



## Environmental Management Consolidated Business Center (EMCBC)

### Subject: Contract Property Administration

Implementing Procedure

APPROVED: (Signature on File)

EMCBC Director

ISSUED BY: Office of Technical Services and Asset Management

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#### 1.0 PURPOSE

The purpose of this procedure is to ensure contractor property management systems successfully meet the requirements of the Federal Acquisition Regulations (FAR), Department of Energy Acquisition Regulation (DEAR), and contract terms and conditions relating to Government property in the possession of DOE contractors. It also provides guidance for Property Administrators to perform other specific responsibilities.

#### 2.0 SCOPE

The scope shall be determined by the complexity of the contractor's property control system, the amount of Government property, and other conditions revealed by review of the contracts and correlation of their provisions with the property control system. Use of commercially established property management practices are encouraged unless they are in conflict with contractual requirements or create an unacceptable risk to the Government.

#### 3.0 APPLICABILITY

This procedure establishes a standard approach for Property Administrators to administer the terms of the contract provisions that specify the contractor's obligation to acquire, control, use, care for, report, and dispose of Government property, and to advise contracting activities and other DOE officials of the known level of efficiency of the contractor's management of Government property.

#### 4.0 REQUIREMENTS AND REFERENCES

##### 4.1 Requirements:

- FAR 1.102, Statement of Guiding Principles
- FAR 4.8, Government Contract Files
- FAR 45, Government Property
- FAR 52.245-1, Government Property
- FAR 52.245-9, Use and Charges
- DEAR 970.5245-1, DOE Management and Operating Contracts
- DOE O 580.1, DOE Personal Property Management Program, Attachment 2
- EMCBC Implementing Procedure 540-10, Closeout of Inactive Award Instrument

#### 4.2 References:

- DOE G 580.1-1, DOE Personal Property Management Guide
- DOE Acquisition Planning Guide, June 2010
- DOE Financial Management Handbook, July 2011
- American Society for Testing and Materials International (ASTM)
- Government Accounting Office (GAO)
- Generally Accepted Auditing Standards (GAAS)
- American Institute of Certified Public Accountants (AICPA)

#### 5.0 DEFINITIONS AND ACRONYMS

- 5.1 Administratively Controlled: are those personal property items for which there is no Departmental requirement for formal property records to be maintained, but for which DOE offices have determined that property records will be maintained for various control purposes.
- 5.2 Contractor: an on-site contractor, such as a management and operating (M&O) contractor, an environmental restoration and management contractor, or other major prime contractor located at a DOE site.
- 5.3 Contractor Acquired Property (CAP): means property acquired, fabricated, or otherwise provided by the contractor for performing a contract and to which the Government has title.
- 5.4 Contracting Officer (CO): means a person with the authority to enter into, administer, and/or terminate contracts and make related determinations and findings. The term includes certain authorized representatives of the Contracting Officer acting within the limits of their authority as delegated by the Contracting Officer.
- 5.5 Contractor's Managerial Personnel: means the Contractor's directors, officers, managers, superintendents, or equivalent representatives who have supervision or direction of all or substantially all of the Contractor's business; all or substantially all of the Contractor's operation at any one plant or separate location; or a separate and complete major industrial operation.
- 5.6 Equipment: for property management purposes, any item of personal property having a unit acquisition cost of \$5,000 or more and having the potential for maintaining its integrity (i.e., not expendable due to use) as an item.
- 5.7 Government Property: means all property owned or leased by the Government. Government property includes both Government-furnished property and contractor-acquired property.
- 5.8 Government Furnished Property (GFP): means property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract.
- 5.9 Hazardous Property: any personal property, including scrap or waste, that is ignitable, explosive, corrosive, reactive, or toxic because of its quantity, concentration, or physical, chemical, or infectious characteristics, or that is deemed a hazardous material, chemical substance or mixture, or hazardous waste under the Hazardous Material Transportation Act, the Resource Conservation

and Recovery Act, or the Toxic Substances Control Act. Such property can be in solid, liquid, semi-liquid, or contained gas form and may cause or significantly contribute to an increase in mortality or illness, or pose present or potential hazards to human health or the environment when improperly used, treated, stored, transported, disposed of, or mismanaged.

- 5.10 **High-risk Property:** High-risk personal property must be managed in accordance with the DOE Property Management Regulation (41 CFR 109). Categories of high-risk property include:
- Automatic Data Processing Equipment use to process classified information, unclassified controlled nuclear information or export controlled information
  - Especially Designed or Prepared Property for use in the nuclear fuel cycle
  - Export Controlled Property and Export Controlled Information
  - Hazardous Property
  - Nuclear Weapon Components or Weapon-Like Components
  - Proliferation-Sensitive Property
  - Radioactive Property and Special Nuclear Material
  - Unclassified Controlled Nuclear Information
- 5.11 **Industry Leading Practice (ILP):** policies, principles, standards, guidelines and procedures that contribute to the highest, most resource-effective performance of a discipline. Practices are based upon a broad range of experience, knowledge and extensive work with industry leading clients.
- 5.12 **Property:** means all tangible property, both real and personal.
- 5.13 **Property Management System Audit (PMSA):** An audit, performed by the Property Administrator (PA), of the contractor's approved management control procedures for the management of Government property.
- 5.14 **Personal Property:** means property of any kind or interest in it except real property, records of the Federal Government, and naval vessels.
- 5.15 **Property Administrator (PA):** means an authorized representative of the Contracting Officer appointed, in writing, responsible for administering the contract requirements and obligations relating to Government property in the possession of a contractor, including, but not limited to, evaluating contractor property management programs and making recommendations concerning acceptability of the contractor property management systems.
- 5.16 **Real Property:** means land and rights in land, ground improvements, utility distribution systems, and buildings and other structures. It does not include foundations and other work necessary for installing special tooling, special test equipment, or plant equipment.
- 5.17 **Sensitive Property:** means personal property, regardless of value, that requires special control and accountability because of susceptibility to unusual rates of loss, theft, or misuse, or due to national security and export control considerations. Items include, but are not limited to, weapons, ammunition, explosives, classified property, computers, personal digital assistants, other information technology equipment and removable components with memory capability.

