inventory requirement, depending on the circumstances, e.g., overall reliability of the Contractor's system or the property is to be transferred to a follow-on contract.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### (f)(vi) Reports (a type of record)

The Contractor shall have a process to create and provide **reports: reports of discrepancies; loss, damage and destruction; physical inventory results; audits & self-assessments; corrective actions; & other property related reports as directed by the C.O.**



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### (f)(vi) Reports

(A) LTDD. Unless otherwise directed by the PA, the Contractor shall investigate & promptly furnish to the PA, a **written narrative** of all incidents of LTDD as soon as the facts become known or when requested by the Government.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(i) Acquisition**

Contractor shall **document** (establish records) that all property was acquired consistent with its engineering, production planning, material control ops., and/or **cost accounting disclosure statement**.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(ii) Receipt of GP**

The Contractor shall receive GP (document the receipt), **record** (the information necessary to meet the record requirements of para. (f)(1)(iii)(A)(1), (2), (3), (4), & (5) of this clause)...& manage any discrepancies incident to shipment.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(ii) Receipt of GP**

(A) GFP: The Contractor shall furnish a **written statement** to the PA containing all relevant facts, such as cause or condition & a recommended course(s) of action, if overages, shortages, or damages and/or other discrepancies are discovered upon receipt of GFP.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(B) CAP: Also ref. (i) Acquisition**

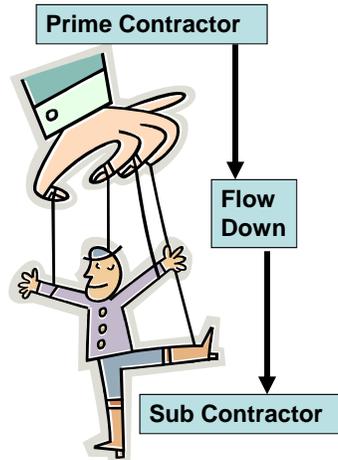
Contractor shall take all actions necessary to adjust (including records) for overages, shortages, damage and/or other discrepancies discovered upon receipt, in shipment of CAP from a vendor or supplier, so as to ensure the proper allocability & allowability of assoc. costs.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### (f)(v) Subcontract Control

The Prime shall award subcontracts that clearly identify assets to be provided and shall ensure appropriate **flow down** of contract conditions, e.g., limited LTDD of GP. The Prime may elect to use the Subcontractor records.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### (f)(vii) Relief of Stewardship Responsibility

Unless provided in the contract, the Contractor shall be relieved of stewardship responsibility for GP when such property is—

(A) Consumed or expended, reasonably and properly, **or otherwise accounted for (records are used to check for accountability)**, in the performance of the contract...



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(vii) Relief of Stewardship Responsibility**

(A) Check the records to confirm that inventory adjustments are reasonable. This includes:

- Adjusting the records of material as determined by the PA; and/or
- When the PA grants relief of responsibility for LTDD of GP



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(vii) Relief of Stewardship Responsibility**

(B) Was the property delivered or shipped from the Contractor's plant, under Gov't. instructions? Exception is when the shipment is to a subcontractor or other location of the Contractor.

**Records** are needed to verify these actions.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(vii) Relief of Stewardship Responsibility**

(C) Was the property correctly disposed of IAW paragraphs (j) Disposal and (k) Abandonment of this clause.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(viii) Utilizing GP**

(A) The Contractor shall utilize, consume, move, & store GP only as authorized under this contract. The Contractor shall promptly **disclose & report** GP in its possession that is excess to contract performance. A check of the utilization records will disclose if this is being done correctly.



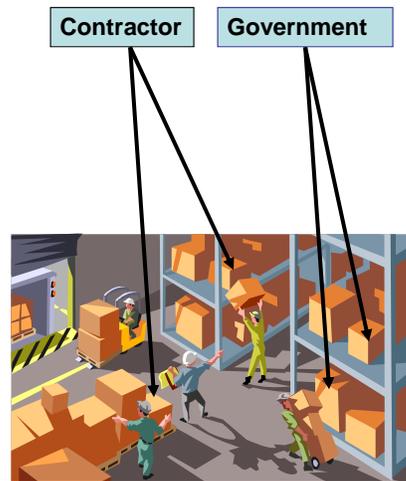
## GOVERNMENT PROPERTY RECORDS: 52.245-1

### (f)(viii) Utilizing GP

Unless otherwise authorized in this contract or by the PA the Contractor shall not commingle GP with property not owned by the Gov't.

**Records** will help distinguish GP from Contractor Property.

What is the difference between commingle and co-locate?



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### (f)(ix) Maintenance

The Contractor shall properly maintain GP. The Contractor's maintenance program shall enable the ID, **disclosure (records)**, & performance of normal & routine preventative maintenance & repair. The Contractor shall disclose & **report (records)** to the PA the need for replacement and/or capital rehabilitation.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(x) Property Closeout**

The Contractor shall promptly perform & **report** to the PA contract property closeout, to include **reporting**, investigating & securing closure of all LTDD cases; physically inventorying all property upon termination or completion of this contract; & disposing of items at the time they are determined to be excess to contractual needs.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(x) Property Closeout**

(2) The Contractor shall establish & maintain Gov't. accounting source data, as may be required by this contract, particularly in the areas of recognition of acquisitions & dispositions of material & equipment.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(x) Property Closeout**

(3) The Contractor shall establish & maintain procedures necessary to assess its Property Management System effectiveness, and **shall perform periodic internal reviews and audits.** This includes a thorough review of the appropriate records.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(f)(x) Property Closeout**

Material or significant findings and/or **results of such reviews & audits pertaining to GP** shall be made available to the PA.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

Other Records may be necessary to comply with the requirements of the contract and the Government Property Clause. Records must be consistent with voluntary consensus standards and or industry leading practices and standards.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

The Contractor's Property Management System may also include the following type of records: Liability (LTDD), Property Disposal, Sensitive Items, Environmental, DEMIL, Transportation, Installation, Completed Products, Rework, Scrap & Salvage, Misdirected Shipments, Returns, Warranty Items, etc. Unique records may be required for each property class: Mat., ST, STE, Real Property, and Equipment.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(g) System Analysis**

(1) The Gov't shall have access to the Contractor's premises and all GP, **at reasonable times**, for the purposes of reviewing, inspecting & evaluating the Contractor's Prop Man plan(s), systems, **procedures, records, & supporting documentation** that pertains to GP. This access includes all site locations and, with the Contractor's consent, all subcontractor premises.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(g) System Analysis**

(2) Records of GP shall be readily available to authorized Government personnel and shall be safeguarded.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(g) System Analysis**

- (3) Should it be determined by the Government that the Contractor's or Sub's property management practices are inadequate or not acceptable...the Contractor shall prepare a corrective action plan. This is essentially a record of their plan to fix the problem.



## GOVERNMENT PROPERTY RECORDS: 52.245-1

### **(g) System Analysis**

- (4) The Contractor shall ensure Government access to the Sub's premises, for the purposes of reviewing, inspecting and evaluating the Sub's Property Management Plan, systems, procedures, records, and supporting documentation that pertains to Government property.



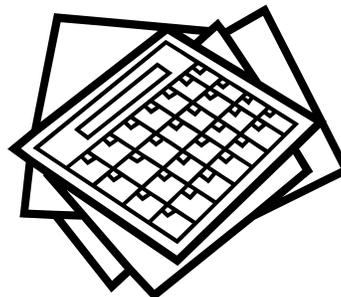
## CONTRACTOR RECORD RETENTION 4.703

- (a) Except as stated in 4.703 (b), Contractors shall make available records, which includes books, documents, accounting procedures & practices, and other data, regardless of type & whether such items are in written form, computer data, or any other form...



## CONTRACTOR RECORD RETENTION 4.703

- (a) ...to satisfy contract negotiation, administration, and audit requirements of the Contracting Agencies & Comptroller General for-
- (1) 3 years after final payment for certain records
- (2) Period specified in 4.705 through 4.705-3, whichever of these periods expires first.



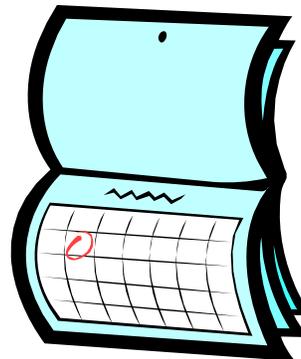
## FINANCIAL & COST ACCOUNTING RECORDS 4.705-1

- Accounts receivable invoices...retain 4 years
- Material, work order, or service order files, including P.O.'s for material or services...retain 4 years
- Accounts payable records to support disbursement of funds for materials...retain 4 years



## ACQUISITION & SUPPLY RECORDS 4.705-3

- Store requisitions for materials...retain 2 years
- Work orders for maintenance...retain 4 years
- Equipment records...retain 4 years
- Expendable property records...retain 4 years
- Receiving & inspection report records...retain 4 years
- P.O. files for supplies, equipment, material...retain 4 years



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# STORAGE

## A PROCESS REQUIREMENT



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# STORAGE

- It is a **STANDARD INDUSTRIAL PRACTICE** for activities to perform **THE STORAGE FUNCTION.**



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# STORAGE

## CONTRACTUAL REQUIREMENT...

### FAR 52.245-1(f)(1) “Contractor Plans and Systems”

Contractors shall develop property management plans, systems, and procedures at the contract, program, site or entity level to enable the following outcomes:

(viii) Utilizing Government property.

(A) The Contractor shall utilize, consume, move, *and store* Government Property only as authorized under this contract. The Contractor shall promptly disclose and report Government property in its possession that is excess to contract performance.

(B) Unless otherwise authorized in this contract or by the Property Administrator the contractor shall not commingle Government **material with material\*** not owned by the Government.

*\*FAC 2005-43 change*

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# STORAGE

## THE STANDARD...

- ***THERE ain't one y'it – THE VOLUNTARY CONSENSUS STANDARD IS NOT YET IDENTIFIED NOR DEFINED***



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## STORAGE

### THE GUIDANCE...



- *Just FAR 52.245-1(f)(1)(viii), Utilizing Government Property*

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## STORAGE

### DEFINITION

- **WHAT DOES IT MEAN TO YOU?**
- **DO THESE COME TO MIND?**
  - THE ACT OF STORING SOMETHING
  - A DEPOSITORY FOR GOODS
  - DEPOSITING IN A WAREHOUSE
  - THE AT LEAST SEMI-PERMANENT HOLDING OF AN AMOUNT OF SOMETHING



(Google Search)

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# STORAGE

## DEFINITION

- **HOW ABOUT AN OLD ONE?**
  - The keeping or placing of property in a warehouse, shed, or open area; or the state of being stored.

*(DOD 4145.19-R-1, SEP 1979)*



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# STORAGE

- **What's STORAGE all about** 
- **As the  UNIVERSITY OF WASHINGTON puts it:**

**“Storage: University departments must provide an adequate government property storage facility that:**

  - 1. offers adequate physical security and protection for assets stored inside and outside.**
  - 2. protects items in storage from corrosion, humidity, temperature and aging.**
  - 3. is accessible only to authorized personnel.**
  - 4. offers additional physical security and protection for sensitive items.**

*“UW - Equipment Accountability Policies”*

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# STORAGE

- It is the **CONTRACTOR'S** responsibility to establish the **PROCESS**, i.e., the methods and methodologies, to accomplish this process in accordance with & using:
  - **INDUSTRY LEADING PRACTICES** and
  - **VOLUNTARY CONSENSUS STANDARDS (VCS)**

**NOTE:** The citation of any VCS within this education presentation does not imply its endorsement or contractual requirement by the Department of Defense or the United States Federal Government.

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# STORAGE

## STORAGE AND WAREHOUSING

- **PURPOSE**
- **IMPORTANT ASPECTS OF STORAGE**
- **CATEGORIES & TYPES OF STORAGE FACILITIES**
- **TYPES OF WAREHOUSES AND OPEN STORAGE**

***"NPMA – THE STANDARD PROPERTY BOOK (SPB) ASSET MANAGEMENT FOR THE MILLENNIUM"***

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# STORAGE

## PURPOSE:

**Storage – supports the business goals and objectives, providing material and/or equipment in support of manufacturing schedules, delivery or shipping orders or the business needs of the organization**

*(NPMA – THE STANDARD PROPERTY BOOK (SPB) 6-1)*

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# STORAGE

## PURPOSE:

- 1. PROTECTING PROPERTY FROM LOSS, DAMAGE, DESTRUCTION, DETERIORIZATION OR THEFT**
- 2. PROVIDES A HOLDING AREA PENDING USE**
- 3. ENSURES PROPERTY AVAILABILITY, WHEN REQUIRED**

**(SPB 6-1)**

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# STORAGE

## IMPORTANT ASPECTS OF STORAGE

1. PROPER IDENTIFICATION OF STORAGE LOCATIONS
2. ITEM SEPARATION
3. IN-STORAGE MAINTENANCE
4. EFFICIENT MOVEMENT OF ITEMS
5. LOCATING THE ITEM(S) WHEN NEEDED

(SPB 6-3)  
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# STORAGE

## TWO CATEGORIES OF STORAGE FACILITIES

1. COVERED
2. OPEN

(SPB 6-4)

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# STORAGE

## TYPES OF COVERED STORAGE (SPB 6-4)

1. GENERAL PURPOSE
2. CONTROLLED HUMIDITY
3. REFRIGERATED
4. FLAMMABLE STORAGE
5. SHED
6. TRANSITORY SHELTER

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# COVERED STORAGE

## 1. GENERAL PURPOSE

- Has a roof, side walls and end walls; may have ground level and/or truck or railcar bed-level loading docks; may be heated or unheated.
- Functions: may include loose issue and/or bulk storage, receiving, shipping, preservation, packing, carton fabrication, unit and set assembly, security areas, and administrative offices.
- Examples??



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## COVERED STORAGE

### 2. CONTROLLED HUMIDITY (CH)

- Any type of storage may be operated under CH conditions if properly sealed and equipped.
- Function – Control of humidity within storage structures is a method of protection aimed at ensuring that the capability of property to perform its intended function will not be impaired or that supplies will not become unfit for use as a result of exposure to excessive humidity.
- Examples???



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## COVERED STORAGE

### 3. REFRIGERATED –

- Outwardly resembles general-purpose storage though usually smaller with truck and/or railcar docks.
- Function: Chill space, temperature controlled (36°- 46°F / 2°- 8°C) and/or freeze space, temperature controlled <32°F / 0°C) for preservation purposes.
- Examples: ?????



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## COVERED STORAGE

### 4. FLAMMABLE STORAGE

- Special-purpose storage built of noncombustible materials having fire walls with a 4-hour fire-resistance rating. Usually separated from other buildings with the main source of protection being alarm and fire-suppressant systems.
- Function: storage of volatile material and property.
- Examples????



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## COVERED STORAGE

### 5. SHED

- Buildings without complete sides and end walls; utilities may be provided. They are not readily dismantled for relocation and are usually considered permanent structures.
- Function: Used for the storage of material that requires maximum ventilation or material that does not require complete protection from the weather.
- Examples: ???



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## COVERED STORAGE

### 6. TRANSITORY SHELTER

- These are prefabricated structures normally with complete sides and ends but no utilities. Such structures can be dismantled for movement and reassembly.
- Function: Temporary storage
- Examples: ???



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## OPEN STORAGE

### TYPES OF OPEN STORAGE (SPB 6-4)

1. IMPROVED
2. UNIMPROVED



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# OPEN STORAGE

## 1. IMPROVED

- Includes space that has been graded and surfaced with concrete, tar, or asphalt, crushed stone or gravel, or other suitable topping that provides adequate drainage, affords protection of supplies from wet ground conditions and provides adequate running surface for operation of materials handling equipment.
- Function: Used for storage of certain property or material not readily susceptible to damage by adverse weather conditions.
- Examples: ???

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# OPEN STORAGE

## 2. UNIMPROVED

- An unsurfaced open area designated for storage purposes. Used only when a higher grade of open improved storage space is not available. Use of material-handling equipment is a significant disadvantage and conventional storage practices regarding position of roads and aisles must yield to drainage considerations.
- Function: Used for storage of certain property or material not readily susceptible to damage by adverse weather conditions.
- Examples: ?????

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# OTHER STORAGE TYPES

## OTHER TYPES OF STORAGE (SPB 6-6)

1. SEGREGATED STORAGE
2. HAZARDOUS MATERIAL STORAGE & HAZARDOUS WASTE STORAGE



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# OTHER STORAGE TYPES

## 1. SEGREGATED STORAGE

- Includes storage within a room or inside area or open area where materials are physically separated by fence, sills, curbs and distance. If hazardous materials are stored they may be separated by non-hazardous materials.
- Function: Storage of high value, pilferable items as well as items requiring physical separation.
- Examples: ???



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## OTHER STORAGE TYPES

### 2. HAZARDOUS MATERIAL STORAGE & HAZARDOUS WASTE STORAGE

- Specialized facilities meeting regulatory specifications and guidelines for safe and accountable storage of property or materials. Included are such materials as radioactive, compressed gas, explosives, oxidizers, corrosives, poisons, toxic waste etc.
- Function: Used for storage of above noted items as a safeguard to workers, the public the environment etc.
- Examples: ???



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## STORAGE

- One Of The Processes To Test In The Property Management System Audit!!



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## STORAGE

- RECOMMENDED RESOURCES
  - CRITICAL:
  - USEFUL:
    - TEXTS – See Bibliography @ end of Presentation
    - WEBSITES – As noted
    - AUDIT - Protocol for Conducting Environmental Compliance Audits of Treatment, Storage and Disposal Facilities under the Resource Conservation and Recovery Act, United States Environmental Protection Agency, Enforcement and Compliance Assurance (2224A), EPA-305-B-98-006 December 1998  
<http://www.epa.gov/compliance/resources/policies/incentives/auditing/apcol-rcratsdf.pdf>

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## TEXTS

- The Standard Property Book, *Asset Management For The Millennium*, First Edition.
  - Editor in Chief, William M. Whittington, CPPM
  - Publisher: National Property Management Association
- Storage and Materials Handling, DoD 4145.19-R-I, September 1979
  - <http://www.dtic.mil/whs/directives/corres/html/414519r1.htm>

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# MOVEMENT

## A PROCESS REQUIREMENT



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# MOVEMENT

- It is a **STANDARD INDUSTRIAL PRACTICE** for activities to perform **THE MOVEMENT FUNCTION**.



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# MOVEMENT

## CONTRACTUAL REQUIREMENT...

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Contractors shall develop property management plans, systems, and procedures at the contract, program, site or entity level to enable the following outcomes:

(viii) Utilizing Government property.

(A) The Contractor shall utilize, consume, **MOVE**, and store Government Property only as authorized under this contract. The Contractor shall promptly disclose and report Government property in its possession that is excess to contract performance.

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# MOVEMENT

## THE STANDARD...

- ***WON'T find one yet – THE VOLUNTARY CONSENSUS STANDARD IS NOT YET IDENTIFIED NOR DEFINED***



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# MOVEMENT

## THE GUIDANCE...



- FAR Clause 52.245-1(f)(1)(viii)
- Theoretical...
  1. Protection of GP during movement –
    - Procedures should be based on industry leading practice supplemented with specific direction for use under both normal and unusual circumstances e.g., Manufacturer's instructions, safety manuals, environmental requirements, static and temperature control, etc
    - Company procedures should address the responsibilities of supervisors and employees related to assuring that GP is protected while in use.
  2. Protection of GP in transit –
    - The routine transported of GP property from receiving areas to storage facilities to manufacturing areas or other locations involves a variety of processes including the use of fork lifts, cranes, hoists, positioning equipment, tugs, motor vehicles, and other equipment. Processes must be established to minimize or prevent possible damage to property and appropriate controls established addressing the proper operation of material handling equipment including roles and responsibilities of authorized operators.

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# MOVEMENT

## DEFINITION



- **WHAT DOES IT MEAN TO YOU?**
- **DO THESE COME TO MIND?**
  1. The act or process of moving
  2. A change of place or position
  3. The physical relocation of property from one area to another the act of storing something
- **WHAT'S MISSING?**

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# MOVEMENT

- **MOVEMENT CONCEPT INCLUDES BOTH:**

1. *Physical relocation of property but no change of custodianship*

**AND**

2. *Change of custodianship but no physical relocation*

**SO...MOVEMENT MAY OR MAY NOT INVOLVE PHYSICAL RELOCATION!!!**

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# MOVEMENT

- What's MOVEMENT all about 
- **Arizona State University's Property Control - Maintenance procedure notes and defines these Property Movement elements:**



- Intradepartment - Movement of property from building to building or room to room within the same department.
- Interdepartment - Transfer ownership of property from one department to another department.
- Disposal/Salvage - Sending property to surplus because of no further use or its damaged beyond repair.
- Temporary warehouse storage - Storage of property for future use. (Not to exceed one year).

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# MOVEMENT

No matter how you define it, the movement process must include:

1. Accurate property record/location match
2. Relocation that (if involved) is safe and damage-free
3. Compliance with applicable laws, e.g., RCRA & CERCLA
4. Compliance with local, state and federal regulations, e.g., EPA activities, OSHA

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# MOVEMENT

Was this movement done with “law & regs” in mind?



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# MOVEMENT

Was this a “safe, damage-free” movement?



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9-6-2003\_05



# MOVEMENT

What happened to this “movement?”



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# MOVEMENT

Did planning save this “movement?”



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# MOVEMENT

- It is the **CONTRACTOR'S** responsibility to establish the **PROCESS**, i.e., the methods and methodologies, to accomplish this process in accordance with & using:
  - **INDUSTRY LEADING PRACTICES** and
  - **VOLUNTARY CONSENSUS STANDARDS (VCS)**

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# MOVEMENT

## THE PROCESS OF MOVEMENT

- Local
- Off-site
- Change in custodianship
- Records
- Property movement documents
- Packaging
- Shipping
- Hazardous material/waste

*"NPMA – THE STANDARD PROPERTY BOOK  
ASSET MANAGEMENT FOR THE MILLENNIUM"*

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# MOVEMENT

## 1. LOCAL MOVEMENT

- Local movement - transport from one location to another with authorization & documentation
- **EXAMPLES?**

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# MOVEMENT

**Examples?**

## 2. OFF-SITE MOVEMENT:

- **Property control procedures must cover:**
  - Authorization of move
  - Documentation
  - User responsibilities
  - Limitations on use
- **Maintenance/repair responsibility assumed by user**
- **Property record annotated**
- **Periodic review and re-approval**

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# MOVEMENT

## 3. CHANGE OF CUSTODIANSHIP

- **Accountability changes but not the location**
- **EXAMPLES?**

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## MOVEMENT

### 4. RECORDS:

- Local/off-site change of location must be annotated
- Change of custodianship (with or without a change of location) must be annotated
- Time frame for such recording defined in property control procedures
- Documentation of move or change in custodianship retained with record for inventory & audit purposes

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## DOCUMENTS

### 5. PROPERTY MOVEMENT DOCUMENTS

Examples of required **electronic/paper** move control documentation:

- Move tickets
- Travelers
- Transfer and accountability form
- Hand receipt or Custodial Documents
- Electronic or automated property pass systems

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## MOVEMENT DOCUMENTS

### TRANSFER AND ACCOUNTABILITY FORM:

- Documents transfer of property between users & accountability (custodianship)
  - Each party receives copy of approved form
- Contains info on transferee, transferor, quantity, description, serial #, tag #, value & classification code
- Property moved after approval
- Used for “long-term” loans
- **Examples?**

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## MOVEMENT DOCUMENTS

### HAND RECEIPT or CUSTODIAL DOCUMENTS:

- **(Not to be confused with the “ARMY” concept of Hand Receipt!!!)**
- Documents property moves between inventory control points; i.e., storage, cal lab, maintenance, etc.
- Contains info on property ID #, serial #, description and location, signature of gaining user and the property manager
  - Property office retains original & a copy to the gaining property holder
- Property moved after approval
- **Examples?**

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## MOVEMENT DOCUMENTS

### ELECTRONIC OR AUTOMATED PROPERTY PASS SYSTEMS:

- Useful where home or off-site usage of property is advantageous
  - May involve barcode technology and scanning at security checkpoints; provides for e-mail reminders of checked out items
- User, supervisor and property office must know of checked out property
  - Records must be complete & accurate with timely reports
- **Examples?**

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## MOVEMENT

### 6. PACKAGING

- PA needs to coordinate any packing/packaging requirements with their **TRANSPORTATION SPECIALIST – GS-2101**
- **Examples:** x-rite Packaging and Shipping

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## MOVEMENT

### 7. SHIPPING

- Movement of property from one geographical area to another, usually via commercial carrier
- May or MAY NOT involve a transfer of accountability
- Must be authorized
- Originator is responsible for packaging, packing, preservation and marking
- Property manager determines applicability of local, state, & federal laws, codes or directives that may apply, i.e., FAR, Code of Federal Regulation, 49 CFR, Part 178 for dangerous goods

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## MOVEMENT-SHIPPING

- Various forms of documentation may be used including DD Form 1149 (Requisition and Invoice/Shipping Document) for Government shipments
- Shipment of organization property documented on forms conforming to policy/procedure
- Shipping documents must be accurate and complete
- Notification of receipt system must be in place to assure completed shipments

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## MOVEMENT-SHIPPING

- **Responsibility for movement remains with shipper of property until safely received at destination**
  - **EXCEPT!!!**
  - **When transfer of property responsibility occurs with the use of a licensed common carrier, who then becomes liable**
- **Examples: ???**

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## MOVEMENT

### 8. HAZARDOUS MATERIALS/WASTE

The packing and preparation of hazardous materials for transportation are governed by 49 CFR, administered by the US Department of Transportation (DOT). This regulation:

- Defines and classifies hazardous materials
- Authorizes certain packages or containers for use in the movement of hazardous materials
- Outlines qualifications, testing, the use of containers, the marking and labeling of hazardous materials, and approved methods of shipment
- Requires that commercial carriers be certified to transport a particular hazardous material

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# MOVEMENT

- **One Of The Processes To Tests In The Property Management System Audit!!**



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# MOVEMENT

- **RECOMMENDED RESOURCES**
  - **CRITICAL:**
  - **USEFUL:**
    - **TEXTS** – See Bibliography @ end of Presentation
    - **WEBSITES** – As noted

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## TEXTS

- **The Standard Property Book, *Asset Management For The Millennium*, First Edition.**
  - Editor in Chief, **William M. Whittington, CPPM**
  - Publisher: **National Property Management Association**
- **Fundamentals of Personal Property Management, National Property Management Association, copyright 2006**

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## WEB-SITES

- **Property Control/Maintenance procedure of Arizona State University -**  
<http://property.asu.edu/%5Cequipment%5Cmaintenance.html>
- **NIH Policy Manual - 26101-25-2-9 – Movement of Personal Property -**  
<http://www1.od.nih.gov/oma/manualchapters/acquisitions/26101-25-2-9/main.html>
- **UC Davis Policy and Procedure Manual 350 Supplies and Equipment , Section 350-70, Movement of Property -**  
<http://manuals.ucdavis.edu/ppm/350/350-70.htm>

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## WEB-SITES



- **U.S. Department of State Foreign Affairs Handbook Volume 14 Handbook 1—Department-Wide Personal Property Management; 14 FAH-1 H-430 LOANS, CHARGE OUTS, AND TRANSFERS AT DEPARTMENT AND FIELD OFFICES -**  
<http://foia.state.gov/masterdocs/14fah01/14fah010430.pdf>
- **Stanford University, Office of Research Administration, Property Management Manual -**  
[http://ora.stanford.edu/ora/pmo/manual/chapter\\_08/movement.asp](http://ora.stanford.edu/ora/pmo/manual/chapter_08/movement.asp)

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# UTILIZATION

## A PROCESS REQUIREMENT



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# UTILIZATION

- It is an **INDUSTRY LEADING PRACTICE** that contractors establish and maintain procedures and processes to insure that GP will be used only for purposes authorized in the contract and that the degree of utilization justifies retention.



