



DCMA GUIDEBOOK FOR GOVERNMENT CONTRACT PROPERTY ADMINISTRATION

Rev1 October 2020

An overview of DCMA's contract property administration requirements and analysis techniques

TABLE OF CONTENTS

| | |
|--|-----|
| PREFACE | 3 |
| Purpose..... | 3 |
| Overview..... | 3 |
| CHAPTER 1: PROCESS | 5 |
| 1.0. Review New Contracts | 5 |
| 2.0. Accept Assignment of Contracts | 7 |
| 3.0. Issue Contract Deficiency Report..... | 9 |
| 4.0. Support Property Administration Delegations | 10 |
| 5.0. Contract Property Administration Files..... | 12 |
| 6.0. Accept Assignment of New Contractors | 13 |
| 7.0. Schedule Property Management System Analysis | 14 |
| 8.0. Plan Property Management System Analysis..... | 17 |
| 9.0. Conduct Property Management System Analysis | 21 |
| 10.0. Prepare Reports..... | 29 |
| 11.0. Update Contractor Property Administration System | 31 |
| 12.0. Determine and Assign Contractor Future Performance Risk..... | 32 |
| 13.0. Issue Corrective Action Requests/Monitor Corrective Action | 34 |
| 14.0. Ensure Contractor Reporting of Property Loss | 38 |
| 15.0. Evaluate Contractor Responsibility and Liability | 40 |
| 16.0. Perform Property Administration Closeout | 44 |
| 17.0. Special Considerations | 46 |
| CHAPTER 2: PROPERTY MANAGEMENT SYSTEM ANALYSIS (PMSA) | |
| ELEMENTS JOB AIDS | 51 |
| PMSA Element 1 - Written Procedures..... | 51 |
| PMSA Element 2 - Contractor Self Assessment | 55 |
| PMSA Element 3 - Acquisition | 58 |
| PMSA Element 4 - Receiving..... | 64 |
| PMSA Element 5 - Discrepancies Incident to Shipment | 68 |
| PMSA Element 6 - Identification | 70 |
| PMSA Element 7 - Records..... | 73 |
| PMSA Element 8 - Receipt and Issue System..... | 78 |
| PMSA Element 9 - Physical Inventory..... | 81 |
| PMSA Element 10 - Subcontractor Awards and Flow Down..... | 85 |
| PMSA Element 11 - Subcontractor Reviews | 88 |
| PMSA Element 12 - Reports | 91 |
| PMSA Element 13 - Relief of Stewardship..... | 93 |
| PMSA Element 14 - Utilization..... | 97 |
| PMSA Element 15 - Declaration of Excess..... | 99 |
| PMSA Element 16 - Consumption | 101 |
| PMSA Element 17 - Movement | 104 |
| PMSA Element 18 - Storage..... | 106 |

| | |
|---|------------|
| PMSA Element 19 - Storage Commingling | 108 |
| PMSA Element 20 - Maintenance | 110 |
| PMSA Element 21 - Disposal..... | 114 |
| PMSA Element 22 - Property Closeout..... | 117 |
| GLOSSARY-ACRONYMS | G.1 |

PREFACE

Purpose. This Guidebook provides a process summary to DCMA personnel for consistent oversight of contractors' property management systems and is intended to promote consistency in the methodology and analysis techniques employed by DCMA.

This Guidebook also provides detailed information to facilitate understanding and execution of a property management system analysis (PMSA).

Unless otherwise noted, the responsible party for the processes identified herein is the cognizant Property Administrator (PA) or Industrial Property Management Specialist (IPMS). Use of the job position title "PA" is inclusive of the IPMS unless explicitly stated otherwise. The title Administrative Contracting Officer (ACO) is inclusive of Divisional Administrative Contracting Officer (DACO) and Corporate Administrative Contracting Officer (CACO).

Overview. FAR 52.245-1 imposes the requirements for a contractor property management system that provides for effective and efficient control of Government property. The ACO will determine whether the contractor's property management system is acceptable based on the results of a standard or limited PMSA conducted by the PA. FAR 52.245-1(g) "Systems analysis," states:

(1) The Government shall have access to the Contractor's premises and all Government property, at reasonable times, for the purposes of reviewing, inspecting and evaluating the Contractor's property management plan(s), systems, procedures, records, and supporting documentation that pertains to Government property. This access includes all site locations and, with the Contractor's consent, all subcontractor premises. (2) Records of Government property shall be readily available to authorized Government personnel and shall be appropriately safeguarded.

DCMA examines subsets of some of the outcomes listed within FAR 52.245-1(f) because there are imbedded requirements that require separate populations of data and transactions for effective and comprehensive testing. This Guidebook refers to each subset as a PMSA element. There are 22 elements, and they are listed below. Additional guidance for each is located in Chapter 2 of this Guidebook.

DCMA GUIDEBOOK FOR GOVERNMENT CONTRACT PROPERTY ADMINISTRATION

| REQUIREMENT/OUTCOME | PROPERTY CLAUSE REFERENCE | ADDITIONAL CLAUSE REFERENCE |
|-------------------------------------|----------------------------------|--|
| WRITTEN PROCEDURES | FAR 52.245-1(f)(1) | FAR 52.245-1(b)(1) |
| CONTRACTOR SELF ASSESSMENT | FAR 52.245-1(b)(4) | |
| ACQUISITION | FAR 52.245-1(f)(1)(i) | FAR 52.216-7 |
| RECEIVING | FAR 52.245-1(f)(1)(ii) | |
| -DISCREPANCIES INCIDENT TO SHIPMENT | FAR 52.245-1(f)(1)(ii) | |
| -IDENTIFICATION | FAR 52.245-1(f)(1)(ii) | |
| RECORDS | FAR 52.245-1(f)(1)(iii)(A) | DFARS 252.211-7007 |
| RECEIPT AND ISSUE SYSTEM | FAR 52.245-1(f)(1)(iii)(B) | |
| PHYSICAL INVENTORY | FAR 52.245-1(f)(1)(iv) | |
| SUBCONTRACTOR AWARDS AND FLOW DOWN | FAR 52.245-1(f)(1)(v)(A) | |
| SUBCONTRACTOR REVIEWS | FAR 52.245-1(f)(1)(v)(B) | |
| REPORTS | FAR 52.245-1(f)(1)(vi) | DFARS 252.211-7007 |
| RELIEF OF STEWARDSHIP | FAR 52.245-1(f)(1)(vii)(B) | DFARS 252.245-7002 (CLASS DEVIATION 2020-O0004) |
| UTILIZATION | FAR 52.245-1(f)(1)(viii)(A) | |
| -DECLARATION OF EXCESS | FAR 52.245-1(f)(1)(viii)(A) | |
| -CONSUMPTION | FAR 52.245-1(f)(1)(viii)(A) | |
| -MOVEMENT | FAR 52.245-1(f)(1)(viii)(A) | |
| -STORAGE | FAR 52.245-1(f)(1)(viii)(A) | |
| -STORAGE COMMINGLING | FAR 52.245-1(f)(1)(viii)(B) | |
| MAINTENANCE | FAR 52.245-1(f)(1)(ix) | |
| PROPERTY CLOSEOUT | FAR 52.245-1(f)(1)(x) | |
| -DISPOSAL | FAR 52.245-1(f)(1)(x) | DFARS 252.245-7004 |

CHAPTER 1 – PROCESS

1.0. REVIEW NEW CONTRACTS.

1.1. The PA will review each new contract consistent with the direction located in DCMA-MAN 2501-01, Contract Receipt and Review, within 30 calendar days of receipt to determine if the contract contains a contract property requirement as defined in DoDI 4161.02, “Accountability and Management of Government Contract Property.” If Government property is anticipated, PAs must accept assignment of property administration in accordance with Paragraph 2.1 of this Guidebook.

1.2. Prior to acceptance of a contract for administration, the PA must ensure that the contractor will need Government property to perform the contract. In many cases, this will be clear (e.g., there is a GFP attachment, or the contract cannot be performed without the acquisition of Government property), but in other situations the need for property oversight is less clear.

1.2.1. Example. A FAR 16.601 time-and-materials contract for engineering or support services is required to have the property clauses incorporated, based solely on the pricing arrangement of the contract, but in many cases the contractor will only be billing for labor hours and potentially travel. In cases where the clauses are required based on contract pricing arrangement, but no property is anticipated, the PA must not accept the contract for administration.

1.2.2. If there is any question of whether property is required for contract performance, the PA is expected to contact the Procurement Contracting Officer (PCO) at the buying office to determine whether property is anticipated. If the PCO is nonresponsive, the PA should enlist the assistance of the cognizant ACO.

1.3. The PA must ensure contracts contain appropriate terms and conditions, including FAR and DFARS clauses relevant to the Government property expected to be furnished or acquired. Relevant contract clauses follow:

- Mandatory clauses
 - FAR 52.245-1, “Government Property” or its alternates. Note: only one version of the clause may be included in a contract
 - FAR 52.245-9, “Use and Charges”
 - DFARS 252.211-7007, “Reporting of Government Furnished Property”
 - DFARS 252.245-7001, “Tagging, Labeling and Marking of Government Furnished Property”
 - DFARS 252.245-7002 (CLASS DEVIATION 2020-00004) “Reporting Loss of Government Property”
 - DFARS 252.245-7003, “Contractor Property Management System Administration”
 - DFARS 252.245-7004, “Reporting, Reutilization, and Disposal”

- Other clauses that may be applicable:
 - FAR 52.251-1, “Government Supply Sources”
 - FAR 52.245-2, “Government Property Installation Operation Services”
 - DFARS 252.223-7002, “Safety Precautions for Ammunition and Explosives”
 - DFARS 252.223-7007, “Safeguarding Sensitive Conventional Arms, Ammunition, and Explosives”
 - DFARS 252.228-7001, “Ground and Flight Risk”
 - DFARS 252.242-7005, “Contractor Business Systems”

1.4. In reviewing new contracts, the PA must attend to:

1.4.1. Potentially inappropriate provision of Government-furnished property (GFP) or contractor-acquired property (CAP) such as common office items or any Government property listed as an exception at FAR 45.000(b), “Scope of part.”

1.4.2. Contracts where a deliverable end-item will be accepted at origin, and delivery to a separate destination is not required, (Free on Board (F.o.b.) Origin).

1.4.2.1. If a deliverable item is identified in the contract as FOB origin inspection and delivery, sometimes referred to as shipped-in-place, the deliverable item could become GFP, and be subject to FAR 52.245-1. If the PCO intends for the items to be GFP, then 52.245-1 and any associated clauses must be included or added to the contract, and the property would need to be added to a contract.

1.4.2.2. The PA will determine whether the Government has imposed a property storage requirement on the contractor for items that have not been designated as GFP. The PCO needs to ensure that the contract includes the appropriate terms and conditions relevant to the type, scope, and duration of storage. The contract must include necessary funding (requiring the contractor to store the property at no cost is not appropriate, even if the contractor agrees to the arrangement), a clear statement identifying that the items are not GFP, and an appropriate liability provision.

1.4.2.3. The PA is expected to engage with the PCO to ensure that any items of Government property that are shipped-in-place are treated appropriately by issuing a contract deficiency report (CDR) if needed. A CDR would be required if FAR 52.245-1 and the associated clauses need to be added to the contract, or if the contract imposes an unfunded storage requirement.

1.4.3. Period of performance dates, to plan for expeditious property disposition and contract closeout.

1.4.4. Contracts with a place of performance that is overseas or in a combat theater for specialized contractual and technical terms and conditions, country-to-country agreements, host nation requirements, memorandums of agreement, and treaties. Refer to DFARS Subpart 225.3, “Contracts Performed Outside the United States”.

1.4.5. GFP attachments. Refer to DFARS PGI 245.103-72, “Government furnished property attachments to solicitations and awards.” Nonstandard attachments may require that a CDR be issued. PAs are required to review all GFP attachments.

1.4.6. Nonstandard Government property contract clauses. Refer to 41 U.S.C. 1304(a), “Repetitive Nonstandard Contracts Clauses Discouraged.”

1.4.7. Contracts with place of performance on a military base or non-core work which is typically not accepted for property administration. Refer to DFARS 242.202, “Assignment of contract administration” and DCMA workload acceptance procedures.

1.4.8. An indication that sensitive property will be acquired or furnished.

1.4.9. Inclusion of DFARS clause 252.242-7004, “Material Management and Accounting System” in the contract.

1.4.10. Section H special contract provisions related to property.

1.4.11. Disposition instructions included in the contract.

1.4.12. Special instructions in regards to Government property furnished for repair.

1.4.13. Property incidental to place of performance (e.g., desks, chairs, computers, printers, etc.).

1.5. PAs will review and accept support delegations from DoD and Federal civilian agencies (e.g., National Aeronautical and Space Administration (NASA)) in accordance with DCMA workload acceptance procedures and signed agreements.

2.0. ACCEPT ASSIGNMENT OF CONTRACTS.

2.1. PAs must accept assignment of property administration for the following contract types, instruments, and conditions, with the potential exception of contracts that are not core DCMA mission work and that do not meet the High Value/High Risk (HV/HR) thresholds detailed in paragraph 2.2.:

- Fixed-price contracts where property will be furnished to the contractor.
- Fixed-price contracts with cost-reimbursable contract line items.
- Contracts and purchase orders with property furnished for repair, maintenance, overhaul, or modification. The exception based on unit acquisition cost for purchase orders for repair detailed at FAR 45.107(d), is superseded by DFARS 245.107(1)(i) for DoD contracts.
- Cost-reimbursement and time-and-materials contracts (except when it is clear no property will be furnished or acquired). PAs must verify whether CAP is anticipated for contracts involving only engineering services, research, or study efforts. Engage

with the PCO to gain insight if the contract and statement of work are unclear whether there is a need to acquire property to perform the contract.

- Top-level basic indefinite-delivery indefinite-quantity contracts (IDIQs) where property will be furnished or acquired.
- Delivery and task orders awarded under IDIQ contracts where property will be furnished or acquired.
- Delivery orders awarded under Basic Agreements and Basic Ordering Agreements (FAR Subpart 16.7) or Blanket Purchase Agreements (FAR Subpart 13.3) where property will be furnished or acquired. The Basic Agreements or Basic Ordering Agreements are not standalone contracts and Government property may only be issued to the order award level.
- Letter contracts (FAR 16.603-2) are typically (though not always) awarded as cost-reimbursement contracts, with specific terms and conditions, including pricing arrangements, definitized at a later date.
- Nonprocurement instruments (grants, cooperative agreements, and other transactions) where property is involved, when DCMA is delegated administration.

2.2. If a PA identifies a contract that does not appear to meet the following thresholds, the PA should first coordinate with the assigned ACO to determine whether the contract has entered workload acceptance review through the Contract Management Office (CMO).

- Threshold #1 – Contract or nonprocurement instrument is valued at or above \$300k (if yes, the PA should accept administration; if no, the PA should determine whether Thresholds #2 or #3 apply.)
- Threshold #2 – DCMA GCPG is already performing property administration oversight of the contractor,
- Threshold #3 – The contract requires the contractor to receive or acquire sensitive Government property.

2.2.1. If the CMO has determined that the contract meets the HV/HR, the PA will accept contracts for administration in alignment with paragraph 2.1. of this Guidebook. If the CMO has not made a determination, and the PA believes that the contract does not represent HV/HR work, they should elevate those concerns along with their rationale to their first level supervisor for elevation to the Business Operations Center Director for further workload acceptance review.

2.2.2. Because DCMA does accept some work that does not meet the thresholds as reimbursable work, and other work is considered to be core to DCMA's mission and is accepted regardless of whether thresholds are met, it is imperative that PAs not reject workload without a GCPG level workload acceptance review determination.

2.2.3. Repair of Government-owned property. Contracts for the repair of Government-owned property are considered core mission work, and are to be accepted regardless of contract value.

2.3. PAs must use the Contract Property Administration System (CPAS) eTool, which is tied to the Mechanization of Contract Administration Services (MOCAS) to identify and accept assignment of property administration.

2.3.1. PAs will accept assignment by selecting a contract that meets the conditions described in paragraph 2.1. of this Guidebook, on the CPAS contract acceptance tab, updating the receipt date, and selecting “Accept” in the action field.

2.3.2. If a contract has erroneously been assigned for review, and property is not anticipated, the PA will delete the MOCAS special provision code “E” through CPAS by selecting the “Do Not Accept” option under the same CPAS contract acceptance tab.

2.4. PAs who determine that a contract without anticipated property had previously been accepted will delete the special provision code “E” through MOCAS. Conversely, the PA will add the special provision code “E” if a contract that had not previously been accepted is modified to provide GFP. For MOCAS entry direction, see [MOCAS Guides](#) on DCMA 360.

2.5. Classified property. PAs must review the DD Form 254, “Department of Defense Contract Security Classification Specification,” if included in the contract, to determine if classified property is involved. Refer any classified effort to DCMA Special Programs (DCMAS) by elevating to the first level supervisor, who will further elevate to the Regional Director for reassignment. DCMAS PAs follow separate internal procedures.

2.6. PAs will document their contract review actions using the automated Integrated Workload Management System (IWMS) Contract Review Checklist Tool PAs must ensure that they indicate in the general comments section of the IWMS Contract Review Checklist if they are not accepting a contract that includes the appropriate property clauses due to a lack of anticipated Government property (as described in paragraphs 1.2 and 2.1).

2.7. PAs are expected to verify that contract acceptance actions taken in CPAS lead to updates within MOCAS. PAs will do this by verifying that changes are processed by reviewing MOCAS Submit History in CPAS after submitting an acceptance transaction in CPAS. Possible reasons for a MOCAS submit failure include: scheduled updates where the system is down for processing (nightly, monthly, and end-of-year), an expired MOCAS password, input of the wrong MOCAS password into CPAS, incorrect geographic MOC selected for the CAGE code, MOCAS account revocation (due to inactivity), and PA attempts to perform transactions within CPAS while logged into MOCAS. If contract acceptance fails for one of the reasons above, the PA is expected to correct the underlying issue, or await system availability, and resubmit the transaction.

3.0. ISSUE CONTRACT DEFICIENCY REPORT.

3.1. PAs must issue CDRs via the CDR tool within the Procurement Integrated Enterprise Environment (PIEE) suite of tools for contracts lacking appropriate clauses, standard property attachments, or required terms and conditions. Refer to DFARS PGI 204.270-2(c), “Contract Deficiency Reports.”

3.2. PAs will notify the PCO of the deficiency in writing if the use of the CDR tool is not appropriate or available. Retain documentation of this notification to the PCO where use of the CDR tool is not appropriate. If the CDR tool was temporarily not available, process the CDR in the CDR tool when it becomes available. Document the date of original notification to the PCO in the notes field when submitting the CDR in the tool.

4.0. SUPPORT PROPERTY ADMINISTRATION DELEGATIONS.

4.1. Prime contractor PAs will request support property administration delegations within the Delegation eTool or successor delegation system of record when surveillance is required at contractor alternate locations outside their assigned area of responsibility any time there is another DCMA PA in the local commuting area for the alternate location. Support delegations will be issued to the first level supervisor that oversees the area that includes the alternate location, to allow the first level supervisor to determine workload assignment. If there is no PA within local commuting distance, the respective first level supervisors, and Regional Director(s) will coordinate to determine whether an on-site review is required, and if so, whether it makes more sense for the prime PA or the assigned support PA to travel.

4.2. Because the prime contractor is responsible for managing its subcontracts, support property administration for subcontractors, and interdivisional work orders between business divisions under a corporate umbrella, is permitted only when an exception at FAR 42.202(e)(2) applies, and is directed by the PCO. The only circumstances when support property administration for property located at a subcontractor, including other business divisions under a corporate umbrella, may be considered are when (1) the Government would otherwise incur undue cost, (2) successful completion of the prime contract is threatened, or (3) the property is related to a high risk or critical subsystem or component to a major systems acquisition (as described in FAR Part 34) and the PCO requests special surveillance.

4.3. The prime contractor's PA must:

4.3.1. Determine whether the alternate location falls under the same property management system as the prime location. PAs will consider whether the alternate location falls under the same business unit, shares the same written procedures, and shares management level personnel. If it does, a single PMSA will be performed across all locations. In this circumstance, when performing a standard PMSA, the assigned PA will request populations from the contractor that encompass all alternate locations under the same property management system, and will select samples from those combined populations. The PA will only delegate review of those samples for elements that require on-site verification (e.g., Identification, Records, to include both records to property and property to records reviews, Storage, Storage Commingling, and potentially Utilization). All other analysis will be performed by the prime PA because the other elements do not require the PA to be on-site.

4.3.2. Ensure support delegation requests include a sufficient level of detail (e.g., types of property, scope of surveillance, duration, special or unique requirements, and presence of sensitive property). The description of the scope of surveillance must clearly identify whether

the support property administration PA will be performing a one-time PMSA assist (for those samples at the alternate location that will be incorporated into the prime PA's PMSA) or whether the support property administration PA will incorporate the prime contractor's population into their PMSA population. Prime and support property administration PAs will coordinate at the beginning of each fiscal year (FY) to ensure that each is aware of when the review will occur so the results can be incorporated into the prime's PMSA.

4.3.3. Ensure that they are only delegating oversight of those property elements that the prime contractor does not retain to a support PA. If the prime contractor retains oversight of elements of property administration (e.g., maintaining the official records, performing physical inventories) those elements will be tested by the PA for the prime contractor as part of the overall populations for those elements. Samples that require on-site validation (e.g., Records), would be delegated to a support PA as a one-time assist. Prime PAs will ensure that prime contractors that elect to do this are only retaining oversight of elements that they can directly control. For example, a prime contractor cannot retain oversight of storage at a subcontractor's facility.

4.3.4. Obtain prime contractor consent to support property administration when property administration involves oversight and surveillance of a subcontractor using a delegation. Prime contractor consent is not required for alternate locations. Refer to FAR Subpart 45.5, "Support Government Property Administration." If the prime contractor does not consent, and the PA believes that support property administration is needed in order to protect the Government's interests, the PA will elevate their concerns to their first level supervisor and Regional Director.

4.3.5. Accept the Business System Analysis Summary and Audit Report for a PMSA performed at a subcontractor facility as an indication of the health of the subcontractor's property management system. Note that the performance of support property administration by DCMA does not alleviate the prime contractor's responsibility to manage its subcontractor.

4.3.6. Incorporate the supporting PA's findings concerning the alternate location in their PMSA.

4.4 Support PAs must accept or reject delegations within 10 calendar days of receipt of the delegation request within the Delegation eTool or successor delegation system of record. Rejections must be coordinated with the supporting PA's first level supervisor and include a written rationale, (e.g., workload, subcontractor location vs. alternate location that does not meet the requirements of FAR 42.202(2)). If the prime and supporting PA disagree regarding the proper scope and methodology of the proposed delegation, they will elevate the issue to their respective first level supervisor and Regional Director for resolution.

4.5. Support PAs will perform the delegation in accordance with the agreement reached with the prime PA, and will provide all required documentation to support the results reported to the prime PA. The prime PA is responsible for loading to the PMSA file in CPAS. When there is a delegation for property located at a subcontractor that also has prime contracts, that property will be included in the total populations used by the PA at the subcontractor location to perform

their regular PMSA. Copies of the Business System Analysis Summary and Audit Report will be provided to the prime PA upon PMSA completion.

5.0. CONTRACT PROPERTY ADMINISTRATION FILES.

5.1. PAs will establish and maintain electronic files within the Integrated Workload Management System (IWMS) or CPAS at the contractor Commercial and Government Entity (CAGE) code level to retain documentation and results of various surveillance and oversight activities by contractor site. Examples of files to be loaded in IWMS include:

- Copies of audits and inspections performed by other Defense components (e.g., Defense Contract Audit Agency (DCAA), Defense Counterintelligence and Security Agency (DCSA).)
- Records of site visits and meetings with the contractor (other than those specific to conducting a PMSA).
- Relevant general correspondence and documentation not tied to a single contract.
- Relevant documentation and correspondence directly related to a contract will be loaded in the IWMS contract file, rather than the CAGE level file. This includes outside audits and final property closeout letters from the contractor, indicating that all property closeout actions have been completed and that there is no longer any property accountable to a contract, as well as final inventory waivers as appropriate.

5.2. PAs must establish a PMSA File. PMSA files are required for each completed PMSA. PAs will use CPAS to upload required documents. The following documentation is required to be included, at a minimum, for each contractor:

- PMSA notification letter.
- Documentation supporting the performance of contract review and correspondence.
- Risk assessments and PMSA plans, level of oversight determinations regarding processes/elements waived or determined as not applicable.
- Procedure review findings and correspondence.
- CO correspondence.
- Audit Reports.
- Business System Analysis Summary. Note that only final documents may be loaded. Draft Audit Reports and Business System Analysis Summaries are not to be included in the file.
- Work papers (e.g., sampling plans, narratives, worksheets). Note that PAs are only expected to upload a single example document for each type of supporting documentation for compliant samples. All supporting documents for samples identified as defects must be uploaded to support findings of noncompliance.
- Internal memoranda (e.g., from COs or other functional specialists).
- 3x22 chart detailing when each of the elements was last reviewed.

6.0. ACCEPT ASSIGNMENT OF NEW CONTRACTORS.

6.1. Within 10 calendar days of acceptance of property administration for a contract awarded to a new contractor (one that has not previously had a property management system with DCMA oversight), the PA must perform the actions described in the following paragraphs. As a reminder, prior to contract acceptance the PA must ensure that the contractor will be receiving Government property in order to perform the contract as described in paragraphs 1.2 and 2.1. Written procedures must not be requested from contractors that are unlikely to have a property requirement. Accordingly, the PA must:

6.1.1. Recommend a post-award orientation conference to the ACO, if warranted, including a rationale and suggested type and scope of the post-award orientation conference. Post-award conferences may be appropriate for new contractors receiving Government property for the first time, or for existing contractors who are awarded a new contract that is significantly different from previous contracts in the type and scope of property management that will be required (e.g., first cost-type contract, after only having GFP provided, or moving from R&D to a production environment.)

6.1.2. Send a standard letter of introduction advising the new contractor of its contractual responsibilities. The letter should also request that the contractor provide a copy of its property management policies and procedures and names of appropriate points of contact. PAs will allow the contractor 15 calendar days to provide written property management procedures. If the contractor does not provide procedures within 15 calendar days, the PA must notify the contractor in writing, advising that failure to provide acceptable procedures may trigger contractual remedies. The PA may allow the contractor a maximum of 15 additional calendar days to provide written property management procedures.