- 5.18 Voluntary Consensus Standards (VCS): 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.

## 6.0 RESPONSIBILITIES

### 6.1 Responsibilities of the PA include:

- 6.1.1 Administer contract provisions, requirements, and obligations relating to Government property in the possession of contractors.
- 6.1.2 Participate in acquisition planning and post-award reviews.
- 6.1.3 Review contracts assigned for property administration to ensure property is identified in the contract and that general and special contract provisions dealing with property are included, when applicable.
- 6.1.4 Ensure that contractor property organizations are aware of and understand applicable provisions of Government contracts dealing with property.
- 6.1.5 Establish contract property control data files.
- 6.1.6 Provide the CO with recommendations concerning contractor liability for loss, damage, or destruction of Government property on the basis of contract terms and conditions.
- 6.1.7 Investigate and determine the contractor's liability for Loss, Theft, Damage, or Destruction (LTDD) of Government property on the basis of the contract terms and conditions as authorized by the CO's appointment.
- 6.1.8 Perform functions as prescribed by FAR 45 and 52.245-1.
- 6.1.9 Develop and apply a property systems audit program to assess the effectiveness of contractor Government property management systems.
- 6.1.10 Evaluate the contractor's property management system; approving the system or recommending disapproval where systems create an unacceptable risk of loss, damage, or destruction of property.
- 6.1.11 Advise the CO and other affected Government managers regarding the contractor's noncompliance with approved procedures, contractual requirements, and other significant problem areas.
- 6.1.12 Notify the CO in the event of excessive acquisition by the contractor and recommending cost disallowance, or other appropriate remedy.
- 6.1.13 Perform program or agency-oriented reviews of property acquisition, control, management, use, and disposition as dictated by contracting conditions where applicable.

- 6.1.14 Support and assist the contractor's management, COs, program managers, and other functions in resolution of property administration matters.
- 6.1.15 Provide guidance, counsel, and direction to Government and contractor managers and technicians related to regulatory and contractual requirements for management of Government property.
- 6.1.16 Ensure the contractor promptly reports excess Government property for disposition in accordance with contract provisions.
- 6.1.17 Obtain and review contractually required reports of property for all assigned contracts.
- 6.1.18 Prepare and submit other reports prescribed by higher headquarters.
- 6.1.19 Authorize the transfer of excess property between contract projects.
- 6.1.20 Assist the EMCBC Office of Financial Management with any anomalies between the contractor's financial reports and the Departments accounting system.

## 7.0 GENERAL INFORMATION

Contract property management must be based on the objective of maximizing return on investment in property. It must consider the types and amounts of property, program criticality, an assessment of areas of greatest risk to the Government, and past contractor performance. It must also minimize the administrative burden for the Government and contractor. Use of commercially established property management practices are encouraged unless they are in conflict with contractual requirements or create an unacceptable risk to the Government.

## 8.0 PROCEDURE

### 8.1 Acquisition Planning:

The PA should participate in acquisition planning during the pre-award phase. The Department will realize significant savings of resources and other expenses by employing sound property management practices in the early stages of an acquisition strategy. It is essential that pre-award planning and post-award management of Government personal property be consistent. At a minimum, the following personal property management activities should be addressed during the acquisition planning phase:

- 8.1.1 Discuss and help determine the personal property requirements or needs relative to personal property. Based on those needs, explain any government asset control issues and how they relate to the project or activity.
- 8.1.2 Evaluate accountability controls for those assets used in direct fabrication of the project end item or deliverable and those assets used in support of the project or activity.
- 8.1.3 Ensure a material tracking system is provided for and the responsibility for that system is assigned.

- 8.1.4 Develop a process that will provide access to the Department and Federal excess screening systems.
  - 8.1.5 Ensure that sensitive property is defined, controlled, and managed in a manner consistent with DOE Order 580.1.
  - 8.1.6 Assist in determining equipment/materials disposition path(s) to be used.
  - 8.1.7 Introduce cost effective disposal strategies and ensure the proposed disposal avenues meet all regulatory requirements.
  - 8.1.8 Develop and provide a project close out checklist identifying the areas that will need to address in order to reconcile the personal property account at the end of the project or activity.
  - 8.1.9 Identify the end-user/customer for final transfer and acceptance and of project equipment.
  - 8.1.10 Ensure the correct property clauses are incorporated based on the type of contract to be awarded.
- 8.2 Review Assigned Contracts:
- 8.2.1 The PA shall immediately review any assigned contracts to determine the types, quantity and value of Government property. The review shall include identifying the property clauses that are included in the contracts. If the contract does not include the appropriate Government property clauses, the PA shall report the deficiency to the CO.
  - 8.2.2 The PA shall establish contract property control data files, property administration file, and PMSA files in accordance with FAR 4.8, Government Contract Files.
  - 8.2.3 The PA shall also attend post-award reviews to ensure that contractor property organizations are aware of and understand applicable provisions of Government contracts dealing with property. Request that processes be provided for evaluation and compliance with voluntary consensus standards, industry leading practices, applicable regulations and contractual requirements. Discuss the contractor's responsibilities regarding Government property under the contract, including any specialized controls, and the extent of their liability for loss, theft, damage or destruction of Government property, including conditions where the Government's assumption of risk may be withdrawn. The PA should also discuss the processes of the system audits in relation to the contractor's property management procedures.
- 8.3 Evaluate New Contractors:
- 8.3.1 The PA shall review the contractor's policies and procedures within 30 days of receipt from the contractor, and conduct a PMSA within 12 months from the date the new contractor received the contract that provided for Government property. If the contractor has sensitive property, the PA shall conduct a PMSA within six months from the date the new contractor received the contract that provided the sensitive property.