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# UTILIZATION

## CONTRACTUAL REQUIREMENT...

### FAR 52.245-1(f)(1) “Contractor Plans and Systems”

Contractors shall develop property management plans, systems, and procedures at the contract, program, site or entity level to enable the following outcomes:

(viii) Utilizing Government property.

(A) The Contractor shall *utilize* consume, move, and store Government Property only as authorized under this contract. The Contractor shall promptly disclose and report Government property in its possession that is excess to contract performance.



# UTILIZATION

## THE STANDARD...

- ***THERE ain't one y'it – THE VOLUNTARY CONSENSUS STANDARD IS NOT YET IDENTIFIED NOR DEFINED***





# UTILIZATION

## ADDED CONTRACTUAL “GUIDANCE” ...

### FAR 52.245-1(c) “Use of Government Property”

(1) The Contractor **shall use** Government property, either furnished or acquired under this contract, **only for performing this contract**, unless otherwise provided for in this contract or approved by the Contracting Officer.

### FAR 52.245-9(d)(2) – *(Use & Charges clause)*

The Contractor **shall not use** Government property **for nongovernmental purposes**, including Independent Research and Development, until a rental charge for real property, or estimated rental charge for other property, is agreed upon. Rented property shall be used only on a non-interference basis.

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# UTILIZATION

## IN PLAIN WORDS...

- GP is generally authorized for use on the contract under which it is accountable
- **Unless the contract provides ADDITIONAL authorization** for contractors to use GP, contractors are **NOT AUTHORIZED** to use such GP for any use, Government or commercial

### FAR 52.245-9, “Use and Charges”

- Provides for GP additional use requests by the contractor
- Discusses the “how to”
- Violations prosecuted under 18 U.S.C. 641



**See previous FAR 52.245-9 presentation!**

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# UTILIZATION

## DEFINITION

- **WHAT DOES the word “USE” MEAN?**

- The act or practice of employing something  
*(Webster’s)*
- The legal enjoyment of property that consists in its employment, occupation, exercise, or practice  
*(Webster’s)*
- To put to use, especially to find a profitable or practical use for



- *Usage Note:* A number of critics have remarked that *utilize* is an unnecessary substitute for *use*. It is true that many occurrences of *utilize* could be replaced by *use* with no loss to anything but pretentiousness,... *(The Free Dictionary)*

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# UTILIZATION

- **It is the CONTRACTOR’S responsibility to establish the PROCESS, i.e., the methods and methodologies, to accomplish this process in accordance with & using:**
  - **INDUSTRY LEADING PRACTICES** and
  - **VOLUNTARY CONSENSUS STANDARDS (VCS)**

**NOTE:** The citation of any VCS within this education presentation does not imply its endorsement or contractual requirement by the Department of Defense or the United States Federal Government.

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# UTILIZATION



## IMPORTANT PROCESS ELEMENTS

1. PROPER
2. IMPROPER
3. IDENTIFICATION OF LACK THEREOF...
4. ...RESULTING IN EXCESS!
5. OTHER (ADDITIONALLY AUTHORIZED)
6. JOINT

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# UTILIZATION/USE



## PROPER

**FAR 52.245-1(c) - Use of Government property.**

- (1) The Contractor shall use Government property, either furnished or acquired under this contract, only for performing this contract, unless otherwise provided for in this contract or approved by the Contracting Officer.**

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## UTILIZATION/USE



### PROPER

#### FAR 52.245-1(f)(1)(viii) – *Utilizing GP*

Unless otherwise authorized in this contract or by the Property Administrator the Contractor shall not commingle Government material with material not owned by the Government

#### BUT...

- It is an industry leading practice to commingle materials when appropriate
- Commingling is the process by which materials that are common to multiple contractor projects or contracts are stored in a single location and are mixed so as to lose their identity to ownership

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## UTILIZATION/USE



### IMPROPER

#### FAR 52.245-1(C) - *Use of Government property.*

- (2) **Modifications or alterations** of Government property are **prohibited**, **unless** they are—
- (i) Reasonable and necessary due to the scope of work under this contract or its terms and conditions;
  - (ii) Required for normal maintenance; or
  - (iii) Otherwise authorized by the Contracting Officer.
- (3) The Contractor **shall not** cannibalize Government property **unless** otherwise provided for in this contract or approved by the Contracting Officer.

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## UTILIZATION/USE



### IDENTIFICATION OF LACK THEREOF...

- GP that has no current usage or activity should be periodically reviewed to initiate disposal action or to justify continued retention
- This process must be responsible to the contract modifications, completion, and terminations, as well as reduced production rates, reduced demand rates, and engineering changes

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## UTILIZATION/USE



### ...RESULTING IN EXCESS!

- Periodic review and determination of excess required
- Prompt excess declaration or CO justification for continued retention
- **Note: the concept of EXCESS applies to ANY classification of GP!**
  - Material is typically “consumed,” while ST, STE and Equipment are “utilized” – that which is no longer needed are EXCESS!!

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## UTILIZATION/USE



### OTHER (ADDITIONALLY AUTHORIZED)

- **FAR 52.245-1(c) “Use of Government Property”**
  - (1) The Contractor shall use Government property, either furnished or acquired under this contract, only for performing this contract, **unless otherwise provided for in this contract or approved by the Contracting Officer**
- ...then the Uses and Charges clause at FAR 52.245-9 becomes **VERY applicable!!**

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## UTILIZATION/USE



### JOINT

### **PROBLEM!!**

- **Mission Support Contracts MAY DICTATE** equipment use by a mix of Government and contractor personnel other than the accountable contractor!!
  1. Contractor may have little direct control over the actual utilization
  2. GP may be directed to be retained in support of the base or installation, regardless of its level of use

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## UTILIZATION/USE



**JOINT**

**CONSIDER including...**

- **Contract language that discusses these issues to include levels of usage by the parties, retention, priorities for use and responsibility for loss**
- **Process definition discussing situations when GP will not remain in the accountable contractor's possession while being used by the Government, that appropriate documentation will be created to show the change of custody of the asset!!**

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## UTILIZATION

- **ANOTHER one of the processes to test in the PMSA!!**



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# UTILIZATION

- **RECOMMENDED RESOURCES**
  - **CRITICAL:**
  - **USEFUL:**
    - FAR clauses 52.245-1 Government Property and 52.245-9, Use and Charges

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## CONSUMPTION

**Consumption** is the process of incorporating Government property (material) into an end item or otherwise consuming it in the performance of a contract. Material is **consumed**; equipment is utilized.

1-11

1



## CONSUMPTION

### 52.245-1(f)(1)(viii)(A) Utilizing GP

The Contractor shall utilize, **consume**, move, and store Government Property only as authorized under this contract. The Contractor shall promptly disclose and report Government Property in its possession that is excess to contract performance.

2



## CONSUMPTION

52.245-1(b)(2)

The Contractor's responsibility extends from the initial acquisition & receipt of property, through stewardship, custody, & use until formally relieved of responsibility by authorized means, including delivery, **consumption**, expending, disposition, or via a completed investigation, evaluation, & final determination for LTDD of the property.

3



## CONSUMPTION

52.245-1(f)(1)(vii) Relief of stewardship responsibility.

Unless the contract provides otherwise, the Contractor shall be relieved of stewardship responsibility for GP when such property is—  
(A) **Consumed** or expended, reasonably and properly, or otherwise accounted for, in the performance of the contract including reasonable inventory adjustments of material as determined by the PA.

4



## CONSUMPTION

**Consumption** of Materials and other Government Property.

It is an industry leading practice for a contractor to analyze and track the **consumption** of material and have processes to allow for the monitoring of this action.

5



## CONSUMPTION

- APPENDIX D of the Property Manual gives a formula for CONSUMPTION
- The **consumption** process consists of four elements:
  - The first element consists of the issuance of material in reasonable and proper quantities for the work being performed.

6



## CONSUMPTION

Issuance can generally be controlled through an effective system that ensures materials are issued only for authorized requirements and to authorized personnel. Additional factors to be considered by the PA are: shelf life; first in, first out (FIFO); lotting; serially numbered items; parts mortality; attrition; and sensitive or hazardous control considerations.

7



## CONSUMPTION

The second element consists of the actual usage, incorporation, or expenditure of material into a higher assembly, end item, or through testing. It may also include the attachment or incorporation of material into an item of GP.

8



## CONSUMPTION

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.

9



## CONSUMPTION

The fourth element consists of parts or components that are removed or recovered from repair, rework, testing, or cannibalization. These parts are 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, etc.).

10



## CONSUMPTION

### Determining Reasonableness of **Consumption**.

This process directly relates to the requirements of FAR 31.201-3 which address 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.”

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## CONSUMPTION

### 31.201-3 Determining reasonableness.

(a) 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. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints.

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## CONSUMPTION

31.201-3 Determining reasonableness.

No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If initial review of the facts results in a challenge of a specific cost by the CO or the C.O.'s representative, the burden of proof shall be upon the Contractor to establish that such cost is reasonable.

13



## CONSUMPTION

What is reasonable depends upon a variety of considerations and circumstances including—

- (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;
- (2) Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws & regulations.

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## CONSUMPTION

- (3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and—
- (4) Any significant deviations from the contractor's established practices.

15



## CONSUMPTION

The PA shall test the adequacy of the contractor's **consumption** practices for material through the assessment of material requirements and calculations of the actual **consumption** of material in the performance of contract requirements to insure that material is **consumed** in reasonable quantities. **Consumption** is also driven by the contractor's environment, i.e., production versus research and development, overhaul and maintenance versus testing.

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## CONSUMPTION

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 and master production schedules.

17



## CONSUMPTION

In an overhaul and maintenance environment **consumption** may be on an "as needed" basis driven by the in scope work specified in the contract and out of scope work disclosed after tear down of the reparable.

18



## CONSUMPTION

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.

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## CONSUMPTION

Determination of Unreasonable **Consumption**.  
As a general rule, material **consumption** should be considered to be unreasonable when **consumption** exceeds amounts supported by bills of material, material requirements lists, or similar material planning documents (including reasonable mortality or attrition rates).

20



## CONSUMPTION

When the PA discovers unreasonable **consumption** the PA should request the contractor to investigate instances of potential unreasonable **consumption** in a manner similar to LTDD. The PA shall encourage contractors to perform a **consumption** analysis as part of the investigation.

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## CONSUMPTION

Remedies for Unreasonable **Consumption**. Unreasonable **consumption** of Government materials is not considered LTDD under the risk-of-loss provisions. In cost-type contracts where unreasonable **consumption** is found, the PA will forward the case to the CO recommending cost disallowance action under the FAR Part 31 cost principles.

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## CONSUMPTION

In fixed-priced contracts where unreasonable **consumption** of GFM is found, the CO shall determine whether or not consideration should be requested from the contractor.



# REPORTS

## A PROCESS REQUIREMENT

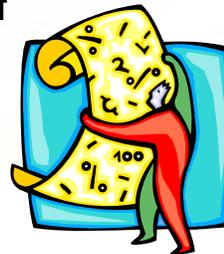
1

DAU1



## THE PROCESS OF CREATING REPORTS

- It is a **CONTRACTUAL** requirement that contractors have a **PROCESS** for managing the **GENERATION/CREATION** of **REPORTS**



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2

**Slide 2**

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**DAU1**    DAU USER, 1/9/2011



## THE PROCESS OF REPORTS

- **FAR 52.245-1(f)(1)(vi) Reports**
  - The contractor shall have a process to create and provide reports: reports of discrepancies; loss, theft, damage and destruction; physical inventory results; audits and self assessments; corrective actions; and other property related reports as directed by the Contracting Officer.



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## APPLICABLE VCS

- **THERE IS NO ONE VOLUNTARY CONSENSUS STANDARD (VCS) FOR THE REPORTS PROCESS AS OF MARCH 2006.**
- **THERE ARE A NUMBER OF VCSs THAT REQUIRE REPORTS TO BE SUBMITTED AS PART OF THAT VCS.**

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## REPORTS

- **Contractors shall set forth the PROCESS they plan to use within their Property Management System and its written procedures.**



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## REPORTS

- **PROCESSES SHALL BE SET FORTH FOR:**
  - Reports of discrepancies
  - Loss, theft, damage and destruction
  - Physical inventory results
  - Audits and self assessments
  - Corrective actions and plans
  - Other property related reports as directed by the contracting officer and
  - Any other contractually required reports

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## REPORTS

### • REPORTS OF DISCREPANCIES

- Under the Process of Receiving the contractor is required manage any discrepancies incident to submit for Government-Furnished Property:



- FAR 52.245-1(f)(1)(ii)(A)
- “The contractor shall furnish a written statement to the Property Administrator containing all relevant facts, such as cause or condition and a recommended course(s) of action, if overages, shortages, or damages and/or other discrepancies are discovered upon receipt of Government-furnished property.”

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## REPORTS

### • REPORTS OF DISCREPANCIES

- **Supply** Discrepancy Report (SDR) (Previously called a “report of discrepancy” (ROD))
  - Uses a **Standard Form 364**
    - <http://www.dtic.mil/whs/directives/infomgt/forms/eforms/sf0364.pdf>
  - Reference Manual - DLAI 4140.55, AR 735-11-2, SECNAVINST 4355.18A, AFJMAN 23-215
    - <http://www.dla.mil/dlaps/dlai/i4140.55.htm>
- Reporting of **Transportation** Discrepancies in Shipment
  - Uses a **Standard Form 361**
    - <http://www.dtic.mil/whs/directives/infomgt/forms/eforms/sf0361.pdf>
  - Reference Manuals - AR 55-38, NAVSUP INST 4610.33C, AFR 75-18, MCO P4610.19D, DLAR 4500.15
    - <https://134.11.61.26/ArchivePub/Publications/DA/AR/AR%2055-38%2019920831.pdf>

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## REPORTS

- **Report of Loss, Theft, Damage or Destruction**
  - **Clausal Requirement for reporting**
    - FAR 52.245-1 (f)(1)(vi)(A)
  - **“Loss, theft, damage or destruction. Unless otherwise directed by the Property Administrator (PA), the contractor shall investigate and promptly furnish to the PA, a written narrative of all incidents of loss, theft, damage or destruction as soon as the facts become known or when requested by the Government.”**

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## Report of LTDD DATA REQUIRED:

- **FAR 52.245-1 (f)(1)(vi)(B)**
  - (1) Date of incident (if known).
  - (2) The name, commercial description, manufacturer, model number, and National Stock Number (if applicable).
  - (3) Quantity.
  - (4) Unique Item Identifier (if available).
  - (5) Accountable Contract number.
  - (6) A statement indicating current or future need.
  - (7) Acquisition cost, or if applicable, estimated scrap proceeds, estimated repair or replacement costs.
  - (8) All known interests in commingled property of which the Government property is a part.

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## Report of LTDD

### DATA REQUIRED:

- **FAR 52.245-1 (f)(1)(vi)(B)**
  - (9) Cause and corrective action taken or to be taken to prevent recurrence.
  - (10) A statement that the Government will receive any reimbursement covering the loss, damage, destruction, or theft, in the event the Contractor was or will be reimbursed or compensated.
  - (11) Copies of all supporting documentation.
  - (12) Last known location.
  - (13) A statement that the property did or did not contain sensitive or hazardous material, and if so, that the appropriate agencies were notified.

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## Report of LTDD

- **PAs should ensure that these data elements are addressed in the contractor's Property Management System and Procedures**
- **The Procedures must also address:**
  - Party Responsible for reporting
  - Specific Time Frame for reporting

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## Report of LTDD

### **MAJOR CONCERN!!!**

- PAs should encourage contractors to establish a process for handling low dollar, low quantity, low criticality item LTDD reporting on a periodic versus immediate basis



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## Report of LDD&T

### **MAJOR CONCERN!!!**

- For Example:
  - Where small quantities of material are lost, or low value items are destroyed [Not sensitive or Critical] and are not needed for replacement due to a bulk purchase – report on a quarterly basis or biannual basis.
  - Reduces administrative costs
  - No significance or materiality to the Property Management System.



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# REPORTS

- **Physical Inventory Reports**
  - **Clausal Requirement for reporting**
    - FAR 52.245-1 (f)(1)(vi) Reports
    - FAR 52.245-1 (f)(1)(iv) Physical Inventory
  - **The Contractor shall periodically perform, record, and disclose physical inventory results.**
  - **Reporting ALL OVERAGES and SHORTAGES.**

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# REPORTS

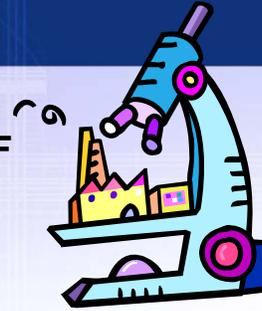
- **ASTM VCS for Physical Inventory**
  - **ASTM VCS E-2132 Address the Physical Inventory or Durable, Moveable Property.**
  - **Contractor's Property Management System and Procedures need to address the **Material** Physical Inventory process as well.**
  - **The ASTM Standard does not address a **specific timeframe** from **reporting** Physical Inventory Results. It is critical that this is **defined** in the contractor's Property Management System.**

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# REPORTS



- **REPORTS OF AUDITS AND SELF ASSESSMENTS**
  - **CLAUSAL REQUIREMENT**
    - 52.245-1((f)(1)(vi) and
    - 52.245-1(f)(3)
      - The contractor shall establish and maintain procedures necessary to assess its property management system effectiveness, and shall perform periodic internal reviews and audits.
      - Material or significant findings and/or results of such reviews and audits pertaining to government property shall be made available to the property administrator.

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# REPORTS

- **REPORTS OF AUDITS AND SELF ASSESSMENTS**
  - PAs shall ensure that the contractor's Property Management System and Procedures provide a **PROCESS** to ensure the reporting of these audit or self assessment findings that have materiality or are significant.
  - Timely reporting needs to be defined

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# REPORTS

- **Reports of Corrective actions and plans**
  - Though there is no Voluntary Consensus standard for reporting Corrective Actions and Plans it is an industry leading practice that a report is created when changes are made to systems.

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# REPORTS

- 52.245-1(b) entitled Property Management **REQUIRES** the contractor to “**Disclose** any planned, significant changes to their Property Management systems...”
- 52.245-1(g) entitled Systems Analysis, Para. (3) states, “Should it be determined by the Government that the Contractor’s property management practices are inadequate or not acceptable for the effective management and/or control of Government property under this contract; and/or present an undue risk to the Government, the **Contractor shall immediately take all necessary corrective actions** as directed by the Property Administrator.”

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## REPORTS

- **GOVERNMENT PROPERTY DISPOSAL**
  - The contractor is also required to report Government Property that is excess to the needs of the contractor through the use of scrap lists, inventory schedules or electronically (PCARSS).
  - Though not traditionally thought of as a report it is being mentioned here.

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## REPORTS

- **Other property related reports as directed by the contracting officer**



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# REPORTS

- **Any other contractually required reports**
  - PAs should be aware of any other reports required by the contract and ensure that completed and submitted as required, e.g.:
    - AF G009 Reports
    - NAVY CAV System
    - NASA Financial Reports

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# SUBCONTRACTOR CONTROL A PROCESS REQUIREMENT & SUPPORT PROPERTY ADMINISTRATION



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# SUBCONTRACTOR CONTROL

- It is a **STANDARD INDUSTRIAL PRACTICE** for activities to perform THE SUBCONTRACTOR CONTROL FUNCTION.



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## SUBCONTRACTOR CONTROL

### CONTRACTUAL REQUIREMENT:

#### FAR 52.245-1(b) "Property management"

(1) The Contractor shall have a system to manage (control, use, preserve, protect, repair and maintain) government property in its possession. (etc.)

(2) The Contractor's responsibility extends from the initial acquisition and receipt of property, through stewardship, custody, and use until formally relieved of responsibility by authorized means, including delivery, consumption, expending, sale (as surplus property), or other disposition, or via a completed investigation, evaluation, and final determination for lost, stolen, damaged, or destroyed property. **This requirement applies to all Government property under the contractor's accountability, stewardship, possession or control, including its vendors or subcontractors (see (f)(1)(v)).**

(3) **The Contractor shall include the requirements of this clause in all subcontracts under which Government property is acquired or furnished for subcontract performance.**

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## SUBCONTRACTOR CONTROL

### CONTRACTUAL REQUIREMENT:

#### FAR 52.245-1(f)(1) "Contractor Plans and Systems"

Contractors shall develop property management plans, systems, and procedures at the contract, program, site or entity level to enable the following outcomes:

##### (v) Subcontractor control.

(A) The Contractor shall award subcontracts that clearly identify assets to be provided and shall ensure appropriate flow down of contract terms and conditions, e.g., limited liability for loss, theft, damage or destruction of Government property.

(B) The Contractor shall assure its subcontracts are properly administered and reviews are periodically performed to determine the adequacy of the subcontractor's property management system.



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## SUBCONTRACTOR CONTROL

### THE STANDARD...

**THE VOLUNTARY CONSENSUS  
STANDARD IS NOT YET IDENTIFIED  
NOR DEFINED**



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## SUBCONTRACTOR CONTROL

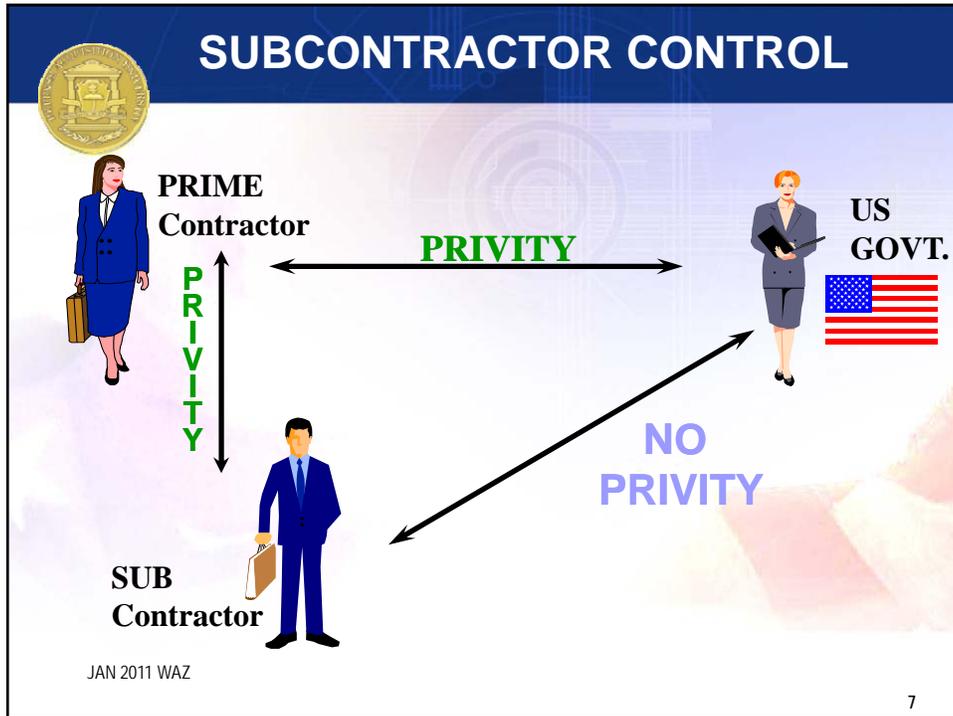
### **Prime Contractor and Government Relationship**

- Relationship is created through the Contract!
- This relationship is called "PRIVITY OF CONTRACT."