6.1.3. If the contractor fails to provide written property management procedures after a total of 30 calendar days, the PA will:

6.1.3.1. Document in a Business System Analysis Summary report that the contractor failed to provide written property management procedures or otherwise demonstrate that it has established and implemented property management plans, systems, and procedures as required by FAR 52.245-1(f)(1), despite having been provided two opportunities to do so. Note that a contractor's statement that procedures are proprietary, does not satisfy their contractual requirement to provide them to the PA.

6.1.3.2. Forward the Business System Analysis Summary report to the ACO. This becomes the basis for the ACO to make a business system determination as required by DFARS 252.245-7003.

6.1.3.3. Document the action in CPAS as a completed PMSA. Procedure reviews will only be considered a completed PMSA for new contractors in situations where the contractor has failed to provide procedures, or when the provided procedures are unacceptable as written. If the contractor has received Government property, the reanalysis will include all

applicable elements, in addition to verification that the contractor has corrected or established their written procedures.

6.1.4. Review the contractor's property management policies and procedures, and notify the contractor of acceptability within 25 calendar days of receipt using the standard procedure review template letters.

6.1.4.1. Note that PAs must be cautious about using language that could be confused with a system status determination. While a PA can determine whether a contractor's procedures are acceptable or unacceptable as written, they do not approve or disapprove those procedures.

6.1.4.2. PAs must factor in and adjust written procedure review timelines for short delivery schedules or periods of performance.

6.1.4.3. PAs must coordinate with the relevant functional specialist for input on any portions of the contractor's written procedures that impact more than one functional area, (e.g., Plant Clearance for disposal or scrap procedures, or Safety for sensitive property).

6.1.5. If the contractor's procedures are unacceptable as written, the PA must notify the contractor in writing, advising that the procedures are unacceptable and that failure to provide acceptable procedures may result in the Government's pursuit of contractual remedies. The PA may grant additional time, not to exceed 15 calendar days, for the contractor to resubmit. If resubmitted procedures are still unacceptable, the PA will:

6.1.5.1. Document the deficiency in a Business System Analysis Summary report.

6.1.5.2. Forward the Business System Analysis Summary and PMSA Audit Report to the ACO. The only element that needs to be addressed in the Audit Report is Written Procedures. This becomes the basis for the ACO to make a business system determination as required by DFARS 252.245-7003.

7.0. SCHEDULE PMSA.

7.1. PAs must complete an initial PMSA (standard or limited) no more than 12 months after a new contractor first receives Government property. The initial PMSA should be performed at least 90 days after the contractor receives property in order to ensure that there are a sufficient number of transactions to test.

7.2. PAs will choose the one of the following as the appropriate PMSA type for all contractors based on comprehensive analysis of factors and the associated risk:

7.2.1. Standard PMSA. A standard PMSA requires entrance and exit conferences, detailed testing, and formal examination of contractor processes related to its

property management system. A standard PMSA may be conducted entirely on-site at a contractor's facility, or may be performed remotely for those elements that do not require visual in-person verification of the property. The only elements that cannot be tested remotely are Identification, Records, Storage Commingling, Storage, and potentially Utilization.

7.2.2. Limited PMSA. A limited PMSA or "desk audit" permits less formal testing methods and techniques and is appropriate only for low risk contractors. A limited PMSA will include a review of contractor responses to questions covering each required element of a contractor's property management system, interviews with contractor personnel, and detailed on-site testing of select processes, if necessary. A limited PMSA may be performed remotely or on-site. The PA must consider risk level and amount and value of property. If a limited PMSA reveals deficiencies, the PA may visit the contractor to resolve issues or expand the scope of the review by conducting a standard PMSA. A limited PMSA requires an exit briefing, which may be conducted via telephone.

7.3. If sensitive property is involved, the PA must complete the initial PMSA within 6 months of receipt of the sensitive property. The initial PMSA should be performed at least 90 days after the contractor receives property in order to ensure that there are a sufficient number of transactions to test. Additionally, the PA must conduct annual reviews of the elements of Written Procedures, Receiving, Discrepancies Incident to Shipment, Records, Physical Inventory, Declaration of Excess, Consumption, Storage, Storage Commingling, and Disposal regardless of risk rating. Limited PMSAs are not appropriate for testing the contractor's management of sensitive property, as a limited review does not provide the level of oversight needed to determine whether the contractor's controls and processes are sufficient. A PA who has a contractor with sensitive property that is otherwise low risk, could use a limited PMSA to test all elements other than those that require a separate population for sensitive property. The element of Records, Storage, and Storage Commingling for sensitive property must be tested on-site, however the other elements may be tested remotely. See paragraph 17.2 of this Guidebook for more detail on administration of sensitive property.

7.4. PAs must base all other PMSA schedules on the risk rating, and ensure that all applicable 22 elements are reviewed at least once every 3 years:

7.4.1. High Risk. Perform a standard PMSA at least annually until such time as the contractor improves to at least a moderate risk level and the PA determines that the status of the contractor's system justifies a reduced level of oversight. High risk contractors may have some elements that are lower risk. Moderate risk elements must be reviewed at least once every 2 years. Low risk elements must be reviewed at least once every 3 years.

7.4.2. Moderate Risk. Perform a standard PMSA as frequently as conditions warrant, but at least once every 2 years. Itinerant PAs will review all applicable elements once every 2 years.

7.4.3. Low Risk. Perform a limited PMSA once every 3 years. Because all elements must be reviewed at least once every 3 years regardless of risk, a PA may not waive any applicable elements for a contractor on a triennial schedule.

7.4.4. NASA contractors with \$1M or more of contract property accountable to NASA contracts will be reviewed at least once every 2 years.

7.5. PAs must schedule PMSA due dates in CPAS using the following guidance;

7.5.1. The PA will review all assigned property system CAGE codes in the 4th Quarter of the FY to determine which contractors will require a PMSA in the following FY. Review the most recent 3x22 chart, detailing when each of the 22 elements was last reviewed. All applicable elements must be reviewed at least once every 3 years, based on risk (high risk elements must be reviewed annually, moderate risk every 2 years). PAs must also consider whether a contractor's system includes other CAGE codes utilizing a single property management system, at the same or alternate locations, in order to ensure that the PMSAs performed are all inclusive, and to limit the amount of duplicate work performed.

7.5.2. The PA will create a schedule of PMSA due dates for the next FY no later than September 5 for approval by the first level supervisor, ensuring distribution of workload throughout the year. No PMSAs will be scheduled for completion in the month of September.

7.5.3. The PA will report all anticipated TDY requirements for the next FY to the first level supervisor by September 5 along with the proposed schedule for planning purposes.

7.5.4. The PA will update the Contract Property Administration System (CPAS) to reflect the schedule for the following FY by September 20 of each year to populate the FY baseline.

7.5.4.1. Once the baseline schedule is established, all schedule changes must be approved by the first level supervisor with a copy to the Regional Director. Schedule updates that result in a PMSA being performed less frequently than required by paragraph 7.4. must be approved in writing by the cognizant GCPG Regional Director.

7.5.4.2. The PA will update CPM Record Notes upon approval of a schedule change to indicate the date that the change was approved, and by whom. The PA will also upload a copy of the written approval to the current PMSA tab.

7.5.4.3. The PMSA Schedule Date is used to document PMSAs that have been rescheduled from the initial PMSA Due Date.

7.6. Resident PAs must schedule reviews of each applicable element in accordance with the risk rating. Additional considerations that the PA must take account of in scheduling reviews of property management elements include, but are not limited to:

7.6.1. Ensuring that all elements are reviewed at least once every three years, with high risk elements reviewed at least annually, moderate risk elements reviewed at least once every two years, and low risk elements reviewed at least every three years. Elements identified as noncompliant in a previous PMSA must still be reviewed on the risk based schedule in order

to identify any new noncompliances, even if the contractor's corrective actions are not yet complete.

7.6.2. Reviewing sensitive property as required by paragraph 7.3. of this Guidebook.

7.6.3. Because CPAS is not configured to record when all 22 elements are scheduled for review, resident PAs must document the month and year each element is scheduled for review in a PMSA Plan, upload it to the current PMSA tab in CPAS, and annotate the PMSA Record screen indicating which PMSA portfolio contains the PMSA schedule. The 3x22 chart populated at the end of the last PMSA, along with a risk revalidation, will provide a clear indication of which elements must be reviewed.

8.0. PLAN PMSA. The PMSA is a systematic, objective review and evaluation of a contractor's property management system to determine whether it provides effective and efficient control of Government property in compliance with applicable Government property clauses, and contractual provisions. The required frequency and type of PMSA is determined by evaluating several factors.

8.1. PAs must plan each PMSA and reanalysis to ensure the analysis:

- Addresses Government property accountable to all contracts administered by, or delegated to, DCMA,
- Includes all applicable elements of property management as determined by the risk to the Government of each, and
- Tests sufficient quantities of items or transactions to yield results that may be generalized to the system as a whole.

8.2. PMSA planning reduces the risk that the PA's findings or conclusions may be inaccurate or incomplete as a result of factors such as insufficient or inappropriate evidence (e.g., incomplete populations, source documents that do not apply to the element being tested, etc.), inadequate process (e.g., incorrect sample sizes, failing to go to second sample when required, populations of non-like items, etc.), intentional omissions, or misleading information due to misrepresentation or fraud (contractor-provided evidence that either does not support the conclusion the PA is being asked to reach, or evidence that a contractor has intentionally modified or fabricated).

8.3. The nature and extent of PMSA planning will vary from contractor to contractor. Because of the great diversity of contractors, contracts, property management systems, etc., no single PMSA planning process can be applied across the board for every PMSA. However, there are certain minimal elements that are applicable to every contractor and that PAs will include in planning each PMSA:

8.3.1. Contract Review and Reconciliation. The PA will:

8.3.1.1. Review the contracts and all delegations administered by DCMA, to which Government property is accountable, in order to define the scope of the PMSA. Ensure that all contracts requiring oversight are assigned in CPAS, and that all accountable property is

included in the PMSA. The contract review will alert the PA to those contracts that are cost-type, thus making it likely that acquisition might be applicable. If the contract indicates that sensitive property will be furnished or acquired, the PA must review Written Procedures, Receiving, Discrepancies Incident to Shipment, Records, Physical Inventory, Declaration of Excess, Consumption, Storage, Storage Commingling, and Disposal annually and use a 97% confidence level sampling plan to evaluate the contractor's management of sensitive property. The element of Records, Storage, and Storage Commingling for sensitive property must be tested on-site; however the other elements may be tested remotely. Additional guidance regarding sensitive property is located in paragraph 17.3 of this Guidebook.

8.3.1.2. Verify that the list of contracts in CPAS is complete by comparing the list with a report pulled from MOCAS that indicates "contracts-by-contractor" administered by DCMA. PAs will annotate those reports to document their review. PAs will use MOCAS to take assignment of any contracts with anticipated Government property that are not listed in CPAS. If a contractor has multiple CAGE codes under a single property management system, ensure that all contracts with Government property accountable to all applicable CAGE codes are included.

8.3.1.3. If the contractor has more than \$100M of Government property accountable to contracts administered by DCMA, the PA will also review all DoD contracts issued to the contractor's CAGE code that are not administered by DCMA to identify contracts with Government property for inclusion in the population of all Government property when testing the elements of Records and Physical Inventory. These DoD contracts can be found in the EDA application in PIEE.

8.3.1.4. Request a list of contracts with accountable Government property administered by DCMA from the contractor, and verify that the contractor's list matches the PA's list. If the contractor has more than \$100M of Government property accountable to contracts administered by DCMA, the PA will also request a list of all DoD contracts with accountable Government property that are not administered by DCMA, and verify that the list matches the additional contracts identified in EDA. Note that PAs must not provide the contractor with a list of contracts prior to receiving the contractor's list. Requesting the contractor's list is necessary in order for DCMA to ensure that the contractor's property management system incorporates all contracts that it should. When gaps are identified, the PA will review GFP lists and public vouchers to ensure that the contract listing is complete by identifying furnished property, as well as property that was purchased by the contractor as a direct item of cost under the contract. When reviewing cost vouchers, PAs must be aware that contractors will not always break out equipment and material explicitly; rather contractor acquired property will occasionally be labeled as an "other direct cost" or "ODC." If the voucher does not separate property from ODCs, the PA will request that the contractor explain what their ODCs consist of. After reconciliation of contract lists, the PA will update CPAS as required.

8.3.2. Information Gathering. The PA will:

8.3.2.1. Ensure the validity of the Government property population and sample sizes, and that all applicable elements are reviewed, by requesting accurate and current data relating to the quantity and value of each type of Government property in the contractor's possession. The PA will request that the contractor's property management organization provide the total line items and dollar values using the Standard PMSA Data Call template for standard PMSAs, or the Limited Questionnaire for limited PMSAs. The PA will not request the contractor to report the quantity and value of each type of Government property on a contract-by-contract basis. The contractor is under no contractual requirement to do so. Therefore, requesting this information may be construed as a constructive change to the contract, resulting in increased cost to the Government. DCMA PAs do not have authority to make constructive changes to contractual requirements. PAs can, however, request that the contractor identify property classification and sensitivity, because that information is necessary for the selection of samples in performance of the PMSA (e.g., separate samples for sensitive property, material only for consumption, etc.).

8.3.2.2. Request populations that encompass the maximum number of items or transactions that share common traits. Population descriptions for each of the 22 PMSA elements are included in chapter 2 of this Guidebook. The PA will ensure that population requests are consistent with contractual requirements.

8.3.2.3. PAs must also ask the contractor to report whether they have Military Standard Requisitioning and Issuance Procedures (MILSTRIP) property, sensitive property, Government property not accountable to a contract, and any other information relevant to the performance of a PMSA.

8.3.2.4. If the PA finds that a contractor has not received anticipated Government property prior to the PMSA, the PA will perform the following actions:

8.3.2.4.1. Obtain a statement, in writing, from the contractor that the contractor has not yet acquired or received Government property.

8.3.2.4.2. Verify that statement by reviewing public vouchers via Wide Area Work Flow (WAWF) to ensure no Government property was acquired.

8.3.2.4.3. Email the PCO to verify that the contractor has not received any Government-furnished property. If the PCO verifies this information verbally, rather than in writing, document the conversation in a memorandum for the record.

8.3.2.4.4. Review the GFP Position Report in the EDA application located in PIEE for any GFP the contractor has already received.

8.3.2.4.4. The PA will upload documentation demonstrating completion of the tasks identified above in CPAS under the PMSA Record tab for the current fiscal year. The PA will then populate the scheduled, results, and comments fields, will add a completed

date, and set the PMSA status field to “Closed.” Finally, the PA will create a new PMSA tab and schedule the PMSA for the next fiscal year.

8.3.3. Identification of PMSA Elements for Review. The PA will:

8.3.3.1. Ensure that each applicable element is reviewed at least once every three years, based on risk. Triennial reviews are only appropriate for low risk elements. Additionally, if any elements are identified as special focus areas by the Business Operations Center Director, those must be included in the PMSA plan. A review of the 3x22 chart populated at the end of the last PMSA will provide this information. If the 3x22 chart is missing, the PA is responsible for reviewing previous PMSA records to determine when each of the elements was tested last, and populating the chart for the file as part of the planning process.

8.3.3.2. Review findings, noncompliances, and significant deficiencies cited in prior PMSAs. The PA will focus on identifying repeated deficiencies, trends, or related weaknesses.

8.3.3.3. For a reanalysis, only the specific noncompliance within an element will need to be tested, unless the reanalysis is for a new contractor that failed to provide acceptable procedures, as described in paragraph 6.1.3.3.. Because the reanalysis tests the success of the corrective action plan’s implementation, only transactions that occur after the corrective actions are completed would be included in a reanalysis only population. If the reanalysis is performed concurrently with a scheduled PMSA, and the element is due to be reviewed based on risk, a full population will be reviewed and assessed. In this circumstance, the PA will consider only the specific noncompliance from the previous PMSA in determining whether or not successful corrections have been made. Any new noncompliances will be addressed under the current year PMSA.

8.3.4. The PA must obtain input from the Plant Clearance Officer (PLCO). PLCOs sometimes encounter situations in which the contractor fails to comply with their disposal instructions or is unable to submit accurate inventory schedules, and find there is little the PLCO can do to compel compliance. Because this may mean that the contractor is not in compliance with FAR 52.245-1(f)(1)(x), PAs are expected to contact the PLCO assigned to the contractor and determine whether there are any problems involving disposal, particularly those involving contractor compliance. Memoranda, emails, or appropriate annotations on the team PMSA Plan form (if any) may be used to document that the PA has obtained input from the PLCO.

8.3.5. At least 30 days before the PMSA is scheduled to begin, the PA will provide the ACO with written notification that a PMSA will be performed and request any information that may be applicable in evaluating the contractor’s property management system.

8.4. PAs must upload all planning files and support documents (e.g., evidence of contract review, rationale for element selection, input from PLCO) in the PMSA Planning Documentation folder in the appropriate PMSA Portfolio in CPAS. Resident PAs are expected to upload planning documentation no later than October 10th of each year for the current fiscal year PMSA. Itinerant PAs may upload at PMSA completion along with the rest of their PMSA portfolios.

9.0. CONDUCT PMSA.

9.1. The PA must identify elements and populations for review and testing as described below.

9.1.1. Identify elements to review. Each applicable element below must be reviewed/tested based on the documented risk rating using the methodologies described in Chapter 2 of this Guidebook.

- Adequacy of written procedures
- Contractor self assessments
- Acquisition
- Receiving
- Identification
- Discrepancies Incident to Shipment
- Records
- Receipt and issue system (when approved)
- Physical inventory
- Subcontractor awards and flow down
- Subcontractor reviews
- Reports
- Relief of Stewardship
- Utilization
- Declaration of excess
- Consumption
- Movement
- Storage
- Storage commingling
- Maintenance
- Disposal
- Property closeout

9.1.2. Identify the appropriate population/universe for sampling purposes as described in chapter 2 of this Guidebook. PAs must ensure that populations are correctly identified and complete in order to obtain accurate PMSA results.

9.1.2.1. A population or universe is a compilation of records, requisitions, property items, reports, or documents with common characteristics, encompassing the maximum number possible within an element.

9.1.2.2. Generally, each of the elements require separate populations, and occasionally, a single element may require multiple populations.

9.1.2.3. Only those documents, records, assets, or actions associated with contracts that are administered by DCMA, or that have valid delegations in place, are included in

testing populations. For contractors with over \$100M of Government contract property accountable to contracts administered by DCMA, the Records and Physical Inventory populations will include all contract property accountable to DoD contracts, regardless of administration.

9.1.3. Since different confidence levels are used to test sensitive and non-sensitive populations, the elements of Written Procedures, Receiving, Discrepancies Incident to Shipment, Records, Physical Inventory, Declaration of Excess, Consumption, Storage, Storage Commingling, and Disposal cannot be combined and must be tested separately. The PA must use a 97% confidence level when testing sensitive property for those elements, and a 90% confidence level for all other populations.

9.2. Establish Sampling Plan. The PA must:

9.2.1. Determine the appropriate sampling methodology for the element being examined. Refer to chapter 2 of this Guidebook for procedures.

9.2.2. Use statistical sampling methods wherever possible for standard PMSAs. Judgment and purposive sampling may be used when the situation warrants. The PA will document and fully explain the rationale for using judgmental or purposive sampling in the Audit Report.

9.2.2.1. Judgment sampling is used for select areas, items or actions based on the reviewer's professional judgment. The PA will only use judgment sampling when the population does not lend itself to statistical sampling because there are a restricted number of items in the population with the targeted qualities being tested.

9.2.2.2. Purposive sampling also uses professional judgment to select sample areas, items or actions involving credible, known or suspected deficiencies. Purposive sampling may include statistical sampling of a subset of a larger population.

9.2.3. Incomplete populations are those that do not include all items that share common characteristics. While the PA may select an incomplete population as a purposive sample in cases where there are known or suspected defects in a subset of a population, results of that purposive sample cannot be generalized to the system as a whole. Because of this, an analysis that includes a complete population for each element must be tested at least once every three years, based on risk, to ensure that the DoD has an accurate assessment of the health of the contractor's property management system.

9.2.4. For most population ranges, the double sampling plan requires the PA to continue with a second sample if the number of defects is greater than zero but fewer than the number required to reject the population as noncompliant to contractual requirements. A sample set may have defects identified for multiple data elements; for example, while performing a Records review, the PA might find that some samples are in the incorrect location, and others have the incorrect quantity on record. The PA will only reject the population if the quantity of

any one type of defect meets or exceeds the rejection threshold. Reviewing a second sample under these circumstances is mandatory, not optional.

9.2.4.1 The PA must finish testing the first sample set even if the reject defect level is reached before testing all samples.

9.2.4.2. The PA does not need to test a second sample set if the required defect level is reached upon completion of the first sample set. If the required defect level is reached partway through the second sample, the PA may stop at that point.

9.2.5. If a second sample set is required by the DoD double sampling plan, but is not selected and tested, the PA must document his or her rationale justifying this decision and upload the documentation of the decision into the CPAS eTool. Failure to select and test a second sample may invalidate the PMSA findings.

9.3. PAs will select an appropriate confidence level (see table 1 below):

9.3.1. A 97% confidence level, meaning 97% confidence of rejecting lots having 10% or more defects, should be used when a high degree of accuracy is required (e.g., when testing record accuracy of sensitive property items as defined by FAR 45.101, and further described in Table 61 of Volume 10 of DoD 4100.39-M as having a Control Item Inventory Code (CIIC) for Sensitive Items. See paragraph 17.2.). A 97% confidence level is also used to test the elements of Records and Physical Inventory for all Government property accountable to contracts issued by DoD for those contractors with over \$100M of Government property administered by DCMA.

9.3.2. A 90% confidence level (90% confidence of rejecting lots having 10% or more defects) is suitable in most cases.

DOUBLE SAMPLING PLAN

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

| Lot Range | Sample Size 1 | Accept if Defects in Sample 1 Are | Reject if Defects in Sample 1 Are | Continue with Sample 2 if Defects in Sample 1 Are | Sample Size 2 | Accept if sum of Defects in Samples 1 and 2 Equals or is Less Than | Reject if Sum of Defects in Samples 1 and 2 Equals or Exceeds |
|----------------|---------------|-----------------------------------|-----------------------------------|---|---------------|--|---|
| 1-18 | All | 0 | 1 | - | - | - | - |
| 19-50 | 18 | 0 | 1 | - | - | - | - |
| 51-90 | 21 | 0 | 2 | 1 | 21 | 1 | 2 |
| 91-150 | 25 | 0 | 3 | 1 or 2 | 25 | 2 | 3 |
| 151-400 | 32 | 0 | 4 | 1,2 or 3 | 32 | 3 | 4 |
| 401-10,000 | 34 | 0 | 4 | 1,2 or 3 | 34 | 3 | 4 |
| 10,001-35,000 | 40 | 0 | 5 | 1,2,3 or 4 | 40 | 4 | 5 |
| 35,001-100,000 | 46 | 0 | 6 | 1,2,3,4, or 5 | 46 | 5 | 6 |
| 100,000 + | 52 | 0 | 7 | 1,2,3,4,5, or 6 | 52 | 6 | 7 |

97% CONFIDENCE DOUBLE SAMPLING PLAN

(97% confidence of rejecting lots having 10% or more defects)

| Lot Range | Sample Size 1 | Accept if Defects in Sample 1 Are | Reject if Defects in Sample 1 Are | Continue with Sample 2 if Defects in Sample 1 Are | Sample Size 2 | Accept if sum of Defects in Samples 1 and 2 Equals or is Less Than | Reject if Sum of Defects in Samples 1 and 2 Equals or Exceeds |
|----------------|---------------|-----------------------------------|-----------------------------------|---|---------------|--|---|
| 1-25 | All | 0 | 1 | - | - | - | - |
| 26-50 | 25 | 0 | 1 | - | - | - | - |
| 51-90 | 28 | 0 | 2 | 1 | 28 | 1 | 2 |
| 91-150 | 33 | 0 | 3 | 1 or 2 | 33 | 2 | 3 |
| 151-400 | 41 | 0 | 4 | 1,2 or 3 | 41 | 3 | 4 |
| 401-10,000 | 43 | 0 | 4 | 1,2 or 3 | 43 | 3 | 4 |
| 10,001-35,000 | 50 | 0 | 5 | 1,2,3 or 4 | 50 | 4 | 5 |
| 35,000-100,000 | 56 | 0 | 6 | 1,2,3,4, or 5 | 56 | 5 | 6 |
| 100,000+ | 63 | 0 | 7 | 1,2,3,4,5, or 6 | 63 | 6 | 7 |

9.4. PAs will draw the maximum number of transactions or attributes possible for any population.

9.4.1. When testing transactions (material requisitions, for example), the population/universe must consist of the total number of transactions that occurred within the past year (365 days), or the transactions that occurred subsequent to completion of the contractor’s corrective actions for reanalysis.

9.4.2. When testing attributes, the PA must assure that the population universe consists of the total number of items (e.g., storage areas, documents, records, or property items) to be examined.

9.5. PAs will exercise judgment when furnishing pre-selected samples to the contractor prior to arriving on-site. Although this reduces cost and time, the PA must ensure the integrity of the PMSA and findings in order to accurately assess the health of the contractor's property management system. Under no circumstance will a PA provide the Records sample in advance of arriving at a contractor's facility to test that element. For large contractors with multiple locations, it is acceptable to provide a redacted sample listing that does not provide enough information to identify the sample item, but does indicate the building or room. This allows the contractor to ensure that they have the appropriate support personnel available, without negatively impacting the integrity of the PMSA.

9.6. PAs will allow enough time for contractors to provide support documentation for samples, but not so much time that the contractor is able to perform an analysis and implement remedial actions before the PA has an opportunity to review.

9.7. Perform Standard PMSA. If the PA determines that a standard PMSA is required based on risk, the PA will notify the contractor in writing at least 30 calendar days prior to starting the PMSA, and invite participation from contractor managerial personnel. If the contractor requests, the PMSA can begin sooner than 30 days after the notification letter is sent, (e.g., to accommodate workflow or personnel issues). The notification letter should identify the scope of the review, identify the elements to be tested, incorporate the Standard PMSA Data Call Template to request the appropriate populations for those elements with an expected submission date, and identify the timeline for completion of the PMSA. Additionally, the PA will provide a notification of the PMSA to the ACO at least 30 days prior to the PMSA and request any information applicable to evaluating the contractor's property management system.