8.3.2 The PA shall perform an initial review of the contractor's property management system within one year after the effective date of the contract, unless the contract is an extension, renewal, or a follow-on contract. The purpose of the initial review is to ensure the contractor's property management system is consistency with the FAR and contract terms and conditions. Normally, this requires the PA to visit the contractor's place of operation to determine that the property system provides adequate controls for the Government property to be furnished or acquired. The PA should work collaboratively with the contractor to ensure an understanding of the contractor's operation and use of voluntary consensus standards and industry leading practices. The ASTM-International standards are generally acceptable for managing Government property. The PA should make any necessary tests of the contractor's application and compliance with their processes. The contractor's plans and systems should enable successful demonstration of outcomes to the following actions in accordance with FAR 52.245-1(f):

- Acquisition of property
- Receipt of Government Property
- Records of Government Property
- Physical Inventory
- Subcontractor Management
- Reports
- Relief of Stewardship Responsibility
- Utilization of Government Property
- Maintenance
- Contract Property Closeout

8.3.3 If the contractor's policies and procedures do not satisfy the contractual property management requirements, the PA shall cite this as a system deficiency and issue an inadequacy determination. If the PA's initial assessment reveals that the contractor's policies and procedures appear to meet contractual requirements, the PA shall document that assessment in a memorandum for record or in the PMSA narrative.

#### 8.4 Types of Oversight:

##### 8.4.1 Standard Oversight:

- Standard oversight of an off-site contractor is performed when either of the following conditions applies:
  - The total acquisition value of the personal property at the contractor's facility exceeds \$500,000.
  - The property is sensitive or high risk in nature.
- When performing standard oversight, the PA visits the facility where the property is located to observe and assess:
  - The status of the DOE property at the facility.
  - The personal property management practices of the off-site contractor.

#### 8.4.2 Limited Oversight

- Limited oversight (by written correspondence) of a DOE off-site contractor may be performed when:
  - The total acquisition value of the DOE personal property at the contractor's facility is \$500,000 or less.
  - The property is not sensitive or high risk in nature.
  - The off-site contractor has demonstrated satisfactory property management practices in the past and
  - Certifies in writing that the status of the DOE-owned personal property is satisfactory.
- When limited oversight is conducted, periodic visits (no less than every three years) should be made to the facility where the property is located to:
  - Assess informally the personal property management practices of the contractor.
  - Verify that the property is being adequately protected and used for the purpose authorized by the contract.

#### 8.5 Scheduling of PMSAs:

At the beginning of each fiscal year, the PA will prepare a schedule showing the contractor's name and the projected month in which each system audit is to take place. The PA should coordinate with the contractor and subsequently notify the contractor in writing of the planned dates for the system audit no later than 30 days before the commencement of the review. A system audit may be rescheduled if the timing of the review will adversely impact the contractor. The PA should ensure that this rescheduling does not delay performance of the review past the end of the fiscal year. Once scheduled, the PA shall schedule and complete the PMSA within the fiscal year.

#### 8.6 Planning of Property Management System Audit:

- 8.6.1 Once determined that a contractor will be reviewed, a system audit plan should be developed for the contractor's property management system. The plan should provide for audit and should be augmented to cover responsibilities imposed by new contracts or changing conditions.
- 8.6.2 The PA must develop and determine the outcomes, process segments and criterion of the contractor's property system that warrant examination. Only those outcomes and process segments applicable to the contractor, the types of property accountable, and the activities involved, need to be subject to review. Reviews should exempt limited dollar thresholds, consistent with the contractor's property plan and procedures. Activity, types of property, complexity of the contractor's system, risk to the Government, and previous experience regarding the adequacy of contractor controls are factors the PA should consider in determining the extent and scope of the system audit plan. Before the initiation of any system audit, the PA should establish a system audit plan that should provide, as a minimum:

- A listing of outcomes and criteria: identifying processes applicable or to be deferred.
- A listing of line items that may be subject to the audit.
- Evaluation of the procedures and property management system processes applicable to the outcomes to be examined, noting any portions thereof that should be reviewed with operating personnel for possible updating.

8.6.3 At the entrance conference held with contractor managerial personnel, the PA should inform the contractor of the timeframe for performance, outcomes subject to review, and other pertinent items; e.g., previously disclosed deficiencies, new contractual requirements, etc. PAs are encouraged to discuss proposed criteria with contractors in advance of system audit and to provide contractors with a list of criteria to be used. The contractor should inform the PA of any deficiencies during self-assessments and any corrective action taken.

#### 8.7 Conduct Property Management System Audit (PMSA):

The audit of a contractor's property management system during contract performance is a critical responsibility assigned the PA. It is through this audit that the PA determines whether the contractor is effectively and efficiently complying with their Property Plan. This audit should ensure and drive for best value to the Government based upon FAR Part 1 pertaining to the Statement of Guiding Principles for the Federal Acquisition Systems. Inherent in these principles is the need for meaningful collaboration between the Property Administrator and the Contractor. The audit should be conducted in accordance with this procedure and generally accepted auditing standards. (Reference GAO yellow book) Generally Accepted Auditing Standards, or GAAS, developed by the AICPA, consisting of general standards, standards of field work, and standards of reporting, along with interpretations.

- 8.7.1 Sampling: The PA should objectively evaluate the sample for defects that impact the system. Minor defects, those that are clerical or immaterial in nature, should not be the basis for finding a sample item, outcome, or process segment inadequate. The PA shall use appropriate sampling techniques to conduct the PMSA as provided in Attachment 11.1.
- 8.7.2 Test Property Management System: For each of the following required elements of the contractor's property management system, the PA shall evaluate the adequacy of the contractor's policies, procedures, and controls, and perform sufficient testing to ensure that the controls and procedures are working as intended. Only applicable elements need be reviewed. The PA shall apply statistical sampling to those annotated with a (I) and judgment sampling for those with a (II). The PA may waive the review of a required element of the contractor's property management system if the element is considered low risk. The PA shall document the results of the evaluation and testing; documentation should be sufficient to substantiate that the controls and procedures were tested, and that sufficient testing was performed to validate that the controls and procedures were working as intended.