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## SUBCONTRACTOR CONTROL

- It is the **CONTRACTOR'S** responsibility to establish the **PROCESS**, i.e., the methods and methodologies, to accomplish this process in accordance with & using:
  - **INDUSTRY LEADING PRACTICES** and
  - **VOLUNTARY CONSENSUS STANDARDS (VCS)**

**NOTE:** The citation of any VCS within this education presentation does not imply its endorsement or contractual requirement by the Department of Defense or the United States Federal Government.

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## SUBCONTRACTOR SURVEILLANCE

### DIRECTION TO THE CONTRACTOR...

The PRIME CONTRACTOR is **responsible and accountable for SUBCONTRACTOR surveillance and all GP in their possession or control** - FAR 52.245-1(b)



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## SUBCONTRACTOR SURVEILLANCE

### DIRECTION TO THE CONTRACTOR...



The PRIME CONTRACTOR **shall assure** - FAR 52.245-1(f)(1)(v):

1. Subcontracts are **PROPERLY** administered
  - Who is the **RESPONSIBLE** person within the office/company?
2. Reviews are **PERIODICALLY** performed to determine subcontractor's property management system
  - What is the **FREQUENCY** and **METHOD** of surveillance?
  - Is the surveillance **DOCUMENTED**?
  - Is **CORRECTIVE ACTION** needed?
  - Are subcontractor deficiencies **RESOLVED**?

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## SUBCONTRACTOR SURVEILLANCE

### SUBCONTRACT/P.O. REQUIRED INFO!!

- Clearly identify GP assets provided
  - Furnished
  - Acquired



PRIME'S OPINION  
OF P.O.

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SUB'S OPINION  
OF P.O.



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## SUBCONTRACTOR SURVEILLANCE

### SUBCONTRACT/P.O. REQUIRED INFO!!

- Flow down of GP requirements - FAR 52.245-1(b)(3)
  - Since “the Contractor shall include the requirements of this clause in all subcontracts under which Government property is acquired or furnished for subcontract performance,” the subcontractor is bound by ALL APPLICABLE REQUIREMENTS of the clause!!!
  - **CAUTION!!** Direct Clause flow down is NOT REQUIRED

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## SUBCONTRACTOR SURVEILLANCE

### SUBCONTRACT/P.O. **REQUIRED** INFO!!

- **Possible flow down requirements:**
  - LTDD Reporting Requirements
    - What will be reported, When, How, To whom
  - Physical Inventory Requirements
  - Report Requirements
    - NASA 1018, etc.
  - Disposition Instructions
    - Inventory Schedule Requirements

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## SUBCONTRACTOR CONTROL

### GOVERNMENT SUPPORT PROPERTY ADMINISTRATION



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## SUPPORT PROPERTY ADMINISTRATION

### CHARTER FOR GOVERNMENT SURVEILLANCE & SECONDARY DELEGATION...

- FAR 42.302(a) -- Contract Administration Functions
  - (26) **Perform** property administration (see FAR Part 45).
  - (30) When contractors request Government property—(i) – (v), **Evaluate, ensure & modify...**
  - (41) **Evaluate for adequacy and perform surveillance of contractor** engineering efforts and **management systems that relate** to design, development, production, engineering changes, **subcontractors**, etc.
  - (57) **Assign and perform** supporting contract administration.

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## SUPPORT PROPERTY ADMINISTRATION

### HOW DO WE OBTAIN GOV SURVEILLANCE AT THE SUB-CONTRACTOR LOCATION?



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## SUPPORT PROPERTY ADMINISTRATION



### SECONDARY DELEGATION

Performance of specific property administration functions by ANOTHER Contract Administration Office (CAO) (Generally in a different **GEOGRAPHIC AREA**) as requested by the assigned CAO.



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## SUPPORT PROPERTY ADMINISTRATION



### CHARTER FOR GOVERNMENT SURVEILLANCE & SECONDARY DELEGATION...

**FAR 42.202(e)** -- Assignment of Contract Administration - Secondary delegations of contract administration **details the conditions that permit secondary delegation!**



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## SUPPORT PROPERTY ADMINISTRATION

### CHARTER FOR GOVERNMENT SURVEILLANCE & SECONDARY DELEGATION...

- Secondary delegations **may be requested by either the Government or the Contractor (not customary)**
- When the Contractor asks for the Government's "assistance" in performing surveillance on its Subcontractors it is called **SUPPORT PROPERTY ADMINISTRATION**
- The process of requesting this act is called a **Support Property Administration DELEGATION**

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## SUPPORT PROPERTY ADMINISTRATION

### CONDITIONS FOR USE...

- **Contractor may request** Government Support Property Administration to be performed on SUBKR in another Geographic area
- **Contractor must agree** to accept findings of Supporting Government Property Administrator
- **Government may request** CONSIDERATION for doing contractor's work

**FAR 45.501**

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## SUPPORT PROPERTY ADMINISTRATION

### CONDITIONS FOR USE...

- **Government may ask** Contractor if it may perform Support Property Administration when GP, accountable to Contractor is found to be located at Subcontractors
- **Government asks for Contractor's consent to perform** Support Property Administration
  - If no consent PA refers matter to CO

**FAR 45.502**

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## SUPPORT PROPERTY ADMINISTRATION

### CONDITIONS FOR USE...

- **ALTERNATE LOCATIONS** are handled slightly differently
  - Since an alternate location is just another physical extension of the prime the Government **DOES NOT NEED** the Contractor's **permission** to process the Support Property Administration Delegation

**FAR 45.502(c)**

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## SUBCONTRACTOR CONTROL

- **RECOMMENDED RESOURCES**
  - **CRITICAL & USEFUL:**
    - FAR Part 42 Contract Administration
    - FAR Part 45 and the Government Property Clause

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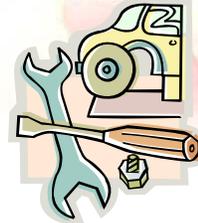
23



## MAINTENANCE

Maintenance is the process of taking care of, providing for, repairing, keeping in an existing state, calibrating, or preserving from failure or decline.

It is the act of providing the amount of care necessary to obtain the most useful service life of property and equipment.



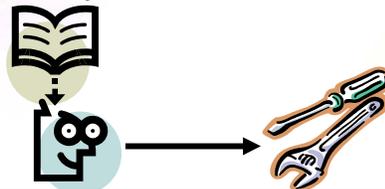
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1



## MAINTENANCE

The Government Property Clause at 52.245-1(b) Property Management, requires the Contractor to have a system to manage (control, use, preserve, protect, repair and **maintain**) Government Property in its possession. The system shall be adequate to satisfy the requirements of this clause.



2



## MAINTENANCE

All classes of Government Property require maintenance. The amount of maintenance necessary will depend upon the type of property, frequency of use, and the environment. The maintenance requirements for some types of property may be more elaborate and performed more frequently than others.



## MAINTENANCE

Some Government Property may be more sensitive to environmental controls and contamination (calibration and test equipment). Other types of property may be sensitive to temperature, humidity, and shelf life (food, medicine, chemicals). The Contractor's maintenance program must account for these parameters.





## MAINTENANCE

**52.245-1(b)** The Contractor shall initiate and maintain the processes, systems, procedures, records, and methodologies necessary for effective control of GP, consistent with voluntary consensus standards and/or industry-leading practices and standards for GP management except where inconsistent with law or regulation.



5



## MAINTENANCE

Consistent with this requirement is the need for the Contractor to take care of or maintain Government Property in the best possible condition in order to maximize its useful service life. This should be done in accordance with contract requirements, manufacturer's recommended maintenance procedures, and established practices (ILP and/or VCS).



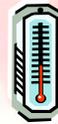
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## MAINTENANCE



Contractors shall establish procedures and processes for their maintenance program. The useful life of GP can be extended by controlling these variables: temperature, humidity, contamination, vibration, shock, corrosion, light, radiation, wear, etc.

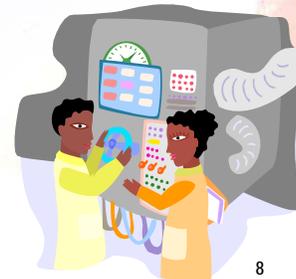


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## MAINTENANCE

52.245-1(c) The Contractor shall not modify, cannibalize, or make alterations to Government Property unless this contract specifically identifies the modifications, alterations or improvements as work to be performed.

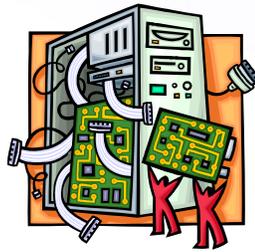


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## MAINTENANCE

“Cannibalize,” means to remove serviceable parts from one item of equipment in order to install them on another item of equipment.  
(FAR 45.101)



9



## MAINTENANCE

The Contractor is prohibited from cannibalizing any Government Property for any reason (including maintenance) unless they have prior written authority from the Contracting Officer. Cannibalizing is conversion. It is the unlawful appropriation of property that belongs to someone else. Conversion of Government Property is investigated by the FBI. Penalties include fines, imprisonment, or both.



10



## MAINTENANCE

General Maintenance is the routine day-to-day maintenance that is required for efficient and economical operation of property and equipment. It includes inspecting, cleaning, adjusting, calibrating, lubricating, changing filters, parts replacement, and performing manufacturer's scheduled maintenance.



11



## MAINTENANCE

Preventive Maintenance is part of the General Maintenance requirement. It is performed on a regularly scheduled basis to prevent the occurrence of defects and to detect and correct minor defects before they result in serious consequences.



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## MAINTENANCE

General Maintenance and Preventive Maintenance is to be performed by the Contractor as part of its standard operating procedures. The costs of this maintenance program are included in the cost of the contract. The Government should not pay any additional expenses for General and/or Preventive Maintenance.



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## MAINTENANCE

The Contractor must describe all General and/or Preventive Maintenance that will be performed in its Property Management System. The Plans and Procedures should include a scheduled maintenance guide for all property including the frequency of performance, description of the maintenance done, and the date of completion.

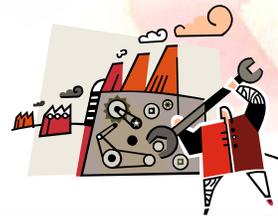


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## MAINTENANCE

Major Maintenance or Capital Type Rehabilitation is maintenance that exceeds the General and Preventive Maintenance requirements stated in the contract and the Contractor's Property Management System. Since this type of maintenance exceeds the standard requirements they become the financial responsibility of the Government.



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## MAINTENANCE

Prior to performing any Major Maintenance or Capital Type Rehabilitation, the Contractor is required to obtain advance written permission from the Contracting Officer. Failure to do this may result in the rejection of any claims for consideration by the Government.



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# PHYSICAL INVENTORIES

## A PROCESS REQUIREMENT

1-11

1



## PHYSICAL INVENTORIES

- It is a **STANDARD INDUSTRIAL PRACTICE** for activities to perform **PHYSICAL INVENTORIES**.
- ***“Proper inventory accountability requires that detailed records of produced or acquired inventory be maintained, and that this inventory be properly reported in the entity’s financial management records and reports. For example, detailed asset records are necessary to help provide for the physical accountability of inventory and the efficiency and effectiveness of operations.”***
  - EXECUTIVE GUIDE - Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property, GAO-02-447G, March 2002

2



## PHYSICAL INVENTORIES

- **CONTRACTUAL REQUIREMENT???**
- The requirement for a contractor to have a process for performing a physical inventory **IS** a contractual requirement.

3



## PHYSICAL INVENTORIES

- **FAR 52.245-1(f)(1)(iv) states**
  - **Physical Inventory**. The contractor shall periodically perform, record, and report physical inventories during contract performance. A final inventory shall be performed upon contract completion or termination. The Property Administrator may waive this final inventory requirement, depending upon the circumstances, e.g., overall reliability of the Contractor's system or the property is to be transferred to a follow-on contract."

4



## SO WHAT IS A PHYSICAL INVENTORY?

- **DEFINITIONS:**
  - “actual count of items in inventory, as contrasted with accepting the values shown on accounting records.”
    - Barron’s, Dictionary of Business Terms, 2<sup>nd</sup> Ed., 1995
  - “The determination of inventory quantity by actual count.”
    - NPMA Standard Property Book, 1<sup>st</sup> Ed., 1999
  - The verification of the existence, location and quantity of property items.”
    - ASTM E2132-01, Practice for Physical Inventory of Durable Moveable Property, September 2004.

5



## PHYSICAL INVENTORIES

- **BOTTOM LINE –**
  - It is the process of going to a location, and using an orderly, logical methodology and process, **locating** the physical property, **verifying** the **count**, i.e., how many are there, recording that information, **comparing** that information with the **record**, **reconciling** any **discrepancies**, and **reporting** the **results** to the Government Property Administrator.

6



## PHYSICAL INVENTORIES

- It is the **CONTRACTOR'S** responsibility to establish the **PROCESS**, i.e., the methods and methodologies, to accomplish this process in accordance with & using:
  - **INDUSTRY LEADING PRACTICES** and
  - **VOLUNTARY CONSENSUS STANDARDS (VCS)**

**NOTE:** The citation of any VCS within this educational presentation does not imply its endorsement or contractual requirement by the Department of Defense or the United States Federal Government.



## PHYSICAL INVENTORIES

- **So, what are some of the methodologies available to use in performing a Physical inventories?**
- **A STEP IN THE PROCESS – FINDING THE STUFF!**
  - **Sighting, tagging or marking using a Manual Methodology**
    - Stickers, labels, tags, etc.
    - Paint or Marker or Etching, etc.
  - **Electronic Reading, Recording & Reporting:**
    - Bar Codes and Scanners
    - Radio Frequency Identification (RFID)

8



## TYPES OF PHYSICAL INVENTORIES

- WALL to WALL – Fixed Annual
- CLOSED STORES
- OPEN STORES
- **CYCLIC**
  - Most widely used and accepted today
  - See <http://www.effectiveinventory.com/articles.html>
- SAMPLING
- STRATIFIED/ABC or even
- COMBINATIONS of the above



9



## PHYSICAL INVENTORIES

- **Contractor establishes:**
  - Type and frequency of Physical Inventory based upon:
    - Contractor's **Established** Practices
    - **Type** of Government Property
    - **Use** of Government Property
    - **\$ Value** of Government Property
    - **Criticality/Sensitivity** of Government Property
    - **Reliability** of Contractor's Property Management system (Past Experience)
  - Contractor Provides **Written Procedures** describing the Process and Outcomes

10



## PHYSICAL INVENTORIES

- Type and frequency of physical inventory may vary with type of property but **should not vary due to contract type**
- **WARNING: GENERALLY --** Personnel who perform the physical inventory **SHOULD NOT** be the same who **MAINTAIN THE RECORDS** or who have **CUSTODY** of the GP.
  - See ASTM Standard E 2132-01 for Concept of “**INDEPENDENCE**” (3.6)

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## PHYSICAL INVENTORIES

- **ASTM E-2132-01**
  - Describes Key Points of Physical Inventory Planning including:
    - Management and Accountability
    - Key Results Required
    - Population (Determination & Selection)
    - Independence
    - Data Requirements
    - Validation Techniques
    - Result Validation (Third Party Independent Validation)
    - Period (For Performance)
    - Resources
    - Information Management
    - Training and Communication
    - Project Plan

If Contractors Use this ASTM Standard the PA should ensure discussion and compliance with its requirements in the procedures and application.

Contractors must also cover **MATERIAL** in their Physical Inventory Processes

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## REPORTING OF RESULTS

- Results of physical inventories shall be reported to the Government PA.
  - 52.245-1(f)(1)(iv)
- Minimum requirements:
  - **Prompt** reporting
  - Identification of **all** discrepancies
    - Overages
    - Shortages



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## PHYSICAL INVENTORY DISCREPANCIES AND ADJUSTMENTS

- Overages and Shortages disclosed during the Physical Inventory are to be Posted to the record after reconciliation by the contractor.
- PA does **not need to review or approve** these adjustments before posting by the contractor to the record **BECAUSE**:
  - It DOES NOT affect the actual COUNT &
  - The issue of LIABILITY must still be addressed and resolved

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## EVALUATION OF DISCREPANCIES

- DETERMINATION OF ADEQUACY
- The PA is required to use Good Business **JUDGMENT** and **ACUMEN** as well as **MANAGERIAL EXPERTISE** in Determining the efficacy of the Contractor's Physical Inventory processes and Outcomes!



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## EVALUATION OF DISCREPANCIES

- Some Guidance Available to the PA
- ASTM STANDARDS:
  - E-2132-01 Item 5. Results:
    - Formulas for application –  
**USE GOOD JUDGMENT**
    - Suggestions in Standard
      - » **High** Consequence Items – Target **0%**.
      - » **Very Low** Consequence Items – **As high as 10%**
      - » **Typical** Rates vary from **< ½ % to 5%**



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## EVALUATION OF DISCREPANCIES

- **ASTM STANDARDS:**
  - E-2131-01 Item 7. Acceptable LDD Ratios:
    - 7.1.1 Acceptable LDD for non high-risk ...  
Property = **2% or less (\$ or Quantity)**
    - 7.1.2 Acceptable LDD for high-risk  
property = **0% (\$ or Quantity)**



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## EVALUATION OF DISCREPANCIES

- **POSSIBLE ADDITIONAL CONTRACTUAL REQUIREMENT**
- If the contractor is required to have a “Material Management Accounting System” in accordance with DFARS 252.242-7004 the Physical Inventory Accuracy rate is established at a 95% accuracy – unless the contractor can show that there is no material harm to the Government.

» See DFARS 252.242-7004(e)(5)

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## EVALUATION OF DISCREPANCIES

- **WARNING – THE STANDARDS DO NOT DETERMINE LIABILITY FOR LTDD FOR PHYSICAL INVENTORY DISCREPANCIES. THAT IS DETERMINED BY THE LIABILITY PROVISION IN THE CONTRACT.**
  - THE STANDARD’S RATIOS IMPACT THE **RISK ASSESSMENT** APPLIED TO THE CONTRACTOR AND THE SUBSEQUENT AUDIT FREQUENCY.
  - THE STANDARD’S RATIOS IMPACT THE **DETERMINATION OF COMPLIANCE/ADEQUACY** OF THE CONTRACTOR’S PROPERTY MANAGEMENT SYSTEM **WHICH MAY IMPACT LIABILITY.**

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## PHYSICAL INVENTORIES

- **FAR 52.245-1(f)(1)(iv) PERFORMANCE OF A PHYSICAL INVENTORY UPON CONTRACT COMPLETION**
  - The Property Administrator **may waive** this final inventory requirement, depending upon the circumstances, e.g., overall reliability of the Contractor’s system or the property is to be transferred to a follow-on contract.”
  - If contractor is transferring property to a follow on contract the PA should review that **AUTHORIZATION EXISTS TO TRANSFER PROPERTY** and that record balances have been transferred and accountability moved to follow-on contract:
    - i.e., CHECK THAT THE RECORDS REFLECT TRANSFER

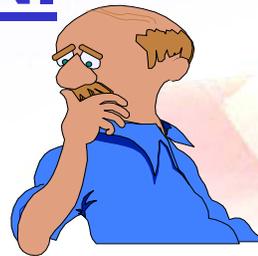
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# PHYSICAL INVENTORIES

- **FAR 52.245-1(f)(1)(iv)**  
Physical inventories are also required  
Upon

**TERMINATION.**



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# PHYSICAL INVENTORIES

- **RECOMMENDED RESOURCES**

- **CRITICAL:**

- **ASTM STANDARD E-2132-01**
  - Standard Practice for Physical Inventory of Durable, Moveable Property (Note: May not apply to Material)
- **ASTM STANDARD E-2131-01**
  - Practice for Assessing Loss, Damage or Destruction of Property

- **USEFUL:**

- **TEXTS** – See Bibliography @ end of Presentation
- **WEBSITES:**
  - <http://www.effectiveinventory.com/articles.html>
  - <http://www.gao.gov/new.items/d02447q.pdf>

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# TEXTS

- **Inventory Accuracy: People, Processes, & Technology.**
  - David J. Piasecki.
  - Publisher: Ops Publishing, ISBN: 0-9727631-0-4
- **Production and Inventory Control Handbook.**
  - Editor, James Greene, 2<sup>nd</sup> Edition.
  - Publisher: McGraw-Hill, ISBN: 0-07-024321-2
- **Purchasing and Materials Management.**
  - Dobler, Burt and Lee, 5<sup>th</sup> Edition.
  - Publisher: McGraw-Hill, ISBN: 0-07-037047-8
- **Production and Inventory Management.**
  - Fogarty, Blackstone, and Hoffman, 2<sup>nd</sup> Edition.
  - South-Western Publishing, Cincinnati. ISBN 0-538-07461-2



# AN OVERVIEW OF PROPERTY MANAGEMENT SYSTEM AUDIT PROCESS\*



\*This is only an overview of IND 103



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## PROPERTY MANAGEMENT SYSTEM

### PROPERTY MANAGEMENT SYSTEM (PMS)

- The system that identifies a contractor's internal management program encompassing the protection, preservation, accounting for, and control of GP property from acquisition, disposition through contract closeout

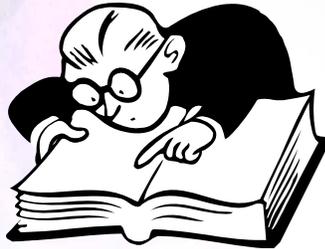


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## PROPERTY MANAGEMENT SYSTEM



**The Contractor's PMS consists of two parts**

1. Written Procedures
2. Application of the Procedures

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## SYSTEM AUDIT FREQUENCY



- The **agency responsible** for contract administration shall conduct an audit of the contractor's property management policies, procedures, practices, and systems.

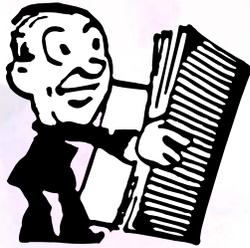
*FAR 45.105*

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## PROPERTY MANAGEMENT SYSTEM AUDIT



### The following standards are used to Audit the Contractor's PMS

- Contract(s) and its/their requirements
- Other applicable Regulations cited in the contract: FAR, DFARS, etc.
- VCS
- ILP
- Contractor's written property management procedures

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## SYSTEM AUDIT

**SYSTEM AUDIT**: An AUDIT of all applicable processes of a contractor's PMS for the purpose of obtaining overall knowledge of the contractor's performance in complying with the approved PMS and contractual obligations as they pertain to property.



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## SYSTEM AUDIT



- The Government may audit the contractor's PMS as frequently as conditions warrant.

*FAR 45.105*

- The authority to audit comes from the contract and the Government Property clause

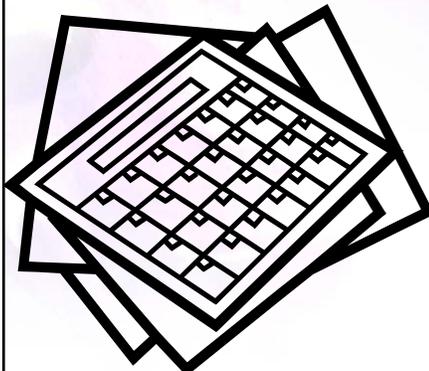
*FAR 52.245-1(g)*

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## SYSTEM AUDIT



- Audits may take place at any time during contract performance, upon contract completion or termination, or at any time thereafter during the period the contractor is required to retain such records

*FAR 4.7*

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# SYSTEM AUDIT



- The contractor shall make all such records and related correspondence available to the auditors

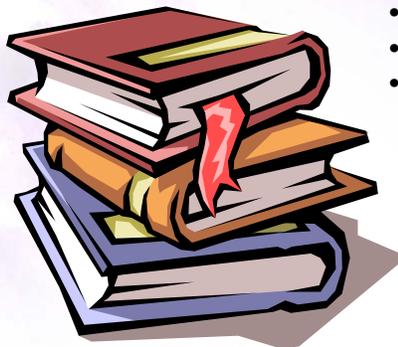
*FAR 52.245-1(g)*

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# SYSTEM AUDIT



## AUDIT REFERENCES:

- Generally Accepted Audit Standards
- GAO Yellow Book (GAGAS)
- DCAA Manual DCAAM 7640.1
- Any supplemental agency-peculiar regulations:
  - DCMA
  - NAVSUPPPUBS
  - Army Regs
  - Etc.

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## PROCESSES SUBJECT TO AUDIT

Those processes listed or subsumed in the FAR GP clause – 52.245-1(f), plus the process of disposition...



1. Property Management
2. Acquisition
3. Receiving
4. Identification
5. Records
6. Movement
7. Storage

...there's more 

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## PROCESSES SUBJECT TO AUDIT



8. Physical Inventories
9. Reports
10. Consumption
11. Utilization
12. Maintenance
13. Subcontractor Control
14. Disposition
15. Contract Closeout

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## PROCESSES SUBJECT TO AUDIT

Property professionals need to be critical in the establishment of a PMS to ensure that all **PERFORMANCE CRITERIA** and **OUTCOMES (PROCESSES)** are covered in that PMS.