9.7.1. PAs will conduct an entrance conference supported by a slide show presentation. As part of the entrance conference, the PA will:

9.7.1.1. Maintain a sign-in roster of attendees and minutes of discussion held. If the entrance briefing is performed remotely, an email from the contractor listing attendees is acceptable in lieu of a sign-in roster.

9.7.1.2. Establish a mutual understanding with the contractor regarding the audit processes and sampling procedures anticipated to be used. The PA will inform the contractor that the Government reserves the right to adjust the audit and sampling as necessary.

9.7.1.3. Discuss the status of outstanding Corrective Action Requests (CARs), contractor proposed changes to its property management system, deficiencies identified through contractor self-assessments/internal reviews, any related corrective actions undertaken by the contractor, and inform the contractor of any issues or initiatives related to Government property.

9.7.1.4. Advise the contractor that daily out-briefs will be conducted to summarize the efforts and findings of the day. If there are any deficiencies identified, the PA will not indicate whether the deficiency meets the DFARS 252.245-7003 criteria for a “significant deficiency,” since the ACO must make that determination.

9.7.1.5. Upload entrance briefing documentation in CPAS.

9.7.1.6. Resident PAs may hold a combined entrance and exit conference in September of each year to summarize the findings of all reviews performed during the fiscal year, and address the status of any outstanding deficiencies and corrective actions. This conference will also identify the elements of property management that will be reviewed in the upcoming fiscal year, inform the contractor of any issues or initiatives relating to Government property, and provide the contractor the opportunity to discuss any issues related to Government property. Additionally, the resident PA will hold exit conferences upon the completion of each element to keep the contractor informed and provide timely feedback. PAs must not comment on whether a deficiency is a “significant deficiency” nor offer an opinion on the property system status, both of which determinations are exclusively within the authority of the warranted ACO.

9.8.2. PAs must execute and document the testing of elements in accordance with the PMSA plan. PAs may modify the plan’s implementation as necessary, but are expected to document the rationale behind any major changes.

9.8.2.1. The PA must maintain work papers with descriptive and quantitative data that supports the contractual requirements under review. Note that “YES” or “NO” answers are not descriptive and quantitative data. They are conclusions, which are not acceptable without evidence. PAs will use the approved worksheets and associated guidance in chapter 2, documenting the required data, but may add additional data, as applicable.

9.8.2.2. The work papers must provide clear, factual evidence sufficient to allow a third party to replicate the findings.

9.8.2.3. The PA must upload all work papers and supporting documentation in CPAS in the appropriate portfolio prior to submitting the Business System Analysis Summary and Audit Report to the first level supervisor for review. Resident PAs will upload documentation at the conclusion of the review of each element prior to submitting the Business System Analysis Summary and Audit Report to the first level supervisor for review.

9.8.3. Analyze the Defects. The PA must:

9.8.3.1. Analyze the defects from both a quantitative, (using established statistical sampling tables’ acceptance and rejection rates for set populations), and a qualitative (impact and materiality) perspective. Statistical sampling requires that the double sampling plan be followed completely in order to draw conclusions regarding the statistical significance of any defects identified. A noncompliance with the terms and conditions of the contract based on a statistically significant number of defects in a sample is a deficiency that requires correction, regardless of its impact and materiality. Noncompliances based on a statistically significant

number of defects require correction to the population, rather than to the selected samples only. These noncompliances must be reported in the Business System Analysis Summary and Audit Report.

9.8.3.2. Determine if the issues the PA identifies affect the ability of DoD officials to rely on the information produced by the contractor's property management system. Any noncompliances that are not tied directly to the requirements of paragraph (f) of FAR 52.245-1 do not meet this definition.

9.8.3.3. Review appropriate source and supporting documents pertaining to each element.

9.8.3.4. Ensure alignment of testing and sampling results with the contractor's written procedures.

9.8.4. Conduct an exit conference. Upon completion of the on-site PMSA, the PA must utilize a slide show presentation to summarize the activities and daily out-briefs held with contractor personnel, and:

9.8.4.1. Invite contractor managerial personnel and the ACO to attend.

9.8.4.2. Maintain a sign-in roster of attendees.

9.8.4.3. Discuss findings, recommendations, and concerns identified during the course of the PMSA, and any contractor actions taken to correct deficiencies. PAs will ensure that any recommendations made could not be construed as constructive changes to a contract. PAs must not comment on whether a deficiency is significant nor offer an opinion on a determination of the property system status, both of which are solely within the authority of the warranted ACO.

9.8.4.4. Ensure that a written record of the activities of the exit conference is established, and retained in the PMSA file.

9.9. Performance of a Limited PMSA. PAs must ensure that the level of review is sufficient to determine the adequacy of the contractor's property management system. If the PA determines that a limited PMSA is appropriate based on risk, no formal entrance briefing is required; however, the PA must:

9.9.1. Send the standard "Limited PMSA Questionnaire" to the contractor, which covers questions for each applicable element of the contractor's property management system. Use of this standard questionnaire is mandatory. The questionnaire is located on the GCPG Team page on the DCMA 360 website in the template library. PAs will ensure that they use the current version of the questionnaire.

9.9.2. Conduct telephone interviews with contractor personnel to supplement the contractor's responses to the questionnaire. The PA must ensure that the level of review is sufficient to determine the adequacy of the contractor's property management system.

9.9.3. Verify results of the interviews by obtaining and assessing samples of relevant documents and data, (e.g., purchase orders, receiving logs, and records for all applicable property types). While statistical sampling is not required, the PA must view and assess the compliance of documents that are representative of those produced by the contractor's system.

9.9.4. Notify the contractor of potential findings as they are identified during the PMSA. PAs must not comment on whether a deficiency is significant nor offer an opinion on a determination of the property system status, both of which fall under the authority of the warranted ACO.

9.9.5. Depending on the extent or potential significance of findings, PAs may need to expand the scope of review to a standard PMSA. If expansion of the review is contemplated, the PA must coordinate with their first level supervisor.

9.9.6. Analyze the defects. (refer to paragraph 9.8.3.)

9.9.7. Conduct an exit conference, which may be accomplished via telephone, with relevant contractor personnel to discuss the findings, recommendations and concerns identified during the course of the PMSA, and any contractor actions taken to correct deficiencies. PAs will ensure that contractor managerial personnel and the ACO are invited to the exit conference. PAs may not comment on whether a deficiency is significant nor offer an opinion on a determination of the property system status, both of which are exclusively within the authority of the warranted ACO.

9.9.8. Document the record. Establish a written record of the activities of the exit conference and retain in the PMSA file.

10.0. PREPARE REPORTS.

10.1. PAs will prepare a PMSA Audit Report.

10.1.1. The PA must use the current Audit Report template located in the template library within the GCPG Team page on DCMA 360 to describe:

- The populations used to test each element reviewed
- The type of sample reviewed
- The size of the sample
- The method used to select the sample
- The confidence level used, if applicable
- The quantitative and qualitative information obtained
- The information provided by contractor personnel

10.1.2. PAs must document their analysis, provide a description of the contractor's process, thoroughly describe their findings, and indicate whether each element that was reviewed complies with contract requirements. An explanation and written analysis is required to support all of the PA's determinations in the Audit Report, regardless of whether a standard or limited PMSA was performed.

10.1.3. First level supervisors will review and sign all PMSA Audit Reports, certifying that the report adequately describes the PMSA and its findings, that testing methods were sufficient to analyze the effectiveness of the property management system, and support the findings and conclusions. The PA must not send their Business System Analysis Summary or Audit Report to the ACO until the PA's supervisor has concurred with their conclusions.

10.1.4. Resident PAs will complete Audit Reports throughout the year as elements are tested, and will provide them to the ACO along with the Business System Analysis Summary within 30 days after review of the element is completed. Each Audit Report will address only the results of the current elements reviewed in the body of the report. The results of the reviews for elements that have been previously reviewed and reported within in the fiscal year will only be addressed in the table of elements. The PA will create and maintain a portfolio in CPAS that contains all Audit Reports and Business System Analysis Summaries issued throughout the fiscal year.

10.2. Prepare a Business System Analysis Summary. The Business System Analysis Summary is an internal DCMA document that is intended to assist the ACO in identifying significant deficiencies in the contractor's property management system in accordance with DFARS 252.245-7003. The PA must not release the Business System Analysis Summary to anyone other than the ACO, as this is a pre-decisional document providing technical advice. Upon completion of a PMSA, and in addition to the Audit Report, the PA must:

10.2.1. Prepare a Business System Analysis Summary, using the Business System Analysis Summary template located on the GCPG Team page on DCMA 360 in the template library. The PA will assure the Business System Analysis Summary provides a clear description of the elements the PA reviewed and detailed results, such that the ACO can use the Business System Analysis Summary to determine the significance of any deficiencies.

10.2.2. The PA will include a draft level III or IV CAR to the ACO, when potentially significant deficiencies have been identified. Note that only those findings that are based on noncompliances with the requirements detailed in paragraph f of FAR 52.245-1 may be identified as potentially significant. Refer to paragraph 13.0.

10.2.3. If the PA and first level supervisor believe that the PMSA identified potentially significant deficiencies, as defined in DFARS 252.245-7003, the PA's first level supervisor will forward the signed report to the AQBYA team first level supervisor and cognizant Regional Director to initiate a PMSA Review Panel. If there is a disagreement between the PA and first level supervisor regarding potential significance, the reports will be elevated to the Regional Property Director for review. In order to support consistency across regions, any disagreement between the PMSA Review Panel and a Regional Director regarding

the potential significance of deficiencies will be elevated to the Business Operations Center Director for a decision.

10.2.4. PMSA Review Panels will be requested by the first level supervisor for any PMSA where one or more deficiencies appear to meet the definition of significant. Panels will also be requested any time a PMSA identifies that 25% or more of the applicable elements are noncompliant, regardless of potential significance. Multiple non-significant deficiencies may indicate a systemic issue when considered together.

10.2.5. PAs will forward the Business System Analysis Summary and Audit Report to the ACO within 30 calendar days after an exit conference with the contractor for both standard and limited PMSAs. Resident PAs will forward their reports to the ACO within 30 days of completion of each element review.

10.2.5.1. The date the Business System Analysis Summary is sent to the ACO is considered the PMSA completion date for CPAS. Further, the date on the Business System Analysis Summary must match the date that the reports are provided to the ACO.

10.2.5.2. The PA must load all documentation, including workpapers, into CPAS before submitting the Audit Report and BSAS to the first level supervisor and prior to the completion date. In no case is it permissible for a PA to backdate a PMSA completion date in CPAS. This requirement to load documentation into CPAS applies for Resident PAs as elements are completed throughout the year as well. CPAS should be current, containing all support documentation prepared to date.

10.3. PAs must populate the 3x22 chart documenting when each of the 22 elements was reviewed last, and upload the chart to the PMSA tab in CPAS. This chart must be loaded prior to submission of the Audit Report and Business System Analysis Summary to the first level supervisor.

10.3.1. Please note that the chart is designed to capture the last full review of each element. Purposive or other reviews that only test a subset of the population do not fully address the requirement to test each applicable element at least once every 3 years (based on risk).

10.3.2. Example. If a PA only tested sensitive records, the records of all other Government property still needs to be tested on the appropriate cycle based on risk (refer to paragraph 12.5). If a partial review is performed, that must be clearly identified on the 3x22 chart.

11.0. UPDATE CONTRACT PROPERTY ADMINISTRATION SYSTEM OF RECORD IN ACCORDANCE WITH DESK INSTRUCTIONS.

12.0. DETERMINE AND ASSIGN CONTRACTOR PERFORMANCE RISK.

12.1. The PA must determine and define any risk the contractor's property management system poses to the Government, and the level of that risk. PAs must focus upon those risks relating to Government property that the Government can influence. In cases where the PA does not have the expertise or information to identify and evaluate particular risks, PAs must seek the assistance of other functional specialists. At a minimum, for every contractor, PAs must consider the risk that there will be shortcomings in the contractor's property management system that will materially affect the ability of DoD officials to rely upon information produced by the system. To determine performance risk, the PA must:

12.1.1. Identify potential unfavorable future events (what could go wrong). PAs may consider issues identified in previous PMSAs, the experience level of the contractor's workforce, the contractor's location, and the nature of the business as factors that could result in unfavorable future events.

12.1.2. Determine the likelihood of those events occurring. For example, the likelihood of a hurricane hitting a coastal area is much greater than that of one hitting the Midwest.

12.1.3. Estimate the consequence of those events (potential impact to the Government if the event occurs). The amount, value, and nature of the property (e.g., sensitive, hazardous, AA&E, etc.) are all relevant in assessing the consequence of the risk. The criticality of the contract to which the property is accountable is among other relevant factors.

12.2. Assign risk rating. The PA must assign a risk rating within 10 calendar days after the ACO's final determination regarding approval or disapproval of the contractor's property management system, or receipt of acceptable procedures from a new contractor. If there is a disagreement between the PA and the first level supervisor regarding the appropriate risk level to assign, the first level supervisor will elevate the disagreement to the Regional Director for a final decision. When the property management system contains sensitive property, the PA will perform an additional supplemental risk assessment annually, addressing the sensitive Government property. In all cases, PAs must ensure that their risk assessments document:

- Risk level for the property management system.
- Risk level for each of the applicable 22 property elements.
- The data or information supporting the identified risk level.
- The known and projected impact on contract performance or on Government property stewardship.
- The estimated timeframe within which any projected impact may be realized.

12.2.1. High Risk. Factors that may indicate a rating of High risk is appropriate for a property management system include one or more of the following:

- Significant deficiencies identified.
- Level III CAR(s) issued.

- Disapproved property management system.
- ACO has withdrawn assumption of risk.
- Undocumented, inconsistent, or incomplete processes.
- Pattern of questionable, incomplete, or non-existent procedures.
- Data indicating contractor's potential inability to meet contractual requirements (cost, schedule or performance issues).
- Recurring excessive loss of Government property.
- Dramatic increase in losses over previous years.
- Unauthorized use or acquisition of Government property.
- Investigations or findings of fraud, waste, and abuse.
- Disallowance of acquisition costs.
- Public safety or national security concerns.
- Poor internal controls.
- Pattern of non-responsiveness to requests for information.
- Inventory balance discrepancies which cause schedule delays.
- Value of accountable Government property exceeds \$100M.

12.2.2. Moderate Risk. Factors that may indicate that a rating of Moderate risk is appropriate for a property management system include the following:

- Contractor's lack of experience with furnished or acquired Government property (new contractor), or procedures and a property management system that are not fully developed.
- New or changing conditions to a currently approved property management system that pose a degree of uncertainty.
- A previously high risk rating with all corrective actions completed but insufficient implementation period to demonstrate low risk.
- Deficiencies (other-than-significant deficiencies) as determined by the PA (level II CAR issued) against 1 or more of the 22 property elements.
- Established procedures that require testing or improvement.
- Data indicating contractor's potential inability to meet contractual requirements.
- Increased losses of Government property over previous years.
- Unresolved deficiencies.
- Poor internal controls.
- Value of accountable Government property: \$25M - \$99.9M.

12.2.3. Low Risk. A low risk rating is not appropriate for new or newly assigned contractors. Factors that may indicate that a rating of Low risk is appropriate for a property management system include:

- Compliant controls in all of the applicable property elements within the past 3 years.
- No incidents of excessive Government property loss, unauthorized use, or inappropriate acquisitions.

- Data indicating contractor’s ability to meet property-related contractual requirements.
- Strong internal controls and continuous improvement focus.
- No deficiencies or property CARs issued.

12.3. Revalidation of risk. A revalidation is a limited, periodic check to ensure that the most recently assigned risk rating is still valid. The PA will confirm the original risk level determination or, if factors indicate a change, will conduct a new risk assessment and assign a new risk level determination. The PA must revalidate assigned risk as often as conditions warrant, *but no less frequently than annually* for all assigned contractors. The annual revalidation must be performed at the beginning of the FY, and be completed no later than October 30th, with the documentation uploaded into the next PMSA tab in CPAS.

12.4. The PA will upload risk assessment documentation and risk assessment completion dates in CPAS. Risk assessments tied to the current PMSA will be loaded in the current PMSA Tab. The PA will load risk revalidations and out-of-cycle risk assessments in the next scheduled PMSA record Tab.

12.5. PMSA frequency will be based on risk assessments and the result of risk revalidation (refer to paragraph 8.0). The PA may need to assess some elements more frequently than others due to element-specific risk. All high risk elements need to be assessed at least annually, moderate risk elements at least every two years, and low risk elements at least every three years. Noncompliances identified within a contractor’s property management system, even in situations where there is an active corrective action plan for one or more elements, are not an acceptable reason for the PA to delay performance of a PMSA that is due to be performed based on risk.

12.6. Occasionally, an element that had previously not been applicable will become applicable: e.g., a contractor that had previously only had firm-fixed-price contracts is awarded a cost-type contract for which they will be acquiring property; or a contractor that had previously not had any subcontractor awards will need to award a subcontract with Government property. In those circumstances, the PA may need to perform a PMSA earlier than originally planned, in order to ensure that elements that had previously been identified as not applicable are tested within a year of becoming applicable. The 3x22 chart must be used by PAs to ensure that all elements are addressed.

13.0. ISSUE CORRECTIVE ACTION REQUESTS/MONITOR CORRECTIVE ACTIONS. FAR 52.245-1(g)(3) states:

Should it be determined by the Government that the Contractor’s (or subcontractor’s) property management practices are inadequate or not acceptable for the effective management and control of Government property under this contract, or present an undue risk to the Government, the Contractor shall prepare a corrective action plan when requested by the Property Administrator and take all necessary corrective actions as specified by the schedule within the corrective action plan.

Additional clausal requirements for corrective action plans for business system noncompliances are described in DFARS 252.245-7003(e), which states:

If the Contractor receives the Contracting Officer's final determination of significant deficiencies, the Contractor shall, within 45 days of receipt of the final determination, either correct the significant deficiencies or submit an acceptable corrective action plan showing milestones and actions to eliminate the significant deficiencies.

PAs are required to follow the policy implementation in DCMA-MAN 2303-01, "Surveillance" for both contractual noncompliances and business system noncompliances.

13.1. Contractual noncompliances can be discovered at any time, both during and outside of the PMSA process. Only the ACO can determine a contractual noncompliance to be a significant deficiency (a level III or IV CAR). The PA, however, is responsible for issuing CARs to the contractor for those noncompliances that do not meet the threshold of the definition of 'significant' (level I or II) once the ACO has made their determination.

13.2. If the PA receives notification of a suspected noncompliance from an outside source, (e.g., other DCMA functional specialist, buying office, contractor CSA results), the PA must first verify the existence of that noncompliance. Keep in mind that individuals not trained in property administration may not be able to correctly identify a contractual noncompliance related to property management. Additionally, not all noncompliances involving Government property are related to the contractor's property management system. PAs will provide assistance to other functional specialist as necessary, but will only issue CARs for noncompliances with FAR 52.245-1 and related contract property clauses.

13.3. Regardless of whether a noncompliance is discovered during a regularly scheduled PMSA or at another time, the PA must include the details of the noncompliance in the Audit Report and Business System Analysis Summary. PAs will draft a Level III CAR for the ACO to accompany the reports if there are any deficiencies likely to be considered significant. See DCMA-MAN 2303-01, which is referenced above, for DCMA procedures to follow when issuing CARs. If the findings were discovered outside of a PMSA, and the contractor was not scheduled to have a PMSA that year, the PA will generate a new tab for the current fiscal year to document any newly-identified noncompliances.

13.3.1. PAs may issue a level I CAR only for deficiencies that are not potentially significant and that the contractor corrected immediately, or that were fully corrected during the PMSA. A PMSA may not be held open solely to allow the contractor additional time to correct such a deficiency. If any additional corrective actions remain for the contractor to complete when the PA performs the exit conference, the CAR issued to the contractor must be a level II or higher. The PA must verify that any contractor corrective actions that are performed during the PMSA are sufficient to correct the immediate deficiency, as well as prevent recurrence (e.g., the contractor performed a physical inventory, and had the documentation to support it, however they failed to provide the inventory report to the PA. As a corrective action, the contractor provided the report of physical inventory results, and initiated an automated reminder to do so in the future). For a deficiency identified based on a statistically significant number of defects

identified during statistical testing (i.e., the number of defects exceeded the threshold to reject the lot based on population size), the corrective action must apply to the population as a whole and may not be limited to the defective samples only. Generally, a contractor will not be able to correct a statistically significant deficiency during the PMSA, unless the contractor has a very small quantity of Government property. In all cases, the corrective actions must be sufficient to not only correct the current defects, but to also to prevent recurrence of the noncompliance.

13.3.2. PAs will issue Level II CARs only after the ACO has made a final Property Business System determination that there are no potentially significant deficiencies. If both potentially significant deficiencies and non-significant deficiencies are identified during the property business system review, the PA will issue a Level II CAR for the non-significant deficiencies after the ACO issues an initial determination letter. Resident PAs may coordinate informally with the ACO to receive concurrence regarding potential significance for findings reported on interim Business System Analysis Summaries.

13.3.3. Board of Review. If, after review and consideration of the Business System Analysis Summary, the ACO determines that the noncompliance documented in the draft level III CAR does not constitute a significant deficiency, the PA will elevate the issue to their first level supervisor and Regional Director for further elevation of the matter to a Board of Review. Initial Boards of Review are held at the CMO or Cost and Pricing Center level. If a disagreement remains regarding significance or existence of the findings after the first Board of Review, the Regional Director will pursue elevation to a Headquarters Board of Review in accordance with the Board of Review process described in DCMA-MAN 2301-01 “Contractor Business Systems.”

- If the result of the Headquarters Board of Review is a Board recommendation concurring with the ACO that the noncompliance does not meet the definition of a significant deficiency, the PA will issue a level II CAR for the identified deficiency.
- The PA will not modify the Business System Analysis Summary and Audit Report as a result of input from the BOR supporting the ACO’s determination.
- Additionally, ACO disagreement with regard to significance prior to issuance of a Business System Analysis Summary will not eliminate the need to follow the GCPG’s panel process described in paragraph 10.2.3. of this Guidebook.

13.3.4. PAs will issue a single CAR for all noncompliances of the same significance. For example, if a contractor has one deficiency that was completely corrected during the PMSA, six noncompliances determined by the ACO to be nonsignificant, and one significant deficiency, the contractor would receive one level I CAR, one level II CAR addressing each of the deficiencies identified, and one draft level III CAR.

13.4. Review Contractor Corrective Action Plans.

13.4.1. PAs support ACOs in reviewing contractor corrective action plans submitted in response to level III/IV CARs. PAs must monitor corrective actions as contractors

implement those corrective actions, and evaluate the effectiveness of the contractor's corrective action plan.

13.4.2. PAs review contractor corrective action plans for level II CARs in accordance with the guidance in DCMA-MAN 2303-01, "Surveillance." Proposed corrective action plans that do not adequately address the noncompliance will be rejected, and the contractor will be required to submit an updated plan. If the contractor's proposed CAP implementation timeframe exceeds 90 calendar days, and the contractor is unable or unwilling to shorten their correction timeframe, the PA will notify their first level supervisor who will elevate the matter to the cognizant GCPG Regional Director for visibility. Timely implementation of corrective actions, and testing of those corrections, is imperative to protect the Government against unnecessary risk.

13.5. All level II and higher CARs require testing by the PA to verify that the contractor has effectively implemented any proposed corrective action plan, and that the implementation of the plan is sufficient to both correct the immediate deficiency, and to prevent recurrences of the same noncompliance. PAs must verify correction of Level I CARs before closing the CAR. CARs may not be closed prior to testing by the PA to verify that the contractor has successfully implemented the corrective action. Prior to closing a CAR, a PA must also seek concurrence from the first level supervisor that the PA's testing was sufficient to support such a determination.

13.5.1. The extent of the PA's reanalysis will vary based on the circumstances and nature of the initial finding. The PA will use statistical testing in all cases where it would be appropriate for testing the same element in a regularly scheduled PMSA. See chapter 2 of this Guidebook for guidance on testing methodology.

13.5.2. In all cases, the PA must verify successful implementation of corrective actions as soon as possible after the contractor reports that corrective actions have been fully implemented. Verification of correction of deficiencies identified in CARs take precedence over all other PA work duties.

13.5.2.1. For transactional elements, the PA should only perform an assessment after there are sufficient transactions to test. This will generally occur at least 90 calendar days, but no more than 120 calendar days, after the contractor reports that their corrective action plan has been completed. Because the reanalysis tests the success of the corrective action plan's implementation, only transactions that occur after the corrective actions are completed will be included in a reanalysis population, unless the reanalysis is being performed concurrently with a regularly scheduled PMSA. For those deficiencies identified in a level II CAR, the PA must perform the reanalysis within 180 calendar days of issuance of the ACO's final determination letter. The PA will work with their first level supervisor to obtain written approval from the Regional Director if there are circumstances that prevent a reanalysis from being performed within the aforementioned timeframe. If it is unlikely that the contractor will have sufficient transactions to support an assessment in a reasonable amount of time after completion of the contractor's corrective action (for example, the finding is in an element that is not currently applicable to the contractor's property management system), the PA may perform

the verification based on whether there is a reasonable expectation that the corrective actions taken would likely prevent further deficiencies. If the element becomes applicable in the future, the PA must test the element during the next scheduled PMSA.

13.5.2.2. For elements that are not tested based on transactional data, the PA must verify the success of the corrective actions as soon as possible upon notification from the contractor that those corrective actions have been fully implemented.

13.5.2.3. The PA must document verification of successful implementation of corrective actions in an Audit Report and Business System Analysis Summary, and provide them to the ACO upon completion, regardless of whether the initial finding of noncompliance was discovered during a PMSA. The PA will load all files, to include work papers and other support documentation, in CPAS under the associated reanalysis tab.

13.5.2.4. The PA must notify the ACO if additional deficiencies or unsatisfactory implementation of the contractor's corrective action is identified. The PA will document this determination in an Audit Report and Business System Analysis Summary, and provide these business system reports to the ACO. All files, to include work papers and other support documentation are to be loaded in CPAS under the associated reanalysis tab, and a second reanalysis tab will be generated. If the contractor fails to successfully implement corrective actions, the PA will pursue escalation of the CAR following the procedures set out in DCMA Manual 2303-01, "Surveillance."