- *Acquisition.* Contractor documents should provide outcomes that show all Government property was acquired consistent with its engineering, production planning, and material control operations, disclosed practices. The contractor is required to document that all property was acquired consistent with engineering, production planning, and material control operations. To test for compliance, the PA shall examine the contractor's fabrication and material requisition controls and procedures and perform sufficient testing to ensure that the contractor has:
  - Contractual authority for the acquisition of material including those involving Government sources, purchase orders, transfer documents, petty cash documents, fabrication orders, and engineering change proposals; and for the acquisition of equipment, Special Tooling and Special Test Equipment. (I)
  - Properly maintained files that reflect the status of requisitions and other acquisition documents, and demonstrated appropriate follow-up actions. (I)
  
- *Receiving.* The contractor is required to document the receipt of Government property, record the information necessary to meet the record reporting requirements of the clause at FAR 52.245-1, identify as Government owned in a manner appropriate to the type of property (e.g., stamp, tag, mark, other), and manage any discrepancies incident to shipment. To test for compliance, the PA shall examine the contractor's receiving controls and procedures and perform sufficient testing to ensure that the contractor:
  - Promptly examine and prepare receiving reports that document receipt of the property, quantity received, condition of the property, shipping data, and date received. (I)
  - Obtains the carrier's signature when shortages or other discrepancies are identified at the time of delivery. (II)
  - Promptly provides the required written statement to the PA that contains all relevant facts, such as cause or condition and recommended courses of action when overages, shortages, damages or other discrepancies are discovered upon receipt of Government-furnished property. (I)
  - Takes actions necessary to adjust for overages, shortages, damages, and other discrepancies upon receipt of contractor-acquired property. (I)
  - Reconciles property received with documentation, e.g., purchase orders, and packing lists. (I)
  - Promptly distributes receiving reports to designated control points and records the Government property in the property control records. (I)
  - Adequately protects and stores property during the receiving process. (I)
  - Properly segregates, stores, and records returnable and reusable containers in the property control system. (I)
  
- *Records.* The contractor is required to create and maintain records of all Government property accountable to the contract, including Government-furnished and contractor-acquired property. To test for compliance, the PA shall examine the contractor's property management record-keeping controls and procedures and perform sufficient testing (records-to-floor and floor-to-records) to ensure that the contractor's records provide a complete, current, and auditable record of all transactions, and the records contain:

- The name, part number and description, manufacturer, model number.
  - Quantity received (or fabricated), issued, and balance-on-hand.
  - Unit acquisition cost.
  - Unique-item identifier or equivalent if required by the contract clauses.
  - Unit of measure.
  - Accountable contract number or equivalent code designation.
  - Location.
  - Disposition.
  - Posting reference and date of transaction.
  - Date placed in service (if applicable).
- *Records of Sensitive Property.* The PA shall perform annual on-site reviews of Records, Storage, Utilization and Physical Inventories at contractors with Arms, Ammunition & Explosives (AA&E) in their possession. The PA shall also perform contractor visits for all closeout actions involving AA&E. The contractor procedures should provide specific and detailed requirements, particularly with regard to receipt, accountability, in-process control, storage, movement and protection, physical security, periodic inventories, disposition and thorough investigation of inventory shortages or losses. The PA shall ensure that the contractor's procedures require the immediate reporting (telephone or email) of LTDD of Arms, Ammunition & Explosives to the PA. Such reporting should be confirmed in writing as soon as possible. The PA shall also notify the FBI, BATF, and local police, as appropriate.
  - *Physical Inventory.* The contractor is required to periodically perform, record, and disclose physical inventories results. The contractor is also required to perform a final physical inventory upon contract completion, unless waived by the PA, or termination. To test for compliance, the PA shall examine the contractor's physical inventory controls and procedures and perform sufficient testing to ensure that the contractor:
    - Performs required physical inventories. (II)
    - Generally requires personnel other than those who maintain the records or are responsible for the custody of the property to perform the physical inventories.
    - Performs physical inventories promptly upon contract completion or termination, unless waived by the PA. (II)
    - Locates and counts property; compares the results of the physical inventories to property control records; properly records losses and adjustments to the property control records; and discloses the overall results. (I)
    - Performs physical inventories of property designated as "sensitive" as frequently as conditions warrant, but no less than annually, to obtain continuous control and agreement between record balances and actual quantities on-hand. Periodic inventory practices employed for non-sensitive property, e.g., cyclic, are generally not adequate for sensitive property. (I)
  - *Relief of Stewardship.* The process used for the proper relief of accountability granted the contractor for Government Property. Unless the contract provides otherwise, the Contractor should be relieved of stewardship responsibility for Government property when such property is; 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; or the PA granted relief of responsibility for loss, theft, damage, or destruction of Government property.

- *Subcontractor Control.* The contractor is required to award subcontracts that clearly identify assets to be provided and ensure proper flow down of contract terms and conditions, e.g., extent of liability for LTDD of Government property. To test for compliance, the PA shall examine the contractor's subcontract controls and procedures and perform sufficient testing to ensure that the contractor:
  - Includes the appropriate flow-down clauses and instructions in its subcontracts. (I)
  - Conducts periodic reviews to determine the adequacy of the subcontractors' property management systems. (II)
  - Properly administers the risk-of-loss and other provisions flowed-down to subcontractors. (I)
  
- *Reports.* The contractor is required to have a process to create and provide reports of discrepancies, LTDD, physical inventory results, audits and self-assessments, corrective actions; and other property related reports directed by the contracting officer in the contracts. To test compliance, the PA shall examine the contractor's report preparation controls and procedures, and perform sufficient testing to ensure that the contractor promptly investigates and furnishes contractually required reports. This includes reporting of all incidents of LTDD; such reports must include:
  - Date of incident if known.
  - The name, description, manufacturer, model number, and NSN if applicable.
  - Quantity.
  - Accountable Contract number.
  - A statement indicating current or future need.
  - Acquisition costs or if applicable, estimated scrap proceeds, estimated repair or replacement costs.
  - All known interest in commingled property.
  - Cause and corrective actions take or to be taken to prevent recurrence.
  - A statement that the contractor will return to the Government any amounts that the contractor may receive from insurance for the lost, stolen, damaged, or destroyed Government property.
  - Copies of all supporting documentation.
  - Last known location.
  - A statement that the property did or did not contain sensitive or hazardous material and proof that the appropriate agencies were notified if the property contained sensitive or hazardous material.
  