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## THE AUDIT PROCESS

- SCHEDULE/PLAN
- NOTIFICATION
- ENTRANCE CONFERENCE
- PERFORM AUDIT
- EXIT CONFERENCE
- CORRECTIVE ACTION
- RE-AUDIT

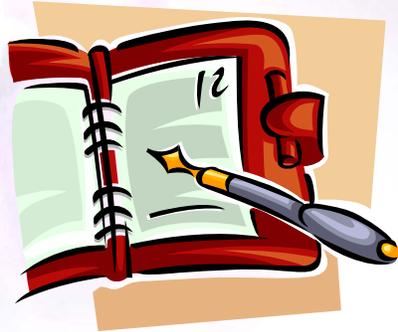


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## SCHEDULING



- At the beginning of each fiscal year, the PA shall prepare a schedule showing the names of the Contractors and the projected dates on which each system AUDIT shall take place.

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## PLANNING



The PA shall prepare an AUDIT plan that includes the following:

1. Identification and listing of:
  - \* Processes
  - \* Process segments
  - \* Criterion

that will be used to evaluate the Contractor's Property MANAGEMENT System

-- USE FAR 52.245-1  
Process Requirements

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## PLANNING



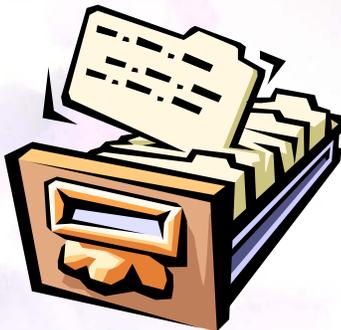
2. Listing of the estimated line items by classification: MAT, ST, STE, and EQPT
3. A review of the PMS written procedures to make sure that they are current, accurate, adequate & compliant

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## PLANNING



4. Survey files shall contain sufficient narrative and documentation reflecting rationale for deferring accomplishment of the process or process segments
5. System AUDIT Work Papers\*  
\*NOTE: May be prepared at the time the AUDIT is actually performed

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## SYSTEM AUDIT - NOTIFICATION



- The PA shall notify the contractor in writing of the planned dates for the system AUDIT no later than 30 days before the commencement of the review.

*GAGAS REQUIREMENT*

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## ENTRANCE CONFERENCE



- An entrance conference shall be held with Contractor Managerial Personnel to inform the Contractor of the scheduled system audit, timeframe for performance, processes subject to review, and other pertinent items

*GAGAS Requirement*

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## PERFORM AUDIT (SURVEY)



### Audit Protocols (10 Steps):

1. State the objectives of the audit
2. Define the Attributes and Transactions
3. Define the Population and/or Sampling Unit
4. Specify the Acceptance and/or Rejection Rate
5. Determine sample size

...there's 5 more

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## PERFORM AUDIT (SURVEY)



6. Randomly select sample
7. Perform Audit
8. Analyze Defects and/or Deviations
9. Generalize from Sample to Population
10. Determine status of processes and process Segments

...now, let's discuss each...

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## #1 OBJECTIVES OF AUDIT



Determined by Process  
subject to review

What are you testing?

1. Acquisition of Property
2. Receiving of Property
3. Records Maintained
4. Performance of Physical Inventories
5. Disposal of Property
6. Etc...

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## #2 DEFINE THE ATTRIBUTES & TRANSACTIONS



What Data Items of this  
Process will you test?

- Date, was it timely?
- Quantity?
- Record Accuracy?
- Etc.

These items need to be  
established before the  
review—

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### #3 DEFINE POPULATION AND SAMPLING UNIT



- Based upon:
  - Process
  - Process Segment
  - Criteria
- Homogeneity: items in the population have common characteristics
- Timeframe

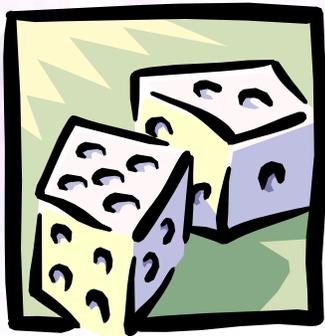
NOTE: Population Selection is extremely important!

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### #4 SPECIFY ACCEPTANCE & REJECTION RATE



DoD use a...

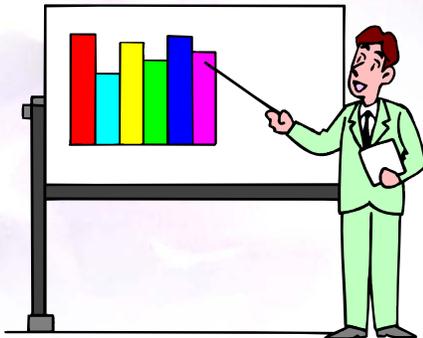
- **90% Confidence Level**
- Accept-Reject Rates for 1 item to 100,000+
- Double Sampling Plan allows "second chance" to accept

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## #5 DETERMINE SAMPLE SIZE



**Sample Size** depends  
upon the lot size!!

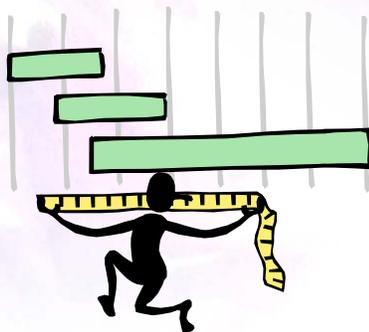
1-18	Select All
19-50	Select 18
51-90	Select 21
91-150	Select 25
151-400	Select 32
401-10,000	Select 34

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## #6 SELECT SAMPLE RANDOMLY

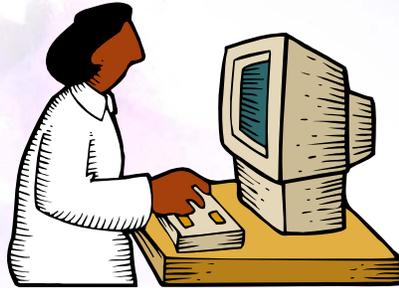


- Valid Statistical Procedures require Random Sampling
- Random Sampling protects against bias
- Random selection of the sample allows the results to be generalized to the population

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## #6 SELECT SAMPLE RANDOMLY (cont)



Random numbers may be selected by using:

- Random Number Table
- Computer generated random numbers
- Random numbers are available on the internet
  - [RANDOMIZER.ORG](http://RANDOMIZER.ORG)

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## #7 PERFORM AUDIT PROCEDURE



- Use:
  - Populations
  - Samples Selected
  - Criteria
- Work Papers
- Audit Evidence

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## #8 ANALYZE DEFECTS



A defect is a condition in which a functional segment, a sample item or sample item element of a Contractor's PMS contains one or more deficiencies

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## #8 ANALYZE DEFECTS (cont)



- **Systemic Defects:** These are serious defects that have a negative impact on the Contractor's PMS
- **Non Systemic Defects:** These are minor defects and have a minor impact on the Contractor's PMS

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## #9 GENERALIZE FROM SAMPLE TO POPULATION



- If sample results are good, is the system good?
- If the sample results are bad, is the system bad?
- Refer back to #8, Analyze Defects

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## #10 DETERMINE STATUS OF FUNCTION & FUNCTIONAL SEGMENT



- Satisfactory or Unsatisfactory
  - Each Agency rates differently
- Is Corrective Action Needed?
  - Correction of System Defects
  - Correction of disclosed items with no systemic correction

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## EXIT CONFERENCE



Upon completion of the System Audit, the PA shall conduct an exit conference with the Contractor's Managerial Personnel to discuss the overall results of the System Audit

*GAGAS Requirement*

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## EXIT CONFERENCE (cont)



This conference must also address any process or process segment in which adequacy of controls, procedures, or the application thereof was found unsatisfactory

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## EXIT CONFERENCE (cont)



- The PA shall advise the Contractor where corrective action is required
- Agreement should be reached during the exit conference that corrective measures necessary

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## CORRECTIVE ACTION PLAN



- Contractors are required to correct any deficiencies found during the PM System Audit
- A “reasonable time” shall be allowed for the correction of deficiencies

*FAR 52.245-1(g)*

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## CORRECTIVE ACTION PLAN (cont)



- Contractors shall develop a Corrective Action Plan that shows milestones and timeframes for the correction of the deficiencies

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## SYSTEM AUDIT SUMMARY



At the conclusion of each property system audit, the PA shall prepare a written summary of findings to support continued adequacy of the system and/or defects identified and their impact on system status (Adequate or inadequate)

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## SYSTEM AUDIT SUMMARY (cont)



- The System Audit Summary is an Executive Level document
- Summary must be written clearly to convey the results of the survey in general terms

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## SYSTEM AUDIT SUMMARY (cont)



- Technical Document
- Summary Provides:
  - Introduction
  - Overview
  - Methodology
  - Findings
  - Actions Performed
  - Actions Required
- Distribution

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# LTDD of Government Property

## Contractor Liability for Government Property

or

## Loss, Theft, Damage, or Destruction of Government Property



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1



# LTDD of Government Property

The Government Property Clause at FAR 52.245-1 and Alt I describes two basic types of Contractor Liability:

- Limited Risk (52.245-1)
- Full Risk (52.245-1 Alt I)

FAR 45.107 prescribes which one the C.O. is required to include in the contract.



2



## LTDD of Government Property

- The limited risk of loss provision applies when the following situations exist:
- (1) Except as provided in paragraph (d) of this section, the contracting officer shall insert the clause at 52.245-1, Government Property, in—
- (i) All cost reimbursement, time-and-material, and labor-hour type solicitations and contracts; and
- (ii) Fixed-price solicitations and contracts when the Government will provide Government property.



3



## LTDD of Government Property

Limited risk of loss (continued)

(iii) Contracts or modifications awarded under FAR Part 12 procedures where Government property that exceeds the simplified acquisition threshold, as defined in FAR 2.101, is furnished or where the contractor is directed to acquire property for use under the contract that is titled in the Government.



4



## LTDD of Government Property

The full risk of loss provision applies to contracts under the following circumstance:

(2) The contracting officer shall use the clause with its Alternate I in contracts other than those identified in \*FAR 45.104(a), Responsibility and Liability for Government Property

(see next 2 slides for additional 45.104 info.).

- **\*Please Note: FAR 45.104 provides guidance regarding responsibility and liability for Government Property. Policy changes now allow the Contractor to operate under the limited risk of loss provisions for both FP and CR contracts.**

5



## LTDD of Government Property

- 45.104 -- Responsibility and Liability for Government Property.
- (a) Generally, contractors are not held liable for loss, theft, damage or destruction of Government property under the following types of contracts:
  - (1) Cost-reimbursement contracts.
  - (2) Time-and-material contracts.
  - (3) Labor-hour contracts.
  - (4) Fixed-price contracts awarded on the basis of submission of certified cost or pricing data.



6



## LTDD of Government Property

FAR 45.104 describes when LTDD may increase:

(b) The contracting officer may revoke the Government's assumption of risk when the property administrator determines that the contractor's property management practices are inadequate and/or present an undue risk to the Government.

(c) A prime contractor that provides Government property to a subcontractor shall not be relieved of any responsibility to the Government that the prime contractor may have under the terms of the prime contract.

7



## LTDD of Government Property

These are exceptions to LTDD provided by the Government Property Clause at FAR 52.245-1:

Risk covered by insurance

Contractor is reimbursed

LTDD is the result of willful misconduct or lack of good faith on the part of the Contractor's managerial personnel

The CO has, in writing, revoked the Government's assumption of risk for LTDD

8



## LTDD of Government Property

The LTDD provisions described in FAR 45.104 and the Government Property Clause at FAR 52.245-1 applies to property to which the Government has pure title to.

These provisions DO NOT apply to LTDD of property covered by the following:

Progress Payment Inventory

Ground & Flight Risk Clause property

Loss of delivered end items-FOB Origin Clause

Overconsumption of material-cost disallowance

9



## LTDD

Under WHAT TYPE of contract is the contractor held liable for Loss, theft, damage or destruction?

FIXED PRICE for which there IS an exception at FAR 15.403

FAR 45.104

10



## FULL RISK OF LOSS

FIXED PRICE Contract  
(52.245-1 Alternate I)

“The contractor assumes the risk of and shall be responsible for any loss, theft, damage, or destruction of Government property upon its delivery to the Contractor as Government-furnished property. However, the contractor is NOT responsible for reasonable wear and tear to Government property or for Government property properly consumed in performing this contract.”

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## FULL RISK OF LOSS

A Contractor destroys an item of equipment (fork truck). The original acquisition cost was \$30,000 when it was purchased five years ago. The Contractor is found to be fully liable for its destruction under the full risk of loss provision.

Question: For how much would the Contractor be liable?

### QUANTUM

ACQUISITION COST  
APPRECIATED COST  
DEPRECIATED COST  
SCRAP VALUE  
REPLACEMENT COST



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## Court Decision

QUANTUM was determined by a court decision between Dynalectron Corporation and the U.S. Army (ASBCA No 29,831); 85-3 BCA Para 18,320

Dynalectron had a contract to develop motion picture film for the U.S. Army. The Army was going to use the film as a training aid.

During processing the film was destroyed.



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## LIABILITY FOR LTDD

The Court used the term “intrinsic value to define QUANTUM

– The QUANTUM may range from

- Replacement cost where the property is still needed for contract performance
- Repair cost for damaged Government property where the property is still needed for contract performance
- Salvage value for damaged property where there is no need for the property but it has some value greater than scrap.
- Scrap value where the property is valued for its basic material content



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## LIMITED RISK OF LOSS

- The limited risk of loss applies to the following types of contracts:
  - Cost Reimbursement Contracts
  - T&M Contracts
  - LH Contracts
  - FP Contracts (Non-Competitive)
- The standard version of the Government Property Clause at FAR 52.245-1 applies the limited risk of loss to Government Property provided to Contractors.

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## LIMITED RISK OF LOSS

The Government Property Clause at FAR 52.245-1 (h) states “Unless otherwise provided in the contract, the contractor shall NOT be liable for loss, theft, damage or destruction to the Government property furnished or acquired under this contract, except when any one of the following applies—”

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## LIMITED RISK OF LOSS

- (i) The risk is covered by insurance or the Contractor is otherwise reimbursed (to the extent of such insurance or reimbursement).
- (ii) The loss, theft, damage or destruction is the result of willful misconduct or lack of good faith on the part of the Contractor's managerial personnel.

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## LIMITED RISK OF LOSS

- (iii) The Contracting Officer has, in writing, revoked the Government's assumption of risk for loss, theft, damage or destruction, due to a determination under paragraph (g) of this clause that the Contractor's property management practices are inadequate, and/or present an undue risk to the Government, and the Contractor failed to take timely corrective action.

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# INSURANCE

- Generally we have two instances where insurance may come into play:
  - INSTANCE # 1
    - INSURANCE that the Government REQUIRES the contractor to acquire
    - MUST BE SPECIFIED IN THE CONTRACT
    - IF Contract is SILENT – INSURANCE IS NOT REQUIRED and therefore NOT ALLOWABLE
      - Generally INSURANCE for GP is NOT an ALLOWABLE expense (See FAR Part 31)

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# INSURANCE

## INSTANCE # 2

- “In Fact” Insurance is where a party may already have insurance that would cover the loss, theft, damage, or destruction to property.
- Most people have some type of automobile or homeowners insurance.
- Corporations often carry their own insurance for their companies





## DEFINITIONS

Contractors may be liable for LTDD of Government Property due to:

Willful Misconduct

Lack of Good Faith

On The Part Of Managerial Personnel



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## DEFINITIONS

What is:

-Willful Misconduct?

-Lack of Good Faith?



22



## Fork Lift Operator Misfortunes

How would you determine LTDD of Government Property when presented these facts?



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## ONE MORE DEFINITION

How are “Contractor’s managerial personnel” defined in FAR 52.245-1?

“Contractor's managerial personnel” means the Contractor's directors, officers, managers, superintendents, or equivalent representatives who have supervision or direction of—

- (1) All or substantially all of the Contractor's business;
- (2) All or substantially all of the Contractor's operation at any one plant or separate location; or
- (3) A separate and complete major industrial operation.

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## CASE LAW

- Fairchild Hiller Corporation ASBCA No. 14387 (1971)
  - Contract for the Stripping, Washing, and Cleaning of C-130 Aircraft
  - The destruction of the aircraft:
    - The prescribed soapy water solution
    - The unauthorized Methyl-ethyl-ketone & Naptha Based Solution
  - The court was concerned with the actions of the Contractor's managerial personnel and not its lower level employees!



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## LIMITED RISK OF LOSS

- The Government may hold a Contractor liable for LTDD of Government Property by:
  - WITHDRAWAL of the Government's Assumption of Risk due to a determination that the Contractor's property management practices are INADEQUATE and/or present an UNDUE RISK to the Government....

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## LIMITED RISK OF LOSS

When the Government “WITHDRAWS” its ASSUMPTION OF RISK – the contractor becomes liable for “ANY” Loss, theft, damage or destruction of Government Property, regardless of how it occurs, UNLESS...



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## LIMITED RISK OF LOSS

Contractors may be granted relief of LTDD if clear and convincing evidence is presented that shows:

- Loss, theft, damage or destruction occurred while system was adequate
- Loss, theft, damage or destruction did not occur as a result of Property Management System (PMS) status (nexus).
- Nexus is a word that is applicable to this situation because it is used to describe a link or connection between the LTDD and the PMS status. If there is no connection the Contractor is NOT liable.

**NOTE:** The burden of proof rests with the contractor

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## WHY?

Why does the Government have this policy?

It is an economically advantageous methodology to have the Government act as a Self Insurer. So long as the Contractor is a "Good Insurance Risk." (In other words, maintains an adequate Property Management System!)



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## Flow Down of Contract Req.

- **Subcontractor Liability**
- **52.245-1 (f)(1)(v) Subcontractor control.**
  - (A) The Contractor shall award subcontracts that clearly identify assets to be provided and **shall ensure appropriate flow down of contract terms and conditions** (e.g., extent of liability for loss, theft, damage or destruction of Government property).
  - (B) The Contractor shall assure its subcontracts are properly administered and reviews are periodically performed to determine the adequacy of the subcontractor's property management system.

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## Flow Down of Contract Req.

- **LIMITED RISK OF LOSS FLOWDOWN**
  - If you flow down the requirement for Certification of Current Cost and Pricing data – You flow down the “Limited” R of L
  - FAR 52.215-12 or 52.215-13 for Mods
    - Subcontractor Cost and Pricing Data
  - Other Applications: it depends-some examples:
    - Large quantity of GP
    - High Dollar Value of GP

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## Flow Down of Contract Req.

### **FULL RISK OF LOSS – 52.245-1**

- Flow down FULL R of L when ALT. I is in the contract.
- If the Limited R of L is in the Prime Contract then the Prime Contractor must make a CONSCIOUS DECISION as to the APPLICATION of the FULL R of L.
  - Competitive Contracts
    - Multiple bidders
    - No Negotiations
  - Where situation WARRANTS FULL R of L

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## RESPONSIBILITIES for LTDD

- CONTRACTOR's
- PROPERTY ADMINISTRATOR's
- CONTRACTING OFFICER's



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## CONTRACTOR RESPONSIBILITIES

- Contractor shall report:
  - In accordance with the Government Property Clause at 52.245-1(f)(vi)(A)
  - Unless otherwise directed by the Property Administrator, the Contractor shall investigate and **promptly** furnish to the Property Administrator, a written narrative of all incidents of loss, theft, damage or destruction, as soon as the facts become known or when requested by the Government.
  - **ASTM VCS E-2131** Paragraph 5. Procedures sets forth a time frame of **NOT MORE THAN 24 hours** for reporting the LDD.

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## CONTRACTOR REPORTS

- Such reports shall, at a minimum, contain the following information:
  - (1) Date of incident (if known).
  - (2) The name, commercial description, manufacturer, model number, and National Stock Number (if applicable).
  - (3) Quantity.
  - (4) Unique Item Identifier (if available).
  - (5) Accountable Contract number.
  - (6) A statement indicating current or future need.
  - (7) Acquisition cost, or if applicable, estimated scrap proceeds, estimated repair or replacement costs.

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## CONTRACTOR REPORTS

- (8) All known interests in commingled property of which the Government property is a part.
- (9) Cause and corrective action taken or to be taken to prevent recurrence.
- (10) A statement that the Government will receive any reimbursement covering the loss, theft, damage or destruction, in the event the Contractor was or will be reimbursed or compensated.
- (11) Copies of all supporting documentation.
- (12) Last known location.
- (13) A statement that the property did or did not contain sensitive or hazardous material, and if so, that the appropriate agencies were notified.

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## VCS STANDARD

- ASTM E-2131-01 is a VCS for Loss, Damage or Destruction of Property
  - Paragraph 8 of this VCS deals with the Form and Structure of the Report.
  - As the GP Clause, 52.245-1, set forth the Government requirement the clausal form takes precedence – though the contract may amplify the information provided per the VCS.
  - Para. 5.2 of the VCS also sets forth a reporting time frame of
    - 30 calendar days or
    - Submission of an interim report

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## Report of LTDD

### **MAJOR CONCERN!!!**

- PAs should encourage contractors to establish a process for handling low dollar, low quantity, low criticality item LTDD reporting on a periodic versus immediate basis



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## Report of LTDD

### **MAJOR CONCERN!!!**

- For Example:
  - Where small quantities of material are lost, or low value items are destroyed [Not sensitive or Critical] and are not needed for replacement due to a bulk purchase – report on a quarterly basis or biannual basis.
  - Reduces administrative costs
  - No significance or materiality to the Property Management System.



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## P.A. Responsibilities

- Investigation
  - A valid and supportable conclusion must be reached.
    - Interface with other Government representatives (where appropriate)
    - See DoD 4161.2-M Chapter 2
- Request Corrective actions
  - where necessary to Property Management System

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## PA Responsibilities

- **ESTABLISH CASE FILE**
  - Check Contract & Regulatory Requirements:
    - LOG or Register of all LTDD Events
    - Copy of Contractor's Report
    - PA's Investigative Report
    - Final Resolution



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## PA Responsibilities

- **RELIEF OF RESPONSIBILITY**
  - PA has the **AUTHORITY** to Grant “Relief of Responsibility,” where appropriate
- **FAR 45.105(d)** When the property administrator determines that a reported case of loss, theft, damage or destruction of Government property constitutes a risk assumed by the Government, the property administrator shall notify the contractor in writing **that they are granted relief of responsibility** in accordance with 52.245-1(f)(1)(vii) as the risk of loss is the responsibility of the Government.

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## PA Responsibilities

- **NOTIFY THE CONTRACTING OFFICER**
  - Where the property administrator determines that the risk of loss is not assumed by the Government, the property administrator shall forward a recommendation requesting that the contracting officer hold the contractor liable.

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## REMEMBER!!!

The Property Administrator **DOES NOT** have the authority to **HOLD** the contractor **Liable!**  
However, the Contracting Officer does have that authority.

44



## EVALUATION OF LTDD

- **ASTM STANDARD:**
  - E-2131-01 Item 7. Acceptable LDD Ratios:
    - 7.1.1 Acceptable LDD for non high-risk ...  
Property = **2% or less (\$ or Quantity)**
    - 7.1.2 Acceptable LDD for high-risk  
property = **0% (\$ or Quantity)**



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## EVALUATION OF DISCREPANCIES

- **WARNING – THE STANDARDS DO NOT DETERMINE LIABILITY FOR LTDD. THAT IS DETERMINED BY THE LIABILITY PROVISION IN THE CONTRACT.**
  - THE STANDARD'S RATIOS IMPACT THE RISK ASSESSMENT APPLIED TO THE CONTRACTOR AND THE SUBSEQUENT AUDIT FREQUENCY.
  - THE STANDARD'S RATIOS IMPACT THE DETERMINATION OF COMPLIANCE/ADEQUACY OF THE CONTRACTOR'S PROPERTY MANAGEMENT SYSTEM **WHICH MAY IMPACT LIABILITY.**

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## C.O. RESPONSIBILITIES

- ACO SHALL issue final liability determination where contractor is held liable
- ACO may make a contract price adjustment or withhold financing,
- ACO SHALL request corrective action for contractor's property management system (45.105)

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## Other Liability Concerns

- Loss of Progress Payments Inventory
- Loss of Delivered End Item Prior to Shipment
- Bailment Agreements
- Uniform Commercial Code

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## Other Liability Concerns

Progress Payments Clause

52.232-16

Loss of Delivered End Items

52.247-19

The "Ground and Flight Risk Clause" in the DFARS

252.228-7001 (Bonds & Insurance)

"Protection of Government Buildings, Equipment, and Vegetation."

52.237-2 (Service Contracting Provision)

"Limitation of Liability."

52.246.23 (Quality Assurance Provision)

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# NOTES



## PROGRESS and PERFORMANCE BASED PAYMENTS



&

## the Government Property Relationship



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1

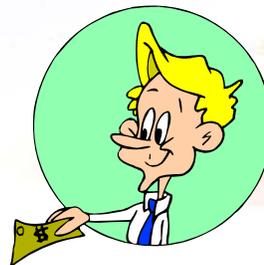


## A QUESTION?

**WHEN ARE CONTRACTORS PAID FOR  
THE WORK THAT THEY PERFORM?**

*...Cost Reimbursement Contract?*

*...Fixed Price Contract?*



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2

# NOTES



## ANOTHER QUESTION?

### UNDER FIXED PRICE CONTRACTS...

WHERE DO WE EXPECT CONTRACTORS TO GET THE MONEY TO PAY THEIR VENDORS FOR THE MATERIALS NEEDED TO PRODUCE OR PERFORM THE CONTRACT?