13.6. If a contractor identifies a deficiency in the property management system during its self assessment, and takes appropriate and effective corrective action, the PA will not issue a CAR unless the PA later determines that the contractor's corrective action is ineffective. That said, a contractor may not use self-identification of a deficiency to circumvent the Contractor Business System process. If the contractor fails to notify the PA of a deficiency until after the contractor has received the PMSA notification letter, the PA will include that deficiency in their Audit Report and Business System Analysis Summary.

13.7. PAs must document CARs using the CAR module in the Product Data Reporting and Evaluation (PDREP) application, and are expected to upload all relevant documentation, (e.g., the contractor's root cause analysis and corrective action plan and written communication regarding the acceptability of that corrective action plan), as attachments within the tool. When documenting a CAR for a noncompliance that is not contract specific, the PA will enter the largest prime contract number in the "Contract Number" field, include the statement, "See attached listing for additional contract numbers associated with this CAR" in the "Executive Summary" field, and then upload a list of all contracts included in the PMSA as an attachment to the CAR. If a contractor has fewer than 10 contracts with property administered by DCMA, the PA may enter the contracts using the "Add Contract" feature, rather than uploading a list. Additionally, PAs will provide status updates within the tool at least once every 30 days. PAs must not delete previously entered comments.

14.0. ENSURE CONTRACTOR REPORTING OF PROPERTY LOSS. Property loss reporting includes losses of any kind, including damage and those property losses that occur

under contracts containing DFARS 252.228-7001, “Ground-and-Flight Risk Clause (GFRC).” When the contract contains the GFRC and the Government Flight Representative (GFR) or alternate has determined liability and provided the recommendation to the ACO, the PA must ensure the PL eTool or the Property Loss Function in the PIEE GFP Module is properly updated.

14.1. Unless otherwise approved in writing by the PA, contractors are required to investigate, disclose, and report all incidents of Government property loss as soon as the facts are known.

14.1.1. The PA may determine and agree to contractor reporting on a regularly scheduled basis, such as monthly or quarterly, except for losses involving sensitive property. PAs may not approve contractor reporting of recognized losses less frequently than quarterly. The PA must approve a contractor’s alternate reporting schedule (i.e., other than as soon as the facts are known) in writing. The PA will ensure that the contractor clearly addresses the circumstances, defining property and classes of property, subject to reporting on an alternate schedule, in its property management procedures.

14.1.2. If the contractor is allowed to report the loss of low risk property on a less frequent basis, the PA must closely track those losses to look for trends and to ensure that there is no increase in the amount of property lost in excess of what would be anticipated if they were not on an alternate schedule.

14.1.3. With the exception of normal and reasonable inventory adjustments, as agreed to by the contractor and the PA in accordance with DFARS 252.245-7002 “Reporting Loss of Government Property”, PAs may not excuse contractors from reporting property loss regardless of the property value. Contractor reporting is required for all incidents of property loss, to include those that may be considered workmanship damage (i.e., damage to aircraft that is the result of a task, operation, or action performed by the contractor which was originally planned or intended, but the end result was unintended, unforeseen, or accidental damage to Government property that reduces the Government’s expected benefit, and does not fall under the category of manufacturing defects). These losses must be reviewed by the PA so that the PA has visibility of any trends. Additionally, adjudicating these losses ensures that the contractor is accurately identifying root causes and mitigating potential future losses appropriately. When suspected workmanship damage occurs to aircraft and DFARS 252.228-7001 is included in the contract, the ACO will consult with the GFR and their assigned legal counsel.

14.1.4. PAs must ensure that contractors provide the required information prescribed at FAR 52.245-1(f)(1)(vii)(B)(1) through (12) in the Property Loss eTool or in the Property Loss Function in the PIEE GFP Module, regardless of reporting frequency. Contractors must be able to support all data included in property loss reports, to include acquisition value, repair cost, and any other proposed intrinsic values that the contractor would like the PA to consider.

14.2. PAs must report all incidents of property loss:

14.2.1. To DCMA-DCS (Security Division) and Defense Counterintelligence and Security Agency (DCSA) when Government property contains, or potentially contains, sensitive or classified data.

14.2.2. To DCMA-DCS, DCSA, and the appropriate law enforcement agency, when Government property contains arms, ammunition, or explosives.

15.0. EVALUATE CONTRACTOR RESPONSIBILITY AND LIABILITY FOR PROPERTY LOSS.

15.1. The PA must evaluate property loss reports from the contractor upon receipt, and within 10 days reject cases that do not:

15.1.1. Involve property that meets the FAR 52.245-1(a) definition of Government property and the DFARS 252.245-7002 definition and reporting criteria for loss of Government property.

15.1.2. Contain required information identified in FAR 52.245-1(f)(vii)(B)(1) through (12), and source documents to support the data. Each line item of loss must be reflected. It is not appropriate for a contractor to state that they have “1 Lot of various items,” because this does not allow for IUID to be updated or for future updates to be made in the event that items are later located.

15.2. Insufficient information in contractor property loss report. PAs must inform the contractor in writing, clearly describing which information is insufficient, and provide the contractor with a suspense for resubmittal. PAs will monitor the contractor’s response to ensure the loss is correctly reported, and will follow up with the contractor if they do not meet the timeframe identified in the rejection. Additionally, if the reported loss does not meet the definition and reporting criteria for “loss of Government property,” as defined in FAR 45.101, PAs must inform the contractor in writing of the reason for the rejection and have the contractor withdraw the case.

15.3. Within 90 calendar days of receipt of an acceptable property loss report from the contractor, the PA must:

15.3.1. Review the contract terms and conditions to determine whether the contract specifies that the risk of loss is assumed by the Government or the contractor. If one or more subcontractors contributed to or caused the loss, the PA will assess the extent of subcontractor responsibility and liability. The PA will consider whether the loss occurred at the subcontractor, and review the terms and conditions flowed down in the subcontract agreement (e.g., if the prime contractor flowed down full risk of loss in the subcontract, the prime contractor would be expected to enforce those terms and conditions, and secure reimbursement to be passed on to the Government).

15.3.2. Evaluate the facts concerning any payment the contractor may receive or be entitled to receive for the loss from a third party, including whether the loss is covered by

insurance or the contractor was (or expects to be) otherwise reimbursed. If the contractor expects to be reimbursed, the PA must ensure that the contractor pursues that reimbursement. If the contractor fails to seek reimbursement that is owed, the PA will elevate the issue to the ACO for assistance in accordance with FAR 52.245-1(h)(5).

15.3.2.1. Potential Insurance Coverage Or Other Reimbursement.

Whether a loss is covered by insurance or whether the contractor will be otherwise reimbursed may be in doubt for a considerable period of time. For example, an insurance claim may be in dispute or the subject of litigation. In such cases the contractor should be relieved of liability if the contract has limited risk of loss, and no other conditions that would require a liability recommendation are present.

15.3.2.2. The letter relieving the contractor of liability directs the contractor to notify the Property Administrator immediately in the event of restitution, reimbursement or replacement by any third-party, including subcontractors and insurers. It also ensures that the contractor is aware that if they are reimbursed they will, in accordance with the terms of the contract, be liable to the extent of such reimbursement.

15.3.2.3. The Government does not have privity of contract with subcontractors. Accordingly, the Government cannot hold a subcontractor liable for the loss of Government property under the terms of the prime contract. All liability determinations are made based on the terms and conditions of the prime contract. Regardless of whether the prime has flowed down full or limited risk of loss to a subcontractor, the prime, as part of its contractual responsibility to assure its subcontracts are properly administered, is responsible for investigating all losses, determining whether the subcontractor is liable, ensuring the subcontractor takes appropriate corrective action and, if appropriate, requiring the subcontractor to reimburse the prime for the loss.

15.3.2.3.1. If the prime fails to take timely, effective, good faith efforts to enforce the liability provision in its subcontracts, the prime PA will submit a Business System Analysis Summary (BSAS) and Audit Report to the Contracting Officer (CO) identifying the deficiency as a failure to assure that subcontractors are properly administered.

15.3.2.3.2. If the subcontract does not have any provision addressing liability for loss, the prime PA should seek the advice of assigned legal counsel to determine whether the prime contractor has a reasonable expectation of reimbursement from the subcontractor.

15.3.2.4. The Property Administrator must then monitor the potential reimbursement to ensure the contractor is taking timely and effective action in accordance with contractual requirements. Neither the PL eTool or the Property Loss Function in the PIII GFP Module contain a way to document this monitoring, so PAs are expected to maintain an internal suspense of their choosing that includes periodic reminders so that they can request status updates from the contractor. If the contractor fails to take timely, effective, good faith efforts, to enforce the liability provisions in either its subcontracts or its insurance coverage, depending on the circumstances, the PAs will consider issuing an appropriate level CAR. Should the contractor

be reimbursed, they are required to notify the PA of that reimbursement. The PA will then reopen the Property Loss case in the PL eTool or the Property Loss Function in the PIEE GFP Module and recommend that the CO hold the contractor liable and process and document the case as addressed above.

15.3.3. The PA will determine if property loss was caused by deficiencies in the contractor's property management system, (e.g., if the contractor is not screening for excess property, and therefore has property on-hand that is not required for contract performance, and regularly reports losses that do not require repair or replacement, those losses could be traced to their failure to declare and dispose of excess property in a timely manner). If the loss stems from issues in the contractor's property management system, the PA will document the noncompliance in alignment with paragraph 13 of this Guidebook.

15.3.4. If DFARS 252.228-7001, "Ground and Flight Risk," is in the contract, and the property loss occurred to an aircraft in the open (as defined in DFARS 252.228-7001), the PA must forward the case to the GFR or alternate for adjudication. The GFR or alternate is responsible for making a liability recommendation to ACO.

15.4. If the PA concludes, after application of the contract terms and conditions to the facts, that the risk of loss is assumed by the Government, the PA must relieve the contractor of responsibility and liability in writing, consistent with Certificate of Appointment authority, and provide the ACO with a copy of that determination. PAs will note that relief of responsibility is only appropriate in situations where the contractor is no longer in possession of the property. If the property remains in the possession of the contractor, (i.e., damaged property, or residual destroyed property), only relief of liability will be granted, as the contractor is responsible for disposing of the property in accordance with the terms and conditions of the contract. An IPMS does not have a Certificate of Appointment, and would therefore need to have a PA make the liability determination to relieve a contractor for loss of Government property or make the recommendation to the ACO that the contractor be held liable for the loss.

15.5. If the PA determines, based upon the criteria identified in FAR 52.245-1(h), that the potential property loss was a risk imposed upon the contractor, the PA must recommend one of the following alternatives to the ACO in writing using the Property Loss Liability Recommendation Letter Template:

- Hold the contractor fully or partially responsible and liable for the property's unit acquisition cost. If replacement is required, and the cost to replace the property exceeds the unit acquisition cost, the PA will recommend the contractor be held responsible for the higher liability amount;
- Authorize the contractor to repair or replace the property;
- Determine a form of consideration appropriate for the circumstances.

15.6. PAs will maintain data integrity within the Property Loss eTool or Property Loss Function in the PIEE GFP Module to document results of evaluations, analyses, investigations, recommendations and ACO determinations. PAs will regularly upload relevant support documentation (emails, memoranda, letters), and are responsible for entering status updates on a

monthly basis until the case is completed and closed. ACO and GFR status updates may be made directly within the PL eTool, Property Loss Function in the PIEE GFP Module, or via email. It is, however, ultimately the PA's responsibility to ensure that all updates are documented in the eTool or Property Loss Function in the PIEE GFP Module. For contractors that do not have a contractual requirement to use the PL eTool or Property Loss Function in the PIEE GFP Module, the PA may need to enter the loss report on the contractor's behalf. PAs must not upload any sensitive or proprietary information to the PL eTool or Property Loss Function in the PIEE GFP Module.

15.6.1. PAs must upload all relevant support documentation relating to the PL case. Minimum documentation to be loaded includes the Property Loss MFR, the Property Loss Checklist, a Property Loss Liability Recommendation Letter (if applicable), and any relevant emails or documents provided by the contractor. All documentation must be completed and loaded to the PL eTool or Property Loss Function in the PIEE GFP Module upon the PA's determination to either relieve the contractor of liability or recommend that the ACO hold the contractor liable.

15.6.2. If the ACO concurs with the PA's recommendation of liability, the PA will also upload the demand letter and any evidence of restitution to the PL eTool or Property Loss Function in the PIEE GFP Module.

15.7. Acquisition Cost, Liability Value, Repair Cost, And Government And Contractor Portions. Accurately reflecting the appropriate dollar values in the correct fields is imperative for the Government Contract Property Group's data integrity, and ability to produce useful and reliable information for our customers. The liability value depends on the type of loss, and whether the item needs to be replaced. If replacement is needed, this would be the cost to replace; if the item is damaged and requires repair, this would be the repair cost.

15.7.1. In all cases, the contractor is expected to provide support for applicable values. Acquisition cost is documented using an invoice, receipt, purchase order, GFP list, or similar documentation. Proposed repair costs need to be supported by the contractor. Additionally, if the contractor believes that the intrinsic value of an item is less than the initial acquisition cost, this position needs to be supported. If the contractor's position is not convincing, the PA need not accept it. PAs will keep in mind that the intrinsic value could be greater than the acquisition cost, depending on the circumstances and current or future need. The PA will use the appropriate intrinsic value as the liability value, and will include it with any liability recommendations forwarded to the ACO.

15.7.2. The Government and contractor portions must add up to the liability value for each item, and must be updated for each line item before relieving the contractor of stewardship and/or responsibility, or recommending liability. The amount assessed field is mandatory when recommending liability, and must equal the liability value. If an ACO ultimately holds a contractor liable for a different amount than recommended, the PA must update the amount assessed before closing the loss case.

15.9. The PA will determine whether a property loss was caused by deficiencies in the contractor's property management system. If that is the case, the PA will issue a CAR, following the guidance in paragraph 13 of this Guidebook. Deficiencies in the contractor's system may have been previously documented, or they could be uncovered as a result of the property loss investigation. For example, the PA must pay special attention to whether the contractor regularly identifies losses of property that does not require repair or replacement. This is an indicator of a potential weakness in the contractor's Declaration of Excess process.

15.10. PAs will monitor and document the performance of contractor corrective actions resulting from property loss cases, exercising good judgment in determining the nature and extent of the appropriate review process. Infrequent losses of low value property may require nothing more than a review of the contractor's proposed corrective action to confirm it is appropriate and adequate. Losses of high value property, recurring losses, and those indicative of deficiencies in the contractor's property management system will require more extensive reviews and more formal documentation. Such reviews may also require the PA to make site visits. In all cases, the PA will ensure that:

15.10.1. The corrective action taken or proposed is appropriate and adequate,

15.10.2. The contractor performs the corrective action, and

15.10.3. The corrective action was effective and will prevent recurrence.

15.11. The PA will not keep a property loss case open solely because corrective action has not been completed if the PA has determined that the proposed corrective actions are likely to be successful. If the proposed corrective actions are not expected to correct the conditions that led to the loss, the PA will require the contractor to resubmit an acceptable corrective action.

15.12. The PA must ensure proper disposition is completed for any property that remains after a liability determination has been made. Relief of liability and stewardship for damaged or destroyed property does not change title to that property. If the contractor is not repairing the property for further use under the contract, then the PA must ensure that the contractor reports the property to PCARSS.

15.13. Property Found After Relief is Granted. The contractor is required to report when any GP that had previously been reported as lost is later found. The PA will re-open the loss case, and update the item that was found with the found date, quantity found, and any change to the intrinsic value of the loss case, if all items were not found upon receipt of such a report.

16.0. PERFORM PROPERTY ADMINISTRATION CLOSEOUT.

16.1. PAs will perform contract property closeout actions when contract performance is complete, which generally aligns with the final delivery date, and after verification and completion of:

- Proper disposition of all accountable property by the contractor, including plant clearance resolution;
- Adjudication by the Government of any outstanding property loss cases;
- Termination of Document Control Number, if applicable for contracts delegated from other Government agencies;
- Receipt and verification of final physical inventory results, unless waived in writing by the PA;
- Receipt of a property close out letter in writing from the contractor stating that all of their closeout actions are complete, and that there is no residual property accountable to the contract.

16.2. PAs must conduct MOCAS property administration closeout via the CPAS eTool. Clicking on the CPAS “Close Contract” icon within the “Contract History Page” on the contractor’s main CPM screen will generate a MOCAS R9 “55” code, indicating property administration is closed. PAs are expected to verify that contract closeout actions taken in CPAS lead to updates within MOCAS. PAs can do this by verifying that changes are processed by reviewing MOCAS Submit History in CPAS after submitting a closeout transaction in CPAS. Possible reasons for a MOCAS submit failure include the following: scheduled updates where the system is down for processing (nightly, monthly, and end-of-year), expired MOCAS password, wrong MOCAS password input into CPAS, incorrect geographic MOC selected for the CAGE code, MOCAS account revocation (due to inactivity), and PA attempts to perform transactions within CPAS while logged into MOCAS. If contract closeout fails for one of the reasons above, the PA is expected to correct the underlying issue, or await system availability, and resubmit the transaction.

16.3. Prior to closing property administration in CPAS for a contractor’s property management system, PAs will pull a MOCAS report to ensure that there are no DCMA administered contracts with potential property administration requirements without an associated 55 remark. The 55 remark in MOCAS is used to indicate that all property closeout actions have been completed on a contract. This ensures that there are no contracts that should have been accepted for administration that still require oversight.

16.4. PAs will review their workload in CPAS at least monthly to identify contracts nearing their final scheduled delivery and production completion dates. For those contracts that have passed the final delivery date indicated in MOCAS, the PA will send the contractor a request for status indicating the contract number or numbers, and referencing the closeout requirements identified in FAR 52.245-1(j)(3). As a reminder, it is the contractor’s responsibility to have a process in place to identify contracts nearing completion, and proactively begin closeout actions in order to meet the closeout timeframes described within 52.245-1(j). If a contractor is relying on the PA to tell them when to initiate closeout actions, the contractor’s property management system is not adequate to satisfy the requirements of FAR 52.245-1.

16.5. If the contractor does not perform contract closeout activities in accordance with their procedures and within the timeframes identified in FAR 52.245-1(j)(3), the PA will issue a CAR requiring correction regardless of whether the delays are identified during a PMSA, unless the following exception applies:

16.5.1. If the PA identifies that a contractor is retaining property for more than 60 days past the contract's final delivery date (or 30 days beyond when the property was identified as excess to the needs of a contract), and that contractor is able to show that they have proactively and regularly contacted the PCO to request a transfer of property to another contract, the PA will assist the contractor with getting resolution. Proactive and regular communication means upon discovery, and at least once within the 30 days prior to identification by the PA.

16.5.2. Upon the PA's identification of contracts for which property closeout actions are being delayed by lack of PCO response, the PA will elevate the issue to their First Level Supervisor for further elevation to the cognizant Government Contract Property Group Regional Director. The Regional Directors will then contact the buying commands to request resolution. During this process, the PA will not request corrective actions from the contractor for property closeout for any affected contract, unless other noncompliances exist.

17.0 SPECIAL CONSIDERATIONS.

17.1. Grants and Other Agreements: Grants and other agreements will be administered according to the terms and conditions included in those agreements, and the relevant regulations referenced therein. The most common regulation for grants and other agreements is the DoD Grant and Agreement Regulations (DoDGARs). Additional guidance is located in DCMA-MAN 2501-08, "Grants, Cooperative Agreements, and Other Transactions." PAs will document their reviews in the same manner used for other PMSAs, utilizing the standard Business System Analysis Summary and Audit Report templates, adjusting references as necessary.

17.2. Sensitive Property:

17.2.1. FAR clause 52.245-1(a) defines sensitive property as:

. . . property potentially dangerous to the public safety or security if stolen, lost, misplaced, or that shall be subject to exceptional physical security, protection, control, and accountability. Examples include weapons, ammunition, explosives, controlled substances, radioactive materials, hazardous materials or waste, or precious metals.

17.2.2. Table 61 of Volume 10 of DoD 4100.39-M further designates sensitive property by providing for the assignment of a Controlled Item Inventory Code (CIIC) to sensitive items. If the Government property does not have a CIIC, as described below, it is not considered sensitive for the purposes of property oversight, and the PA will not include the property in the sensitive populations when performing a PMSA. The item codes are as follows:

- Highest Sensitivity (Category I) - Nonnuclear missiles and rockets in a ready-to-fire configuration (for example, Hamlet, Redeye, Stinger, Dragon, LAW, and Viper) and explosive rounds for nonnuclear missiles and rockets. This category also applies in situations where the launcher (tube) and the explosive rounds, though not in a ready-to-fire configuration, are jointly stored or transported.

- High Sensitivity (Category II) - Arms, ammunition, and explosives.
- Moderate Sensitivity (Category III) - Arms, ammunition, and explosives.
- Low Sensitivity (Category IV) - Arms, ammunition, and explosives.
- Highest Sensitivity (Category I) - Arms, ammunition, and explosives with a physical security classification of Secret.
- Highest Sensitivity (Category I) - Arms, ammunition, and explosives with a physical security classification of Confidential.
- High Sensitivity (Category II) - Arms, ammunition, and explosives with a physical security classification of Confidential.
- Category C - Moderate Sensitivity (Category III) and Low Sensitivity (Category IV) - confidential arms, ammunition, and explosives.
- Category Q - An item that is a drug or other substance determined by the Administrator, Drug Enforcement Administration, Department of Justice, to be designated Schedule Symbol III, IV, and V as defined in the Controlled Substance Act of 1970. Other items requiring secure storage.
- Category R - Precious metals, a drug or other controlled substance designated as a Schedule I or II item in accordance with the Controlled Substance Act of 1970. Other selected sensitive items requiring storage in a vault or safe.
- Category S - Identifies Nuclear Weapons Use Control (UC) Ground Equipment which is CIIC unclassified but may require special controls. Use Control Ground Equipment is described as recorders, verifiers, adapters, power supplies, cables, programmers, monitors, controllers, code processors, power converters, computers and data modules which perform a Nuclear Weapon Use Control Function.

17.2.3. When a contract identifies sensitive property, or such property is reported by the contractor, PAs will perform annual reviews of Written Procedures, Receiving, Discrepancies Incident to Shipment, Records, Physical Inventory, Declaration of Excess, Consumption, Storage, Storage Commingling, and Disposal. The reviews of Records, Storage, and Storage Commingling must be performed on-site. All other reviews may be performed remotely.

17.2.4. PAs will conduct a standard PMSA no later than 6 months after sensitive property is initially received by a contractor.

17.2.5. The on-site review requirement for sensitive property may be waived by the cognizant Regional Property Director based on recommendation from the PA's first level supervisor. Any waiver must be in writing, and uploaded to the current PMSA tab in CPAS. Waivers must be renewed each year. It is recommended, however, that PAs enlist the assistance of other functional specialists to assist in the on-site portion of the review rather than request a waiver, because the annual review requirement is based on the additional risk that sensitive property poses.

17.3. Approving Receipt and Issue in Lieu of Formal Records (R&I): PAs have the authority to allow a contractor to use an R&I system in lieu of formal property records for Government material in accordance with FAR 52.245-1(f)(1)(iii)(B). Contracts that include

DFARS 252.242-7004, “Material Management and Accounting System” (MMAS) cannot be granted R&I approvals.

17.3.1. Prior to approving an R&I system, PAs will require that the contractor provide written procedures that clearly identify how the contractor will document receipt, issuance, and use of the material within their system. The procedures must also address how and when material that was issued, but not used, will be identified and added to the contractor’s formal records. As a reminder, if a contractor is purchasing material from a vendor that requires minimum purchase quantities that exceed the quantity that the contractor requires, the procedures must describe how the contractor will create a formal record and document the transaction. If there are any limitations to the types of material that will be included in the R&I system, the procedures must define those limitations as well. PAs will note that the R&I system requires documentation of the actual use of the material in order to be acceptable.

17.3.2. The PA will ensure that the contractor’s procedures clearly identify how the contractor defines immediate consumption. In order to qualify as immediate, the material would need to be consumed in less time than it would take to create a formal record. In most cases, this will be within 5 business days.

17.3.3. All approvals for R&I will be in writing, signed by a PA with a Certificate of Appointment, and issued only on a contract-by-contract basis. Blanket approvals are not allowed.

17.3.4. R&I is not appropriate for production environments, and therefore PAs may not approve R&I requests for production contracts.

17.4. Waiving the Final Inventory Requirement: PAs have the authority to waive the final inventory that contractors are required to perform upon contract completion or termination in accordance with FAR 52.245-1(f)(1)(iv).

17.4.1. PAs will require contractors who wish to have their final inventory waived to make the waiver request in writing. The PA must only approve waivers in writing, and the waiver approval must be signed by a PA with a Certificate of Appointment and the first level supervisor documenting concurrence. PAs are expected to coordinate with the cognizant PLCO prior to approving a waiver.

17.4.2. Waivers will only be considered for contractors that currently have approved property management systems, with no outstanding findings of noncompliance in the elements of Records or Physical Inventory. Additional considerations that PAs should take account of in reviewing waivers include how recently the last physical inventory was performed, overall property loss rates, and whether the property is being transferred to a follow-on contract. Additionally, PAs will not waive final inventories of sensitive Government property.

17.5. Memorandums of Agreement (MOA): PAs will adhere to the terms and conditions included in any duly signed MOA or direction from Office of the Secretary of Defense. All

active MOAs will be located on the DCMA GCPG 360 site and the Resource Page for DCMA-MAN 2301-01 “Contractor Business Systems.”

17.6. Contractor Scrap Procedures: PAs will coordinate with the PLCO when reviewing contractor scrap procedures to ensure that the scrap disposal processes, methods, and practices allow for effective, efficient, and proper disposition of scrap property. Those procedures must describe how the contractor physically segregates scrap within their storage, along with descriptions of any special safeguards for sensitive property. If the contractor commingles commercial and Government scrap, the contractor’s procedures must describe how the proceeds of scrap sales are divided. Additionally, the procedures must describe how the contractor will select scrap vendors, and how they will document the crediting of the proceeds of a scrap sale (i.e., what documentation is provided to prove that payments have been applied appropriately). PAs will also coordinate with the PLCO when testing the element of Disposal to ensure that any concerns that the PLCO has related to disposal of scrap are addressed.

17.7. Rent-free Non-interference Use of Government Property: Occasionally, a PCO will authorize a contractor to use special tooling, special test equipment, or equipment on a Government contract other than the contract to which it is accountable on a rent-free non-interference basis. This means that the owning contract always has first priority in the event that both contracts have conflicting requirements. In these situations, PAs are expected to review the use authorizations to determine whether responsibilities are clearly defined. For example, the agreement should address how any required maintenance is handled and funded, as well as address potential losses (e.g., if the property is damaged while being used on the contract it is not accountable to, which contract covers repair costs).