- *Utilization.* The contractor is required to utilize, consume, move, and store Government property only as authorized by the contract. The contractor is also required to promptly report Government property that is excess to contract performance. To test for compliance, the PA shall examine the contractor's controls and procedures and perform sufficient testing to ensure that the contractor:

- Properly authorizes utilization, movement and storage of property. (I)
- Uses property only as authorized by the contract. (I)
- Properly determines and allocates rental charges. (II)
- Consumes quantities that are reasonable compared to requirements such bills of material, requirements lists, or established scrap rates. (I)
- *Maintenance.* The contractor is required to properly identify, disclose, and perform normal and routine preventative maintenance and calibration, and to report the need for replacement and/or capital rehabilitation. To test for compliance, the PA shall examine the contractor's controls and procedures and perform sufficient testing to ensure that the contractor:
  - Complies with current technical publications for maintenance of Equipment, ST and STE. (I)
  - Properly conducts periodic inspections and schedules appropriate periodic maintenance and calibration. (I)
  - Receives Contracting Officer authority for capital rehabilitation and replacement. (II)
- *Reporting Deficiencies.* If the PA identifies a deficiency, the PA shall:
  - Assess the significance of any identified deficiencies in the contractor's property management system. The PA shall find the deficiency to be significant if the deficiency indicates that the contractor's property management system cannot be relied upon to control, use, preserve, protect, repair, or maintain the property in accordance with the terms of the contract. Report the deficiency to the appropriate level of contractor management. For minor deficiencies, e.g., clerical and posting errors, the PA should work with the contractor personnel responsible for the required element of the contractor's property management system where the deficiency was identified. If those personnel fail to resolve the minor deficiency within a reasonable time, the PA should consider elevating the minor deficiency to the contractor's manager that is responsible for the contractor's overall property management system.
  - For significant deficiencies, the PA shall report the deficiency to managerial personnel as defined in FAR 45, require the contractor to provide a corrective action plan that includes a root cause assessment for any identified significant deficiencies, and notify the CO.
  - The PA shall issue a system status letter to formally notify the contractor of the current status (adequate or inadequate) of the property management system within ten business days of the exit conference.

8.7.3 Conduct Exit Conference. Upon completion of the system audit, the PA should conduct an exit conference with the contractor's managerial personnel to discuss the overall results of the system audit. The PA shall document the results of the exit conference in the supporting assessment files. In addition, this conference must also address any outcome or segment in which the adequacy of outcomes, processes, or the application thereof was found to be inadequate. The period of time for corrective action will normally be established at 90 days. This time frame may vary, and may be increased or

decreased, dependent upon the complexity and nature of the corrective action(s) required and the impact of the inadequacies involved. When the PA is not successful in obtaining compliance with recommendations for corrective actions, the PA will advise the CO by memorandum that should include:

- A specific, concise documented statement of open issues.
- Assessment of the impact on contract performance.
- A statement of the contractor's position related to the deficiencies.
- Recommendations for action.

#### 8.7.4 Summary of Findings.

- At the conclusion of each property system audit, the PA will prepare a written summary of findings to support continued adequacy of the system or deficiencies identified and their impact on the adequacy of the system. The PA will forward the summary to the contractor. System audit summaries are executive-level documents written to concisely communicate property issues to levels of management unfamiliar with property technical terms. Summaries should be written to clearly convey the results of property system audit in general terms. A formal record should be prepared by the PA in the following format:
  - *Introduction:* Provide contractor's name and address, period of system audit, property involved, and applicable processes.
  - *Methods Used:* Summarize methods used in performing the review.
  - *Conclusions:* State deficiencies identified and conclusions reached.
- A copy of the System audit Summary shall be retained in the Contract Property Management Data File, and when unresolved defects have been disclosed, the PA shall provide a copy of the summary to the CO. When the nature of the defects has significant impact on individual contracts or programs, the PA should advise the CO in writing.

#### 8.7.5 Correction of Inadequate Conditions.

- The PA shall periodically follow-up with the contractor to ensure that the contractor corrects any identified deficiencies consistent with their corrective action plan. If the contractor fails to correct identified deficiencies, the PA shall escalate the issue to the applicable CO. When the contractor completes the required corrective actions, the PA shall conduct sufficient testing to ensure that the contractor's corrective actions resolved the deficiency. When outcome or item deficiencies are identified during the system audit, PAs should collaborate with their contractors to determine the following:
  - Whether the deficiencies are isolated or are systemic in nature.
  - Assessment of the known or probable impact of deficiencies on contract performance.
  - Identify the root cause of the deficiencies.
  - Request corrective action.

- Minor or isolated deficiencies that can be corrected during the performance of the audit should be resolved at the lowest possible management level. Systemic deficiencies must be formally documented and reported to an appropriate level of contractor management. Inadequate conditions must be substantive, quantifiable and significant to contract performance or to the Government's resources or interests. In determining deficiencies, and requiring corrections, best value concepts should apply. Benefits to the Government should exceed the costs to the Government.

8.7.6 Withdrawal of Approval for the Contracts Property System. The CO is the only Government representative that has the authority to withdraw the Government's assumption of risk. This option should only be exercised when the system presents undue risk to the Government.

8.7.7 Establish PMSA file content: A PMSA case file is established for each system audit performed containing the work papers and summary. This file will also include all correspondence of discussions, actions, and follow up to obtain correction of any inadequate conditions. The case file is maintained in the Contract Property Management Data File. The PMSA file shall contain the following supporting documentation:

- The completed PMSA summary report.
- Adequate support documentation, e.g., work papers and correspondence to support PMSA findings and conclusions.
- Documentation as to the appropriate level of oversight assigned to each contractor, as determined through an annual risk assessment.
- Correspondence (hard copy or electronic as applicable) to and from contractors, e.g., planned PMSA performance dates, completion of PMSA.
- Internal memoranda, e.g., to CO, other functional specialists.

## 8.8 Reports:

The PA obtains and reviews contractually required reports of property for all assigned contracts (see Attachment 11.2) and prepares and submits other reports prescribed by higher headquarters.