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3



## PROGRESS (PP) and PERFORMANCE BASED PAYMENTS (PBP)

### • Purpose of PPs and PBPs

#### – Form of Financing

- Similar to Car or Home

#### – USED ONLY WITH FP CONTRACTS

#### – CLAUSES:

- 52.232-16 Progress Payments
- 52.232-32 Performance-Based Payments



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4

# NOTES



## PROPERTY TITLE UNDER PP & PBP

- **PURPOSE**
  - To Provide the Government **PROTECTION** of its **FINANCIAL INVESTMENT**
- **HOW**
  - **GOVERNMENT CLAIMS TITLE**
    - Courts have argued both ways
      - Yes, Government Has Title
      - No, Government has lien

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## LIFE OF PP OR PBP INVENTORY

Date of Award

FAR 52.232-16 (d)  
FAR 52.232-32 (f)

Date of Completion



← **TITLE vests in the Government during the life of the Contract** →

Parts, Materials, etc.  
ST, STE  
Nondurable tools, etc.

– **Upon Completion of the contract Contractor has TITLE to any Residual** →

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# NOTES



**HOW THEN IS THE CONTRACTOR  
REQUIRED TO CONTROL and MANAGE  
PP and PBP INVENTORY?**

**SOUND INDUSTRIAL  
PRACTICE!!**

**May the contractor control and manage PP  
Inventory and PBP Inventory in their GP  
Accounting and Management System?**

**Yes, but we cannot MANDATE that action**

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**SO, PP and PBP are GP – RIGHT?**

- **NO!! PP Inventory and PBP Inventory are NOT PURE GP** 
  - It is **NOT** controlled under the GP Clause, FAR 52.245-1
  - It is **NOT** Included in your System Analysis
  - It is **NOT** reported on Inventory Schedules for Disposal.

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# NOTES



## PP RISK OF LOSS – 52.232-16

(e) *Risk of loss.* Before delivery to and acceptance by the Government, the **Contractor shall bear the risk of loss** for property, the title to which vests in the Government under this clause, except to the extent the Government expressly assumes the risk. The **Contractor shall repay the Government an amount equal to the unliquidated progress payments** that are based on costs allocable to property that is lost, stolen, damaged, or destroyed.

**PBP risk of loss at 52.232-32(g) is virtually the same!!**



9



## PP LIABILITY – 52.232-16

**Does the Government have to prove Willful Misconduct, Lack of Good Faith on the Part of Managerial Personnel?**

**NO!!**

**The contractor bears ABSOLUTE LIABILITY!**

**PBP liability at 52.232-32 is the same!!**



10

# NOTES



## PP & PBP LIABILITY QUANTUM

**For how much (QUANTUM) is the Contractor **LIABLE**?**

**...up to the amount of  
UNLIQUIDATED  
PROGRESS  
PAYMENTS**



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## SUMMARY

**Progress Payment/Performance-Based Payment inventory is DIFFERENT than CAP and GFP!!**



**You must know the difference!!**



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# The Material Management Accounting System

DFARS 242.72 &  
252.242-7004

Policy  
Application

Requirements  
Compliance

1-11

1



## The Material Management Accounting System

Policy DFARS 242.7202 and 252.242-7004

“ ... all contractors have an MMAS that

- reasonably forecasts material requirements
- ensures costs of purchased & fabricated MATERIAL charged or allocated to a contract are based on
- Valid time phased requirements & maintains a consistent, equitable & unbiased logic for costing of material transactions.”

2



## The Material Management Accounting System

### DFARS 242.7204 – Use of MMAS Clause

Use the clause at 252.242-7004, Material Management and Accounting System, in all solicitations and contracts exceeding the simplified acquisition threshold that are not for the acquisition of commercial items and—

(a) Are not awarded to small businesses, educational institutions, or nonprofit organizations; and

(b) Are either—

(1) **Cost-reimbursement contracts**; or

(2) **Fixed-price contracts with progress payments**

made on the basis of costs incurred by the contractor as work progresses under the contract.

3



## The Material Management Accounting System

WHAT DOES IT APPLY TO?

“ **costs of purchased & fabricated material charged or allocated...** ”

Contractor  
Acquired  
Property  
45.101

Progress  
Payments  
Inventory  
52.232-16

Contractor  
Property

4



## The Material Management Accounting System

WHAT DOES IT APPLY TO?

“costs or purchased & fabricated material **charged** or allocated...”

**Government Furnished Property (GFP) is NOT included in the MMAS!!!**

5



## The Material Management Accounting System

TEN KEY ELEMENTS (STANDARDS)

- System description
- Valid Time Phased Requirements Bill of Material (BOM), Master Production Schedule (MPS) Accuracy
- System Control Weaknesses
- Audit Trails & Records
- Record Accuracy

DFARS 252.242-7004

6



## The Material Management Accounting System

### TEN KEY ELEMENTS (Standards)

- Transfer description
- Costing of Material
- Common Inventory Allocations
- Commingling
- Periodic Internal Audits

DFARS 252.242-7004

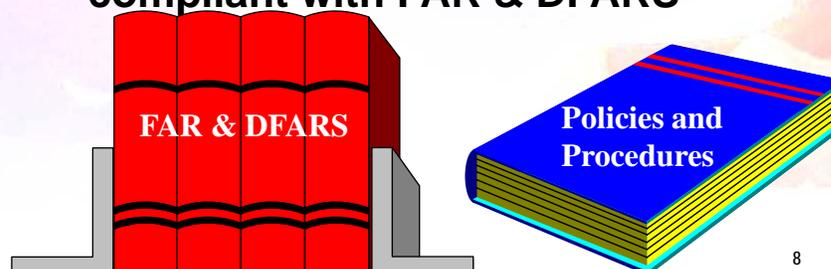
7



## MMAS Ten Key Elements

### Element #1:

**Have an adequate system description -- including policies, procedures, operating instructions compliant with FAR & DFARS**



8



## MMAS Ten Key Elements

### Element #2:

Assure costs of purchased & fabricated **MATERIAL** charged or allocated to a contract are based on valid **TIME-PHASED REQUIREMENTS!**

Requirements:  
98% BOM  
95% MPS  
are desirable.



Accuracy may be lower if:

1. No material harm to the Gov't.
2. Cost is excessive.

9



## MMAS Ten Key Elements

### Element #3:

System to identify report & resolve System Control **Weaknesses.**

System should identify exceptions such as excess/residual.



10



## MMAS Ten Key Elements

### Element #4:

Provide **audit** trails and  
maintain **records**.



Manual records and machine readable  
form will be maintained.

(See FAR part 4)

11



## MMAS Ten Key Elements

### Element #5:

Establish & maintain adequate levels of

## **INVENTORY ACCURACY**

Reconciliation of record balance vs.  
physical balance.

Requirements: 95% Accuracy Level

Accuracy may be lower if:

- 1.) No material harm to the Gov't;
- 2.) Cost is excessive.

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## MMAS Ten Key Elements

### Element #6:

**Detailed Description of transfer of parts including both Manual Transfers and System Generated Transfers**



Contract A “stuff”  
going to Contract B



Contract B  
“stuff” going  
to Contract A

13



## MMAS Ten Key Elements

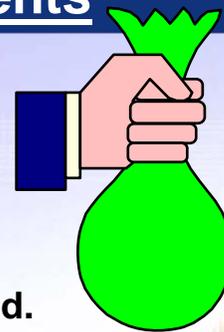
### Element #7:

**Maintain logic for the costing of material transactions.**

**Consistent equitable and unbiased.**

**Contractor will disclose a written policy for Transfer Methodologies.**

**Parts & costs are to be transferred in same billing period.**



**Loan/Payback must be APPROVED by the ACO !!!**

14



## MMAS Ten Key Elements

### Element #8:

Where allocations from common inventory-- an

**Additional Requirement:**

Reallocations must be processed no less frequently than a routine billing cycle.

**ALGORITHMS are maintained**

Why have algorithms?

**If property is lost, damaged, or destroyed.**

15



## MMAS Ten Key Elements

### Element #9:

**Allows COMMINGLING of:**

**CAP (Material),**

**PPI (Material),**

**and Contractor Material.**

**NOT GFP**

16



## MMAS Ten Key Elements

**Element #10:  
Perform  
Internal Audits  
periodically.**



17



## MMAS WEAKNESSES

- Application to other than Production Ks (R and D, O and M, Small Lot Production)
- Bill of Material Accuracy
  - Which One?
  - Designed to,
  - Built to?

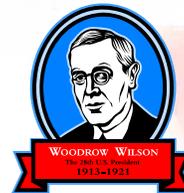
18

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# Genesis of Disposal

## ...Historical Beginnings...



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1



## WARNING!!!

The Disposal of Government Property is driven by **LAW!!**



**Therefore, Government Representatives should NOT dispose of Government Property without...**

- **Proper Training & Knowledge**
- **Legitimate AUTHORITY**

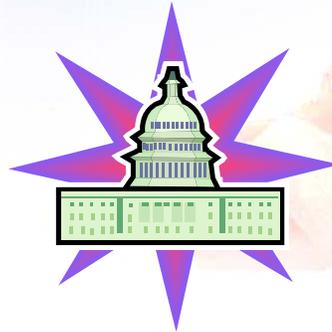
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## KEY PLAYERS

- **President**
- **Congress**
  - Authority over disposition of Federal Property
- **Significant Events**
  - World Wars
  - Economy



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## WORLD WAR I

- **EO 3019 - Dec 1918 (President Wilson)**
  - Established procedures for disposal of WW I surplus
- **Disposal oriented towards**
  - Educational institution
  - Public Health
  - Public Purposes



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# WORLD WAR I



- **CONGRESS**



- Public Law 6691 - 1919, authorized Secretary of War to:

- sell machine tools no longer needed by Government
- sell the items @ 15 per centum of cost to trade, technical, public schools, colleges or universities
- allowed for donations
- allowed for disposal by other means



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# POST-WORLD WAR II



- **Federal Property and Administrative Services Act of 1949 (P.L. 81-152)**

- Created & established GSA as the Government-wide property manager
- Proponent for establishing rules and regulations supporting legislation passed by Congress concerning the management of Government Property



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## Federal Property and Administrative Services Act 1949



- **KEY THEME -- REUTILIZATION!!!**
- **Prevalent Themes**
  - Hospitals
  - Public Health
  - Educational Institutions
  - Vocational Schools
  - Airports
  - States
  - Non-profit organizations



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## Federal Property and Administrative Services Act 1949



- **Recent Amendments**
  - **EO 12999 (Donation program)**  
Donate computers and educational equipment to public schools and non profit organization
  - **PL 103 -160**  
Allowed government property to be provided to communities during BRAC if utilized in the approved Community reuse plan
  - **PL 100-77**  
provides assistance to the homeless through donations of government property



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## Genesis of Disposal

- FPAS Act created
- Regulations:
  - Federal Property Management Regulation which became the **Federal Management Regulation**
  - **FAR/DFARS** – amplify and supplement the Direction and Regulation
- ...and disposal direction stipulated in **THE CONTRACT!!!**



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9



## FAR 45.6 APPLICATION

### **Scope**

1. Establishes policies and procedures for the reporting, reutilization, and disposal of Government property excess to contracts
2. ...AND property that forms the basis of a claim against the Government (e.g., termination inventory under fixed-price contracts)
3. This subpart **does not apply to** the disposal of **real property** or to property for which the Government has a lien **or** title solely as a result of advance or progress payments that have been liquidated.

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## OUR MAIN CONCERNS IN THIS CLASS....

Cover the **CONTRACTUAL** requirements of Government Property Disposal...

...As driven and required by the **LAW**, **Executive Order** and **Regulation!**



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## DEFINITIONS

THE "KEY"  TO GOVERNMENT PROPERTY and its DISPOSAL

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# DEFINITIONS

In addition to the GP definitions you learned in FAR 2.101 & 45.101, let's now focus on those pertaining to **DISPOSITION!!**

- Personal Property
- Excess Personal Property
- Plant Clearance Officer
- Surplus Property
- Scrap
- Termination Inventory
- Common Item
- Demilitarization
- Sensitive Property
- Precious Metals

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# PERSONAL PROPERTY

- Property of any kind or interest in it **except** real property, records of the Federal Government, and naval vessels of the following categories:

- Battleships;
- Cruisers
- Aircraft Carriers
- Destroyers and FAR 2.101
- Submarines



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FAR 2.101

14



## EXCESS PERSONAL PROPERTY

Any personal property under the control of a Federal agency that the agency head determines **is not required for its needs** or for the discharge of its responsibilities.



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FAR 2.101

15



## SURPLUS PROPERTY

Excess personal property **not required by any** Federal agency as determined by the Administrator of General Services

**REMEMBER...**  
**"Excess"** happens before **"Surplus"!!**

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FAR 45.101

16



## SCRAP

Personal property that has no value except its basic metallic, mineral or organic content.



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FAR 2.101

17



## TERMINATION INVENTORY

- Property purchased, supplied, manufactured, furnished, or otherwise acquired for the performance of a contract subsequently terminated and properly allocable to the terminated portion of the contract
  - **It includes** Government furnished property
  - **It does not include** any facilities, material, special test equipment, or special tooling that are subject to a separate contract or to a special contract requirement governing their use or disposition.



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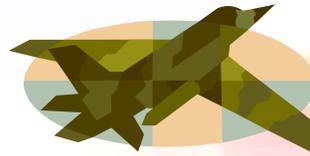
FAR 2.101

18



## COMMON ITEM

- **Material that is common to the applicable Government contract and the contractor's other work.**



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FAR 2.101

19



## Contractor Inventory

Means...

- (1) Any property acquired by and in the possession of a contractor or subcontractor under a contract for which title is vested in the Government and which exceeds the amounts needed to complete full performance under the entire contract;
- (2) Any property that the Government is obligated or has the option to take over under any type of contract, e.g., as a result either of any changes in the specifications or plans thereunder or of the termination of the contract (or subcontract thereunder), before completion of the work, for the convenience or at the option of the Government; and
- (3) Government-furnished property that exceeds the amounts needed to complete full performance under the entire contract.

CAP  
Term.  
Inv.  
GFP

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FAR 45.101

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## SENSITIVE PROPERTY



Property potentially dangerous to the public safety or security if stolen, lost or misplaced, or that shall be subject to exceptional physical security, protection, control and accountability such as classified property, weapons, ammunition, explosives, controlled substances, radioactive materials, hazardous materials or wastes, or precious metals.



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FAR 45.101



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## SUMMARY

- **GOVERNMENT PROPERTY** terms have precise **DEFINITIONS**
  - Use the right word to convey **precisely what it is you mean!**
  - **Encourage** OTHERS to do the same!
  - Make **SURE** **you understand** what others mean when they don't!

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## PLANT CLEARANCE OFFICER (PLCO)

# DEFINITIONS, CHARTER and FUNCTIONS OVERVIEW

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1



## PLANT CLEARANCE OFFICER

- **Authorized representative of the contracting officer, appointed in accordance with agency procedures, responsible for screening, redistributing, and disposing of contractor inventory from a contractor's plant or work site**
- **The term "Contractor's plant" includes, but is not limited to, Government-owned contractor-operated plants and Federal installations as may be required under the scope of the contract**



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FAR 2.101

2



## WHERE DO THEY GET THEIR AUTHORITY?

- We need to look at four different areas:



Government Property Clause

Contract Administration Office  
Functions - Part 42.302(a)

FAR 45.6

Appointment of PLCO and Functions

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3



## GOVERNMENT PROPERTY CLAUSE

### DIRECTION TO THE CONTRACTOR!

- FAR 52.245-1 Addresses issues of property disposal and calls out the PLANT CLEARANCE OFFICER
- 52.245-1(j)
  - Except as otherwise provided for in this contract, the Contractor shall not dispose of Contractor inventory until authorized to do so by the *Plant Clearance Officer*.

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4



## GOVERNMENT PROPERTY CLAUSE

The Government property clauses  
set forth the **CONTRACTUAL  
REQUIREMENTS**  
(Driven by LAW)  
that the  
**CONTRACTOR MUST FOLLOW!**

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5



## GOVERNMENT REQUIREMENTS Contract Administration Functions

- (26) Perform property administration (see Part 45).
- (28) Perform necessary screening, redistribution, and disposal of contractor inventory.

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FAR 42.302(a)

6



## GOVERNMENT REQUIREMENTS GOVERNMENT PROPERTY DISPOSAL

- FAR 45.6 provides the SPECIFICS as to what and how the PLCO will **DISPOSITION** Government Property
  - Both **EXCESS** and **SURPLUS** Government Property
- FAR 45.6 sets for the requirements that the **GOVERNMENT MUST FOLLOW!**
  - **NOTE** - We will analyze FAR 45.6 in great detail throughout the remainder of the class.

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## Certificate of Appointment

**PLANT CLEARANCE  
OFFICER**

**DFARS 245.7001**



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## Duties and Responsibilities

- The plant clearance officer **shall**
  - (a) **Instruct** the contractor on the preparation of inventory schedules;
  - (b) **Make** pre-inventory scrap determinations;
  - (c) **Determine** the acceptability of inventory schedules and DD Forms 1342, DoD Property Record;

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*DFARS 245.7002*

9



## Duties and Responsibilities

- (d) **Prepare** and **maintain** plant clearance cases and disposal documents;
- (e) **Initiate** screening and provide technical support to screeners in the selection of assets;
- (f) **Conduct** or arrange for verification of the following --
  - (1) Quantity, condition, description, and special processing requirements of property listed on inventory schedules;
  - (2) Technical and quantitative allocability of property;

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*DFARS 245.7002*

10



## Duties and Responsibilities

- (g) **Ensure** the timely shipment or release by the contractor of property selected for transfer and donation;
- (h) **Determine** the appropriate method of disposal for items not selected for Federal agency use or donation and ensure final plant clearance is accomplished;
- (i) **Evaluate** and monitor the contractor's surplus property sales program;

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*DFARS 245.7002*

11



## Duties and Responsibilities

- (j) For individual surplus property sales --
  - (1) **Approve** method of sale;
  - (2) **Ensure** the sales offerings meet prescribed requirements;
  - (3) **Witness** bid openings;
  - (4) **Evaluate** bids;
  - (5) **Approve** sale awards;
  - (6) **Secure** anti-trust clearances, as required;
  - (7) **Recommend** the reasonableness of selling expenses; and
  - (8) **Ensure** that sales proceeds are collected and properly credited;

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*DFARS 245.7002*

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## Duties and Responsibilities

- (k) **Monitor** ongoing plant clearance actions to ensure delays are minimized and, when necessary, work with the contractor and property administrator to implement improvements;
- (l) **Evaluate** the adequacy of the contractor's property disposal procedures;
- (m) **Support** the property administrator during the compliance analysis of the disposition portion of the contractor's property control procedures;

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*DFARS 245.7002*

13



## Duties and Responsibilities

- (n) **Report** all disposal deficiencies to the property administrator;
- (o) **Account** for all contractor inventory reported for disposal by the contractor and prepare prescribed plant clearance reports; and
- (p) **Advise** and assist the contractor, contracting officer, inventory manager, Federal agencies, and eligible donees in actions related to the proper and timely disposal of contractor inventory.

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*DFARS 245.7002*

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# SUMMARY

**Understand and appreciate the what  
the PLCO does!**

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# Overview

## Disposal Priorities



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## DISPOSAL PRIORITIES



- **TWO SETS OF DIRECTIONS**



- ACTIONS on the part of the **CONTRACTOR**
- ACTIONS on the part of the **GOVERNMENT**



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## PRIORITIES

### Contractor

- **PRE-DISPOSAL DETERMINATIONS**
  - Purchase @ Cost
  - Return to Vendor
- **Submit on Inventory Schedules**
  - SF 1428
- **PCARSS (DoD)**

### Government

- **REUTILIZATION**
- **TRANSFER**
- **DONATION**
- **SALE**
- **ABANDONMENT & DESTRUCTION**

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## POINT FOR CONSIDERATION

What governs disposition of Government Property in the possession of a contractor performing on a Post, Camp, Base or Installation?



**HOW** should we, the Government, be disposing of **CONTRACTOR INVENTORY** in the possession of Defense Contractors on Military Installations?

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4

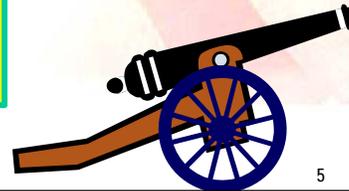


## Disposal of Contractor Inventory

**For Inventory located on a Military Installation...**

**...disposal is governed by the  
Terms and Conditions of the  
Contract!!**

**READ THE  
CONTRACT!!!**



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5



## Government Property Clause

**If the contract contains a Government Property clause – what is the Contractor required to do in declaring Government Property Excess?**

- **Declare excess on Inventory Schedules (PCARSS – DoD)**

**What is the cognizant Government individual required to do?**

- **PCARSS or DRMO?**

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## Disposal of Contractor Inventory

- DLA Disposition services may be used on a **Cost reimbursable basis**
- DoD 4160.21-M, Defense Materiel Disposition Manual



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## One More Thought...

- There is a **FINANCIAL INCENTIVE** to use Plant Clearance vs DLA Disposition Services
  - **CONSIDER - WHERE DOES THE MONEY REALIZED FROM SALE GO?**

### PLANT CLEARANCE:

1. BACK to the CONTRACT
2. To the TREASURY
3. To the Contractor's Overhead

### DLA Disposition Services

1. To the DLA Disposition Services
2. To the Treasury



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## SUMMARY

**Knowing who is responsible for what actions will help assure timely, proper, safe & economic disposal of GP in the contractors possession!!**



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# SCRAP & the APPROVED SCRAP PROCEDURE

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1



## DEFINITIONS

- **SCRAP – FAR 2.101**  
– means personal property that has no value except its basic metallic, mineral, or organic content.



**REAL WORLD EXPERIENCE**  
One person's scrap is another  
Person's treasure!



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2



## Government Property Disposal



### 3 DIFFERENT PROCESSES FOR DISPOSING OF SCRAP:

1. APPROVED SCRAP PROCEDURE
2. SCRAP LISTS
3. INVENTORY DISPOSAL SCHEDULES

FAR 52.245-1(j)

3



## Government Property Disposal



- **WITH AN APPROVED SCRAP PROCEDURE**  
– **TWO OPTIONS**
- **WITHOUT AN APPROVED SCRAP PROCEDURE**  
– **ONLY ONE OPTION!**

The approved scrap procedure serves as an umbrella  
Covering two processes for dispositioning scrap.  
That why there is an umbrella!

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FAR 52.245-1(j)

4



## Government Property Disposal

**SCRAP**



CONTRACTORS **WITHOUT** AN APPROVED SCRAP PROCEDURE:

The contractor **shall** submit an **inventory disposal schedule** for all scrap.

*FAR 52.245-1(j)(1)(ii)*

5



## Government Property Disposal

**SCRAP**



CONTRACTORS **WITH** AN APPROVED SCRAP PROCEDURE:

(A) The Contractor may dispose of scrap resulting from production or testing under this contract without Government approval.

**HOWEVER...**

*FAR 52.245-1(j)(1)(i)*

6



## Government Property Disposal

# SCRAP

CONTRACTORS WITH AN APPROVED SCRAP PROCEDURE:

(A) CONTINUED...



HOWEVER, if the scrap requires **demilitarization** or is **sensitive property**, the Contractor shall submit the scrap on an **inventory disposal schedule**.

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FAR 52.245-1(j)

7



## APPROVED SCRAP PROCEDURE

CONTRACTOR GENERATES PRODUCTION or TESTING SCRAP

CONTRACTOR GENERATES A SCRAP TICKET

GENERALLY A MATERIAL REVIEW BOARD REVIEWS SCRAP TICKET

CONTRACTOR CREDITS OVERHEAD WITH SCRAP PROCEEDS

CONTRACTOR DISPOSES OF SCRAP

GENERALLY A GOVERNMENT QUALITY ASSURANCE REP VERIFIES SCRAP TICKET

GOVERNMENT VERIFIES PROCEEDS WERE PROPERLY CREDITED TO OVERHEAD

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## Government Property Disposal

**SCRAP**



(B) For scrap from other than production or testing the contractor may prepare

### scrap lists

in lieu of inventory disposal schedules, (provided such lists are consistent with the approved scrap procedures)

except for certain items that **MUST** be reported on Inventory Disposal Schedules ....

*FAR 52.245-1(j)(1)(i)*

9



## Government Property Disposal Cont'd

**SCRAP**



Scrap aircraft or aircraft parts (Flight Certified Hardware) and scrap that:

- Requires Demilitarization
- Is a classified item
- Is generated from classified items
- Contains hazardous material or waste
- Contains precious metals or
- Is dangerous to the public health, safety, or welfare.

*FAR 52.245-1(j)(1)(i)(B)*

10



# Government Property Disposal

## FURTHER ACTION WITH SCRAP LISTS

- (i) If the Government does not furnish disposition instructions to the Contractor within 45 days following **acceptance of a scrap list**, the Contractor **may dispose** of the listed scrap in accordance with the Contractor's **approved scrap procedures**.