17.8. Administration of NASA Contracts: PAs will perform property administration for delegated NASA contracts with the terms and conditions of the delegation and the Business Operations Center NASA Business Practice SOP. Additionally, the following conditions apply:

17.8.1. PAs will be aware that requirements included in the DFARS do not apply to NASA contracts, as NASA is not a DoD Agency.

17.8.2. PMSAs for NASA contractors with \$1M or more in NASA owned contract property will be performed at least once every 2 years, even if the contractor is otherwise considered to be low risk.

17.8.3. Unless the contractor has only NASA contracts, the PA will not select separate NASA only populations to test for any element other than Reports. For the element of Reports, the NASA form 1018 is a separate population.

17.8.4. Upon completion of a PMSA that includes delegated NASA contracts, the PA will upload a copy of the Audit Report to the NASA Electronic Submission System (NESS) under the PMSA Documents tab, and add all requested information under the PMSA Summary and Outcomes tabs. PAs will not provide the Business System Analysis Summary.

17.8.5. PAs will investigate and adjudicate losses of NASA owned Government contract property accountable to delegated contracts, and relieve the contractor of stewardship and liability if appropriate under the terms and conditions of the contract. All documentation, to include the contractor's relief request, any memorandums supporting the determination to relieve the contractor, and a copy of the relief document, will be loaded into the NESS Contracts under the Document tab within 90 days of receipt of an acceptable loss report from the contractor. If the contractor should be held liable under the terms and conditions of the contract, the PA will provide that recommendation in writing to the NASA Contracting Officer, with a copy to the NASA Industrial Property Officer. Recommendations to hold the contractor liable will include all documentation that the NASA Contracting Officer would need to make that determination, and must also be provided within 90 days of receipt of an acceptable loss report from the contractor. The PA will provide an interim/informal status of the investigation and adjudication activities to the IPO by email on a monthly basis until complete.

CHAPTER 2 – PMSA ELEMENT JOB AIDS

PREFACE

When evaluating the following elements of property control, PAs will follow the procedures and practices described below to perform testing. The PA will use workpapers to document the analysis and provide support for all conclusions and findings. Files will include worksheets for each element tested, samples of each type of documentation reviewed, and all supporting documentation detailing any defects identified.

When sensitive property is involved, PAs will perform annual reviews of the elements of Written Procedures, Receiving, Discrepancies Incident to Shipment, Records, Physical Inventory, Declaration of Excess, Consumption, Storage, Storage Commingling, and Disposal as they apply to sensitive items. The elements of Identification, Records, Storage Commingling, Storage, and potentially Utilization must be tested on-site; all others may be tested remotely.

PMSA ELEMENT 1 – WRITTEN PROCEDURES

REQUIREMENT:

FAR 52.245-1 (f), *Contractor plans and systems*.

(1) Contractors shall establish and implement property management plans, systems, and procedures at the contract, program, site, or entity level to enable the following outcomes:

FAR 52.245-1(b), *Property management*.

(1) ... the Contractor shall initiate and maintain the processes, systems, procedures, records, and methodologies necessary for effective and efficient control of Government property.

BACKGROUND:

Written procedures are the blueprint the contractor uses to establish its property management system. In the procedures, the contractor identifies who will do what, when, how, and possibly where to perform an action to control Government property. Contractor personnel should be able to refer to the procedures for guidance and direction for all Government property management tasks. In turn, the procedures provide PAs the criteria by which they will evaluate contractors' performance and compliance.

Procedures must address all applicable contractual requirements, including outcomes (i) through (x) at FAR 52.245-1(f)(1). General policy statements or expressions of intent such as, "The company will comply with all contractual and regulatory requirements regarding the acquisition of Government property" are not acceptable. Specific directions for procedures for each element of property control are addressed below under each Property Management System Analysis (PMSA) element.

Pursuant to FAR 52.245-1(b)(1), “The Contractor may employ customary commercial practices, voluntary consensus standards, or industry-leading practices and standards that provide effective and efficient Government property management that are necessary and appropriate for the performance of this contract (except where inconsistent with law or regulation).”

If the contractor procedures include a voluntary consensus standard (VCS) the contractor should cite the VCS body from which it came, the VCS number or identification, and the date of the VCS, and describe within the procedures how the VCS is employed. If the procedures merely reference the VCS, it is likely to lead to inconsistent practice, as that would require contractor personnel to reference and interpret and follow additional direction not included in the official written procedures. PAs must ensure that any VCSs used by the contractor adequately address the intended subject matter and meet the contractual requirement for effective and efficient Government property control.

If a VCS is being used in whole or in part, the contractor must adopt the VCS exactly as written, without changes or modifications. If, for example, the standard establishes a 2% error rate, it is not acceptable to change the error rate to 3%. If the contractor makes this type of change, they are not using the standard.

If a contractor incorporates only a portion of a VCS it must clearly and specifically identify what portion of the VCS the contractor will follow. Note that many VCSs have limitations on distribution. Because of this, PAs may need to review this type of VCS on site at the contractor’s facility, and should not make copies, or upload the VCS to CPAS.

While the Government Property Clause does not explicitly require a contractor’s procedures to address timeframes for the performance of certain actions, FAR 52.245-1(b)(1) does require the contractor to, “...initiate and maintain... methodologies necessary for effective and efficient control of Government property.” When the timeliness of a particular action is relevant or when the performance of an action has an impact on the maintenance of current records, timeframes are essential for effective and efficient control of Government property.

Rather than requiring specific timeframes, the clause uses terms such as “promptly” and “periodically.” Contractors should not simply repeat those terms in their procedures, but specify concrete and measurable timeframes to comply with the Government Property Clause. Rather than require the same timeframe for everyone, application of the Government Property Clause requires that contractors identify timeframes specific to their situation. Factors to consider include timeframes that are suitable for their facility, the type of work they perform, and the type of property they manage.

Objective, measurable timeframes ensure consistency in contractor performance and in evaluation during a PMSA or a Contractor Self-Assessment. Timeframes provide guidance for those responsible for performing the actions, and a standard for those evaluating that performance. PAs will apply FAR 52.245-1 and other contract terms and conditions, and evaluate whether minor, technical violations of a standard are evidence that Government property is at increased risk, or that the contractor’s property management system is not effectively and efficiently controlling Government property.

PAs will ensure that contractor procedures specify timeframes defined by the contractor, with the PA's concurrence, for those actions for which timeliness is relevant, or when the performance of an action impacts the accuracy of the records. For example, if a contractor fails to receive property in a timely manner, its records will not be current or accurate, which could impact contract performance. Normally, transactional updates to records should take place within 10 calendar days after a transaction has occurred (e.g., initial record creation, movement, after inventory reconciliation, etc.). In some cases, 10 days might be too long; for example when providing initial notification of loss of sensitive property, 10 days could represent an unreasonable risk. In other cases, 10 days might not be long enough; for example when reconciling inventory results or creating reports.

OBJECTIVE: The PA will determine if the contractor's written procedures:

- Promote the outcomes at FAR 52.245-1(f)(1)(i-x);
- Address any other contractual requirements relating to Government property;
- Provide for adequate control, use, preservation, protection, repair, and maintenance of Government property; and
- Effectively and efficiently control Government property.

POPULATION: Typically, the population is all of the contractor's written property management procedures.

The exceptions to this rule are for resident PAs and others who audit large property management systems on a continuous basis over a year or more. Those PAs may choose to evaluate the relevant provisions of the contractor's procedures concurrent with the review of the related the element.

Another exception is the annual review of the provisions in the written procedures that apply to sensitive items. The population for such a review would be limited to those procedures. Finally, when performing a reanalysis of written procedures, only those procedures identified as being noncompliant would be reviewed.

SOURCE DOCUMENTS: The contractor's written property management procedures.

SUPPORT DOCUMENTS: Contracts to which Government property is accountable and any VCSs that are incorporated by reference in the contractor's procedures.

SAMPLING: Except as discussed above under "Population" PAs will review 100% of the written procedures. If procedures are reviewed on a continual basis, PAs will review 100% of the procedures at least once every three years. PAs will ensure that they are reviewing the most current procedure.

TESTING CONSIDERATIONS:

- Determine whether the contractor's procedures describe the tasks to be performed in sufficient detail so that the responsible contractor employee knows what to do and how to do it.

- Verify that the procedures establish timeframes for those actions for which timeliness is relevant or when the performance of an action has an impact on the timeliness of record updates needed enable complete, current, and auditable records. As noted above, transactional updates will typically be completed within 10 calendar days. PAs are expected to engage with the contractor any time that the proposed procedural timeframes exceed that threshold to ensure that those timeframes are sufficient to enable effective and efficient control of Government property, and do not expose the Government to unreasonable risk.
- Confirm that all personnel that use or have any responsibility for Government property have access to the procedures at all times.
- A separate population of all procedures relating to the control of sensitive property that is accountable to contracts administered by DCMA will be used for determining the adequacy of written procedures for sensitive items. If the contractor does not maintain separate procedures for managing sensitive property, ensure that adequate controls for sensitive property are addressed in the overall written procedures.
- When sensitive property is involved, PAs will perform annual reviews of the elements of Written Procedures, Receiving, Discrepancies Incident to Shipment, Records, Physical Inventories, Declaration of Excess, Consumption, Storage, Storage Commingling, and Disposal as they apply to sensitive items.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Identify each of the 22 elements of property control that are addressed in the contractor's procedures.
- Explain why any element that is not addressed in the procedures is not applicable to the contractor's property management system.
- Address whether the procedures describe the tasks to be performed in sufficient detail so that the responsible employee knows what he or she has to do and how they are to do it.
- The timeframes established for the completion of the following:
 - Receipt of Government property to include marking of the item as Government owned and the establishment of records upon receipt,
 - Posting transactions to the record,
 - Performing maintenance actions,
 - Reporting GFP into IUID,
 - Performing, recording, and disclosing physical inventory results,
 - Performance and completion of CSA actions, to include reporting results and requesting and performing corrective actions,
 - Posting of movement transactions,
 - Recognition, investigation, disclosure, and reporting of loss of Government property, including losses that occur at subcontractor or alternate site locations,
 - Physically inventorying all property upon contract termination or completion,
 - Identification, disclosure, reporting, and disposal of property that is excess to contractual needs,
 - Performing closeout actions and reporting contract property closeout to the PA,
 - Performing reviews to determine the adequacy of subcontractors' property management systems, and

- Any other actions for which timeliness is relevant or which has an impact on the timely updating of contractor records.
- Address whether all personnel that use or have any responsibility for Government property have access to the procedures at all times and explain how the contractor accomplishes providing personnel access to the procedures.
- Report whether the contractor's procedures for sensitive property are specific and detailed, particularly with regard to the receipt, protection, physical security, periodic inventories, and the immediate reporting and thorough investigation of inventory shortages or losses. Also, discuss whether the procedures are in sufficient detail to reflect special, additional or increased safeguards relating to the acquisition, identification, receipt, records, physical inventory, reports, storage, movement, consumption, utilization, maintenance, subcontractor control, and disposition of sensitive property.
- If the contractor has arms, ammunition, and explosives (AA&E) discuss whether the procedures require that they report the loss, theft, damage, or destruction of AA&E immediately by telephone or personal contact to the cognizant DCMA-DCS (Security Division) and Defense Counterintelligence and Security Agency (DCSA) Agent-In-Charge, the Federal Bureau of Investigation Office, Bureau of Alcohol, Tobacco and Firearms, the local police, the PA, and other city and state officials as appropriate. The procedures must require that any loss, theft, damage, or destruction of AA&E be confirmed in writing as soon as possible. The PA will ensure that the contractor has a process to report other sensitive item losses immediately by telephone or personal contact to the PA and confirm them in writing as soon as possible.

PMSA ELEMENT 2 – CONTRACTOR SELF ASSESSMENT

REQUIREMENT:

FAR 52.245-1(b)(4), *Property management*:

The Contractor shall establish and maintain procedures necessary to assess its property management system effectiveness and shall perform periodic internal reviews, surveillances, self assessments, or audits. Significant findings or results of such reviews and audits pertaining to Government property shall be made available to the Property Administrator.

BACKGROUND:

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

Prior to the publishing of the revised FAR 52.245-1, many contractors had their own property management self-assessment (internal assessments/audits) programs in place. The FAR Government Property clause established the concept as a contractual requirement for all contractors to perform a self assessment. Accordingly, today, all contractors are contractually required to perform internal assessments and/or audits on their property management system in accordance with FAR 52-245-1(b)(4), and to disclose significant findings to the PA.

These self assessment requirements are in addition to those audit requirements set forth in Office of Management and Budget Circular A-133, as well as any other statutory requirements; e.g., Sarbanes-Oxley Act of 2002, Securities Exchange Act of 1934. Some contractors have comprehensive internal control programs that integrate these requirements into a corporate approach.

Contractor self assessments typically fall under two constructs:

1. Formal/structured. Based on:
 - Generally Accepted Government Audit Standards,
 - DCMA’s traditional approach,
 - Maturity models—with appropriate process-oriented criteria,
 - Metrics and statistical process control techniques, or ISO process reviews. Note: ISO audits, internal or external, do not fulfill this requirement, as they do not typically address all of the process requirements set forth in the FAR clause, FAR 52.245-1,
 - International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors), or
 - A combination of the above.
2. Informal
 - Less structured; less complex
 - Walk-throughs
 - Interviews or discussions with personnel
 - Double checking property records and documentation

Contractor self assessments may range from simple reviews or validations to highly complex audits and assessments, depending on the complexity of the contractor’s property management system. It is recognized that small business concerns typically will not have as sophisticated, detailed, and extensive a self assessment program as large business contractors. The PA must use good judgment to ensure that the program provides sufficient oversight of the effectiveness of the contractor’s property management system without needlessly burdening the contractor. If the CSA is not detailed enough to identify potential deficiencies within a contractor’s property management system, then it is not compliant with the Government Property FAR clause requirements.

To the extent possible, contractor self assessments should provide a level of objectivity as close as possible to that of a PMSA performed by DCMA. Ideally, contractors can achieve this level of objectivity by having the analysis performed by an independent party not associated with the contractor’s property organization. Sufficient objectivity may be attained by having the assessment performed by property personnel from another location. Only those CSA results that are obtained using the same testing methodology that DCMA utilizes, in accordance with this Guidebook, may be incorporated into the PMSA results in lieu of independent testing by the PA. Regardless of CSA reliability, the PA must perform their own review of all applicable elements at least once every 3 years.

If a contractor identifies a deficiency in the property management system during its self assessment and takes appropriate and effective corrective action, the PA will not issue a CAR unless the PA later determines that the contractor's corrective action is ineffective. That said, a contractor may not use self-identification of a deficiency to circumvent the Contractor Business System process as described in DCMA-MAN 2301-01 "Contractor Business Systems." If the contractor fails to notify the PA of a deficiency until after they have received the PMSA notification letter, the PA will include that deficiency in the PA's Audit Report and Business System Analysis Summary.

PROCEDURES:

The contractor's audit program as set forth in the contractor's property management system should address each of the applicable Government Property FAR 52.245-1 clause mandated property management life-cycle processes.

- The PA will determine whether the contractor's written procedures adequately address:
 - The review, surveillance, self assessment, or audit methodologies to be used, e.g., Generally Accepted Auditing Standards (GAAS), Maturity Models, Metrics and Statistical Process Control, etc.
 - The frequency of the review, surveillance, self assessment, or audit, and how that frequency is determined (e.g., risk based). PAs must ensure that the frequency of review of all applicable elements is sufficient to protect the interests of the Government. Generally this would equate to a maximum interval of 3 years, which aligns with the review frequency used by DCMA for low risk elements.
 - Each of the 22 elements of property management that are applicable to the contractor's property management system.
 - The support documentation and audit evidence required.
 - The requirement for the PA to be notified of significant findings or results of reviews, surveillances, self assessments, or audits pertaining to Government property, including the contractor's definition of a significant finding or result.
 - A clear definition of what the contractor considers to be a significant finding.
 - The reporting requirements and timely distribution of audit and assessment reports.
 - The corrective action requirements.

OBJECTIVE: The PA will determine whether the contractor maintains procedures and performs periodic internal reviews, surveillances, self assessments, or audits that are sufficient for the both the contractor and the PA to assess the effectiveness of the contractor's property management system. In accordance with FAR 52.245-1, the contractor must make significant findings or results of such reviews and audits pertaining to Government property available to the PA.

POPULATION: The last contractor self assessment performed for each applicable element. This population is used in order to ensure that the contractor is testing all applicable elements in accordance with their procedures.

SOURCE DOCUMENTS: Self assessment report or other means used by the contractor to document the findings and conclusions of its self assessment.

SUPPORT DOCUMENTS: Supporting documents for this element include: the contractor’s workpapers, metrics data, and any other documentation used by the contractor in arriving at its findings and conclusions.

SAMPLING: For both standard and limited PMSAs, PAs will thoroughly review the report or other means used by the contractor to document its findings and conclusions. PAs will use judgmental sampling to review the support documentation the contractor used in arriving at its findings and conclusions. The purpose of the judgmental review is to ensure the contractor used quantitative and qualitative information in evaluating its property management system, and whether that information supports the contractor’s findings and conclusions.

TESTING CONSIDERATIONS:

- When, and how frequently, the contractor performed reviews, surveillances, self assessments, or audits of its property management system.
- The method the contractor used to perform the reviews.
- How the contractor documented the review, including the contractor’s report and the documentation (e.g., workpapers) supporting the report.
- The elements of property management reviewed.
- Deficiencies identified and any corrective action taken.
- Whether the contractor’s process is sufficient to identify significant findings or results, and make them available to the PA.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Address whether the contractor performs self assessments of its property management system at the time scheduled and in the manner described in its procedures.
- Identify the elements of property management the contractor evaluated in its self assessment and the conclusion it reached for each element.
- Describe how the contractor documented the review.
- If there were deficiencies, describe the corrective action taken.
- Describe and analyze whether the self assessment was sufficient to assess the effectiveness of the property management system.
- Describe how and whether the contractor made any significant findings or results available to the PA.

PMSA ELEMENT 3 – ACQUISITION

REQUIREMENT:

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, and property control operations.”

BACKGROUND:

The element of Acquisition applies to actions taken by the contractor to obtain Government property. Broadly speaking, contractors may take such actions in two ways:

- By acquiring property under cost-type, time-and-material, or fixed-price contracts with cost reimbursement CLINS provided the contractor is entitled to be reimbursed for the cost of the property as a direct item of cost. This is generally referred to as contractor-acquired property, or “CAP”
- By acquiring Government-furnished property (GFP) via MILSTRIP.

Contractors may acquire property in several different ways:

- The contractor may issue a purchase order to a supplier or vendor and purchase the property.
- Fabricating items in-house.
- Issuing items from contractor-owned stores/stock and stockrooms for use on the contract.
- A credit-debit transaction transferring accountability from one contract to another.

Typically, when a contractor needs property to perform a contract, the contractor submits a requisition to its purchasing department. If the contractor determines that acquiring the requisitioned item is consistent with the contractor’s policy and procedures, the item is purchased from vendors or suppliers by use of a purchase order. Alternatively, contractors may use material transfer documents to transfer material from the contractor's own stock to Government stock for use on the contract. Less frequently, contractors use petty cash vouchers or credit cards for very small, infrequent purchases. The contractor’s purchasing system must include the necessary controls to assure that quantities purchased are reasonable according to the contract type and scope, that documentation is adequate and consistent, and that performance of acquisition actions is timely.

A credit-debit transaction transferring accountability from one contract to another credits the losing contract for the cost of the material and debits the gaining contract for the costs. Contractors may only apply this method to excess contractor-acquired property with Contracting Officer approval.

Property that a PCO transfers by contract modification from one contract to another is GFP on the gaining contract. Because this GFP is pushed to the contractor, it is not considered to be an acquisition, and is therefore not subject to review under this element.

PAs will review FAR Part 31 for regulations related to acceptable costs that may be charged to a contract. This FAR part describes the requirements for allowability, allocability, and reasonableness of charges.

Cost Accounting Standards are the set of rules regarding cost accounting for Government contracts, and are promulgated by the Cost Accounting Standards Board. Certain contractors and subcontractors are required to comply with Cost Accounting Standards. Contracts subject to

Cost Accounting Standards apply a requirement upon the contractor to disclose in writing, and follow consistently, cost accounting practices. The Disclosure Statement is how the contractor discloses its accounting practices to the Government, including how the contractor charges specific types of costs. For example, like items, purchased for use in like manner, must be charged in the same way. PAs must have access to, read, and understand contractors' Disclosure Statements to effectively evaluate contractors' property management systems.

Contractors are ordinarily required to possess their own general-purpose equipment for the performance of Government contracts. The Government may furnish equipment to contractors only as specified as in FAR 45.102. Under cost reimbursement type contracts, contractors may only acquire equipment, where title vests in the Government, when that action is consistent with their Cost Accounting Standards Disclosure Statement or Generally Accepted Accounting Principles. See Cost Accounting Standards 402 and 404. This is an area where PAs may request the assistance of the ACO and DCAA to ensure consistent application of the FAR and Cost Accounting Standards rules.

While PAs are not expected to perform detailed reviews of contractors' cost accounting systems, they must be knowledgeable about the cost accounting principles discussed above. When costs charged to Government contracts do not appear to be reasonable, allowable, and allocable per the requirements in FAR Part 31, Cost Principles, the Allowable Cost and Payment Clause at FAR 52.216-7, and the Cost Accounting Standards (CAS), PAs must report potential noncompliances or issues to the ACO. If costs for items appear to be unallowable, the PA will notify the ACO administering the contract with a recommendation for cost disallowance. The recommendation will include thorough documentation of the PA's findings. If the PA determines that a systemic problem exists, the PA must forward a recommendation to the ACO and request a Defense Contract Audit Agency (DCAA) review for possible impact to the contractor Disclosure Statement as applicable.

The element of Acquisition does not apply to all Government property. GFP that is "pushed" to the contractor, (i.e., that is included on a GFP attachment based on the PCO's determination to provide property to the contractor. Examples include property transferred between contracts), is not subject to testing for the element of Acquisition. Also, property contractors acquire in performance of fixed-price contracts for which they are not entitled to be reimbursed as a direct item of cost belongs to the contractor and is not subject to testing for the element of Acquisition.

Only the PCO may authorize the contractor to requisition using MILSTRIP (i.e., pulled GFP). The PA does not have the authority to issue such authorization. The authorization may be granted in the contract or separately, by contract modification or authorization of the PCO that cite the applicable contract. The PCO authorization may be limited as to time, type of property, specifically identified items, or dollar value.

PROCEDURES:

All contractors that have cost-type, time-and-material, or fixed-price contracts with cost reimbursable CLINS, or contracts authorizing the contractor to requisition via MILSTRIP must establish acquisition procedures as a part of their property management systems. Those

procedures will vary from contractor to contractor but the PA must ensure that the contractor addresses the following considerations:

- How the contractor establishes that there is authority and a need for the property and how that need is documented e.g., BOM, MRL, Tech drawings, R&D Proof of Concept, etc.
- The type of purchasing method used to order property, (e.g., purchase order).
- Reasonable timeframes for ordering (if needed).
- How purchase orders are controlled and distributed,
- Assurance that Credit-Debit system transfers of contractor-acquired material account for all costs pertaining to such material, including general and administrative, and are reallocated and transferred with the material. Additionally, assurance that the contractor ensures that costs for such material are allowable on the contract to which transferred.
- The documentation required for moving material between contracts as a cost transfer e.g. MMAS or credit/debit.
- The documentation of the PCO's consent where required (e.g., special terms and conditions in the contract, purchases over the dollar threshold in Subcontract Clause, FAR 52.244-2, or where there is no approved purchasing system, etc.).
- How the contractor maintains MILSTRIP requisition documents.

OBJECTIVE: The PA will determine whether the contractor is acquiring all property consistent with its engineering, production planning, and property control operations; whether the contractor acquires only the items and quantities authorized by the contract; and whether the contractor properly classifies the property it acquires.

POPULATION:

The population consists of all acquisitions of property for which the contractor is eligible to be reimbursed as a direct item of cost that were initiated within the past 12 months. To review this population, PAs will have to review the procurement and purchase orders, petty cash documents, or fabrication documents, as applicable. A separate population consisting of any property the contractor ordered within the past 12 months via MILSTRIP is required if the contractor has any MILSTRIP acquisition transactions. Property acquired using MILSTRIP must be treated as a separate population and sample because there are unique ordering requirements.

PAs may use the same population to test both the elements of Acquisition and Receiving *only* in the infrequent event that all of the following conditions are met:

- All items of Government property that were ordered during the timeframe under review were also received during the period under review.
- No items of Government property that were ordered outside of the period under review were received.
- No Government furnished property (GFP) was received during the period under review.

If *any* of the above conditions are not met, separate populations for Acquisition and Receiving are required. If a PA uses the same population for both Acquisition and Receiving, the rationale must be documented in the Audit Report.

PAs will not review pushed GFP (GFP provided on the contract) under Acquisition, because the Government has already determined a contractual need for the property. Note that this GFP includes property transferred via PCO contract modification.

The PA will include only those acquisitions made by the contractor in the performance of contracts administered by DCMA in the populations for review.

SOURCE DOCUMENTS: Source documents include purchase orders, material requisitions from contractor stores (debits/credits), fabrication orders, petty cash documents for property to which the Government would have title, and MILSTRIP requisitions.

SUPPORT DOCUMENTS:

Support documents include contractor records, material requirements lists (MRL), bill of material (BOM), statement of work (SOW), blueprints, drawings, technical orders (TO), proof of concept for R&D, property management procedures, or other sources of the contractor's acquisition plans.

Different types of contractors will have different supporting documentation. For example, a production contractor will likely have detailed drawings, MRLs, schematics, etc., while a repair contractor may only be able to determine what items will be required after assessing a damaged item to determine the extent of required repairs. Research and development contractors may not have a formal listing of the property the contractor requires in order to perform the contract, but should be able to provide a proof of concept or description of their proposal. The contractor must be able to explain how items purchased support that proposal. Additional resources to verify reasonableness of an acquisition include the contractor's lead scientist or technician, the buying activity's program office, and DCMA Engineers or Industrial Specialists.

SAMPLING: The element of Acquisition is tested statistically for standard PMSAs using the contractor's ordering documents.