## 8.9 Determine Liability for Loss, Theft, Damage or Destruction (LTDD):

- 8.9.1 All instances of loss, damage, destruction, or excessive consumption of personal property should be investigated to determine the causes and appropriate corrective action required to prevent recurrences.
- 8.9.2 DOE has adopted the ASTM International voluntary consensus standard for assessing loss, damage, or destruction of personal property. The standard is called Practice E2131-01 Standard Practice for Assessing Loss, Damage, or Destruction of Property. The guidance in this procedure supplements the information contained in the standard.
- 8.9.3 As soon as any loss, damage, or destruction of personal property in their possession or control becomes known, contractors should report them to the PA, as appropriate, and to law enforcement offices when appropriate. Physical inventory shortages should be reported to the PA, as appropriate, within 90 days of completing the physical inventories.

- 8.9.4 The contractor should submit a written report to the PA containing all known information regarding the circumstances surrounding the loss, damage, destruction or excessive consumption to include all known facts, as outlined in FAR 52.245-1 clause.
- 8.9.5 Except for fixed price contracts that are awarded without the submission of cost and pricing data, the Government typically self-insures against contractor LTDD of property. However, the Government does not self-insure against willful misconduct or lack-of-good faith on the part of contractor's managerial personnel. Therefore, the CO may hold contractors liable for LTDD when the LTDD results from willful misconduct or lack-of-good faith. The CO may also hold the contractor liable when otherwise provided for in the contract and when the LTDD is covered by insurance or the contractor is otherwise reimbursed; the CO has, in writing, revoked the Government's assumption of risk for LTDD due to a determination that the contractor's property management practices are inadequate, and/or present an undue risk to the Government and that the contractor failed to take timely corrective action.
- 8.9.6 With the authority set forth in the PA's Certificate of Appointment, the PA shall:
- Investigate all LTDD cases and relieve the contractor of responsibility or recommend contractor liability to the CO within 60 days of receipt of the LTDD report.
  - If the LTDD was caused by deficiencies in the contractor's property management system, the PA shall ensure that:
    - Deficiencies are well-documented
    - The contractor is notified of the deficiencies
    - Appropriate corrective actions are implemented
- 8.9.7 The Government may be responsible for replacement of LTDD property. However, normal and reasonable inventory adjustments for non-sensitive consumable materials are typically considered a normal process variation and should not be reported as LTDD. The PA shall examine the contractor's property management controls and procedures and perform sufficient testing to ensure that the contractor has adequate management control measures, e.g., statistical process controls, to define normal process variation.
- 8.9.8 When the calculated overall or instantaneous loss, damage, or destruction ratios exceed the acceptable LDD ratios established in the ASTM standard, the PA should evaluate the affected segment(s) of a contractor's personal property management system to determine if they protect DOE interests in an adequate manner.
- If a segment of a contractor's property management system is determined to be inadequate, the PA should increase the surveillance of that segment of the system to prevent any LDD or unreasonable consumption of personal property.
  - Any LDD or unreasonable consumption that occurs during a period when a contractor's property management system is not adequate should be investigated before reinstatement of approval is considered.

#### 8.10 Transfer of Excess Property

The PA authorizes Standard Forms 122 for the transfer of excess equipment between contract projects and other Federal activities. Property requested for transfer by the contractor from the GSA Excess Property System is approved by the PA within the GSA online system.

#### 8.11 Perform Property Administration Closeout.

Upon contract completion, the PA shall:

- Ensure property disposal and resolution of all LTDD cases and any other property issues related to the contract.
- Provide a closeout statement to the CO in compliance with EMCBC Implementing Procedure 540-10 to certify all Government furnished property has been transferred to other contracts or otherwise disposed of as required by FAR Subpart 45 and FAR Clause 52.245-1.

### 9.0 RECORDS MAINTENANCE

9.1 Contractor records are essential for contract property management. It is the Government's policy to rely upon the Government contractors to be accountable for and maintain official records of Government property in their possession in accordance with the National Archives and Records Administration guidelines.

9.2 The efficacy of contractor records and other aspects of contractor property control systems will be reviewed through Government-conducted PCSAs with augmentation by contractor audit personnel. The extent of documentation needed is to be determined by the PA as long as it can be demonstrated that evaluation methods are effective in identifying and resolving significant problems. System audit documentation is secondary in importance to the quality of technical aspects of the reviews.

9.3 In accordance with FAR 4.9, the property control data files established and maintained by the PA are an extension of the Contract Administration Office contract file. Upon contract completion, the property data records are forwarded to the CO for inclusion into the master contract file.

