

Management System: Personal Property Management

Subject Area: Contract Property Administration

Procedure: Contract Administration

Issue Date and Revision Number:
6/24/2015

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1.0 Applicability

The primary objective of contract administration is 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 conflict with contractual requirements or create an unacceptable risk to the Government.

2.0 Required Procedure

The purpose of this procedure is to ensure the DOE contractor’s 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 contractors.

Step 1	<p>Review Assigned Contracts:</p> <ul style="list-style-type: none"> • The Property Administrator (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 Contracting Officer. • The PA shall establish contract data files and Property Management System Audit (PMSA) files in accordance with FAR 4.8, Government Contract Files. • The PA shall also attend post-award reviews to ensure contractors are aware of and understand applicable provisions of Government contracts dealing with property. Discuss the contractor's responsibilities regarding Government property under the contract, including any specialized
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	<p>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damage or destruction of Government property, including conditions where the Government’s assumption of risk may be withdrawn.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.</p>
<p>Step 2</p>	<p>Review Contractor’s Policies and Procedures:</p> <ul style="list-style-type: none"> • The PA shall review the contractor’s policies and procedures within 30 days of receipt from the contractor, and conduct a Property Management System Audit (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.
<p>Step 3</p>	<p>Evaluate New Contractors:</p> <ul style="list-style-type: none"> • 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 consistent 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. 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. • 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.
<p>Step 4</p>	<p>Scheduling of Property Management System Audits:</p> <ul style="list-style-type: none"> • 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.
Step 5	<p>Planning of Property Management System Audits:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ A listing of outcomes and criteria: identifying processes applicable or to be deferred. ○ 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. • 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.
Step 6	<p>Conduct Property Management System Audit (PMSA): The audit should be conducted in accordance with accepted auditing standards.</p> <ul style="list-style-type: none"> • 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. • 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 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. 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 and engineering change proposals; and for the acquisition of equipment, Special Tooling and Special Test Equipment.
 - Properly maintained files that reflect the status of requisitions and acquisition documents that demonstrated appropriate follow-up actions.
- **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.
 - Obtains the carrier's signature when shortages or other discrepancies are identified at the time of delivery.
 - Takes actions necessary to adjust for overages, shortages, damages, and other discrepancies upon receipt of contractor-acquired property.
 - Reconciles property received with documentation, e.g., purchase orders, and packing lists.
 - Promptly distributes receiving reports to designated control points and records the Government property in the property control records.
 - Adequately protects and stores property during the receiving process.
- **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 AA&E 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 Loss, Damage or Destruction of AA&E 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.
 - 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.
 - 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.
- 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.
- **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 Loss, Damage or Destruction 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.
 - Conducts periodic reviews to determine the adequacy of the subcontractors’ property management systems.
 - Properly administers the risk-of-loss and other provisions flowed-down to subcontractors.
- **Reports:** The contractor is required to have a process to create and provide reports of discrepancies, Loss, Damage or Destruction, 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 Loss, Damage or Destruction; 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 taken or to be taken to prevent recurrence.
 - A statement that the contractor will return to the Government any amounts that the contractor may receive

- from insurance for the lost, stolen, damaged, or destroyed Government property.
 - Copies of all supporting documentation.
 - Last known location.
 - A statement that the property did or did not contain sensitive or hazardous material and proof that the appropriate agencies were notified if the property contained sensitive or hazardous 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
 - Uses property only as authorized by the contract
 - Properly determines and allocates rental charges
 - Consumes quantities that are reasonable compared to requirements such bills of material, requirements lists, or established scrap rates
 - **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, Special Tooling and Special Test Equipment
 - Properly conducts periodic inspections and schedules appropriate periodic maintenance and calibration
 - Receives Contracting Officer authority for capital rehabilitation and replacement
 - **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 Contracting Officer.
 - 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 15 business days of the exit conference.
- 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 Contracting Officer 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
- 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