The PA will use judgmental sampling to test Acquisition when performing a limited PMSA. Support for all conclusions must include sample documentation provided by the contractor.

TESTING CONSIDERATIONS:

PAs are expected to perform contract review during PMSA planning in order to identify all cost-type contracts that require the contractor to make purchases in order to successfully perform the contract. If the contractor reports that they have not made acquisitions against any identified cost reimbursable contract, the PA will perform additional verification by reviewing public vouchers filed in WAWF. The PA will access WAWF through the Procurement Integrated Enterprise Environment (PIEE), and select "Admin by View Only" to view the most recent voucher. The

voucher will be reviewed to determine whether the contractor has directly charged for tangible items of Government property. The contractor must categorize these charges as for material, supplies, or equipment. In some cases, the contractor may include property under the heading of Other Direct Costs (ODCs). Because ODCs would be considered unallocable, the PA must elevate such contractor allocations to the ACO for review if suspected. While this voucher review may not provide a one-to-one comparison, the review provides information the PA will use to determine whether the population provided by the contractor is reasonable.

PAs will also:

- Determine whether the contractor screens existing stock prior to acquisition, and how the contractor documents that screening.
- Determine whether the contractor acquires supplies supported by the contract needs. The quantity the contractor orders should not exceed the total quantity required for contract performance minus the quantity received as of the order date. Potentially excessive purchases may be explained by minimum buys, which are a vendor's requirement that orders must be for a minimum quantity.
- For contractors subject to Cost Accounting Standards, the PA will ensure that acquisitions are in accordance with the contractor's Disclosure Statement. PAs can obtain the Disclosure Statement from the contractor or from the cognizant ACO.
- Ensure that there is PCO authority for all MILSTRIP acquisitions and that the contractor fills out requisition forms as described in Chapter 2 of DOD 4000.25-1.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Describe how the property is classified, when the classification occurs, and how classification is documented.
- Discuss how the PA determined whether quantities acquired were supported by the contract needs.
- State whether there were any purchases in excess of documented need, and explain whether they were justified and why.
- Address whether acquisitions made by contractors subject to Cost Accounting Standards were in accordance with the contractor's Disclosure Statement.
- Identify the document in which the PCO authorized the contractor to requisition using MILSTRIP.
- Address whether the contractor fills out MILSTRIP acquisition forms as described in Chapter 2 of DOD 4000.25-1.

PMSA ELEMENT 4 – RECEIVING

REQUIREMENT:

FAR 52.245-1(f)(1):

(ii) *Receipt of Government Property.* “The Contractor shall receive Government property and document the receipt, record the information necessary to meet the record requirements of paragraph (f)(1)(iii)(A)(1) through (5) of this clause ...”

BACKGROUND:

The contractor’s receiving process may consist of a number of different steps:

- Notification to receiving department of incoming assets. Contractors may provide an electronic or paper copy of the originating purchase orders, MILSTRIP requisitions, and other requisitioning data that reflect the items and quantities ordered and/or expected to the receiving department. The receiving department uses those documents and data for comparison with items physically received, as well as for proper posting to the accounting records.
- Physical delivery and initial inspection of the property. Upon delivery, a contractor inspection ascertains that there is no obvious or visible damage and the quantity of pallets, boxes or containers agrees with the transportation document.
- Reconciliation of assets received. (Ref., “PMSA ELEMENT 5 - DISCREPANCIES INCIDENT TO SHIPMENT” below if any discrepancies are noted based on physical reconciliation of the actual assets with the documentation provided.)
- Release of assets from receiving organization. After the contractor’s receiving department prepares and processes appropriate documentation, the contractor normally releases the assets for quality or technical acceptance inspection, storage, or use as required.
- Quality or technical acceptance inspection as required. Quality and technical inspections are performed less frequently than in the past, with contractors more accustomed to quality control built into an item through the supplier’s inspection processes, i.e., TQM, ISO, Six Sigma, etc. When the contractor performs inspection, the contractor's procedures should clearly outline the inspection responsibilities and indicate the types of Government property 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.
- Distribution of property. Upon completion of any required quality inspection, acceptance testing, and physical identification (Ref., “PMSA ELEMENT 6 - IDENTIFICATION” below), the item is delivered to the appropriate storage area, stockroom, or released for use as authorized by contract terms.
- Distribution of documentation. At the same time the property is distributed, contractors distribute the associated receiving notification. This distribution may be electronic or manual. Generally, the contractor’s receiving department retains one copy for its files. One or more copies go to the purchasing department, a copy goes to the department to which the asset is delivered, and a copy to the accounting department for use as a voucher for invoices. At least one copy should accompany the shipment, and it is good practice to

provide two, one of which is signed by the receiver and returned to the receiving department. It is important that the contractor provide a copy to the inventory control activity so that stock records can be accurately posted. Note that these actions may be accomplished either manually or through electronic methods. Consequently, paper may not be used in this process if the contractor documents all actions electronically.

- Normally items that are fabricated in-house do not go through receiving. PAs must ensure that contractors establish control over these in-house items and establish records in accordance with FAR 52.245-1(f)(1)(iii) and the contractor's procedures.

PROCEDURES:

The receiving process is the means by which the contractor assumes control or custody of Government property. That includes recording the information necessary to meet the record requirements of paragraph (f)(1)(iii)(A)(1) through (5) of FAR 52.245-1. In order to comply with the contractual requirements to provide effective and efficient control of Government property and to maintain current records of all transactions, it is essential that the contractor receives Government property in a timely manner. For that reason, the PA must ensure that the contractor's procedures establish timeframes for the performance of receiving actions.

The timeframes will vary from contractor to contractor depending on the nature of the business, the type and criticality of property involved, and other relevant factors. Individual contractors may have different timeframes for different types of property, most notably sensitive property. Precious metals, hazardous property and arms, ammunition and explosives may all require different timeframes for the performance of receiving actions. PAs must ensure that the contractor's procedures clearly define the timeframes and that they support the requirement to effectively and efficiently control Government property. Timeframes for the initial establishment of records that exceed 10 calendar days should be carefully examined to ensure that the Government's interests are protected.

PAs will ensure that the contractors' procedures for receiving address the following, to include timeframes, as applicable:

- Whether and how the contractor's receiving department will be notified of expected delivery of incoming assets, and an indication of when it is to be given. The contractor's procedures should also provide direction on how and when the receiving department is to use that notice (e.g., is the receiving department comparing the data on the notice with items physically received? If so, when are they to do that?).
- What the contractor's receiving department does upon delivery of an item, the type of inspection the contractor conducts to determine whether there is obvious or visible damage, and whether the quantity of pallets, boxes or containers agrees with the transportation document.
- The title and form number of the receiving report, or other means the contractor uses to document receipt. If the contractor intends to use a form, the contractor should incorporate the form by reference in its procedures. The contractor's procedures should provide a timeframe for the form's completion and directions for its distribution.
- How and when the contractor will establish records of the Government property.
- Any special handling requirements regarding the receipt of sensitive property.

- When quality or technical acceptance inspection is required.
- How the property is to be distributed after receipt.
- How property fabricated in-house will be inducted into the contractor's property management system.

OBJECTIVE: The PA will determine whether the contractor received Government property, documented the receipt, and recorded the information necessary to meet the record requirements prescribed in FAR 52.245-1(f)(1)(iii)(A)(1) through (5).

POPULATION:

All Government property accountable to contracts administered by, or delegated to, DCMA that was received in the past 12 months.

PAs may use the same population to test both the elements of Acquisition and Receiving *only* in the infrequent event that all of the following conditions are met:

- All items of Government property that were ordered during the timeframe under review were also received during the period under review.
- No items of Government property the contractor ordered outside of the period under review were received.
- No GFP was received during the period under review.

If *any* of the above conditions are not met, separate populations for Acquisition and Receiving are required. If a PA uses the same population for both Acquisition and Receiving, the rationale must be documented in the Audit Report.

SOURCE DOCUMENTS: All receiving documents (e.g., packing lists, Government bills of lading, in-house fabrication orders). Note that purchase orders are not receiving documents, and are not used to evidence receipt.

SUPPORT DOCUMENTS: Receiving logs, contractor-generated receiving reports, and property records.

SAMPLING: The element of Receiving is tested statistically for standard PMSAs. The sample will consist of the contractor's receiving documents. The PA may use judgment sampling of receiving documentation for limited PMSAs.

TESTING CONSIDERATIONS:

- If the contractor's procedures call for the receiving department to be notified of expected delivery of assets, the PA will review the notification for each sample to establish whether it was received and used as directed in the procedures.
- Be cognizant that reusable containers shipped with Government property are Government property as well. Because of this, the receipt of reusable shipping containers must be documented, and a record must be established. Reusable containers are not always separately identified on the shipping document.

- Determine whether the property is promptly examined in accordance with the contractor's procedures upon arrival to determine whether the quantity received and condition are consistent with the information on the shipping document.
- Determine whether the receiving report is promptly prepared. Compare the date of the receiving report, the date of delivery as reflected on the shipping document, and the timeframe for completion of the receiving report in the contractor's procedures.
- Review the record for each item received to confirm that the records meet the requirements of paragraph (f)(1)(iii)(A)(I) through (5) of FAR 52.245-1 and that they were established within the timeframe required by the procedures. Timeframes in excess of 10 calendar days must be reasonable and justifiable.
- If quality or technical acceptance inspection is required, confirm that the contractor performed inspection within the timeframes required by the procedures.
- Confirm that the contractor distributes the property and receiving report as directed and within the established timeframe specified by the procedures.
- Determine whether property the contractor fabricated in-house was inducted into the contractor's property management system as required by the procedures.
- The PA will use a separate population of all sensitive Government property accountable to contracts administered by DCMA received in the past 12 months to determine the adequacy of the contractor's process for receipt of sensitive items.
- Sensitive items are tested as a separate population, using a double sampling plan that identifies defects of 10% or more, if they exist, 97% of the time as described in paragraphs 8.3.1.1. and 17.2.3. of Chapter 1.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- If the procedures call for the contractor's receiving department to be notified of expected delivery of assets, describe how the receiving department is notified, how the notice is used, and indicate whether the process complies with the procedural requirement.
- Address whether the contractor received the samples promptly, as defined in the contractor's procedures, and examined them upon arrival to determine whether the quantity received and condition were consistent with the information on the shipping document.
- Discuss whether the receiving reports were prepared within the timeframe in the contractor's procedures.
- Analyze the records associated with the samples received to confirm that the records meet the requirements of paragraph (f)(1)(iii)(A)(I) through (5) of FAR 52.245-1, and whether the documentation was established within the timeframe required by the procedures. The PA must assure the contractor provides additional justification or an explanation for timeframes in excess of 10 calendar days. Excessive time between receipt of Government property and record creation increases risk to the Government.
- If a quality or technical acceptance inspection was required, describe the contractor's inspections, and whether the contractor performed inspections within the timeframes required by the contractor's procedures.
- Address how the contractor distributed the property and indicate whether it was as directed by the procedures and within the established timeframe.
- Indicate how the contractor documented receipt, and discuss whether it was as specified in the contractor's procedures.

- Explain how property fabricated in-house was inducted into the contractor's property management system, and address whether the contractor complied with the direction in its procedures.

PMSA ELEMENT 5 - DISCREPANCIES INCIDENT TO SHIPMENT

REQUIREMENT:

FAR 52.245-1(f)(1):

(ii)The Contractor shall . . .manage any discrepancies incident to shipment.

(A) *Government-furnished property.* 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.

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

BACKGROUND:

Discrepancies include any differences (e.g., count or condition) between the items documented to have been shipped and items actually received, including misdirected shipments, overages, shortages, or damages discovered upon receipt of Government property. FAR 52.245-1 establishes separate and distinct requirements for managing discrepancies incident to shipment, depending on whether the property is GFP or CAP.

- When discrepancies are discovered upon receipt of GFP, FAR 52.245-1(f)(1)(ii) (A) requires the contractor to furnish a written statement to the PA containing all relevant facts, such as cause or condition, and a recommended course of action.

Note: The clause does not require the contractor to prepare an SF 361 "Transportation Discrepancy Report" or SF 364 "Report of Discrepancy." These reports are usually prepared by a QAR, but in some cases it may fall to the PA to prepare them.

- When the contractor discovers discrepancies upon receipt of contractor-acquired property, the clause at FAR 52.245-1(f)(1)(ii)(B) requires the contractor to take all actions necessary to adjust for overages, shortages, and damage so as to ensure the proper allocability and allowability of associated costs.

PROCEDURES:

In order to be compliant, the contractor's procedures must address how the contractor will manage discrepancies incident to shipment of both GFP and CAP. In addition, the contractor's procedures must provide direction about how the contractor will handle misdirected shipments.

The procedures should, at a minimum, specify what facts and information the report should contain, and the timeframe in which the report should be completed and forwarded.

Similarly, for discrepancies incident to the shipment of CAP, the contractor's procedures must describe how the necessary adjustments for overages, shortages, and damage will be made so as to ensure the proper allocability and allowability of associated costs. Additionally, the contractor's procedures must establish a mechanism that will ensure appropriate action is taken when such discrepancies are identified. The procedures also must establish a timeframe in which the contractor will make adjustments.

For misdirected shipments, the contractor's procedures must identify the actions that will be performed to obtain disposition instructions, and immediately seek the disposition instructions from the source from which the item was shipped. If the contractor is unable to obtain disposition instructions, the contractor's procedures should direct the responsible official to contact the PA. The PA will ensure that the contractor has established and documented timeframes for initiation of actions and adequate follow-up to ensure proper disposition.

OBJECTIVE: The PA will determine whether the contractor adequately managed discrepancies incident to shipment.

POPULATION: There are two populations that have different reporting requirements. If both are applicable, they must be tested separately:

- All discrepancies incident to the shipment of GFP in the past 12 months.
- All discrepancies incident to the shipment of CAP in the past 12 months.

SOURCE DOCUMENTS: For GFP, all written statements from the contractor to the PA regarding discrepancies discovered upon receipt of Government-furnished property. For CAP, documentation of actions taken by the contractor to ensure the proper allocability and allowability of associated costs resulting from discrepancies discovered upon receipt of property from a vendor or supplier.

SUPPORT DOCUMENTS: These will vary from contractor to contractor. They may include packing slips, DD 1149s, DD 1348s, receiving logs, and contractor generated receiving reports. For GFP, they may also include SF 361 "Transportation Discrepancy Reports" or SF 364 "Reports of Discrepancy."

SAMPLING: The element of Discrepancies Incident to Shipment is tested statistically for standard PMSAs. The PA may use judgmental sampling to review documents that are representative of the contractor's handling of discrepant shipments for CAP and for GFP when performing a limited PMSA.

TESTING CONSIDERATIONS:

- Government prepared documentation such as an SF 361 "Transportation Discrepancy Report" or an SF 364 "Report of Discrepancy" may be used as sources to identify a

population. PAs should not rely on these as the sole documentation sources for a population.

- Determine whether the contractor is reporting discrepancies in shipping documentation to the PA, (e.g., incomplete data, to include missing acquisition costs). Discrepancies with shipping documentation can make it impossible for a contractor to create an accurate record of Government property.
- Compare the date of receipt of discrepant GFP with the date of the report to the PA to determine if the contractor was timely in sending the report, as defined in the contractor's procedures.
- Review the discrepancy report to determine whether it includes all relevant facts.
- Trace the documentation of receipt of discrepant CAP to the appropriate accounting records to determine whether the contractor made the necessary adjustments for overages, shortages, and damages in the correct amounts.
- The PA will separate populations of discrepancies as follows:
 - All discrepancies incident to the shipment of sensitive GFP in the past 12 months, and
 - All discrepancies incident to the shipment of sensitive CAP in the past 12 months, will be used to determine whether the contractor adequately managed discrepancies incident to shipment of sensitive property.

- Sensitive items are tested as a separate population, using a double sampling plan that identifies defects of 10% or more, if they exist, 97% of the time as described in paragraphs 8.3.1.1. and 17.2.3. of Chapter 1.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Describe when the contractor received the items of discrepant GFP, when the contractor reported the discrepancies, and discuss whether the reporting was timely, accurate, and complete.
- For contractor-acquired property, detail the quantity of the overage or shortage, describe the nature of the damage, and specify the nature of the adjustment.
- A description of how the PA confirmed an adjustment was made for discrepant contractor-acquired property, and whether the adjustment ensured the proper allocability and allowability of associated costs.

PMSA ELEMENT 6 - IDENTIFICATION

REQUIREMENT:

FAR 52.245-1(f)(1)(ii): “The Contractor shall...identify [property] as Government owned in a manner appropriate to the type of property (e.g., stamp, tag, mark, or other identification).”

BACKGROUND:

In order to comply with FAR 52.245-1(f)(1)(ii), contractors must physically mark and identify Government property indicating that it is Government owned during the receiving process or upon fabrication. Proper identification ensures that Government property is

recognized as such and not mistaken for contractor or other customer owned property. It also reduces the risk that Government property is used for unauthorized purposes.

The contractor determines the method of marking and identifying Government property, and may assign identification numbers unless markings or numbers are provided by the Government. Where the Government has assigned identification numbers, or otherwise marked the property, the contractor will retain that number or marking on the property, but may also assign its own identification number or marking so long as the numbers are traceable to the original Government identification number. Contractors will reference any identification numbers marked on the property in support documentation or the property management record for inventory control purposes.

A marking may consist of, but is not limited to, bar codes, decals, engraving, etching, painting, stamping, and tagging. Radio Frequency Identification (RFID) is generally not a “marking” methodology unless used in concert with visible markings, as it does not provide a form of physical identification.

Item Unique Identification (IUID) and valuation is the process of marking an item of property with a system of data that discloses possession and ownership, and retains that identification data as supporting evidence for internal Government finance, property, and logistics management requirements. The IUID marking requirement applies to DoD contractors through contract clause DFARS 252.211-7003. Contractor compliance with this requirement is not a property management responsibility, and PAs should not test for compliance when performing a PMSA. Note that this requirement is distinct from those requirements at DFARS 252.211-7007 that require the contractor to *report* GFP to the IUID registry or GFP Module within PIEE. PAs provide oversight for compliance with DFARS 252.211-7007, but not for DFARS 252.211-7003.

In general, contractors must physically mark all property that will not be consumed, or otherwise lose its identity through incorporation into an end item or deliverable system, to identify the property as Government property. For material, the marking identifying it as Government property may be at the higher package level (bin, box, shelf, etc.). Contractors are not required to physically mark material that is accountable under a Material Management Accounting System (MMAS).

Some types of property may not lend themselves to proper identification. Marking will either damage the property or is impractical. If that is the case, the contractor may indicate Government ownership at the higher storage or packaging level. If none of those methods is appropriate, the contractor is required to contact the PA for alternate instructions.

PROCEDURES:

In order to be compliant, the contractor’s procedures must specify the method it will use to mark each type of Government property. Compliant procedures specify a timeframe from time of receipt or completion of fabrication in which the marking will be completed. The PA will determine whether the timeframe for identification of Government property adequately protects the Government from unnecessary risk. Note that property that is not identified

promptly is more likely to be diverted for unauthorized use or consumption, and may not be managed in accordance with the contractor's property management system because contractor personnel are unaware that it is Government property.

OBJECTIVE: The PA will determine whether the contractor physically identifies Government property with an indication of Government ownership.

POPULATION: There are two potential populations for testing this element: all Government property received within the past year, or all Government property on hand at any time in the past year (standard Receiving and Record populations, respectively).

Note: Because there are two potential populations, there are multiple worksheet options. The Receiving and Records worksheets have Identification as an optional data element. There is also a standalone Identification worksheet for use if neither of the other outcomes is being tested. If the contractor has over \$100M of Government property accountable to contracts that are administered by DCMA, the Records population will include all DoD contract property and be tested using a 97% confidence level. Identification is tested at a 90% confidence level for standard PMSAs. In order to avoid oversampling the PA may take a random sample of that larger 97% sample in order to select the correct number of samples to test Identification at a 90% confidence level. For example: If you have a population of 10,000 line items of Government property, the Records sample would be 43 line items at 97%, but only 34 line items at 90%. The PA may choose a random sample of 34 line items from the population of 43 Record samples to test for Identification.

SOURCE DOCUMENTS: Government Property, identification tags, labels, etchings, markings, etc.

SUPPORT DOCUMENTS: None

SAMPLING: The element of Identification is tested statistically for standard PMSAs. The PA may use judgmental sampling, to include an example of identified Government property, for limited PMSAs.

TESTING CONSIDERATIONS:

- Using the Receiving population allows the PA only to generalize to property received in the past year, rather than to determine compliance for identification of all Government property.
- Using the Receiving population, the PA will test the adequacy of the contractor's recent identification efforts. The PA may use this population if the PA has concerns about the contractor's recent performance of this process. This population will not allow the PA to address whether items that have been in the contractor's possession for many years have lost or worn identification.
- Using the Records population and corresponding sample allows the PA to generalize any findings to all property. See the note under population for a description of how to use the

Records population when enhanced oversight of contractors with over \$100M of DCMA administered population is required.

- Using the Records population may be more useful to ensure that property that has been in the contractor's possession over an extended period of time is still properly identified.
- Regardless of which population is used, PAs must physically verify that all sampled items have appropriate identification. A separate, additional physical verification of the asset will be required if the PA uses the Receiving population.
- The fact that the contractor's records indicate that the Government has title to an item is not the same as stamping, tagging, marking, or otherwise physically identifying the item as Government owned. Taken alone, documentation of Government ownership in the contractor's records is therefore not compliant with this requirement.
- PAs may consider alternating the use of Receiving and Records populations to test Identification to ensure a broad coverage of this element.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Describe how the samples are marked.
- If marking any items sampled was impossible or would have damaged the items, explain what, if any, alternates were used.
- Address if the marking identifying an item as Government property is at the higher package level (bin, box, shelf, etc.).

PMSA ELEMENT 7 - RECORDS

REQUIREMENT:

FAR 52.245-1(f)(1):

(iii), *Records of Government property.* The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

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

- (1) The name, part number and description, National Stock Number (if needed for additional item identification tracking and/or disposition) and other data elements as necessary and required in accordance with the terms and conditions of the contract.
- (2) Quantity received (or fabricated), issued, and balance-on-hand.
- (3) Unit acquisition cost.
- (4) Unique-item identifier or equivalent (if available and necessary for individual item tracking).
- (5) Unit of measure.
- (6) Accountable contract number or equivalent code designation.
- (7) Location.
- (8) Disposition.

- (9) Posting reference and date of transaction.
- (10) Date placed in service (if required in accordance with the terms and conditions of the contract).

DFARS 252.211-7007, *Reporting of Government-furnished property.*

BACKGROUND:

In accordance with the Government property clause, the contractor must establish records for all Government property. Those records must contain the data elements identified at FAR 52.245-1 (f)(1)(iii)(A)(1 thru 10), unless otherwise approved by the PA. If the PA approves the exclusion of any of those data elements from the record, the PA must do so in writing, supported by a Memorandum for Record (MFR), explaining the rationale for the decision. The PA's first level supervisor must sign the MFR, concurring with the PA's determination. The PA will upload the MFR to CPAS as an attachment to each FY tab under the Property Management System Analyses (PMSA) Record in accordance with GCPG direction.

Once the contractor releases material to the shop floor, the items are typically considered work-in-process (WIP). FAR 52.245-1 does not address how, or whether, the contractor is required to track WIP on record. Accordingly, unless specifically required elsewhere in the contract, tracking of WIP should be based upon the contractor's established practices.

PROCEDURES:

In order to be compliant, the contractor's procedures must identify the format in which the contractor will maintain records of Government property. The contractor's procedures must identify the process to be followed for establishing and maintaining the records, and the timeframe for establishing and updating records. Timeframes are required because FAR 52.245-1 requires the records to be current.

The procedures must address whether the contractor will track material once it is issued from stores to WIP. If WIP is not tracked after issuance, the contractor's procedures must describe the safeguards in place to prevent and identify unreasonable consumption. WIP is not to be used as a methodology to avoid creating and maintaining records of contract property.

Some contractors use a standard cost process (vs. actual cost) for contractor-acquired property that "averages" the acquisition costs obtained on different purchase orders, batches, or lots. For example, due to quantities ordered, the price may be different, e.g., \$.10 one time, \$.06 the next time, and \$.12 cents the next time. A system will average the price, and not retain the "actual cost" by purchase order, batch, or lot. If the contractor's records will not reflect the actual cost by purchase order, batch, or lot, the contractor's procedures and cost Disclosure Statement must describe the methodology the contractor will use to record the acquisition cost.

Special test equipment, sometimes abbreviated as "STE", may consist of readily removable general-purpose components. To ensure contractor control of those items is maintained, records must clearly identify the general-purpose components. Another reason for identifying general purpose components is to assist in the disposal process, and the reporting and screening requirements for potential reutilization. In addition to the complete unit of special test

equipment, the contractor's records must clearly identify these general purpose items on inventory disposal schedules in conjunction with plant clearance of special test equipment.

The contractor's procedures must also address in-house fabricated property, if applicable, and how that fabrication is properly documented to ensure that the tooling is incorporated within the stewardship records.

Moreover, the contractor's procedures must establish a process to document and post location changes so that records may be maintained in a current status and property can be located within a reasonable period of time, dependent upon the type of property, size of site, frequency of movement, and sensitivity of the item.

OBJECTIVE: The PA will determine whether the contractor creates and maintains records of all Government property accountable to its contracts, and whether those records contain the data elements required by 52.245-1(f)(1)(iii)(A)(1) through (10) and enable a complete, current, and auditable record of all transactions.

POPULATION: All Government property accountable to contracts administered by DCMA that was on-hand at any time within the preceding 12 months and all Government property records for all DoD contracts, regardless of administration, for contractors with more than \$100M of Government property administered by DCMA. This includes property with a zero balance, for which there should be closed records. If closed records with a zero balance make up a large portion of the population, the PA may elect to use a population of all Government property accountable to contracts administered by DCMA on hand at the time of the PMSA. If the contractor has over \$100M of Government property administered by DCMA this population would also include all Government property records for all DoD contracts, regardless of administration.

If a contractor has at least \$100M of Government property accountable to contracts administered by DCMA, and also has sensitive property, then at least two populations will need to be tested. Sensitive property must always be tested separately from non-sensitive property.

The Records population does not include material accountable under an approved receipt and issue system, as that is tested separately. With very few exceptions, the required data elements and other contractual requirements are identical for each type of property. Since populations are based upon common characteristics, PAs will not identify separate populations for different types of property unless one or more has different characteristics. The PA's identification of different types of property as separate populations requires a written justification, and the concurrence of the PA's first level supervisor.