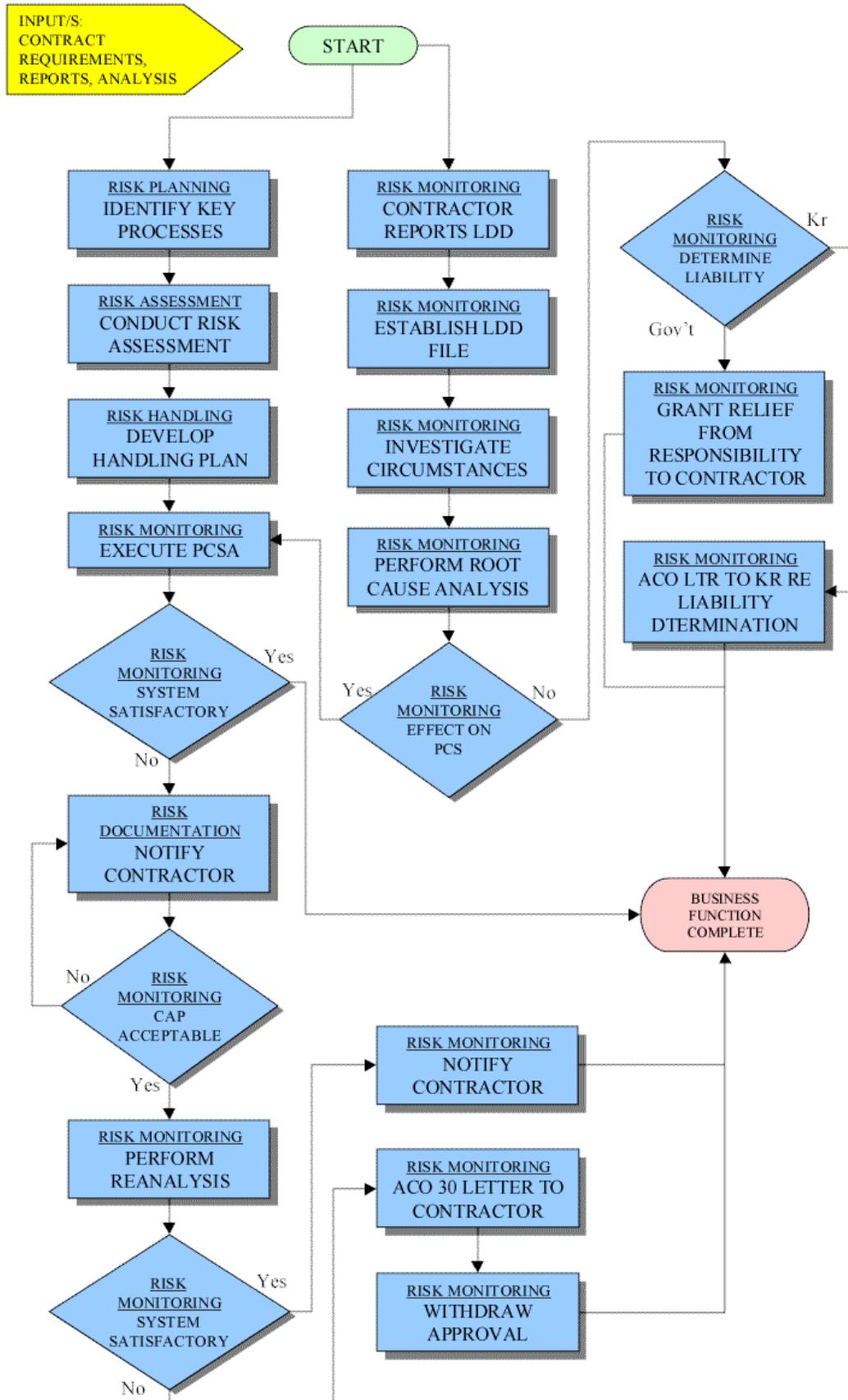
### 10.0 FORMS USED – Not Applicable

### 11.0 ATTACHMENTS

- A. Sampling Plan
- B. Template for Contractor's Personal Property Deliverable Reports
- C. Contract Property Classifications

### 12.0 FLOWCHART

## Contract Property Management



## SAMPLING PLAN

**1. Sampling:** Sampling is a tool to support the PA's judgment. Sampling does not supplant the PA's judgment. The use of sampling methods and the results thereof shall be subject to judgment and determination by the PA. The PA must be aware, when large quantities of documents and actions must be reviewed, that sampling is more efficient and economical than 100 percent inspection. Sampling is an effective method for reviewing or auditing a system whereby an accurate snapshot in time may be obtained. There are times when the PA, through observation and judgment, may see or become aware of deficiencies in a contractor's property management system that do not lend themselves to audit through statistical methodologies. Therefore, the PA must be skilled in various audit methods in order to protect the Government's best interest.

**2. Types of Recommended Sampling:** There are numerous approaches to sampling that are determined by the different fields from which they emerge. The two major approaches are quantitative and qualitative. Statistical sampling is derived from the quantitative methods approach. Statistical sampling attempts to remove any inherent bias in the PA's selection of samples, and is the recommended methodology for use by the PA in performing the PMSA. Judgment and purposeful sampling result from the qualitative methods approach. The PA should note that both of these approaches have their own strengths and weaknesses. The PA should be familiar with which approach best suits the process, process segment, and criterion undergoing audit. While suggestions are provided in this document, the PA is free to use any random sampling plan that they are comfortable with.

Normally using a sampling plan, the Government's risk shall not exceed 10% (a 90% confidence level) excepting slight variations due to changes in population sizes. There may be instances where, due to the criticality of a process, dollar value or sensitivity of the property, that sampling plans with a higher confidence level may be used.

**3. Sampling Techniques:** The primary objective of random sampling is to select an unbiased sample. There are some sampling techniques that are inherently biased, i.e., purposive sampling and the PA must be cautious in the use of this technique.

**4. Random Statistical Sampling:** The process by which a number of items are randomly selected from the population for audit in order for the sample to be representative of the entire population from which selected. Statistical sampling is useful where large numbers of items are subject to review and it is not cost-effective or timely to review the total population. This sample allows the PA to review a small number of randomly selected items of a particular process, process segment or criterion and reach a judgment as to the acceptability of the entire process, process segment or criterion subject to evaluation. Other random selection techniques may be applied (i.e., sequential sampling) provided they are defined beforehand in the sampling plan.

**5. Judgment Sampling:** The process by which a number of items or areas are selected from the population for audit without meeting the random selection and sample size criteria. Judgment sampling is useful for process segments that do not lend themselves to any other methods of sampling; i.e., reviewing the contractor's operation from a property to records audit, property to records or other process, process segment of criteria that do not lend themselves to statistical sampling processes.

**6. Purposive Sampling:** The process by which known, suspected, or reported conditions of a critical or substantial nature are used to select areas, items, or actions for review to determine the possible adverse systemic impact. It is especially critical, when using purposive sampling, that items being researched have the

potential for significant systemic impact. When the PA determines the potential exists for systemic impact, conditions or items shall be reviewed to determine whether or not a systemic deficiency exists. Conditions or items that have deficiencies but do not impact the system should be reviewed using other methodologies; e.g., Statistical or Judgment sampling.