FAR 52.245-1(j)(8)

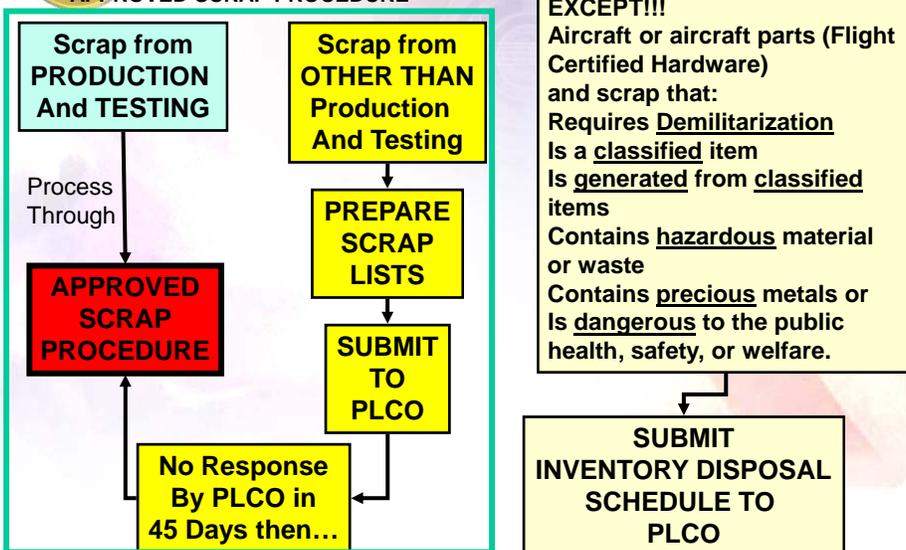
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11



# VARIATIONS

## APPROVED SCRAP PROCEDURE



12

# A Starting Point for Contract Property Disposition

- The Contract and
- The Requirements of  
FAR 45.6

1-11

## The Contract

- An agency may exercise its rights to require the return or delivery of any Government property that was furnished or acquired under the contract. This includes transfers of Government property to another Government contract.
- How may this happen???
- Contract Language!!!
  - PUT THE SPECIFIC DIRECTION IN THE CONTRACT.



## **NEXT STEP**

- If the contract is silent in regard to the disposition of Government Property then what is the contractor to do?
- Follow the CONTRACT, i.e., the CLAUSE in the contract.
- Look at FAR 52.245-1 (j)

## **PRE-DISPOSAL DETERMINATIONS**

- The contractor , in the following order of priority – For CAP ONLY!!! (52.245-1(j)(2))
  - Contact CO – Move to another contract & Use.
  - MAY PURCHASE THE PROPERTY AT ACQUISITION COST SHALL MAKE A REASONABLE EFFORT TO RETURN UNUSED PROPERTY TO THE APPROPRIATE SUPPLIER AT A FAIR MARKET VALUE [Less a “reasonable restocking charge... ”].

## NOTE:

These first two actions deal with  
**Contract Acquired Property  
(CAP) Only!!!**

These two priorities

**DO NOT**

apply to Government Furnished  
Property (GFP)!

## Here are two important points to consider:

- **SHOULD THIS BE ADDRESSED IN THE CONTRACTOR'S PMS?**
  - Yes, the PMS should address these processes
- **WHERE DOES THE MONEY GO?**
  - Under Cost Reimbursement type contracts the money goes **BACK** to the contract.



## WHAT IS THE NEXT STEP IN THE PROCESS?

- If there is no language in the contract for disposition and
- The contractor cannot purchase the property at cost or return it to a supplier then...
- The contractor **SHALL** Submit **INVENTORY SCHEDULES!**
  - See 52.245-1(j)(3)(i) – SF 1428 for
  - GFP, CAP & Termination Inventory

## INVENTORY SCHEDULES ARE A CONTRACTUAL REQUIREMENT



## **CONTRACTOR REQUIREMENT**

- **GOVERNMENT PROPERTY CLAUSE (And two other clauses) requires the submission of an**

### **Inventory Disposal Schedule**

#### **SF 1428**

- 52.245-1 Government Property Clause
- 52.249-2 and -6 Termination Clauses

## **INVENTORY SCHEDULES**

- **FAR 52.245-1**
  - **SHALL list, on Standard Form 1428, Inventory Disposal Schedule, property which was not purchased under paragraph(i)(2)(i) of this clause and could not be returned to a supplier, or could not be used for the performance of other Government contracts.**

# INVENTORY DISPOSAL SCHEDULE

INVENTORY DISPOSAL SCHEDULE (See Reverse for Instructions) (See FAR 52.245-1 (i))		1. TYPE (Check block(s) where applicable) <input type="checkbox"/> TERMINATION <input type="checkbox"/> INVENTORY <input type="checkbox"/> FINAL SCHEDULE		2. SCHEDULE REFERENCE NUMBER	PAGE NO.	NO. OF PAGES	OMB No: 9000-0075 Expires: 2/28/2010			
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the FAR Secretariat (VIR), Regulatory and Federal Assistance Division, GSA, Washington, DC 20405.										
3. PRIME CONTRACT NO.		4. SUBCONTRACTOR'S NO.		5. CONTRACT TYPE	6. TERM DOCKET NUMBER	7. TOTAL LINE ITEMS	8. TOTAL ACQUISITION COST			
9a. CAGE CODE (PRIME CONTRACTOR (prior of contract))				9b. CAGE CODE (SUBCONTRACTOR (prior of contract))						
9c. STREET ADDRESS				9d. STREET ADDRESS						
9e. CITY, STATE, AND ZIP CODE				9f. CITY, STATE, AND ZIP CODE						
11a. LOCATION OF PROPERTY		11b. POINT OF CONTACT FOR PROPERTY		12. PRODUCT COVERED BY CONTRACT/ORDER						
13. ITEM NO.	14. ITEM DESCRIPTION	15. UNSUBMITTED DISPOSITION CODE	16. DML CODE	17. PROPERTY CLASSIFICATION	18. GOVERNMENT PART OR DRAWING NUMBER AND REVISION NUMBER	19. CONDITION CODE	20. QUANTITY	21. UNIT OF MEASURE	22. COST UNIT (a) TOTAL (b)	23. CONTRACTOR'S OFFER
24a. SIGNATURE OF CONTRACTOR SUBMITTING SCHEDULE		24b. NAME OF CONTRACTOR SUBMITTING SCHEDULE		24c. TITLE			24d. DATE			

AUTHORIZED FOR LOCAL REPRODUCTION  
PREVIOUS EDITION IS NOT USABLE

STANDARD FORM 1428 (REV. 6/2007)  
Prescribed by GSA-FAR (48 CFR) 53.245(e) and 53.249(b)

# BACK OF IDS

## INSTRUCTIONS

The Contractor shall submit all schedules to the Plant Clearance Officer.

**Manual submissions.** Prepare a separate schedule for items in each property classification (Block 17) and a separate schedule for scrap. Submit an original and 2 copies of each scrap schedule and continuation sheet (SF 1428). For other schedules, an original and 7 copies are required.

**Electronic submissions.** Group all items of the same property classification. Submit separate schedules for scrap.

### General instructions.

**BLOCKS 1, 2 & 4.** Self-explanatory.

**BLOCK 3 - PRIME CONTRACT NO.** (For contract modifications and BOAs). If the property applies solely to one contract modification indicate the modification number after the contract number. For task orders and orders under basic ordering agreements, enter the contract number or BOA number followed by the order number under which the property is accountable.

**BLOCK 5 - CONTRACT TYPE.** Use one of the following codes:

- J - Fixed Price
- O - Other
- C - Cost Reimbursement
- V - Time and Material
- Z - Labor-Hour
- 9 - Task Order Contracts and Orders under Basic Ordering Agreements (BOAs)

**BLOCKS 6 - 8.** Self-explanatory.

**BLOCKS 9a and 10a - CAGE CODE.** Enter the Commercial and Government Entity code when applicable.

**BLOCKS 9b-d, 10b-d, and 11a-13.** Self-explanatory.

**BLOCK 14 - ITEM DESCRIPTION.** Describe each item in sufficient detail to permit the Government to determine its appropriate disposition. Scrap may be described as a lot including metal content, estimated weight and estimated acquisition cost. For all other property, provide the information required by FAR 52.245-1 (f)(1)(iv). List the national stock number (NSN) first. For the following, also provide:

**Special tooling and special test equipment.** Identify each part number with which the item is used.

**Computers, components thereof, peripheral and related equipment.** The manufacturer's name, model and serial number, and date manufactured.

**Work in process.** The estimated percentage of completion.

**Precious metals.** The metal type and estimated weight.

**Hazardous material or property contaminated with hazardous material.** The type of hazardous material.

**Metals in mill product form.** The form, shape, treatment, hardness, temper, specification (commercial or Government), and dimensions (thickness, width, and length).

**BLOCK 15 - GOVERNMENT FURNISHED/CONTRACTOR ACQUIRED.** For the item, enter one of the following:

- GF - Government furnished
- CA - Contractor acquired

**BLOCK 16 - DML CODE.** (Demilitarization code). If applicable, enter the code specified in DoD 4160.21-M-1.

**BLOCK 17 - PROPERTY CLASSIFICATION.** Use one of the following classifications for each line item:

- ES - Equipment
- M - Material
- STE - Special test equipment
- ST - Special tooling

In addition, when applicable, list one of the following sub-classifications for each line item below the property classification:

- COM - Computers, peripherals, etc.
- AAE - Arms, ammunition and explosives
- PM - Precious metals
- HAZ - Hazardous materials
- ME - Metals in mill product form
- WIP - Work in process
- CL - Classified

**BLOCK 18 - Self-Explanatory.**

**BLOCK 19 - CONDITION CODE.** Assign one of the following codes to each item:

- Code 1.** Property which is in new condition or unused condition and can be used immediately without modifications or repairs.
- Code 4.** Property which shows some wear, but can be used without significant repair.
- Code 7.** Property which is unusable in its current condition but can be economically repaired.
- Code X.** Property which has value in excess of its basic material content, but repair or rehabilitation is impractical and/or uneconomical.
- Code 5.** Property has no value except for its basic material content.

**BLOCKS 20 - 22.** Self-explanatory.

**BLOCK 23 - CONTRACTOR'S OFFER.** The Contractor's offer to purchase the item if it survives screening.

STANDARD FORM 1428 (REV. 6/2007) BACK

## INVENTORY DISPOSAL SCHEDULES

- FAR 52.245-1
- (i) The Contractor **shall** use Standard Form 1428, Inventory Disposal Schedule, to identify-
  - (A) **Government-furnished property** that is no longer required for performance of this contract, provided the terms of another Government contract do not require the Government to furnish that property for performance of that contract; and
  - (B) Property acquired or produced by the Contractor, to which the Government has obtained title under paragraph (c) of this clause, that is no longer required for performance of that contract.
    - CAP

## Submission Timeframes

- FAR 52.245-1
- The Contractor shall submit inventory disposal schedules to the Plant Clearance Officer no later than-
  - (i) **Thirty** days following the Contractor's determination that a Government property item is no longer required for performance of the contract;
  - (ii) **Sixty** days, or such longer period as may be approved by the Plant Clearance Officer, following completion of contract deliveries or performance; or
  - (iii) **One hundred twenty days**, or such longer period as may be approved by the Termination Contracting Officer, following contract termination in whole or in part.

## **INVENTORY DISPOSAL SCHEDULES**

- FAR 52.245-1
- (ii) The Contractor may annotate inventory disposal schedules to identify property the Contractor wishes to purchase from the Government.
  - **IMPORTANT!!!**
  - **WHY?**

## **INVENTORY DISPOSAL SCHEDULES**

- FAR 52.245-1
- (iii) Unless the Plant Clearance Officer has agreed otherwise, or the contract requires electronic submission of inventory disposal schedules, the Contractor shall prepare separate inventory disposal schedules for-
  - (A) Special test equipment with commercial components;
  - (B) Special test equipment without commercial components;
  - (C) Printing equipment;
  - (D) Computers, components thereof, peripheral equipment, and related equipment;
  - (E) Precious Metals;
  - (F) Nonnuclear hazardous materials or hazardous wastes; or
  - (G) Nuclear materials or nuclear wastes.

## **INVENTORY DISPOSAL SCHEDULES**

- FAR 52.245-1
- (iv) Property with the same description, condition code, and reporting location may be grouped in a single line item.
- The Contractor shall describe special test equipment in sufficient detail to permit an understanding of the special test equipment's intended use.

## **Subcontractor Inventory Disposal Schedules**

- FAR 52.245-1(j)
- (10) *Subcontractor inventory disposal schedules.* The Contractor shall require a subcontractor that is using property accountable under this contract at a subcontractor-managed site to submit inventory disposal schedules to the Contractor in sufficient time for the Contractor to comply with the requirements of paragraph (j)(4) of this clause.

## **CORRECTIONS TO INVENTORY DISPOSAL SCHEDULES**

- FAR 52.245-1(j)
- (5) *Corrections*. The Plant Clearance Officer may require the Contractor to correct an inventory disposal schedule or may reject a schedule if the property identified on the schedule is not accountable under this contract or is not in the quantity or condition indicated.

**NEXT TOPIC:  
DATA REQUIRED ON THE  
INVENTORY DISPOSAL  
SCHEDULE**

## SPECIFIC ITEMS ON THE INVENTORY SCHEDULE

**Kr. Specifies  
Term. Or final.  
If neither  
marked?**

**Kr. Gives  
Inv. Sched.  
Peculiar number.**

**Kr. Numbers  
Pages**

INVENTORY DISPOSAL SCHEDULE (See Reverse for Instructions) (See FAR 52.245 - 1(j))	1. TYPE (Check block(s) where applicable) <input type="checkbox"/> TERMINATION <input type="checkbox"/> INVENTORY <input type="checkbox"/> FINAL SCHEDULE	2. SCHEDULE REFERENCE NUMBER	PAGE NO.	NO. OF PAGES	OMB No. 9000-0075 Expires: 2/28/2010
--	---	------------------------------	----------	--------------	---

## SPECIFIC ITEMS ON THE INVENTORY SCHEDULE

**Prime  
Contract #**

**FP, CR,  
etc.**

**Total LIs &  
ACQ. Cost.**

3. PRIME CONTRACT NO.	4. SUBCONTRACTOR/P.O. NO.	5. CONTRACT TYPE	6. TERM DOCKET NUMBER	7. TOTAL LINE ITEMS	8. TOTAL ACQUISITION COST
-----------------------	---------------------------	------------------	-----------------------	---------------------	---------------------------

**Sub  
Contract #**

**If  
Termination  
Kr. Required  
to provide #**

# SPECIFIC ITEMS ON THE INVENTORY SCHEDULE

**Prime Kr. INFO**

9a. CAGE CODE	9b. PRIME CONTRACTOR (Point of Contact)
9c. STREET ADDRESS	
9d. CITY, STATE, AND ZIP CODE	
11a. LOCATION OF PROPERTY	11b. POINT OF CONTACT FOR PROPERTY

**WHERE IS THE STUFF?**  
Give an adequate description of geographic location.

10a. CAGE CODE	10b. SUBCONTRACTOR (Point of Contact)
10c. STREET ADDRESS	
10d. CITY, STATE, AND ZIP CODE	
12. PRODUCT COVERED BY CONTRACT/ORDER	

**WHAT IS THE STUFF Being USED TO MAKE?**  
Give an adequate description of the deliverable item.

**Subs INFO if applicable**

**REMEMBER!!! Who is responsible for submitting the Inventory Schedule - Prime or Sub?**

# SPECIFIC ITEMS ON THE INVENTORY SCHEDULE

**Sequential #**  
1,2,3,4, etc.

**CRITICAL!!! Accurate and Complete COMMERCIAL Description...**

13. ITEM NO.	14. ITEM DESCRIPTION	15. GOVT. FURNISHED CONTRACTOR ACQUIRED	16. DML CODE	17. PROPERTY CLASSIFICATION	18. GOVERNMENT PART OR DRAWING NUMBER AND REVISION NUMBER

**GFP or CAP**

**DEMIL CODE**

**MAT/ST/STE/ EQPT/RP**

**Self Explanatory**

## SPECIFIC ITEMS ON THE INVENTORY SCHEDULE

19. CONDITION CODE	20. QUANTITY	21. UNIT OF MEASURE	22. COST		23. CONTRACTOR'S OFFER
			UNIT (a)	TOTAL (b)	

**BACK OF FORM and DFARS 245.606-5 CRITICAL!**

**Self Explanatory**

**How much is the KR. Willing to pay for the "stuff" if they want to buy it?**

## SPECIFIC ITEMS ON THE INVENTORY SCHEDULE

24a. SIGNATURE OF CONTRACTOR SUBMITTING SCHEDULE	24b. NAME OF CONTRACTOR SUBMITTING SCHEDULE	24c. TITLE	24d. DATE

**Pretty Straight Forward!!!**

**INSTRUCTIONS FOR PREPARING  
AND SUBMITTING**

- **TWO PLACES!!!!**

- As a Standard Form – the Instructions are on the **BACK** of the Form and
- **DFARS 245.606-5** (Provides Supplementary requirements for DoD Purposes)

**Acceptance/Rejection of  
INVENTORY  
SCHEDULES  
FAR 45.602-1**

## Acceptance/Rejection FAR 45.602-1

- (a) Plant clearance officers should review and accept, or return for correction, inventory disposal schedules **within 10 days following receipt** from a contractor. Schedules that are completed in accordance with the instructions for Standard Form 1428 should be accepted.

## ACCEPTANCE

- **AFTER RECEIPT**
  - Establishment of Case **starts** ACCEPTANCE
  - DD FORM 1637 under PCARSS
  - See DFARS 245.606-3
- Accomplished by **PRINTING** A COPY OF DD FORM 1637 (REALLY an EQUIVALENT) & **MAILING** to CONTRACTOR

## REASONS FOR REJECTION

- MANUAL
  - Contains **inadequate** description
  - **No** Contract Number
  - Requisition information is **NOT** present
  - Inventory schedules should **NOT** be rejected if the information is adequate for disposal purposes
- AUTOMATED
  - **Inadequate description**
  - NOTE: As the critical fields in PCARSS are “MANDATORY” this should eliminate most errors
  - EXCEPT!!!  
WRONG INFO

 **Plant Clearance Automated Reutilization Screening System**

 +   

# PCARSS

**(Simply a process overview – not a how- to!)**

FEB 2011 1

  +   

- **INTERNET/WEB Based System**
- **Using WWW or Flat File Transfer (FFT)**
  - FFT using Contractor's Database(s) such as ACCESS or EXCEL, Etc.

2



- **Affect Disposition of Government Property in the possession of Defense Contractors**
- **Reduce the Burdensome Paperwork**
- **Allow Contractors direct input through WWW or Flat file**
- **Access other Automated Processes:**
  - Screen with Activities
  - Requirers/requestors Search for items
  - Demil Codes
  - Etc.

3



### WHAT IS PCARSS?

- **WEB BASED PROGRAM** that allows:
  - Contractors to INPUT data (Excess Government Property)
  - PLCOs to review the contractor submitted information and to SCREEN with the entire **FEDERAL GOVERNMENT** via PCARSS
  - PLCOs to DIRECT DISPOSITION via PCARSS

**NOTE – PCARSS IS NOT USED TO DISPOSITION GOVERNMENT PROPERTY IN THE POSSESSION OF THE GOVERNMENT**

4








## APPLICABILITY

- DCMA
- DoD Services
  - Army
  - Navy
  - Air Force
- IT IS **NOT** A DCMA ONLY SYSTEM!!!

- ALSO IN USE BY:
- NASA
- EPA



5



## INFORMATION AVAILABLE

- PCARSS
  - <http://www.dcmamil> – Plant Clearance, eTools
  - <http://www.dcmamil/DCMAHQ/dcmaita/pcarss.htm>
- ON THE DCMA WEB SITE:
  - Password Requests
  - PLCO Instructions
  - Screener Instructions
  - Contractor Use Instructions
  - Flat File Transfers
  - User Groups

6



## POINTS OF CONTACT

- **District Plant Clearance Representative:**  
Katie Burke (617) 753-3130
- **DCMA Customer Support Help Desk**  
(888) 576-3262



7



## Plant Clearance Automated Reutilization Screening System PCARSS

### ***ADOBE SCREEN SHOT REVIEW***

8



# INVENTORY SCHEDULE VERIFICATION



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1



**So, the PLCO receives  
the Inventory Disposal  
Schedule – it is  
“acceptable.”**

**Now What?**



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2



## **INVENTORY SCHEDULE VERIFICATION RESPONSIBILITY**

- **Plant clearance officers shall-**
  - (1) Use Standard Form 1423 to verify, in accordance with agency procedures, accepted schedules within 20 days following acceptance;
  - (2) Require a contractor to correct any discrepancies found during verification;
  - (3) Require a contractor to correct any failure to complete predisposal requirements of the contract; and... (goes on to discuss disposition directions)

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*FAR 45.602-1(b)*

3



## **INVENTORY VERIFICATION SURVEY**

# **Let's check out the SF 1423**

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4



# ITEMS ON SF 1423

INVENTORY VERIFICATION SURVEY (See FAR 45.602-1(b)(1))		DATE
SECTION I - GENERAL		
1. FROM: (Include ZIP Code)		2. TO: (Include ZIP Code)
3. CONTRACT NUMBER AND TYPE		4. CONTRACTOR/SUBCONTRACTOR

**PLANT CLEARANCE OFFICER PREPARES  
& SENDS SF 1423**

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5



# ITEMS ON SF 1423

3. CONTRACT NUMBER AND TYPE			4. CONTRACTOR/SUBCONTRACTOR				
5A. SCHEDULES OF INVENTORY TO BE INSPECTED AND VERIFIED			5B. PLANT CLEARANCE CASE NUMBER/DOCUMENT NUMBER				
REFERENCE NUMBER	PAGES		AMOUNT (\$)				
	START NO.	END NO.					

**PLANT CLEARANCE OFFICER LISTS  
THE INVENTORY DISPOSAL SCHEDULES**

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6



# ITEMS ON SF 1423

## SECTION II - TECHNICAL VERIFICATION

	COMPLETION OF THIS SECTION		IS NOT REQUIRED (Requester, check one)			
	YES	NO	IS	IS NOT	YES	NO
6. IS PROPERTY LISTED ON THE INVENTORY DISPOSAL SCHEDULES ON HAND AND IN THE QUANTITIES INDICATED?		*				*
7. IS THE PROPERTY CORRECTLY DESCRIBED ON THE INVENTORY DISPOSAL SCHEDULES?		*				*
8. IS THE PROPERTY SEGREGATED OR ADEQUATELY PROTECTED?		*			*	*
9. IS THE PROPERTY PROPERLY TAGGED?		*				*
10. ARE THE CONDITION CODES ACCURATE?		*				*
11. IS THE PROPERTY CLASSIFICATION CORRECTLY IDENTIFIED?		*				*

Section II is a verification of the **TECHNICAL** issues surrounding the Contractor Inventory. **QUANTITY, DESCRIPTION, SEGREGATION, TAGGED, CONDITION CODES, CLASSIFICATION, SCRAP** or other **VALUE, APP, DEMIL, and COMMON ITEMS.**

\* Note the asterisks?



# ITEMS ON SF 1423

## SECTION III - TERMINATION INVENTORY

COMPLETION OF THIS SECTION		IS NOT REQUIRED (Requester, check one)			
IS	IS NOT	IS	IS NOT	YES	NO
	*				*
	*				*
	*				*
	*				*
	*				*
	*				*
23. REQUESTING OFFICE REMARKS (Where the answer to any question is placed in a block containing an asterisk (*) detailed comments of the verifier shall be included on the reverse of this form and identified by section and item number.)					

SECTION III deals **ONLY** with **TERMINATION INVENTORY**



## ITEMS ON SF 1423

24. SIGNATURE OF REQUESTER

INVENTORY VERIFICATION		
The above information is based on a physical verification of inventory listed under Item 5.		
25. NAME AND TITLE	26. SIGNATURE OF VERIFIER	27. DATE

AUTHORIZED FOR LOCAL REPRODUCTION  
Previous edition not usable

STANDARD FORM 1423 (REV. 5/2004)  
Prescribed by GSA-FAR (48 CFR) 53.245(c)

**And all of these items need be  
verified by a  
GOVERNMENT REPRESENTATIVE.**

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9



## Sources of Assistance

- **Quality Assurance Representative (QAR)**
  - Delegate for Technical Verifications
- **Industrial Specialist (IS) or Engineer**
  - Termination Inventory to determine Allocability.
- **PLCO Option to use QA, IS, or EN.**

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10



## TECHNICAL REQUIREMENT

### Inventory Schedule Acceptance by PLCO

- To assist in verifying inventory **allocability**, the PLCO shall follow the instructions in **DFARS 245.7201**

*DFARS 245.606-3(b)*

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## DFARS 245.7201

- PLCOs will use this guidance for verifying inventory schedules --
  - (a) Allocability.
    - (1) Review contract requirements, delivery schedules, bills of material, and other pertinent material. Determine whether schedules include material which --
      - (i) Is more than required or reasonably expected to be required for completion of the contract;  
or
      - (ii) Might be usable on the current contract, or diverted to other commercial work or Government use.

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## DFARS 245.7201 (cont)

- (2) Review the contractor's –
- (i) Recent purchases of similar material;
  - (ii) Plans for current and scheduled production;
  - (iii) Stock record entries; and
  - (iv) Bills of material for similar items.

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## DFARS 245.7201 (cont)

- (b) **Quantity.** Ensure available inventory is in accordance with quantities listed on the inventory schedules. While a complete physical count of each item is not required, perform sufficient checks to ensure accurate quantities.
- (c) **Condition.** Ensure the inventory condition matches that shown on the inventory schedules.

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## INVENTORY SCHEDULE VERIFICATION

- **PLCO** is responsible for Verification!!!
- PLCOs NOTE - Performance of Inventory Verification and Allocability reviews by the PLCO MAY impact **GRADE STRUCTURE --**
- **In a positive fashion (Plain English -- Higher Grades!!!)**

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15



## One More Concern

The PLCO shall assure that the following items are identified during inventory verification: **hazardous material;** **items requiring demilitarization;** **items containing precious metals;** and industrial diamonds (including swarf). Findings shall be noted on SF 1423, Inventory Verification Survey.