SOURCE DOCUMENTS: All Government property records accountable to contracts administered by DCMA. For contractors with more than \$100M of Government property administered by DCMA, all Government property records for all DoD contracts, regardless of administration.

SUPPORT DOCUMENTS: Supporting documents for this element include: invoices, contract modifications, purchase orders, stock records, receiving documents, fabrication work orders, requisition slips, issue documents, inventory adjustment references, property loss relief documentation, transfer documents, and shipping documents.

SAMPLING:

For standard PMSAs, test the element of Records using statistical sampling. The PA will use judgmental sampling to request examples of records for both equipment and materials to review for completeness and compliance when performing a limited PMSA. Support for all conclusions must include sample documentation provided by the contractor. Physical verification of Records-to-Property and Property-to-Records does not apply to limited PMSAs unless there are concerns or deficiencies that would indicate a need for a purposive review.

PAs will review the element of Records annually and on-site for systems with more than \$100M of Government property. When performing reviews for those systems, PAs will include all Government property accountable to DoD contracts in their population, regardless of whether DCMA administers those contracts. PAs will use the double sampling plan that provides a 97% confidence of rejecting lots having 10% or more defects. If the contractor also has sensitive property, this means that there will be two populations that are separately tested at a 97% confidence level. Sensitive property may not be combined with the greater population.

TESTING CONSIDERATIONS:

- PAs will perform two types of review: Records-to-Property and Property-to-Records. PAs will request a listing of all Government property accountable to contracts administered by DCMA that is currently on-hand, and any that was on-hand within the preceding 12 months, or listings of all DoD contract property with the same characteristics, as appropriate. PAs will select a statistical sample from that list and review the records of the items selected.
- The balance a contractor has on-hand, part number, description, and location are among the data elements required by 52.245-1(f)(1)(iii)(A)(1) through (10). To test the accuracy of those elements, PAs must perform a Records-to-Property review. A Records-to-Property review involves a physical inspection of each item sampled to establish the accuracy of the balance on-hand and the location as reflected in the record.
- The data element, Unit Acquisition Cost, must be verified using the appropriate acquisition documentation (e.g., vendor invoice, GFP listing, internal fabrication document, etc.) or the documentation supporting the contractor's standard cost process as described in the contractor's procedures.
- Verify all other required data elements using either physical inspection or review of source and supporting documentation.
- If an item from a closed record is selected for a Records-to-Property review, the PA will check the last documented location for the item and confirm that the quantity on hand is zero.
- PAs will determine whether records are created for all items of Government property by randomly selecting items on the contractor's floor and then confirming that a record exists for that item. This is called a "Property-to-Records" review.

- The sample size of the Property-to-Records review must be the same as the sample size used for the Records-to-Property review when using statistical sampling. PAs may not reduce the size of the Property-to-Records review to equal one half that of the Records-to-Property review. An exception to this rule may be required if the amount of Government property on-hand is not sufficient to make up a Property-to-Records sample of the same size as the Records-to-Property sample. If an exception is made, PAs must document their reasoning in the Audit Report.
- It is essential that the Property-to-Records sample be random to ensure statistical validity. This means that PAs may not simply walk through the contractor's facility and select items that catch their eye. That would be a judgment sample and its results would not be generalizable to the larger population. If the PA is unable to ensure randomness due to the set-up of the contractor's facility, the PA must explain that in the Audit Report. One technique for selecting random samples for the Property-to-Records review is to identify a method for selecting samples before beginning the Records-to-Property review.

For example: The PA may select the nearest item of Government property to the left or to the right of the sample item, and repeat that strategy as consistently as possible. The method should address as many contingencies as possible to ensure that the sample selected is random. Those samples are then compared to the contractor's records to identify whether there is a record for all items. PAs will not review any other data elements during the Property-to-Record review. Doing so would subject the contractor to oversampling since all other data elements are reviewed during the Records-to-Property review. The sole purpose of a Property-to-Records review is to test whether the contractor has established a record for the item sampled.

- Materials subject to an MMAS must be included in Records-to-Property testing. In an MMAS system, PAs may not be able to perform Property-to-Records testing, since the materials will likely be commingled. If a Property-to-Records review cannot be performed, the Audit Report must annotate that.
- When testing MMAS records, PAs must be aware that due to commingling, the quantities on-hand may not match the quantity on record. The PA only needs to ensure that there are at least as many items as are on record. Any quantity on-hand that exceeds the amount on the record could belong to other projects or to the contractor.
- A separate population of all sensitive items currently on-hand, and on-hand within the preceding 12 months will be used for determining the adequacy of sensitive items records. A corresponding Property-to-Records sample will also be tested.
- Sensitive items are tested as a separate population, using a double sampling plan that identifies defects of 10% or more, if they exist, 97% of the time as described in paragraphs 8.3.1.1. and 17.2.3. of Chapter 1.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- 52.245-1(f)(1)(iii)(A) requires that the contractor's records enable an auditable record of all transactions. To determine whether the records meet that requirement, the PA will examine the supporting documentation for the most recent transaction for each item sampled (e.g., receipt, movement, calibration, inventory, etc.), analyze

whether the record posting accurately reflects the nature of the transaction, the date the transaction took place, and the quantity of property involved. The PA will discuss these findings in the Audit Report.

- To confirm that the records are current, as required by 52.245-1 (f)(iii)(A), the PA will determine whether the contractor posts transactions to the records within the timeframes identified in its procedures. If the timeframes for posting transactions exceed 10 calendar days, the PA will address how and whether those timeframes enable effective and efficient control of Government property. PAs will do this by comparing the date of the transaction, as reflected in the supporting document with the date of the posting, and address their findings in the Audit Report. The PA will also report the results of the Records-to-Property review, specifically addressing whether the actual location of each item of property and the balance on-hand were the same as those reflected in the contractor’s record. If an asset is not found in the location on record, the PA will indicate in the Audit Report how long it took the contractor to find it. If the contractor is able to locate the item in a reasonably short amount of time (e.g., less than 48 hours), it may indicate a lower level of materiality for the defect, depending on the type of property and the scope of the property management system.
- The PA will establish that the records are complete by confirming that they contain the data elements required by 52.245-1(f)(1)(iii)(A)(1) through (10). If any of the required data elements are missing, the PA will address whether the PA approved the omission in writing, or whether the data element was not applicable to that item. Note that there is no mandatory format for Government property records, nor is there a requirement for all of the data elements to be in one database. The determining factor is whether the records enable effective and efficient control of Government property and contain all of the required records data elements.
- Discuss whether records of Government property are safeguarded from tampering or destruction. The PA will also address whether the contractor’s ability to edit records limited to authorized personnel only, as described in the contractor’s procedures.
- PAs who are performing reviews of property management systems that have more than \$100M in accountable Government property will ensure that the Audit Report identifies that the elements of Records and Physical Inventory include all DoD property, regardless of whether it is accountable to contracts administered by DCMA, and that the populations are tested at a 97% confidence level.

PMSA ELEMENT 8 – RECEIPT AND ISSUE SYSTEM

REQUIREMENT: FAR 52.245-1(f)(1):

(iii)(B), *Use of a Receipt and Issue System for Government Material*. When approved by the Property Administrator, the Contractor may maintain, in lieu of formal property records, a file of appropriately cross-referenced documents evidencing receipt, issue, and use of material that is issued for immediate consumption.

BACKGROUND:

Use of an approved receipt and issue system relieves contractors of the record keeping requirements of 52.245-1 (f)(1)(iii). PAs may approve use of an R&I system only on a contract-by-contract basis. Use of an R&I system by a contractor is limited to research and development, remediation, and other non-production efforts. The rationale for this restriction is that production environments typically require material requirements planning, etc., practices that do not align with an R&I process.

Once approved, material is received and moved directly to a “work-bench” or laboratory area and delivered to the user. The use of an R&I system is limited to material only. It is not applicable to equipment, special tooling, sometimes abbreviated as “ST”, or special test equipment.

Use of an R&I system is not applicable to sensitive material (as defined in FAR Part 45 and 52.245-1) or material accounted for in an MMAS.

PROCEDURES:

In order to be compliant, the contractor’s procedures must clearly state that an R&I system will *not* be used unless there is written approval from the PA, and that such approval will be required for every contract for which it will be used. Further, the procedures must define what “immediate consumption” means. This may vary from contractor to contractor and even between contracts, depending on circumstances, but there must be a maximum timeframe established from date of receipt to consumption. PAs must ensure that the timeframe established does not subject the Government to undue risk and is consistent with efficient and effective control of Government property. In most cases this will be 10 calendar days or fewer.

For items that are not consumed within the timeframe, the contractor’s procedures must establish and describe a process such as a periodic review to ensure unused property is returned to the stock room, and that a record is established, in order to be acceptable.

Additionally, the procedures must identify the documents that the contractor will maintain to evidence receipt, issue, and use of material.

OBJECTIVE: The PA will determine whether the contractor’s receipt and issue system is approved, whether there is a file of appropriately cross-referenced documents that evidence receipt, issue and use of the material, and whether the material is immediately consumed.

POPULATION: All Government-owned property received within the preceding 12 months that is accounted for in an R&I system in lieu of formal accounting records.

SOURCE DOCUMENTS: Written approvals signed by the PA, receiving documents, issue documents, and documents evidencing use.

SUPPORT DOCUMENTS: Supporting documents for this element include: invoices, contract modifications, purchase orders, bills of material, fabrication work orders, requisition slips, property loss relief letters, transfer documents, and shipping documents.

SAMPLING: For standard PMSAs, test the element of Receipt and Issue by statistical sampling. PAs will request a listing of all Government-owned material that the contractor received within the preceding 12 months that is accounted for in an R&I system in lieu of formal property records. The PA will use judgmental sampling to review example documentation representative of the contractor's R&I practices when performing a limited PMSA. The PA must support all conclusions with sample documentation detailing receipt, issuance, and use provided by the contractor.

TESTING CONSIDERATIONS:

- To determine whether the receipt and issue system is approved, review the written approval of the PA for each contract.
- To determine whether the records are complete and auditable, PAs will examine each R&I file to ensure the documentation evidences receipt, issue, and use, that they include an item description, part number, quantity, contract number or equivalent code designation, date of receipt, date of issue, and date of use, and description of use.
- Determine whether the contractor returned any property remaining after the timeframe for immediate consumption to the stockroom and established a record for it that complies with FAR 52.245-1 (f)(1)(iii)(A)(1) through (10). The PA will require the contractor to show record establishment for any items of material for which the contractor fails to clearly describe consumption (e.g., a prototype required 3 widgets, but the contractor issued 5 to the floor because it was unknown which widgets would work best. R&I documentation should show the 3 widgets used on the prototype, and the contractor would need to establish a record for the remaining 2 widgets).

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- For the samples, identify the contract for which R&I was approved, the approval document, the date of the document, and the name of the approving PA.
- Describe the documents that evidence receipt, issue, and use of material, and address whether the documents include an item description, part number, quantity, contract number or equivalent code designation, date of receipt, date of issue, and date of use. While separate documents evidencing receipt, issue, and use are not required, the documentation for each of those actions must be sufficient to provide traceability of all quantities for each item from receipt through use.
- Discuss whether the records are current, whether the material has been consumed or, if still on-hand, whether it was received and issued within the timeframe established in the contractor's procedures for immediate consumption.
- Address whether the contractor established a record compliant with 52.245-1(f)(1)(iii)(A)(1) through (10) for all unused material.

PMSA ELEMENT 9 – PHYSICAL INVENTORY

REQUIREMENT:

FAR 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 Property Administrator 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).

BACKGROUND:

The purpose of the physical inventory is to ensure that the property is on-hand, at the location reflected in the record, and that the record balance is accurate. There are several physical inventory methodologies available to contractors:

- A “periodic inventory” is taken at predetermined intervals, usually accomplished in a short period of time, and performed on a wall-to-wall basis. The inventories may be semiannual, annual, biennial, and so forth, depending on the type, amount, value, and usage of Government property, and the established practices and reliability of the contractor's property management system.
- An “inventory by exception” is taken on a continuous basis with a fixed beginning and ending to the inventory cycle. This type of inventory uses move orders, calibration checks, and other situations where the items are "touched" by contractor personnel. The contractor must perform a periodic inventory for items not touched on an exception basis during the inventory period.
- A “cycle or cyclic inventory” is a technique where inventory is counted on a cyclic schedule rather than once a year. Cyclic counting systems require the counting of a certain number of items each prescribed period of time (e.g. weekly) with each item counted at a prescribed frequency.
- An “ABC inventory” stratifies the inventoried property either by criticality or dollar value, depending on the control requirements for each stratum. For example, those items with high dollar values are financially more critical than those with low dollar values and require more rigorous controls. Class A items, the most critical, are counted, for example, perhaps six times a year; class C items, the least critical, are counted less frequently. Consideration should also be given to other situations such as items that have a long lead time, items subject to pilferage, and critical or sensitive items.
- A “statistical sampling” inventory, if performed properly at the appropriate statistical risk level, will reduce costs, yet not increase the Government's risk significantly. In reviewing the contractor's use of a sampling-type inventory, the PA should examine the contractor's plan to ensure that it does not exceed the risk the Government is willing to accept, and that it provides for use of valid sampling techniques. If results from the sample inventory reveal that variances exceed a predetermined acceptable variance standard, the contractor must perform a complete inventory to identify and correct overall variances within the inventory control system.

- A final physical inventory, performed at contract completion or termination, additionally identifies item condition and whether the property is required on a current or future contract in order to provide the information that PCOs and PLCOs need in order to support reutilization priorities and avoid unnecessary waste. This is tested under Contract Property Closeout.

Inventorying all the line items (100 percent) of material is a very time consuming and seldom cost effective method of checking for discrepancies within the contractor's property management system. Consequently, two alternative methods addressed above are commonly used in commercial practice: cyclic and sampling inventories.

A combination of stratification and statistical sampling may be useful. For example, the contractor could perform a statistical sampling of low value items and a complete inventory of high value items. Decisions as to types or methods of inventory must be determined at each location. Criteria for segregating items is a matter of judgment and should be determined consistent with the contractor's normal operations. The evaluation of the appropriateness of the method of inventory employed by the contractor should be based on the risk to the Government, the PA's knowledge, and the PA's confidence in the contractor's operation. If inventory methods can be cost-effective without requiring the Government to assume an unreasonable risk, they should be deemed compliant and adequate.

Contractors may use current or emerging technologies such as electronic, optical, electro-magnetic, or similar identification systems, (e.g., bar codes and radio frequency identification), to facilitate the accomplishment and completion of inventories.

In accordance with FAR 52.245-1(f)(1)(iv), contractors are required to perform a physical inventory of all Government property, including Government property in the possession of their subcontractors, upon termination or completion of contracts. Depending on the circumstances, the PA may waive this requirement on a contract-by-contract basis. PAs will coordinate with the cognizant PLCO prior to approving a waiver. PAs will only consider waivers for contractors that currently have approved property management systems, with no outstanding findings of noncompliance in the elements of Records or Physical Inventory. Additional considerations include how recent the last physical inventory was, overall property loss rates, and whether the property is being transferred to a follow-on contract for the same contractor. Additionally, PAs will not waive final inventories of sensitive Government property.

The PA must document any physical inventory waiver with a memorandum for record setting forth the rationale for the waiver. The memorandum must include the signed concurrence of the PA's first level supervisor and will be loaded in the IWMS contract file, as opposed to the CAGE code level file.

PROCEDURES:

In order to be compliant, the contractor's procedures must identify the type or types of physical inventory that will be used, and provide specific directions for how inventories will be performed. For example, if the contractor intends to use a cyclic inventory, the contractor's procedures must address how many items will be counted, how the contractor will determine

which items will be counted, and what the cyclic schedule will be. If there will be a statistical sampling inventory, the contractor's procedures must define the sampling plan and the statistical risk level to be employed, how samples will be selected, how randomness will be ensured, and require the performance of a complete inventory if results from the sample inventory reveal that variances exceed a predetermined acceptable variance standard.

The PA must determine whether the contractor's inventory schedule, frequency, and methodology are appropriate for all types and quantities of Government property. Higher risk property (e.g., sensitive) may need to be inventoried more frequently than lower risk property. Longer inventory cycles, or methods such as stratification, increase the chance that an item may be lost for an extended period before the contractor has visibility of that loss. This may be acceptable with low risk items.

The contractor may incorporate a low risk property practice in accordance with the parameters described in the Low Risk Practice SOP. A low risk practice does not alleviate the contractor's requirement to inventory all Government property. Property accountable to contracts issued by the Missile Defense Agency is not eligible to be managed in accordance with a low risk practice.

The procedures must also identify how the inventory will be performed and describe the count slips, tally sheets, or other means that will be used to record it. They must establish timeframes in which the results of the inventory will be reconciled and posted to the record.

Regardless of the methodologies employed, in order to be compliant the contractor's procedures must include a process for inventorying all Government property regardless of dollar value or risk level.

OBJECTIVE: The PA is responsible for determining whether the contractor is scheduling and performing inventories in accordance with its written property procedures. The PA will also determine whether the frequency and methodology of those inventories is appropriate for the types and quantity of Government property in the contractor's stewardship.

POPULATION: All Government property accountable to contracts administered by, or delegated to, DCMA, and all Government contract property accountable to all DoD contracts, regardless of administration, for contractors with more than \$100M of Government property administered by DCMA.

If a contractor has at least \$100M of Government property accountable to contracts administered by DCMA, and also has sensitive property, then at least two populations will need to be tested. Sensitive property must always be tested separately from non-sensitive property.

SOURCE DOCUMENTS: Contractor count sheets for manual inventories and scanner uploads for automated inventories (e.g., performed utilizing a barcode scanner or updates from an RFID system). Additionally, posting references and dates of transaction in the contractor's records that document inventory by exception.

SUPPORT DOCUMENTS: Inventory schedules, material adjustment records, loss reports, and the contractor's property records.

SAMPLING:

The element of Physical Inventory is tested statistically for standard PMSAs, and is based on a review of the documentation that the contractor uses to document that the contractor performs inventories periodically and in accordance with its procedures. PAs will review the element of Physical Inventory annually for systems with more than \$100M of Government property accountable to contracts administered by DCMA. When performing reviews for those systems, PAs will include all Government property accountable to DoD contracts in their population, regardless of whether DCMA administers those contracts. PAs will use the double sampling plan that provides a 97% confidence of rejecting lots having 10% or more defects. The PA will use either the population of all Government property accountable to contracts administered by DCMA, or all Government property accountable to DoD contracts regardless of administration as appropriate, to ensure that all property is inventoried as scheduled, including items that are inventoried less frequently than annually.

If the contractor also has sensitive property, this means that there will be two populations that are separately tested at a 97% confidence level.

The PA will use judgmental sampling to review source and support documentation in order to test all portions of Physical Inventory when performing a limited PMSA.

TESTING CONSIDERATIONS:

- If the PA finds that the contractor does not have records of all Government property while testing the element of Records, the PA will determine whether gaps in records translates to a noncompliance in the element of Physical Inventory. PAs should consider that an item that is not on record is unlikely to be inventoried. Also, if the contractor does not have a record of an item, the contractor could not have posted the inventory to the record.
- Some larger contractors stratify material inventories and use a statistical sampling inventory for low dollar value, low risk materials. The PA must verify this methodology to be statistically valid during the review of written procedures. If a randomly selected sample falls under this methodology, and as such has not yet been inventoried, the PA will indicate that on the worksheet. If a statistically significant number of samples have not yet been inventoried in accordance with the contractor's procedures, the PA may need to select a purposive sample of items that have been inventoried to provide insight into the contractor's inventory processes.
- The PA will review accountable contracts to ensure that any special provisions related to inventory frequency or methodology are addressed in both the contractor's procedures and implemented practices, (e.g., many MDA and NASA contracts require annual inventories for all types of Government property).
- PAs must review reports of discrepancies to determine whether they are indicative of systemic issues. For example, boxes of a lost materials (vs. individual items) from a single location, may point to pilferage as opposed to reasonable attrition.

- The PA will ensure that the contractor is accurately posting material inventory adjustments to the record within the timeframe described in their written procedures.
- The PA will determine whether the contractor reports inventory results, to include any discrepancies, to the PA within the timeframe described in the contractor’s written procedures.
- A separate population of all sensitive Government property accountable to contracts administered by DCMA will be used to test the adequacy of physical inventories of sensitive items. Sensitive items are tested as a separate population, using a double sampling plan that identifies defects of 10% or more, if they exist, 97% of the time as described in paragraphs 8.3.1.1. and 17.2.3. of Chapter 1.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Describe when the contractor performed the inventory, including a full description of any timeframes for cyclic inventories. Discuss whether the contractor performed all inventories as scheduled.
- Describe the methodology that the contractor used to perform the inventory.
- Address when and how the contractor reconciled the results with the record, and whether the contractor reconciled the results with the record within the required timeframe.
- Discuss whether the contractor posted the results to the record and whether the posting was accomplished within the required timeframe.
- PAs who are performing reviews of property management systems that have more than \$100M in accountable Government property will ensure that the Audit Report identifies that the elements of Records and Physical Inventory include all DoD property, regardless of whether it is accountable to contracts administered by DCMA, and that the populations are tested at a 97% confidence level.

PMSA ELEMENT 10 - SUBCONTRACTOR AWARDS AND FLOW DOWN

REQUIREMENT:

FAR 52.245-1(f)(1):

(v)(A) *Subcontractor Control*. The Contractor shall award subcontracts that clearly identify items to be provided and the extent of any restrictions or limitations on their use. The Contractor shall ensure appropriate flow down of contract terms and conditions (*e.g.*, extent of liability for loss of Government property).

BACKGROUND:

While FAR 52.245-1 requires the appropriate flow down of contract terms and conditions to subcontractors, the prime contractor should not flow down FAR 52.245-1 verbatim. The clause addresses an agreement between the Government and the prime contractor. If contractors incorporate the FAR 52.245-1 Government Property Clause verbatim in their subcontracts, it may lead to confusion because the Government is not a party to the subcontract. In such instances contractors often have, as part of their terms and conditions, clarification that when the term “Government” is used – it will be changed to reflect the contractor’s name to avoid confusion as to the relationship between the parties.

The liability provision the prime contractor flows down depends upon the pricing arrangement of the prime contract and of the subcontract. Specifically, prime contractors should flow down the limited risk of loss in the following types of subcontracts for prime contracts with limited risk of loss:

- Cost-reimbursement contracts.
- Time-and-material contracts.
- Labor-hour contracts.
- Fixed-price contracts awarded on the basis of submission of certified cost or pricing data.
- Negotiated fixed-price contracts awarded on a basis other than submission of certified cost or pricing data (for DoD contracts only).

Prime contractors should flow down the full risk of loss for any types of subcontracts other than those listed above. Prime contractors may also flow down full risk of loss in other circumstances, (i.e., situations that might lead a Government ACO to revoke the Government's assumption of risk of loss for Government property.)

The contract clause at DFARS 252.228-7001, Ground and Flight Risk requires a DoD prime contractor to incorporate the requirements of the clause in all subcontracts. That clause contains a number of exclusions to the Government's assumption of risk.

PAs must be aware of the distinction between subcontractors and alternate sites:

- Subcontractors are separate commercial entities. The Government does not have a contractual relationship with the subcontractors through either the prime or the subcontract. This means there is no "privity of contract" between the Government and the subcontractor. Alternate sites differ from subcontractors in that they are merely physical extensions of the prime contractor, i.e., the alternate location is the same contractor bound by the terms and conditions of the contract.
- The Government does not have access to the subcontractor's premises. By contrast, pursuant to FAR 52.245-1(g)(1), the Government does have access to the all of the contractor's alternate site locations.
- Property in the possession of a subcontractor is managed in accordance with the subcontractor's property management system; the Government does not have direct administration responsibility for the subcontractor. In contrast, property at an alternate site is managed either by the property management system of the "prime" or by the alternate site's own property management system. The Government has direct administration responsibility for both of these property management systems.
- The bottom line is that property at alternate sites is subject to the same contractual requirements as property located in different rooms or buildings at the

contractor's facility. Because of this, the prime PA will include that property and the related transactions in their populations, and it would not be tested under the elements of subcontractor control.

- PAs may delegate support property administration when property is located at alternate sites.

Some contractors transfer Government property to alternate business units via interdivisional work orders, or agreements. Different contractors use different names for these agreements. These agreements, however, are essentially work orders issued by the contractor to one of its corporate divisions, usually issued when the contractor lacks the required technical expertise or manufacturing capability to perform a particular task. These arrangements are thus subcontracts, as they are issued to other corporate entities.

PROCEDURES:

In order to be compliant, the contractor's procedures must direct that subcontracts, to include IDWAs or IOTs, clearly identify all Government property to be provided. Compliant procedures must also address how the contractor will flow down the terms and conditions of FAR 52.245-1 for effective and efficient control of Government property to the subcontract. The contractor may do this by incorporating a standard subcontract or purchase order form into the procedures by reference.

The contractor's procedures must also address the risk of loss the subcontractor will assume under each type of contract.

OBJECTIVE: The PA will determine whether the prime contractor has awarded subcontracts that clearly identify property to be provided, and has ensured proper flow down of contract terms and conditions. The PA will also determine whether the contractor includes appropriate liability for risk of loss in flowing down contract terms and conditions to subcontractors.

POPULATION: All subcontracts, including purchase orders and IDWOs, that have Government property accountable to prime contracts administered by DCMA, whether furnished by the prime contractor or acquired by the subcontractor, that are currently active or that have been closed in the past year.

SOURCE DOCUMENTS: Subcontracts, including IDWAs and IOTs, to which Government property is accountable.

SAMPLING: Test Subcontract Awards and Flow Down statistically for standard PMSAs. The PA may use judgmental sampling for limited PMSAs to review a sample subcontract.

TESTING CONSIDERATIONS:

- Review each subcontract or purchase order sampled to determine:
 - That subcontract instrument clearly identifies the Government property provided.