**7. Resource:** Online Random Number Generator: <http://www.randomizer.org/form.htm>

### Double Sampling Plan

(90 percent confidence of rejecting lots having 10 percent or more defectives)

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

**Template for Contractor's Personal Property Deliverable Reports**

<b>PERSONAL PROPERTY</b>				
<b>Deliverable</b>	<b>Requirement</b>	<b>Schedule</b>	<b>Comment</b>	<b>Approval</b>
Property management plans, systems, and procedures	FAR 52.245-1 (f)	45 days from contract award	PA	CO
Reports of loss, damage, destruction or theft of property	FAR 52.245-1 (f)(1)(vi)	As soon as facts become known	PA	CO
Report of periodic physical inventory results	FAR 52.245-1 (f)(1)(iv)	Annually NLT Sep 30	PA	CO
Reports of property inventory data into the database system (PIDS)	FAR 52.245-1 (f)(1)(iv)	Annually NLT Nov 30	PA	CO
Balanced scorecard self-assessment plan for the next FY	FAR 52.245-1 (f)(3)	Annually NLT Oct 15	PA	CO
Balanced scorecard self-assessment report for the current FY	FAR 52.245-1 (f)(3)	Annually NLT Dec 15	PA	CO
Final physical completion or termination inventory	FAR 52.245-1 (f)(1)(iv)	45 days prior to contract completion or upon termination	PA	CO
GSA report of property furnished to nonfederal activities	41 CFR 102-36.295	Annually NLT Oct 31	PA	CO
GSA report of sales and exchange transactions	41 CFR 102-39.75	Annually NLT Oct 31	PA	CO
Motor vehicle fleet reports (FAST)	41 CFR 102-34.345	Annually NLT Dec 15	Fleet Manager	CO
Special reports for motor vehicles	41 CFR 109-38.9	As required	Fleet Manager	CO

<b>CONTRACT PROPERTY CLASSIFICATIONS (FAR 45, FAR 52.245 1, DOE G 580.1 1)</b>	<b>Identified</b>	<b>Numbered</b>	<b>Records</b>	<b>Inventory</b>
<p><b>Equipment:</b> Nonexpendable property with an acquisition cost of <b>more than \$5,000</b> including equipment, machine tools, test equipment, furniture, vehicles and accessory and auxiliary items. Does not include material, special tooling, special test equipment, real property, or utility systems (FAR 52.245-1, DOE Guide 580.1-1, ASTM E2221).</p> <p><b>Capital Equipment:</b> Equipment having a unit acquisition cost of <b>\$500,000 or more</b> and an anticipated service life in excess of two years, regardless of type of funding, and having the potential for maintaining their integrity as capital items; i.e., not expendable due to use (DOE Order 580.1, DEAR 945.101, DOE Financial Handbook 10/01/11).</p>	Yes	Yes	Yes	Biennial
<p><b>Special Tooling:</b> Jigs, dies, fixtures, molds, patterns, taps, gauges and all components of these items including foundations and similar improvements necessary for installing special test equipment, and 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 services (FAR 2-101).</p> <p><b>Special Test Equipment:</b> 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 foundations and similar improvements necessary for installing special test equipment, and standard or general purpose items or components that are interconnected and interdependent so as to become a new functional entity for special testing purposes. Special test equipment does not include material, special tooling, real property, and equipment items used for general testing purposes or property that with relatively minor expense can be made suitable for general purpose use (FAR 2-101).</p>	Yes	Yes	Yes	Annual
<p><b>Material:</b> 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 and special test equipment (FAR 52.245-1).</p>	N/A	Stock Record	Perpetual	Annual
<b>PROPERTY RISK MANAGEMENT CONTROLS</b>	<b>Identified</b>	<b>Numbered</b>	<b>Records</b>	<b>Inventory</b>
<p><b>High Risk:</b> Property, <b>regardless of value</b>, that includes especially designed or prepared property; export controlled property; proliferation-sensitive property; nuclear weapon components or weapon-like components; automatic data processing equipment; export controlled information; unclassified controlled nuclear information; hazardous property; radioactive property; and special nuclear material (PPL 970-3) (41 CFR 109)</p> <p><b>Sensitive:</b> Property, <b>regardless of value</b>, that is potentially dangerous to the public safety or security if stolen, lost, or misplaced, or subject to exceptional physical security, protection, control, and accountability. Includes firearms, ammunition, explosives, controlled substances, radioactive materials, hazardous material or wastes, or precious metals. Includes classified equipment, laptops, hard drives, PDA's and other information technology equipment and removable components with memory capability (DOE Order 580.1)</p>	Yes	Yes	Yes	Annual
<p><b>Administratively Controlled:</b> Items with a unit acquisition cost of <b>less than \$5,000</b> for which there is no DOE requirement for formal property records to be maintained, but for which the <b>PA</b> has determined that administrative records will be maintained for various control purposes. While formal control records are not required for administratively controlled items, the following types of records are useful in maintaining visibility over this type of property: calibration and maintenance schedules, tool crib check-out controls, loss and theft reports, hand receipts, property pass systems, memoranda records, procedures for transferring or terminating employees, perimeter fencing, and gate checks, includes radios, cell phones, tool cribs, and hand tools (DOE O 580.1, DOE G 580.1-1).</p>	Yes	No <sup>1</sup>	Informal <sup>1</sup>	By Exception
<p><b>Non Accountable Property:</b> Items with an acquisition cost of <b>less than \$5,000</b> and are not managed as high-risk, sensitive, or administratively controlled (FAR 52.245-1, DOE G 580.1-1, ASTM E2221).</p>	No <sup>1</sup>	No <sup>1</sup>	No <sup>1</sup>	No <sup>1</sup>

1. If the acquisition cost is less than \$5,000 and the property is not sensitive or high-risk, there is no formal record keeping requirement.
2. Personal property does not include technical data, intellectual property, software, sample parts/components or real property and utilities.
3. Scrap and salvage are conditions of property used to determine disposal methods and are not property classifications.
4. Protection of data on storage media such as tapes, disks and thumb drives are managed by IT cyber security procedures.

**EMCBC RECORD OF REVISION**

**DOCUMENT TITLE: Contract Property Administration, IP-580-03 Rev. 1**

If there are changes to the controlled document, the revision number increases by one. Indicate changes by one of the following:

I Placing a vertical black line in the margin adjacent to sentence or paragraph that was revised.

I Placing the words GENERAL REVISION at the beginning of the text.

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<b>Rev. No.</b>	<b>Description of Changes</b>	<b>Revision on Pages</b>	<b>Date</b>
1	Develop New Procedure	All	11/8/11