	<p>system audit, property involved, and applicable processes.</p> <ul style="list-style-type: none"> ○ Methods Used: Summarize methods used in performing the review. ○ Conclusions: State deficiencies identified and conclusions reached. <p>A copy of the System audit Summary shall be retained in the Contract Data File, and when unresolved defects have been disclosed, the PA shall provide a copy of the summary to the Contracting Officer. When the nature of the defects has significant impact on individual contracts or programs, the PA should advise the Contracting Officer in writing.</p> <ul style="list-style-type: none"> ● 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 Contracting Officer. 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: <ul style="list-style-type: none"> ▪ 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. ● Withdrawal of Approval for the Contracts Property System. The Contracting Officer 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.
<p>Step 7</p>	<p>Reports: The PA obtains and reviews contractually required reports of property for all assigned contracts and prepares and submits other reports prescribed by higher headquarters.</p>
<p>Step 8</p>	<p>Determine Liability for Loss, Damage, or Destruction (LDD):</p> <ul style="list-style-type: none"> ● All instances of loss, damage, destruction, or excessive consumption of

	<p>personal property should be investigated to determine the causes and appropriate corrective action required to prevent recurrences.</p> <ul style="list-style-type: none"> • 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. • 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. • Except for fixed price contracts that are awarded without the submission of cost and pricing data, the Government typically self-insures against contractor LDD 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 Contracting Officer may hold contractors liable for LDD when the LDD results from willful misconduct or lack-of-good faith. The Contracting Officer may also hold the contractor liable when otherwise provided for in the contract, or when the LDD is covered by insurance, or the contractor is otherwise reimbursed; or the Contracting Officer has, in writing, revoked the Government’s assumption of risk for LDD 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. • <u>With the authority set forth in the PA’s Certificate of Appointment, the PA shall:</u> <ul style="list-style-type: none"> ○ Investigate all LDD cases and relieve the contractor of responsibility or recommend contractor liability to the Contracting Officer within 60 days of receipt of the LDD report. ○ If the LDD was caused by deficiencies in the contractor’s property management system, the PA shall ensure that: <ul style="list-style-type: none"> ▪ Deficiencies are well-documented ▪ The contractor is notified of the deficiencies ▪ Appropriate corrective actions are implemented ○ The Government may be responsible for replacement of LDD 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 LDD. 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.
<p>Step 9</p>	<p>Transfer of Excess Property. The PA authorizes Standard Form 122 for the transfer of excess equipment between contract projects and other Federal</p>

	activities. Property requested for transfer by the contractor from the GSA Excess Property System is approved by the PA within the GSA online system.
Step 10	<p>Perform Property Administration Closeout. Upon contract completion, the PA shall:</p> <ul style="list-style-type: none"> ▪ Ensure property disposal and resolution of all LDD cases and any other property issues related to the contract. ▪ Provide a closeout statement to the Contracting Officer 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.

3.0 References – Forms/Attachments/Exhibits

3.1 Forms

- Standard Form 122 – Transfer Order Excess Personal Property

3.2 Attachments

- Attachment A – Export Control Notice
- Attachment B – Contract Administration Flow Chart
- Attachment C – Sampling Plan
- Attachment D – Contract Property Classification Chart

4.0 Records Generated

In accordance with FAR 4.8, 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 provided to the Contracting Officer for inclusion into the master contract file.

Records generated by this procedure are maintained by the EMCBC or PPPO Contract Administration Offices in accordance with the Organizational/Office File Plan.

Records Category Code	Records Title	Responsible Organization	QA Classification (Lifetime, Non-Permanent, or Not Applicable)
ADM 03-03-A1A	Routine Procurement Files – Transactions that exceed the simplified acquisition threshold – Official Contract File	Office of Contracting	Not Applicable

EMCBC RECORD OF REVISION**DOCUMENT TITLE: Contract Administration**

If there are changes to the controlled document before the two-year review cycle, the revision number stays the same; one of the following will indicate the change:

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

I Placing the words GENERAL REVISION at the beginning of the text. This statement is used when entire sections of the document are revised.

If changes and updates occur at the two-year review cycle, the revision number increases by one.

<u>Rev. No.</u>	<u>Description of Changes</u>	<u>Revision on Pages</u>	<u>Date</u>
Rev. 0	Initial SAP	All	6/24/15