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## SUMMARY

**While the CONTRACTOR has the major role in proper disposition, the PLCO and supporting Government personnel help assure the process works!!**



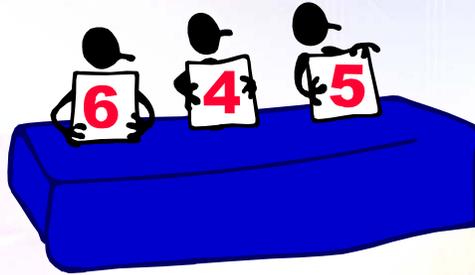
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# CONDITION CODES



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1



# Contractor Inventory Disposal



FAR 52.245-1(j)

(2)(ii) KTR shall list, on Standard Form 1428, Inventory Disposal Schedule, property that was not purchased under paragraph (j)(2)(i)(B) of this clause, could not be returned to a supplier, or could not be used in the performance of other Government contracts

(3) Inventory disposal schedules

(i) The Contractor shall use Standard Form 1428, Inventory Disposal Schedule, ...

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2



## Contractor Inventory Disposal

- The Instructions for the SF 1428 requires the Contractor to indicate the proper applicable **CONDITION CODE** in Block 19



***...so where do you locate the actual CONDITION CODES?***

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FAR 52.245-1(j) & Standard Form 1428

3



## Condition Codes\* - Standard Form 1428

**\*Condition Codes are on the back of SF 1428**



Block 19 of SF 1428 “Inventory Disposal Schedule” requires a **condition code** indicating item condition for each Government Property listed on the schedule

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Standard Form 1428

4



## Condition Codes



There are five (5) FAR  
Condition Codes:  
**1, 4, 7, plus X and S**

PS: the lower the number the  
better the condition of the listed  
item!

PPS: X is for salvage and S is for  
scrap!!

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Standard Form 1428

5



## Condition Codes



### Code 1

Property which is in  
new condition or  
unused condition  
and can be used  
immediately without  
modifications or  
repairs

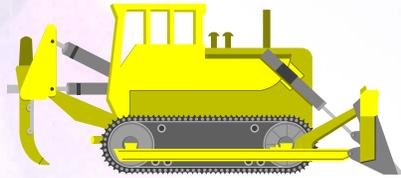
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Standard Form 1428

6



## Condition Codes



### Code 4

Property which shows some wear, but can be used without significant repair

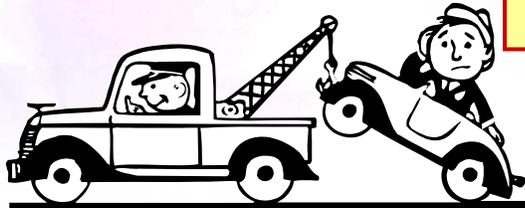
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Standard Form 1428

7



## Condition Codes



### Code 7

Property which is unusable in its current condition but can be economically repaired

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Standard Form 1428

8



# Condition Codes



## Code X

Property has some value in excess of its basic material content, but repair or rehabilitation is impractical and/or uneconomical

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Standard Form 1428

9



# Condition Codes



## Code S

Property that has no value except for its basic material content



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Standard Form 1428

10



## DoD Supplement to the **SF 1428** Condition Code

- Department of Defense contracts require use of a **supplemental code** in addition to the SF 1428 required condition code

*The following are the DFARS prescribed supplemental condition codes -- the DoD code **PRECEDES** the SF 1428 code on the form*

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DFARS 245.606-5

11



## Condition Codes



There are five (5) DFARS  
Condition Codes:

– A, B, F, H & S

**Here's what they mean...**

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DFARS 245.606-5

12



## Condition Codes



**A—**

**New, used, repaired, or reconditioned property; serviceable & issuable to all customers without limitations or restrictions; includes material with remaining shelf life of more than 6 months**

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DFARS 245.606-5

13



## Condition Codes



**B—**

**New, used, repaired, or reconditioned property; serviceable & issuable or for its intended purpose but restricted from issue to specific units, activities, or geographical areas because of its limited usefulness or short service-life expectancy; includes material & remaining shelf life of 3 to 6 months**

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DFARS 245.606-5

14

## Condition Codes



**F—**

**Economically repairable property which requires repair, overhaul or reconditioning; includes reparable items which are radioactively contaminated**

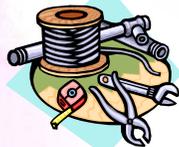


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DFARS 245.606-5

15

## Condition Codes



**H—**

**Property which has been determined to be unserviceable and does not meet repair criteria**

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DFARS 245.606-5

16



## Condition Codes



**S—**

Property that has no value except for its basic material content

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DFARS 245.606-5

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## SUMMARY

The **CONTRACTOR** is responsible for properly assigning condition codes but...

...it's **ALWAYS subject to review** by a Government representative, e.g., Plant Clearance Officer or Quality Assurance Representative

**Why is it important?**

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# REUTILIZATION PRIORITIES & SCREENING



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1

# REUTILIZATION PRIORITIES FAR 45.602-2



PLCO's **shall** initiate reutilization actions using the **highest priority method** appropriate for the property -  
Authorized methods listed from highest to lowest priority...

- **Reuse within the agency** (FAR 45.603 describes circumstances under which excess personal property may be abandoned, destroyed, or donated)



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2



## REUTILIZATION PRIORITIES

- **Transfer of educationally useful equipment, with GSA approval, to other Federal agencies** that have expressed a need for the property
- **Transfer of educationally useful equipment to schools and nonprofit organizations** (E.O.12999 & 15 U.S.C. 3710(i))
- **Reuse within the Federal Government**
- **Donation to an eligible donee** designated by GSA



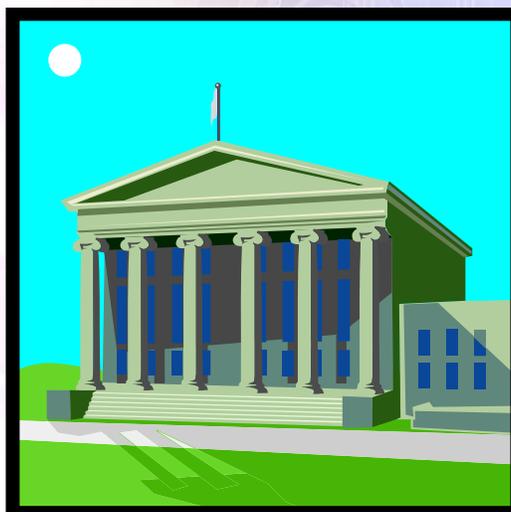
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*FAR 45.602-2*

3



## SCREENING



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4



## SCREENING - 45.602-3

- Screening period begins upon the **PLCOs acceptance** of an inventory disposal schedule (SF 1428)
- The plant clearance officer shall determine whether **standard** or **special screening** is appropriate and initiate screening actions



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5



## **STANDARD** SCREENING

- (a) The standard screening period is 46 days.
- (1) 1<sup>st</sup> through 20<sup>th</sup> day: Screening by the contracting agency. The contracting agency has 20 days to screen property reported on the inventory disposal schedule for other use within the agency



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FAR 45.602-3

6



## STANDARD SCREENING



(a)(1) (Cont'd) transfer of educationally useful equipment to other Federal agencies that have expressed a need for the property; and transfer of educationally useful equipment to schools and nonprofit organizations if a Federal agency has not expressed a need for the property

*Note a reference to succeeding paragraph FAR 45.603...*

**Excess** personal property, meeting the conditions of 45.603, may be **abandoned, destroyed, or donated to public bodies!**

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FAR 45.602-3

7



## STANDARD SCREENING

(a)(1)(Cont'd)

No later than the 21<sup>st</sup> day, the PLCO shall submit 4 copies of the revised schedules and SF 120, Report of Excess Personal Property, or an electronic equivalent to GSA.

**PCARSS!!**

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FAR 45.602-3

8



## **STANDARD SCREENING**

### **(a)(2) 21<sup>ST</sup> through 46<sup>th</sup> day**

(21 days concurrent screening plus 5 days donation processing)

#### **(i) Screening by **Other Federal Agencies.****

**GSA will normally honor requests for transfers of property on a 1<sup>st</sup> come 1<sup>st</sup> served basis through the 41<sup>st</sup> day.**

**When a request is honored, the GSA regional office shall promptly transmit to the PLCO an approved transfer order that includes shipping instructions.**

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*FAR 45.602-3*

9



## **STANDARD SCREENING**

#### **(ii) Screening for possible donation.**

**Screening for donation is also completed during the 21<sup>st</sup> through 41<sup>st</sup> day. Property is **not available for allocation** to donees **until after the completion of screening****

**Days 42 to 46 are reserved for GSA to make such allocation, i.e., DONATION.**

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*FAR 45.602-3*

10



## **STANDARD** SCREENING

- (3) Screening period transfer request.**  
If an agency receives an intra-agency (within) transfer request during the screening periods described in paragraph (a)(2) of this subsection, the PLCO shall request GSA approval to withdraw the item from the inventory disposal schedule

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FAR 45.602-3

11



## **SPECIAL** SCREENING

- (b)(1) ST and STE without commercial components**

Agencies shall follow the procedures in paragraph (a) of this subsection. Property owned by the **DOD or NASA** may be screened for reutilization **only within these agencies.**



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FAR 45.602-3

12



## SPECIAL SCREENING

### (b)(2) STE with commercial components

(i) Agencies shall complete the screening required by paragraph (a) of this subsection. If an agency has no further need for the property and the contractor has not expressed an interest in using or acquiring the property by annotating the inventory disposal schedule, the PLCO shall forward the inventory disposal schedule to the GSA regional office that serves the region in which the property is located.

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FAR 45.602-3

13



## SPECIAL SCREENING

### (b)(2) STE with commercial components

(ii) If the contractor has expressed an interest in using the property on another Government contract, the PLCO shall contact the CO for that contract. If the CO concurs with the proposed use, the CO for the contract under which the property is accountable shall transfer the property's accountability to that contract. If the request is denied by the CO then the screening process shall continue.

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FAR 45.602-3

14



## SPECIAL SCREENING

### (b)(2) **STE** with commercial components

(iii) If the property is contractor acquired or produced and the contractor or sub has expressed an interest in acquiring the property, and no other party has expressed an interest during GSA screening, the property **may be sold to the contractor or sub at acquisition cost**

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FAR 45.602-3

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## SPECIAL SCREENING

### (3) Printing Equipment

Agencies shall report all excess printing equipment to the Public Printer, Government Printing Office, Washington, DC, after screening within the agency

If the Public Printer does not express a need for the equipment within 21 days, the agency shall submit the report to GSA for further use and donation screening as described in paragraph (a) of this subsection



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FAR 45.602-3

16



## SPECIAL SCREENING



**(4) Non-nuclear hazardous materials, hazardous wastes, & classified items.**

These items shall be screened IAW agency procedures.



Report non-nuclear hazardous materials to GSA if the agency has no requirement for them.



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FAR 45.602-3

17



## SPECIAL SCREENING

**(5) Nuclear materials**



The possession, use, and transfer of certain nuclear materials are subject to the regulatory controls of the NRC. Contracting activities shall screen excess nuclear materials in the following categories:



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FAR 45.602-3

18



## SPECIAL SCREENING

**(5)(i) By-product material**

Any radioactive material (except special nuclear material) yielded in or made radioactive by exposure to the radiation incident to producing or using special nuclear material.

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*FAR 45.602-3*

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## SPECIAL SCREENING

**(5)(ii) Source material**

Uranium or thorium, or any combination thereof, in any physical or chemical form; or ores that contain by weight one-twentieth of 1 percent (0.05 %) or more of uranium, thorium, or any combination thereof. Source material does not include special nuclear material.

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*FAR 45.602-3*

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## SPECIAL SCREENING

(5)(iii) **Special nuclear material**

Plutonium, Uranium 233, Uranium enriched in the isotope 233 or in the isotope 235, any other material that the NRC determines to be special nuclear material (but not including source material); or any material artificially enriched by any nuclear material.

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FAR 45.602-3

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## SUMMARY

### REUTILIZATION PRIORITIES & SCREENING



The PLCO or the individual/agency performing the duties as PLCO must follow the rules!!



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# DISPOSAL METHODS



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## DISPOSAL METHODS FOR SURPLUS PROPERTY 45.604-1

- (a) Except as provided in paragraphs (b) & (c) of this subsection, surplus property that has completed screening IAW 45.602-3(a) shall be sold IAW 45.604-3 or abandoned, destroyed, or donated to public bodies IAW 45.604-2.

NOTE – SALE TAKES PRIORITY OVER  
A, D & D

## **DISPOSAL METHODS**

### **45.604-1**

**(b) The following property that GSA has declared surplus or not required to be screened by GSA shall be disposed of IAW agency procedures:**

- (1) Classified items**
- (2) Nonnuclear hazardous materials or hazardous wastes.**
- (3) Property that contains precious metals or requires demilitarization.**
- (4) Government property physically located outside the United States or its possessions (see U.S.C. 701-705).**

## **DISPOSAL METHODS**

### **45.604-1**

**(c) Nuclear materials (see 45.602-3(b)(5) shall be disposed of IAW NRC or applicable state licenses, applicable Federal regulations, and agency regulations.**



## **Sale of Surplus Property 45.604-3**



Policy for the sale of surplus property is contained in the Federal Property Management Regulations, at Part 101-45 (41 CFR part 101-45). Agencies may specify implementing procedures.

[http://www.gsa.gov/gsa/cm\\_attachments/GSA\\_DOCUMENT/41cfr101-45\\_01\\_R2J-n9M\\_0Z5RDZ-i34K-pR.html](http://www.gsa.gov/gsa/cm_attachments/GSA_DOCUMENT/41cfr101-45_01_R2J-n9M_0Z5RDZ-i34K-pR.html)

## **Sale of Surplus Contractor Inventory 245.73**

- (a) Screening must be completed before any surplus contractor inventory sale.
- (b) Except as provided in 245.7307, sales of surplus contractor inventory shall be competitive.
- (c) The commander of the contract administration office must approve the use of auctions, spot bids, or retail sales.



**Competitive Sales 245.7302**  
**Property Descriptions 245.7302-1**

- (a) Describe the property as used or unused. Do not use condition codes.
- (b) Property descriptions must be accurate & adequate for identification by prospective bidders. Use commercial terminology & original manufacturer & brand name, if applicable.

**Lotting 245.7302-2**

- (a) Consider combining property into lots when the quantities, value, or nature of the property makes it uneconomical to sell separately.
- (b) When lotting is appropriate & economically practical—
  - (1) Size the lots to encourage bidding by small business or individuals;
  - (2) Lot unused items by make or manufacturer, except when quantities are small;

## **Lotting 245.7302-2**

- (3) Lot commercially similar items when practical;
- (4) Lot used & unused items separately unless quantities, value, or nature of property makes it uneconomical to sell separately;
- (5) Size lots large enough to ensure the selling costs are not disproportionate to the anticipated proceeds.



## **Alternate Bids 245.7302-3**

Offerors may be solicited to bid for groups or for the entire offering by use of the following (please reference this section of the DFAR for additional information)

## **Basis for Sale 245.7302-4**

**Unit Price Sale** requires the offeror to state the bid price in terms of the quantity or weight generally applied in commercial sales of similar items.

**Lot Price Basis** requires the offeror to submit a bid for the entire lot. Use the lot price basis of sale only when property cannot be sold by unit measure or the potential sales return is small.

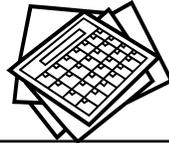
## **Mailing Lists 245.7302-5**

- (a) **The PLCO will ensure the contractor solicits a sufficient number of bidders to obtain adequate competition.**
- (b) **When large quantities of property, special commodities, or unusual geographic locations are involved, the PLCO is encouraged to obtain additional listings from the DRMO, Battle Creek, MI.**



## **Formal Bid Procedures 245.7303**

- (a) The contractor will use formal invitations for bid unless the PLCO approves the use of informal bid procedures.**
- (b) The contractor shall solicit bids at least 15 days before bid opening to allow adequate opportunity to inspect property and prepare bids.**
- (c) For large sales, the contractor may use summary lists of items offered as bid sheets with detailed descriptions attached.**



## **Formal Bid Procedures 245.7303**

- (d) In addition to mailing notice of the proposed sale to prospective bidders, the contractor may, when the results are expected to justify the additional expense-**
  - (1) Display a notice of the proposed sale in appropriate public places.**
  - (2) Publish a sales notice in trade journals or magazines & local newspaper.**
- (e) When the acquisition cost of the property to be sold at one time, in one place, is \$250,000 or more, the contractor shall send a notice of the proposed sale to the U.S. Dept. of Commerce.**



## Formal Bid Procedures 245.7303

- (f) The PLCO or representative will witness the bid opening. Within 2 working days after bid opening, the contractor will submit to the PLCO two copies of an abstract of all bids, signed by the witnessing Government representative.



## Informal Bid Procedures 245.7304

- (a) Upon approval of the PLCO, the contractor may issue informal invitations to bid (orally, telephonically, or by other informal media), provided-
- (1) Maximum practical competition is maintained;
  - (2) Sources solicited are recorded; and
  - (3) Informal bids are confirmed in writing.
- (b) Bids by the contractor or its employees shall be submitted to the PLCO prior to soliciting bids from other prospective bidders.



## **Sale Approval & Award 245.7305**

The PLCO will—

- (1) Evaluate bids to establish that the sale price is fair & reasonable, taking into consideration—
  - (i) Knowledge or tests of the market;
  - (ii) Current published prices for the property;
  - (iii) The nature, condition, quantity, & location of the property and;
  - (iv) Information from the Defense Reutilization & Marketing Service.

## **Sale Approval & Award 245.7305**

- (2) Approve award to the responsible bidder whose bid is most advantageous to the Government...
- (3) Notify the contractor within 5 working days of the bidder to whom an award shall be made. The contractor shall make the award, collect the proceeds of the sale, and release the property to the purchaser. The contractor shall provide the PLCO with evidence of delivery reflecting actual quantities released to the purchaser.

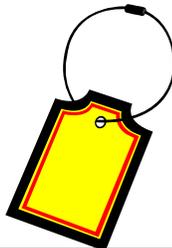


## **Non-competitive sales General 245.7307-1**

- (a) Non-competitive sales include purchases or retention at less than cost by the contractor.
- (b) Non-competitive sales may be made when—
  - (1) The contracting department/agency or the PLCO determines that this method is essential to expeditious plant clearance;
  - (2) The sale is otherwise justified per 245.7307-2;

## **Non-competitive sales General 245.7307-1**

- (b) continued--
  - (3) The Government's interests are protected
  - (4) FAR Subpart 1.7 requirements are met for D&F
- (c) Non-competitive sales shall be at fair & reasonable prices not less than those reasonably expected under competitive sale.



## **Proceeds from Sale of Surplus Property 45.604-4**

Proceeds of any sale are to be credited to the Treasury of the USA as miscellaneous receipts, unless otherwise authorized by statute or the contract or any subcontract there under authorizes the proceeds to be credited to the price or cost of the work (40 U.S.C. 571 and 574).



## **Proceeds of Sale 245.610-3**

- (1) Unless otherwise provided in the contract, the proceeds of any sale, purchase, or retention shall be—
  - (i) Credited to the Government as part of the settlement agreement
  - (ii) Credited to the price or cost of the contract
  - (iii) Applied as otherwise directed by the CO; or
  - (iv) Forwarded to the PLCO

## **Proceeds of Sale 245.610-3**

- (A) Within 2 days after receipt will send the proceeds and a DD Form 1131, Cash Collection Voucher, to the designated disbursing officer
- (B) For contractors with an approved scrap procedure, will ensure the proceeds are appropriately applied to an overhead account. The proceeds shall be validated periodically.
- (C) The PLCO will not close the plant clearance case until verification is received that credit has been properly applied.



## **INVENTORY DISPOSAL REPORTS 45.605**

The PLCO shall promptly prepare an SF 1424, Inventory Disposal Report, following disposition of the property identified on an inventory disposal schedule or scrap list and the crediting of any related proceeds.

## **INVENTORY DISPOSAL REPORTS 45.605**

The report shall identify any lost, stolen, damaged, destroyed, or otherwise unaccounted for property and any changes in quantity or value of the property made by the contractor after submission of the initial CO or, for termination inventory, to the TCO, with a copy to the PA.

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# DONATION AND ABANDONMENT



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## ABANDONMENT, DESTRUCTION AND DONATION

- **CONTRACT CLAUSE REQUIREMENT – FAR 52.245-1 (k)**
  - The Government **MAY** abandon any **NON-SENSITIVE** Government property in place at which time all obligations of the Government shall cease.
    - but Requires Written Notice
  - The Government will **NOT** abandon **SENSITIVE** Government property without the Contractor's **written consent**
  - No Obligation to Restore or Rehabilitate contractor's premises (Except if Government Decreases GP or GP is Unsuitable for use).

## **ABANDONMENT, DESTRUCTION, OR DONATION OF SURPLUS PROPERTY 45.604-2**

(a) PLCO's may abandon, destroy, or donate to public bodies surplus property that is not sensitive property, and does not require demilitarization.



## **ABANDONMENT, DESTRUCTION, OR DONATION OF SURPLUS PROPERTY 45.604-2**

(b) PLCO's may abandon sensitive property that does not require demilitarization, with contractor consent, provided appropriate instructions are provided with respect to the proper care, handling, and disposal of the property.

**ABANDONMENT,  
DESTRUCTION, OR DONATION  
OF SURPLUS PROPERTY  
45.604-2**

(c) The Government may donate surplus property to eligible donees in lieu of abandonment if the Government will not bear any of the costs incident to donation.

**ABANDONMENT,  
DESTRUCTION, OR DONATION  
OF SURPLUS PROPERTY  
45.604-2**

(d) Before abandoning, destroying, or donating surplus property, the PLCO shall determine in writing that the property **DOES NOT** constitute a danger to public health or welfare and—

**ABANDONMENT,  
DESTRUCTION, OR DONATION  
OF SURPLUS PROPERTY  
45.604-2**

- (1) The property has no residual monetary value; or
- (2) The estimated cost to sell the property, including advertising, storage, and other costs associated with making the sale, is greater than the probable sale proceeds.



# CONTRACT CLOSEOUT

A PROCESS REQUIREMENT



1-11

1



## CONTRACT CLOSEOUT

- It is a **STANDARD INDUSTRIAL PRACTICE** for activities to perform the **CONTRACT CLOSEOUT FUNCTION**.



2



# CONTRACT CLOSEOUT

## CONTRACTUAL REQUIREMENT...



### FAR 52.245-1(f)(1) "Contractor Plans and Systems"

Contractors shall develop property management plans, systems, and procedures at the contract, program, site or entity level to enable the following outcomes:

- (x) Property closeout. The Contractor shall promptly perform and report to the Property Administrator **contract property closeout**, to include reporting, investigating and securing closure of all loss, damage, destruction, or theft cases; physically inventorying all property upon termination or completion of this contract; and disposing of items at the time they are determined to be excess to contractual needs.

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# CONTRACT CLOSEOUT

## THE STANDARD...



- **CAN'T SAY!! – THE VOLUNTARY CONSENSUS STANDARD IS NOT YET IDENTIFIED NOR DEFINED**

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## CONTRACT CLOSEOUT

- **Close-out of Property Accountability – General--**  
**It is an industry leading practice that contractors shall promptly perform contract property closeout, to include**
  - Upon completion or termination of a contract, the PA shall:
    1. **Ensure that contractor property management organizations are internally notified of the pending and or actual completion of contract so that closure of property issues and topics can begin.**

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## CONTRACT CLOSEOUT

2. **Require the contractor to perform a final physical inventory of GP promptly following contract completion or termination in accordance with FAR 52.245-1(f)(1)(iv)**
  - » **The Property Administrator may waive this final inventory requirement, depending on the circumstances...**
3. **Ensure that property transfers to other Government contracts are accomplished based upon firm contract requirements that exist on the gaining contracts**

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## CONTRACT CLOSEOUT

4. **Monitor the actions of the contractor in returning excess GP inventoried, but not referred to the Plant Clearance Officer**
5. **Advise the cognizant Plant Clearance Officer of any residual property requiring disposal**
6. **Ensure that excess property is promptly reported on inventory schedules to the Plant Clearance Officer**

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## CONTRACT CLOSEOUT

7. **Ensure that the contractor promptly takes all required actions to complete property management responsibilities and close out records**
8. **Require the contractor to submit a 1662 or comparable document as prescribed by non-DoD agencies (e.g., NASA 1018), a zero balance of GP accountable to the contract**
9. **Ensure that the processing of all liability actions by the PA or CO are completed**

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# CONTRACT CLOSEOUT

- It is the **CONTRACTOR'S** responsibility to establish the **PROCESS**, i.e., the methods and methodologies, to accomplish this process in accordance with & using:
  - **INDUSTRY LEADING PRACTICES** and
  - **VOLUNTARY CONSENSUS STANDARDS (VCS)**

**NOTE:** The citation of any VCS within this education presentation does not imply its endorsement or contractual requirement by the Department of Defense or the United States Federal Government.

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# CONTRACT CLOSEOUT

- **PROCESS EXAMPLES:**



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# CONTRACT CLOSEOUT

- **RECOMMENDED RESOURCES**
  - **CRITICAL:**
    - FAR 4.8, Government Contract Files

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# ENVIRONMENTAL LAWS



## THAT IMPACT THE DISPOSAL PROCESS

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# ENVIRONMENTAL LAWS

- There are numerous Environmental Laws that impact the MANAGEMENT & DISPOSITION of Government Property In the possession of Contractors
- Some of these include:
  - NEPA - National Environmental Policy Act
  - CERCLA - Comprehensive Environmental Response, Compensation, and Liability Act
  - RCRA - Resource Conservation and Recovery Act
  - FFCA - Federal Facility Compliance Act
  - Other laws may impact the management & disposition of Government Property

2



## National Environmental Policy Act

- Became Law - January 1, 1970
- Basic Charter for protection of the environment
- Gave us the “Environmental Impact Statement” (EIS)
- Established the Council on Environmental Quality (CEQ), executive office of the President.



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## Hazardous Materials Transportation Act

- Passed -- 1975
- Enforcement responsibility is Department of Transportation
  - <http://www.phmsa.dot.gov/hazmat>
- DOT Requirements
  - shipping documents/manifest
  - container marking/labeling
  - vehicle placarding
  - record keeping



4



## Resource Conservation and Recovery Act (RCRA) (1976)

- First substantial effort by Congress to establish a regulatory structure for the management of **HAZARDOUS WASTES**.
- Established the concept of “**CRADLE TO GRAVE**” Responsibility Concept of dealing with Solid Waste and Hazardous Waste
  - Regulates Transportation and tracking of hazardous waste
  - Establishes standards for Storage and treatment of Hazardous waste by Generator
    - <http://www.epa.gov/lawsregs/laws/rcra.html>



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## WASTE DEFINITIONS UNDER RCRA

- 40 CFR 261 Subpart C
  - Identification and Listing of Hazardous Wastes
- Solid Waste is identified as
  - liquid
  - solids
  - contaminated gases



[http://www.access.gpo.gov/nara/cfr/waisidx\\_06/40cfrv25\\_06.html](http://www.access.gpo.gov/nara/cfr/waisidx_06/40cfrv25_06.html)

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## HAZARDOUS WASTE DEFINED UNDER RCRA

- 40 CFR part 261.21- 261.24 Subpart D
- Waste is defined as Hazardous if it displays any of the following characteristics:
  - **Ignitability**
  - **Corrosivity**
  - **Reactivity**
  - **Toxicity**



<http://www.epa.gov/epawaste/inforesources/online/index.htm>  
On-line database

7



## CERCLA 1980

- **Comprehensive Environmental Response Compensation, and Liability Act – (Superfund!)**
- **Became Law – Dec 11, 1980**
  - Amended by Super Fund Amendments and Reauthorization Act (SARA) - 1986
  - **Established Super Fund sites**
    - <http://www.epa.gov/superfund/sites/npl/index.htm>



WPAFB is a  
SUPERFUND  
SITE

8



## CERCLA 1980

- Super Fund is supported by from **fines** and **assessments** from violators

– <http://www.epa.gov/superfund/policy/cercla.htm>



RCRA – Up to \$32,500  
Per Incident – Per Day  
SARA- Up to \$27,500  
Per Incident – Per Day  
TITLE 40 CFR 19

9



## Federal Facility Compliance Act (FFCA)

- 1992 -- PL 102-386 Amends RCRA
- **Waives** the Federal Government's **Sovereign Immunity** with respect to Federal, State, and local laws relating to RCRA
  - Government is required to follow state or local laws if state RCRA program is approved by EPA
  - **All levels of EPA** can levy fines for violations
    - FEDERAL
    - STATE
    - LOCAL



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## Occupational Safety and Health Act (OSHA)

- Created in 1970
- 29 CFR 1910.1200
- Created MSDS
  - Material Safety Data Sheet
- Designed to provide workers with information or real time data about exposures from workplace hazardous material and hazardous waste



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## SOME USEFUL INFORMATION FOR PROPERTY PROFESSIONALS

- **MATERIAL SAFETY DATA SHEET INFORMATION**
  - Safe handling procedures
  - Control Measures
  - Emergency and first aid procedures
  - Manufacturer's and other information
    - name
    - address
    - telephone number
    - date of MSDS preparation or the last change
- Useful to have discussion in the contractor's PMS



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## APPLICATION TO CONTRACTORS WITH GP

- There is no direction in the GP Clause as to HOW Hazardous Wastes are to be disposed of by the Contractor.
  - How then are contractor's to dispose of HAZARDOUS WASTES?
  - In accordance with all applicable FEDERAL, STATE and LOCAL LAWS!



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## DISPOSAL OF HW

- Who is responsible for **PAYING** for the Disposal of HAZARDOUS WASTES?
- The **Government!**
- How is this done?
  - PLCO directs contractor to prepare proposal for disposal costs.
  - CO is required to obtain funding for PLCO and Contractor.



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## CASE LAW

- **DICKERSON versus Hollaway**
  - 685 F.Supp. 1555, 27 ERC 2189, 17 Env'tl. L. Rep. 21,076 \*1556
    - DICKERSON, INC., et al., Plaintiffs, v.
    - Floyd C. HOLLOWAY, et al., Defendants.
    - No. 82-244-Civ-3-14.
- **Hazardous wastes generated by the Government**

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## DICKERSON v. HOLLOWAY

- **Plaintiff:**
  - Dickerson
    - A Road Repair Company
- **Defendant**
  - US Government (DRMS/O)
- **The Other Players...**
  - Holloway Corp. And AEC Corp.

DRMS Awarded  
K to AEC for  
Dispo of Haz. Wastes  
PCB contaminated  
Materials

AEC sold PCB Oil  
To Holloway

Holloway provided  
PCB Oil to  
Dickerson

Who is responsible for the Contamination of  
Dickerson's Equipment?

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## DICKERSON v. HOLLOWAY

- **THE GOVERNMENT!!!**
  - The court States, “...we conclude the government is liable for its failure to supervise AEC to ensure proper disposal of the PCB waste fluids.”



**WHY?**  
**“Cradle to Grave.”**

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## A GOOD RESOURCE!

- **HAZARDOUS TECHNICAL INFORMATION SERVICES**
  - Good Source of Information regarding **HAZARDOUS MATERIALS** and **WASTES**
    - <http://www.dscr.dla.mil/ExternalWeb/UserWeb/AviationEngineering/HTIS/>
- **NUCLEAR REGULATORY COMMISSION**
  - <http://www.nrc.gov/>



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# DEMILITARIZATION (aka) “DEMIL”



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## What is DEMIL?

**“Demilitarization”**

**Rendering a product unusable  
for, and not restorable to, the  
purpose for which it was  
designed or is customarily used**

FAR 45.101 & 52.245-1(a)



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## WHAT DRIVES DEMIL?

1. FAR Part 45.6 & FAR clause 52.245-1
2. International Traffic in Arms (ITAR) (22CFR) **(LAW!!)**
3. Export Administration Regulations (EAR) (15CFR) **(LAW!!)**
4. Contract Direction and Funding

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## DEMIL - FAR Requirements

- FAR 45.602-1 Inventory Disposal Schedules
- FAR 45.604 Disposal of surplus property
- FAR 52.245-1(j)(8) Disposition instructions

**The CO may require the Contractor to demilitarize with equitable adjustment!**

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## DEMIL - DFAR Requirements

- **DFARS 245.604 (3) -**  
The contractor **shall demilitarize** contractor inventory possessing offensive or defense characteristics, and not required within the DoD, in accordance with **Defense Demilitarization Manual, DoD 4160.21-M-1**



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## DEMIL - DoD Trade Security Control Policy/Guidance

- 
- **DoD Instruction 2030.08, “Trade Security Controls on DoD Excess and Surplus Personal Property”**
  - Used in conjunction with the DoD DEMIL Manual, DoD 4160.21-M-1



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## DEMIL – ITAR



- International Traffic in Arms Regulation (22CFR)



- Controlled by the Department of State
- Used in conjunction with the DoD DEMIL Manual, DoD 4160.21-M-1

**(NOTE TO NON-DOD AGENCIES!!)**

- Munitions List Items (MLI)

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## DEMIL – EAR



- Export Administration Regulations (EAR) (15CFR)



- Controlled by Department of Commerce
- Commerce Controlled List (CCL) items  
*(Replaced the Strategic List Items (SLI))*

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## DEMIL – The Contract

1. ***(If it says anything)*** What does it say about DEMIL?
2. Is there any funding for DEMIL?
3. If the contract says nothing about DEMIL and there is no funding for DEMIL here's the question -

**IS DEMIL CONTRACTUALLY BINDING OR NOT?**



## DEMIL “Players”

- Customer/Program Manager
- PCO
- QA
- PLCO
- Battle Creek (DLA) DEMIL
- Contractor Government Property Personnel
- WHO ELSE?
- WHAT ARE THEIR ROLES?



## DEMIL - Critical Aspects

### • POINTS OF DISCUSSION

1. Planning & Funding



2. DEMIL “Codes”



3. End Use Certificates



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## Planning & Funding DEMIL

• **PRE-AWARD** – The “Exception” rather than the “Rule!”

• Customer & PCO Responsibility



• **POST-AWARD** - An extra-contractual requirement

• PLCO (*The Beggar?*)

• ACO (*Bad News Messenger?*)

• PCO (*Stuckie?*)

• Customer (*Gone With the Wind?*)

• Contractor (*Left Holding the Bag?*)



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## Where does the DEMIL Process Start?



### Identification of Items...



1. in the contract that require DEMIL
2. by Contractor PMS, when GFP is listed on Inventory Disposal Schedule (SF 1428) and placement of the correct DEMIL Code in Block #16
3. by DLA Disposition Services if their use is specified by the contract for GFP disposal

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## Where does the Requirement for a DEMIL Code Come From?



### The Requirement Comes from...

- Defense Demilitarization Manual, DoD 4160.21-M-1, Appendix #3
  - “Demilitarization Codes to be Assigned to Federal Supply Items and Coding Guidance”



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## What's a DEMIL Code?

### The Definition of a DEMIL Code is...

- ***“A single character alpha code assigned by the Item Manager identifying the degree of demilitarization necessary prior to accomplishing final disposition of an item.”***



## Where does the DEMIL Code Go?

### It's Placed in the...

- **Inventory Disposal Schedule, Block #16 (SF 1428)**



## Who Does DEMIL Coding?

### It Depends...

1. Contractor - Though not a contractual requirement, some contractor's Property Management System contain this data or commercially via FEDLOG  
<http://www.dlis.dla.mil/govcontractor.asp>
2. Others - PLCO, DLA Disposition Services, PCO, Other?

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## Obtaining DEMIL Codes or More Coding Info

### Government folks...

- PCARSS
- FEDLOG (If your agency has access)
- Defense Logistics Info Service
  - DEMIL Coding Management Office (DCMO)  
(877) 352-2255 or DSN 661-4685
  - NOTE: DCMO will even do site visits for DEMIL determinations

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## CODE EXPLANATION

- **A** Non-MLI/Non-CCLI - Demilitarization not required
- **B** MLI (Non-SME) - Demilitarization not required but Trade Security Controls (TSCs) are required at disposition
- **C** MLI (SME) - Remove and/or demilitarize installed key point(s), as prescribed in this manual, or lethal parts, components and accessories

**MLI** – Munitions List Item  
**CCLI** - Commerce Control List Items  
(formerly called Strategic List Items or SLI)  
**SME** - Significant Military Equipment

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## CODE EXPLANATION

- **D** MLI (SME) - Total destruction of item and components so as to preclude restoration or repair to a usable condition by melting, cutting, tearing, scratching, crushing, breaking, punching, neutralizing, etc. (As an alternate, burial or deep water dumping may be used when coordinated with by the DoD Demilitarization Program Office.)
- **E** MLI (Non-SME) - Additional critical items/materiel determined to require demilitarization, either key point or total destruction. Demilitarization instructions to be furnished by the DoD Demilitarization Program Office.

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## CODE EXPLANATION

- **F** MLI (SME) - Demilitarization instructions to be furnished by the Item/Technical Manager
- **G** MLI (SME)- Demilitarization required - AEDA Demilitarization and will be accomplished prior to physical transfer to DLA Disposition Services. This code will be used for all unclassified AEDA items

**AEDA** - Ammunition, Explosives and Dangerous Articles

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## CODE EXPLANATION

- **P** MLI (SME) - Security Classified Item -- Declassification and any additional demilitarization and removal of any sensitive markings or information will be accomplished prior to accountability or physical transfer to a DLA Disposition Services. This code will also be assigned to classified AEDA items
- **Q** CCLI - Commerce Control List Items - Demilitarization not require. CCLIs are non-MLI and are controlled by the U.S. Department of Commerce through the Export Administration Regulations (EAR) and indicated on the Commerce Control List (CCL). These items are subject to Import Certification and Delivery Verification (IC/DV) control and other Trade Security Controls

**CCLI** - Commerce Control List Items  
(formerly called Strategic List Items or SLI)

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## VERIFICATION OF DEMIL ACTION

- Contractor Does DEMIL...
- The Government Role...
  - PLCO (*or Representative*) **SHALL** witness actual physical act of DEMIL
  - PLCO shall **Certify** that DEMIL was accomplished in accordance with DoD 4160.21-M-1

**IN WRITING!!!**

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## WHY?



**Talon Case**



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## DISPOSITION OF DEMIL ITEMS

- **When DEMIL'ed Surplus Items are sold...**
  - **BEFORE SALE COMPLETION** obtain a completed **End Use Certificate** (DLA form 1822), from **ALL** buyers of any MLI or CCLI (Old SLI) items



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## FINAL WORD OF ADVICE!!

- **If involved in ANY aspect of DEMIL...**

**TAKE  
DEMIL  
TRAINING  
!!!**



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## REFERENCES

- **Federal Acquisition Regulation Part 45**
- **International Traffic in Arms (ITAR) (22CFR)**
- **Export Administration Regulations (EAR) (15CFR)**
- **Defense Demilitarization Manual, DoD 4160.21-M-1**
- **Trade Security Controls on DoD Excess and Surplus Personal Property - DoD Instruction 2030.08**
- **Inventory Disposal Schedule (SF 1428)**
- **End Use Certificate (DLA form 1822)**

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## WEB-SITES

- **Defense Demilitarization Manual, DoD 4160.21-M-1 -**  
<http://www.dla.mil/dlaps/dod/416021m1/guide.asp>
- **DEMIL - DoD Trade Security Control Policy/Guidance-**  
[https://demil.osd.mil/demil\\_security\\_policy.asp](https://demil.osd.mil/demil_security_policy.asp)
- **Trade Security Controls on DoD Excess and Surplus Personal Property, DoD Instruction 2030.08 -**  
<http://www.dtic.mil/whs/directives/corres/html/203008.htm>
- **International Traffic in Arms Regulations 2008 -**  
[http://www.pmdotc.state.gov/regulations\\_laws/itar\\_official.html](http://www.pmdotc.state.gov/regulations_laws/itar_official.html)
- **Export Administration Regulations (EAR) (15CFR) -**  
[http://www.access.gpo.gov/bis/ear/ear\\_data.html](http://www.access.gpo.gov/bis/ear/ear_data.html)

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## WEB-SITES

- **Inventory Disposal Schedule - SF 1428 -**  
[http://contacts.gsa.gov/webforms.nsf/0/473A8A607DE5739485256A260052A802/\\$file/sf1428.pdf](http://contacts.gsa.gov/webforms.nsf/0/473A8A607DE5739485256A260052A802/$file/sf1428.pdf)
- **FEDLOG -** <http://www.dlis.dla.mil/govcontractor.asp>
- **End Use Certificate - DLA Form 1822 -**  
[www.drms.dla.mil/catalog/forms/form1822.pdf](http://www.drms.dla.mil/catalog/forms/form1822.pdf)
- **DoD DEMIL Training -** [https://aimtc-demil.npt.nuwc.navy.mil/demil\\_training.asp](https://aimtc-demil.npt.nuwc.navy.mil/demil_training.asp)

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## SPECIAL TOPICS



**Vehicle Transfers**



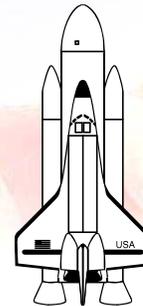
**Executive Order 12999**



**Precious Metals**



**Classified Items**



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## IMPORTANT NOTE

- **ALL DFARS REFERENCES ARE IN THE PROCESS OF BEING CHANGED, i.e., the DFARS Government Property requirements have been published in the Federal Register for comment – New Rules are forthcoming.**
- **ALL DFARS REFERENCES are from the EXISTING RULES!**

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## Vehicle Disposition

- Check the contract for any Special Disposal Requirements, i.e.,
  - Army,
  - Navy,
  - AF supplements to the FAR.
- If no directions in K and Vehicles are **GOVERNMENT PROPERTY** – then they go through reporting by KTR and disposal screening by PLCO
- SF 1428 or PCARSS

**NOTE: BE CAREFUL ABOUT LEASED VEHICLES!!! Remember if leased by the contractor they are NOT Government Property!**

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## Vehicle Disposition (Cont'd)

**Transfer governed by DFARS 245.7101-1!!**

- **Standard Form 97, Certificate of Release of a Motor Vehicle** (Agency Record Copy)
  - Used for transfers, donations, and sales of motor vehicles. The contracting officer (**In our world the PLCO is the Authorized Rep**) shall execute the SF 97\* and furnish it to the purchaser

**\*THIS IS A CONTROLLED, SEQUENTIALLY NUMBERED FORM!!**

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## Vehicle Disposition (Cont'd)

**Transfer of TITLE governed by DFARS 245.7309-5!!**

- (b) A Standard Form 97, Certificate of Release of a Motor Vehicle, (or a State certificate of title) shall be furnished for motor vehicles and motor-propelled or motor-drawn equipment requiring licensing.

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## Vehicle Disposition (Cont'd)

**DEMIL is governed by FAR 52. 245-1(j)(8)(ii)!!**

Ensure Government markings or identification tags are removed prior to disposal!!

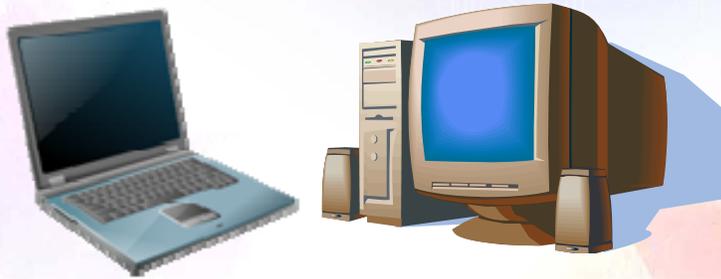


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## DISPOSITION of COMPUTERS



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## Executive Order 12999

- **Authorized by President Clinton**
  - Included the provisions of the Stevenson-Wydler Technology Innovation Act of 1980, as amended (15 U.S.C. 3701 *et seq.*),
  - Federal Property and Administrative Services Act of 1949, ch. 288, 63 Stat. 377,
  - The National Defense Authorization Act for Fiscal Year 1996, Public Law 104-106



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## Executive Order 12999

- The E.O. requires that we
  - “give highest preference to schools and nonprofit organizations, including community-based educational organizations, (“schools and nonprofit organizations”) in the transfer, through gift or donation, of educationally useful Federal equipment.”



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## Executive Order 12999

### DEFINITION of “Educationally useful Federal equipment”

- means computers and related peripheral tools (e.g., printers, modems, routers, and servers), including telecommunications and research equipment, that are appropriate for use in prekindergarten, elementary, middle, or secondary school education.
- It shall also include computer software, **where the transfer of licenses is permitted.**

**CAREFUL ABOUT SOFTWARE!!!**  
We generally **DO NOT** screen nor direct the disposition of Software

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## Executive Order 12999

**ADPE/IT/Computers – whatever you want to call them -- **Shall be processed through the disposal process****

- SF 1428 Submission Process
- DLA Disposition Services
- PCARSS

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## Executive Order 12999

### **45.602-2 Reutilization Priorities**

- Plant clearance officers shall initiate reutilization actions using the highest priority method appropriate for the property. Authorized methods, listed in descending order from highest to lowest priority, are—
  - (a) Reuse within the agency
  - (b) Transfer of educationally useful equipment, with GSA approval, to other Federal agencies that have expressed a need for the property;
  - (c) Transfer of educationally useful equipment to schools and nonprofit organizations (see Executive Order 12999, 15 U.S.C. 3710(i));

***Previously Discussed!!***

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## Executive Order 12999

- Donation of ADPE/IT/Computers takes place **AFTER AGENCY SCREENING** (Day 1 through 20)
- **PLCO** may direct donation
  - **SASPs**

Careful about coordination with State Agencies for Surplus Property SASPs!!

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## Executive Order 12999

- **INFORMATION SITE:**
  - <http://computersforlearning.gov/>
- **FUNDING FOR TRANSPORTATION**
  - Responsibility of Donee (FAR 45.603(c))



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## Executive Order 12999

### **CRITICAL REQUIREMENT FOR DoD!!**

#### **REMOVAL and DESTRUCTION OF HARD DRIVES**

- 8 January 2001 Deputy Secretary of Defense Letter
- Contractor Performs at the Direction of the PLCO
  - May Require Funding/Equitable Adjustment to contractor

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## PRECIOUS METALS!



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# PRECIOUS METALS

**Definition - means silver, gold, platinum, palladium, iridium, osmium, rhodium, and ruthenium.**

**New Slightly Shortened Definition**

*FAR 45.101*

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# PRECIOUS METALS

**WHO?**

- **The Secretary of Defense has assigned to the Director, Defense Logistics Agency (DLA), responsibility for the administration of the Defense Materiel Disposition Program, to include the Precious Metals Recovery Program and the Defense Demilitarization Program.**
- **<http://www.drms.dla.mil/pubaff/html/pmrp.html>**



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# PRECIOUS METALS

## WHY?

- DoD policy is for maximum participation in the Precious Metals Recovery Program (PMRP). DoD components shall furnish recovered precious metals contained in the DISC inventory to production contractors rather than use contractor-furnished precious metals whenever the contracting officer determines it to be in the Government's best interest. (See DoDD 4160.22, Recovery and Utilization of Precious Metals.)

DFARS 208.7302

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# PRECIOUS METALS

## Contractual Requirement?

WHERE DOES IT SAY A CONTRACTOR HAS TO CONTROL PRECIOUS METALS?

See next slide!!



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## PRECIOUS METALS

### Contractual Requirement!!

- **MANAGED** as GOVERNMENT property in accordance with contractor's PMS.
- **REPORTED** as required by FAR 52.245-1(j)(1)(B)
  - **Cannot** be processed through Approved Scrap Procedure
  - **Must be reported** on SEPARATE Inventory Disposal Schedules (IDS) 52.245-1(j)(3)(iii)(E)

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## PRECIOUS METALS

### *Instructions for Preparing and Submitting INVENTORY DISPOSAL SCHEDULE*

- **All property with recoverable quantities of Precious Metals**
  - On the Inventory Disposal Schedule
  - **MUST** be listed and specified on
    - **BLOCK 14 – ITEM DESCRIPTION**
      - PRECIOUS METALS
    - **BLOCK 17 – PROPERTY CLASSIFICATION**
      - PM – PRECIOUS METALS

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## PRECIOUS METALS

### Recovering Precious Metals

At the beginning of every fiscal year, the DLA Disposition Services will provide each contract administration office with disposition instructions for certain categories of precious metals-bearing property, including scrap and usable items containing recoverable quantities of these metals.

*DFARS 245.607-2*

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## PRECIOUS METALS

### Recovering Precious Metals

- The disposition instructions --
  - (A) Will remain in effect for the entire fiscal year, unless modified by DLA Disposition Services; and
  - (B) Will contain a fund citation to be used when disposition requires shipment of precious metals-bearing property for recovery.
    - (ii) Plant clearance officers shall obtain disposition instructions for precious metals-bearing property not covered by the annual disposition instructions from the Defense Reutilization and Marketing Service, Attn: DRMS-OC, 74 N. Washington Avenue, Battle Creek, MI 49017-3092.

*DFARS 245.607-2*

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## PRECIOUS METALS

### Precious Metals Disposal

- See DLA Disposition Services Letter
- Good Point of Contact:
  - Ms. Laura Green/DRMO
  - Precious Metals Recovery Program
  - *E-Mail - [Laura.Green@dla.mil](mailto:Laura.Green@dla.mil)*
  - 269-961-7071

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## CLASSIFIED ITEMS



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## CLASSIFIED ITEMS

- **SENSITIVE PROPERTY.**
  - Means property potentially dangerous to the public safety or security if stolen, lost, or misplaced, or that shall be subject to exceptional physical security protection, control, and accountability such as **classified property**, weapons, ammunition, explosives, controlled substances, radioactive materials, hazardous materials or wastes or precious metals

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*FAR 45.101*

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## Restrictions on Purchase or Retention of Contractor Inventory

- Classified contractor inventory shall be disposed of in accordance with applicable security regulations or as directed by the contracting officer.

**If you are working “Classified” programs  
The Program Office and PCO will provide guidance.**

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*DFARS 245.604(4)*

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## Instructions for Preparing and Submitting INVENTORY DISPOSAL SCHEDULE

### **Classified property**

- **All property bearing a security classification**
  - **MUST** be listed and specified on
    - **BLOCK 16 – DEMIL CODE**
    - **BLOCK 17 – PROPERTY CLASSIFICATION**
      - **CL -- CLASSIFIED**

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## CLASSIFIED ITEMS

- **CONCERNS:**
  - **May be Affected by DEMIL requirements**
  - **PCO Has ULTIMATE RESPONSIBILITY**
  - **Be Careful with ADPE/IT stuff!!**

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## SUMMARY

**Remember that these items are handled differently – BUT THERE IS GUIDANCE FOR THEIR DISPOSITION!**

- **Vehicle Transfers**
- **Executive Order 12999**
- **Precious Metals**
- **Classified Items**



2/23/2011

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