- That the prime contractor adequately flows down FAR 52.245-1 requirements and contract terms and conditions for effective and efficient control of Government property.
- That the prime contractor incorporates the appropriate risk of loss provision for the type of contract in subcontracts.
- Determine whether the contractor is readily able to identify subcontracts with accountable Government property.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Describe how the prime contractor identifies the property provided under a subcontract.
- Address how the prime contractor flows down contract terms and conditions and whether they are sufficient to provide effective and efficient control of Government property for all of the 22 elements that are applicable to the subcontractor's property management system.
- For the sampled subcontracts, indicate what type of award instrument the prime contractor used, the risk of loss flowed down, and discuss the suitability of the risk of loss flowed down to the subcontractor in view of the type of contract.
- If the contractor is unable to identify which subcontracts have accountable Government property, address how, and whether, they are ensuring that those subcontracts are properly administered.

PMSA ELEMENT 11 - SUBCONTRACTOR REVIEWS

REQUIREMENT:

FAR 52.245-1(f)(1):

(v)(B), *Subcontractor Control*. 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.

BACKGROUND:

The subcontractor must establish and maintain a property management system and procedures necessary for effective and efficient control of Government property. This includes establishing and maintaining records of Government property, performing physical inventories, reporting losses, reporting excess Government property to the prime, and enabling all other aspects of property control as reflected in the 22 elements of property control.

The type of review the contractor performs must be sufficient to determine whether the subcontractor's property management system provides effective and efficient control of Government property. While the contractor is not obligated to use the methods and standards PAs use in performing PMSAs, the reviews should provide the Government a substantially similar confidence level regarding the adequacy of subcontractors' property management systems. Depending on the size, complexity and risk of the subcontractor's property management system, and on the nature of the property in the subcontractor's possession, those reviews may be on-site, requiring entrance and exit conferences, and detailed tests and formal

examination and evaluation of a subcontractor's property management system. For less risky cases of subcontractor possession of Government property, the reviews the prime contractor performs may involve less formal testing methods and techniques. In any event, the reviews must be sufficient to ensure that subcontractors' property management systems are adequately monitored and managed by the prime contractor in order to mitigate Government risk.

Prime contractor documentation supporting the review should be sufficient to prove that the prime contractor conducted an adequate audit, including the tests performed, the information obtained, and the pertinent conclusions reached.

Prime contractors may use risk or other standards to determine when and how to perform a review of their subcontractors, as long as those reviews are sufficient to assess the health of the subcontractor's system, and are performed frequently enough to avoid exposing the Government to unreasonable risk. Generally reviews for low risk subcontractors would be performed at least once every 3 years, as that aligns with the maximum interval that DCMA considers acceptable for low risk prime contractors.

If the prime contractor identifies a deficiency during a subcontractor review, the prime must ensure that the subcontractor accomplishes effective corrective actions in a timely manner.

If a contractor chooses to use a limited audit questionnaire, the questionnaire must require objective data and submission of sample documentation upon which a prime contractor finding may be based. Additionally, the answers the prime contractor requests must adequately address how the subcontractor manages Government property. The use by a prime contractor of survey questionnaires with only "Yes/No" answers would not meet this requirement for a number of reasons. In the absence of objective data and sample documentation, all conclusions are opinion-based, and do not satisfy the FAR 52.245-1 requirements. A subcontractor who is asked on a questionnaire whether they have compliant records, for example, is likely to respond in the affirmative, regardless of whether that statement is accurate, simply because they don't know. Conversely, if the questionnaire requested a sample record, the prime contractor would be able to verify whether that sample record was compliant.

PROCEDURES:

- In order to be compliant, the procedures must fully describe the types of reviews the prime contractor will perform, the methodology, and the standards to be employed. The prime contractor's procedures must also address how the contractor will determine what type of review to perform and how frequently the prime contractor's reviews will be conducted. If the prime contractor uses risk or other standards to determine when and how to perform a review of subcontractors, the prime contractor's procedures must explain the criteria used for the evaluation. Moreover, the prime contractor's procedures must address how the prime contractor will document the reviews, detailing the type of support documentation that it will use.
- The prime contractor's procedures must discuss how the prime contractor will ensure that all applicable elements are included in its subcontractor reviews.
- If a prime contractor uses a questionnaire to conduct its review, in order to protect the interests of the Government, the questionnaire must require data upon which a finding

may be based, and require answers that adequately address how the subcontractor manages Government property. The use of survey questionnaires with “Yes/No” answers that do not incorporate the review of quantitative data does not meet this requirement.

- The prime contractor must establish a process it will employ when its subcontractor reviews reveal deficiencies in order to be compliant with the requirement to initiate and maintain the processes, systems, procedures, records, and methodologies necessary for effective and efficient control of Government property, as described in FAR 52.245-1(b)(1). The process should ensure that subcontractors implement corrective actions that address the root cause of the deficiencies, that the corrective actions are accomplished in a timely manner, and that the subcontractor effectively corrects the shortcoming.

OBJECTIVE: PAs will determine if prime contractors have sufficient control over their subcontractors and are performing periodic reviews to determine the adequacy of the subcontractor’s property management system.

POPULATION: All of the contractor’s subcontractors that possess Government property accountable to prime contracts administered by DCMA.

SOURCE DOCUMENTS: Reports or other documentation of reviews of subcontractors’ property management systems.

SUPPORT DOCUMENTS: Prime contractor’s workpapers supporting reviews of subcontractors’ property management systems.

SAMPLING: Test the element of Subcontractor Reviews statistically for standard PMSAs. The PA may use judgmental sampling for limited PMSAs.

TESTING CONSIDERATIONS:

- The PA will test to determine whether the prime contractor correctly and consistently applied a risk assessment or other methods to determine the type and frequency of subcontractor property management reviews.
- Examine each subcontractor review in the sample, and assess whether the prime contractor performed the review as scheduled, whether the review was sufficient to determine the adequacy of the subcontractor’s property management system, and whether the contractor documented the review with data upon which a valid finding may be based. Ensure that all applicable elements were included in the review.
- If a prime contractor elects to retain some elements of property administration rather than flowing them down to the subcontractor (e.g., the contractor elects to maintain records or perform inventories), the PA will ensure that the prime contractor is performing oversight of those elements that were not retained when reviewing this element. Retained elements of property administration will be tested by the PA as part of the overall populations for those elements. For example, if the prime contractor retains recordkeeping, the PA will include the records located at the subcontractor facility in the overall records population, and will request support property administration assistance to perform physical verification of those items if appropriate.

- Verify that subcontractor corrective actions addressed the root cause of identified deficiencies, that they were accomplished in a timely manner, and that the corrective actions effectively corrected the shortcoming.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Describe the methods the prime contractor used to determine the type and frequency of subcontractor property reviews and address whether the prime contractor reviews were correctly applied.
- For subcontractor reviews discuss:
 - The method(s) the prime contractor used to perform the reviews.
 - Whether the prime contractor performed the reviews as scheduled.
 - Whether all applicable elements were addressed for all reviews.
 - Whether the prime contractor's reviews were sufficient to determine the adequacy of the subcontractor's property management system.
 - Whether the contractor documented the reviews with adequate data to support a determination of subcontractor system compliance.
- Address all deficiencies identified by the prime contractor and explain whether subcontractor corrective actions addressed the root cause of the deficiencies, were accomplished in a timely manner, and effectively corrected any deficiencies.

PMSA ELEMENT 12 - REPORTS

REQUIREMENT:

FAR 52.245-1(f)(1):

(vi). *Reports.* The Contractor shall have a process to create and provide reports of discrepancies, loss of Government property, physical inventory results, audits and self-assessments, corrective actions, and other property-related reports as directed by the Contracting Officer.

BACKGROUND:

Among the reports the contractor may be required to submit are reports of discrepancies; loss; NASA Form 1018; physical inventory results; self assessments; corrective actions; IUID for GFP; Commercial Asset Visibility CAV reports; and other contractually required reports.

PROCEDURES: In order to be compliant, the contractor's procedures must identify all required reports and the contractor's method for compiling the necessary data. Furthermore, the contractor's procedures must address requirements for submission of each report, including when the report is due, and to whom the report should be submitted.

OBJECTIVE: The PA will determine whether the contractor has a process to create and provide accurate and complete reports, and whether the contractor submits the reports within the required timeframe.

POPULATION: PAs must review all contractually-required reports issued by the contractor within the preceding 12 months. Because each type of report has different characteristics and addresses different requirements, the PA must use separate populations for each type of report. For example, if a contractor is reporting receipt of GFP, CSA results, physical inventory results, and NASA 1018s, there would be separate populations and separate worksheets for each type of report. Reports of loss of Government property will be tested under the element of Relief of Stewardship Responsibility and Liability.

SOURCE DOCUMENTS: The contractor’s property management procedures, NASA form 1018, GFP attachments, physical inventory reports, reports of inventory adjustments, CSA reports, CAPs, reports required by Contract Data Requirements Lists (CDRLs), and other property related reports directed by the PCO or ACO.

SUPPORT DOCUMENTS: Supporting documents for this element include: records of Government property, receiving documents, and any other sources of data for the reports.

SAMPLING:

For standard PMSAs, PAs will test the element of Reports by using statistical sampling. PAs will review the contractor’s procedures and will request a listing of all contractually-required reports issued within the preceding 12 months. PAs will select statistical samples from that list for each type of report, and review the reports selected. If PAs have concerns about whether the contractor submitted all required reports, the PA may select a purposive sample from all reports that should have been submitted within the preceding 12 months.

PAs will test reports of GFP to the IUID Registry or GFP Module within PIEE by requesting a population of all GFP accountable to contracts administered by DCMA. The GFP must be accountable to a contract that includes DFARS clause 252.211-7007 “Reporting of Government-Furnished Property to the IUID Registry.” Because this clause requires *all* property received after January 1, 2014, to be reported to the IUID Registry or GFP Module within PIEE (prior to that, only some categories of GFP were required to be reported to the registry), the PA must select a random sample of property for which receipt should have been reported.

When performing a limited PMSA, PAs will use judgmental sampling to test whether the reports are accurate and complete, and whether the contractor submitted the reports by the required date. PAs will request samples of each type of report to review for completeness and compliance. Support for all conclusions must include sample documentation provided by the contractor.

TESTING CONSIDERATIONS:

- PAs will review the contractor’s property management procedures to determine whether the contractor has a process to create and provide reports.
- To confirm that the reports are accurate, PAs will compare the reports to the sources of data and determine and assess how the contractor ensures the sources of data are accurate and complete.

- To determine whether the reports were submitted on time, PAs will compare the submission dates to the date the report was due, and whether the due date was established by contract or by the contractor's procedures.
- Contractors are required to report the results of the physical inventory, including all inventory discrepancies (overages and shortages) to the Government PA. With the exception of 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 PA, and clearly documented in the contractor's written procedures, the contractor will treat all inventory shortages as losses, and must report shortages as such pursuant to FAR 52.245-1(f)(1)(vii).
- Contractor inventory adjustments must also be reported to the PA. While these are not considered losses, the PA needs to have visibility to ensure that the contractor is identifying adjustments in accordance with the procedure described in the contractor's written procedures.
- The PA will determine whether the contractor is reporting significant deficiencies identified during their CSA, as well as any other results in accordance with the contractor's written procedures.
- The PA will determine whether the contractor is providing requested corrective action plans that adequately address root causes and corrective actions, in a timely manner.
- The PA will verify that all samples requiring IUID reporting have been reported to the IUID registry by validating that they are included in the contractor's GFP listing in the GFP Module in PIEE.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Discuss whether the contractor's procedures establish an adequate process to create and provide property-related reports and provide the rationale for your conclusion.
- For each type of report, address whether the reports were accurate and on time, and discuss how the PA arrived at all conclusions.

PMSA ELEMENT 13 - RELIEF OF STEWARDSHIP

REQUIREMENT:

FAR 52.245-1(f)(1):

(vii), *Relief of stewardship responsibility and liability*. The Contractor shall have a process to enable the prompt recognition, investigation, disclosure and reporting of loss of Government property, including losses that occur at subcontractor or alternate site locations.

(A) This process shall include the corrective actions necessary to prevent recurrence.

(B) Unless otherwise directed by the Property Administrator, the Contractor shall investigate and report to the Government all incidents of property loss as soon as the facts become known. Such reports shall, at a minimum, contain the following information:

(1) Date of incident (if known).

(2) The data elements required under paragraph (f)(1)(iii)(A) of this clause.

- (3) Quantity.
- (4) Accountable contract number.
- (5) A statement indicating current or future need.
- (6) Unit acquisition cost, or if applicable, estimated sales proceeds, estimated repair or replacement costs.
- (7) All known interests in commingled material of which includes Government material.
- (8) Cause and corrective action taken or to be taken to prevent recurrence.
- (9) A statement that the Government will receive compensation covering the loss of Government property, in the event the Contractor was or will be reimbursed or compensated.
- (10) Copies of all supporting documentation.
- (11) Last known location.
- (12) A statement that the property did or did not contain sensitive, export controlled, hazardous, or toxic material, and that the appropriate agencies and authorities were notified.

DFARS 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 PA. 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.

BACKGROUND:

- FAR 52.245-1(f)(1)(vii)(B) grants the PA some discretion with regard to *when* contractors must report a property loss, providing, “Unless otherwise directed by the PA, the Contractor shall investigate and report to the Government all incidents of property loss as soon as the facts become known.”
- With the exception of reasonable inventory adjustments of material, PAs may not excuse contractors from reporting property losses, regardless of the value of the item. Otherwise, the contractor will not be relieved of stewardship for such items.
- As agreed to between the PA and contractor, and as documented in the contractor’s procedures, contractor reporting may be accomplished on a regular basis, no less frequently than quarterly. PAs may consider low risk property as a factor in determining whether to allow the contractor to report a loss later than “as soon as the facts become known.” The information required by FAR 52.245-1(f)(1)(vii)(B)(1-12) is still required, notwithstanding the frequency of reporting.
- Ultimately, the most important consideration the PA will take account of in deciding whether to allow a contractor to report losses later than as soon as the facts become known must always be whether it is in the best interest of the Government to do so.
- Losses determined to be subject to the provisions of DFARS 252.228-7001, Ground and Flight Risk, are also subject to review under this element.

- Overconsumption of material, whether discovered during a consumption analysis or otherwise, is not a loss. If the PA determines that the contractor has overconsumed Government owned, contractor-acquired material, the PA will report this to the ACO for potential “Disallowance of the Reimbursement of Cost” in accordance with FAR subpart 42.8. If the material that the contractor overconsumed was Government furnished, the PA will notify the ACO who may seek some form of consideration to compensate the Government.
- Some contractors use an indication in their records for “missing” property while they investigate to determine whether the property is really lost during inventory reconciliation. This process must be clearly defined in the contractor’s procedures, and must include a timeframe by which losses will be recognized if the property is not found after a reasonable search. These items should be included in the population. Limiting the population to only reported losses leads to the risk of overlooking losses the contractor identified but failed to report. Such items are particularly relevant when testing whether the contractor promptly investigates and discloses losses.
- Loss of sensitive property must always be reported as soon as the contractor identifies the potential loss.

PROCEDURES

- In order to be compliant, the contractor’s procedures must enable the following:
 - Prompt contractor recognition of property losses.
 - Prompt contractor investigation of property losses, including the root cause of the loss.
 - Prompt disclosure of property losses by internal notification of any loss to the responsible contractor property control organization and to the Government PA.
 - Prompt contractor reporting of property loss to the Government PA.
- FAR 52.245-1(f)(1)(vii)(B) requires the contractor to “investigate and report to the Government all incidents of property loss as soon as the facts become known” unless otherwise directed by the PA. It is good practice for the contractor to disclose the loss by informally notifying the PA shortly after they become aware of a loss, and PAs should encourage contractors to include that initial notification in their written procedures.
- “Prompt” must be defined in the contractor’s procedures as an objective measurable timeframe.
- The contractor’s procedures must address the contractor’s corrective action process, describing how the process identifies, develops, implements, tracks, and evaluates corrective actions to ensure similar losses do not occur in the future.

OBJECTIVE: The PA will determine whether the contractor has a process to enable the prompt recognition, investigation, disclosure, and reporting of loss of Government property, including the corrective actions necessary to prevent recurrence, whether the contractor investigated and reported to the Government all incidents of property loss as soon as the facts became known, and whether the reports, at a minimum, contained the information set forth at 52.245-1(f)(1)(vii)(1-12).

POPULATION: All losses of Government property accountable to contracts administered by DCMA within the preceding 12 months.

SOURCE DOCUMENTS: Property loss reports.

SUPPORT DOCUMENTS: Supporting documents for this element include: records of Government property, acquisition documents (to support the data element of unit acquisition cost), police reports, insurance company reports and liability determinations, shipping, and any other sources of data for the reports.

SAMPLING: For standard PMSAs, PAs will select a statistical sample from all contractor reports or other indications of loss of Government property in the Property Loss eTool or Property Loss capability within the GFP Module application in PIEE submitted within the preceding 12 months. For limited PMSAs, PAs will perform a judgmental review by assessing the compliance of a loss report that was submitted within the preceding 12 months.

TESTING CONSIDERATIONS:

PAs will review the contractor's property management procedures to determine whether the contractor has a process to enable the prompt recognition, investigation, disclosure, and reporting of loss of Government property, including the corrective actions necessary to prevent recurrence.

The PA will review each report to ensure that the report contains all the information required by FAR 52.245-1(f)(1)(vii)(B)(1 through 12).

For each item sampled:

- Compare the date the contractor recognized the loss with the dates the contractor began and completed its investigation to determine whether the contractor promptly investigated the loss.
- The PA will determine whether the contractor promptly internally disclosed a property loss by comparing the date the contractor recognized the loss with the date the responsible contractor property control organization was notified of the loss.
- Compare the date the contractor recognized the loss with the date the contractor reported the loss, and these dates to the date the contractor submitted its report to the Government PA. The PA will consider this information to determine if the contractor promptly reported the property loss to the Government PA.
- Assess whether the contractor's initial loss report was accurate and included all required data elements. If the loss report was rejected for re-work, assess whether the contractor has a pattern submitting loss reports with similar incomplete or inaccurate data.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Discuss whether the contractor's procedures establish a process to enable the prompt recognition, investigation, disclosure, and reporting of loss of Government property, including the corrective actions necessary to prevent recurrence. Address whether the contractor's procedures adequately define "prompt" as an objective measurable timeframe.
- Evaluate whether the contractor's recognition, investigation, disclosure and reporting of the sampled losses of Government property was prompt as defined in its procedures.

- For the samples, address whether the contractor’s initial report included all of the information required by FAR 52.245-1 (f)(1)(vii)(B)(1 through 12).
- If, for example, the contractor is allowed to report a loss on a regular basis, such as monthly or quarterly rather than “as soon as the facts become known,” address whether the contractor reported those losses in a timely manner and whether there were trends indicating an undue increase in the amount of property loss or a deficiency in the contractor’s property management system.

PMSA ELEMENT 14 - UTILIZATION

REQUIREMENT:

FAR 52.245-1(f)(1)(viii)(A), *Utilizing Government property*: “The Contractor shall utilize... Government Property only as authorized under this contract.”

BACKGROUND:

Generally, unless otherwise authorized by the contract, contractors may only use Government property in the performance of the contract to which the property is accountable. Use of such Government property for any other purpose, whether Government or commercial, is prohibited unless the contractor obtains written approval from the PCO with cognizance of the contract to which the property is accountable.

There is no contractual requirement for the contractor to establish and maintain utilization records. However, if the contractor’s procedures provide for the establishment and maintenance of utilization records, the PA may identify incomplete, inaccurate, or nonexistent utilization records as non-compliances that require correction. Such issues taken alone, however, normally do not materially affect the ability of DoD officials to rely upon information produced by the system.

PROCEDURES: In order to be compliant, the contractor’s procedures must describe the process the contractor will use to ensure that it will use Government property only as authorized by contract. If the contractor will do this by establishing utilization records, the contractor’s procedures will fully describe the format of the records and the method of maintaining them.

OBJECTIVE: The PA will determine whether the contractor uses Government property only as authorized by the contract to which the property is accountable.

POPULATION: All Government owned equipment, special tooling, and special test equipment on-hand within the preceding 12 months accountable to contracts administered by DCMA. The element of Utilization does not apply to material.

SOURCE DOCUMENTS: Utilization documentation, to include utilization reviews, and written approvals from the PCO for use of property on work other than the contract to which the property is accountable.

SUPPORT DOCUMENTS: Supporting documents for this element includes: records of Government property, and any other sources of data for utilization.

SAMPLING:

For standard PMSAs, PAs will test the element of Utilization by selecting a statistical sample from all Government owned equipment, special tooling, and special test equipment on-hand within the preceding 12 months that is accountable to contracts administered by DCMA.

The PA will use judgmental sampling to test Utilization when performing a limited PMSA. PAs will request sample utilization support documentation. Support for all conclusions must include sample documentation provided by the contractor.

TESTING CONSIDERATIONS:

- The PA will review contractor utilization records, if they exist, for the items sampled, and compare the number of the contract to which the item is accountable to the contract number on which it was used. The PA will then determine whether the contractor is using the property only as authorized by the contract to which it is accountable, or as approved by the PCO.
- In the absence of utilization records or logs, PAs may use contractor utilization reviews as documentation that the contractor has a process to assess continued usage and future need for the property.
- It is also good practice for the PA to perform a physical review of each item sampled to ascertain the current use of the item. Depending on the contractor's process, there may be a work or task order identifying the contract number associated with the task on which the contractor has used the property. PAs may also ask the employee using the item to identify the contract under which the property is being used.
- If any item sampled has been used other than on the contract to which it accountable, PAs will check for contractual authorization or the written consent of the PCO.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Explain whether the contractor is using the property, and whether that use is as authorized by the contract to which the property is accountable.
- Describe any property use on other contracts, addressing whether such use is authorized by the contract or by written approval of the PCO. Identify the contractual provision or the document in which the PCO provided authorization approval.
- If there is unauthorized property use on other contracts, explain the nature of that property use, whether the contractor used the property to perform work on other Government contracts or commercial work, how much of the property was used, and if there are any facts concerning that unauthorized use the PA could not verify.

PMSA ELEMENT 15 – DECLARATION OF EXCESS

REQUIREMENT:

FAR 52.245-1(f)(1)(viii)(A), *Utilizing Government property*: “The Contractor shall promptly disclose and report Government property in its possession that is excess to contract performance.”

BACKGROUND:

Retention of unneeded Government property adds costs to the contract, exposes the Government to unnecessary risk of loss, and prevents effective reutilization of that property. Potential additional costs for retained property include costs to store the property, costs to maintain complete, current, and auditable property records, costs to perform and report periodic inventories, and costs to maintain the property in usable condition.

FAR 52.245-1(j)(3) requires that excess property be submitted on an inventory disposal schedule no later than 30 days after the contractor determines the property to be excess, or 60 days after completion of contract deliveries or performance.

While the elements of Declaration of Excess, Disposal, and Property Closeout are related, the populations used to test each are different because PAs are assessing separate actions. When testing the element of Declaration of Excess, PAs are determining whether the contractor is effectively identifying excess property so that it can be reported as such. The PA is tasked with determining whether all property that should have been declared as excess has been declared as excess. When testing the element of Disposal, the PA is determining whether property that the contractor reported as excess, and submitted to plant clearance, was disposed of in a timely manner. Incorrectly using a Disposal population to test Declaration of Excess excludes all items that are excess to contract needs that the contractor may have failed to declare as excess, as well as all excess items for which the contractor was relieved of stewardship through other means (e.g., transferred to another contract, returned to the buying activity.) While the declaration and disposal of excess property are often required steps for a contractor performing property closeout, the element of Property Closeout covers other actions as well (i.e., final physical inventory performance, reporting, investigating, and securing closure of all loss cases, and reporting the contract property closeout to the PA.) Because of this, the population for the element of Property Closeout is the contracts that are past their FDD. When testing Property Closeout, the PA is determining whether all closeout actions have been performed.

PROCEDURES: In order to be compliant, the contractor’s procedures must address how the contractor will promptly identify property that is excess to contractual requirements. Typically, identification of excess property will involve some type of review of property that the contractor does not currently use. The contractor will then need to determine whether to initiate a disposal action or to justify continued retention of the property that is not in current use. The contractor’s procedures must detail the methodology and frequency of such a review and describe how the review of excess property will be documented. The PA must ensure that the contractor’s intervals of review are frequent enough to allow for maximum reutilization and reduction of contact costs.

OBJECTIVE: The PA will determine whether the contractor promptly discloses and reports Government property in its possession that is excess to contract performance.

POPULATION: All excess Government property in the contractor's possession for the past 12 months. Because it would be difficult to identify such property when performing a PMSA, the population should also include:

- All Government property accountable to contracts that are past their final delivery date.
- All Government property that has not had any usage transactions in the past 12 months (or other length of time that may be appropriate for the contract).
 - For material, this would mean no issuance.
 - For special tooling, special test equipment, and equipment, this would mean no known usage.

SOURCE DOCUMENTS: Contractor's records of Government property.

SUPPORT DOCUMENTS: Bills of material, schematics, drawings, etc., letters or contract modifications from PCOs authorizing property retention.

SAMPLING:

For standard PMSAs, the PA will test the element of Declaration of Excess by selecting a statistical sample from all Government owned property meeting the conditions identified above that was on-hand within the preceding 12 months and accountable to contracts administered by DCMA.

The PA will use judgmental sampling to test Declaration of Excess when performing a limited PMSA. PAs will request sample documentation of reviews to identify excess for the items sampled, if available. At a minimum, the PA will identify whether there is property accountable to contracts that are past their final delivery dates. The PA must support all conclusions with sample documentation provided by the contractor.

TESTING CONSIDERATIONS:

- Because the contractor is required to promptly disclose and report excess Government property, PAs will, to the extent they are able, address when each item became excess, when the contractor disclosed the property as excess, and when the contractor reported the Government property as excess.
- Sometimes the buying office, or someone from DCMA, will provide the contractor with written authorization to retain excess property. Such authorizations are inappropriate and are, in effect, unfunded storage agreements. However, PAs must be aware that contractors who receive written authorizations to retain excess property may be performing in accordance with direction from someone with apparent authority to modify the terms and conditions of the contract. The PA will engage with the ACO or PCO to ensure a warranted contracting officer is made aware of direction to the contractor to retain the property.

- Determine whether the contractor has documentation supporting retention on-hand at the time of the PMSA. If a contractor has to ask the PCO for permission to retain excess property after the sample was selected, it means that the contractor retained property without proper authorization, and the PA will identify the noncompliance.
- A separate population of all excess sensitive Government property accountable to contracts administered by DCMA in the contractor's possession for the past 12 months will be used to test the adequacy of declaration of excess of sensitive items. Because it would be difficult to identify such property when performing a PMSA, the population should also include:
 - All sensitive Government property accountable to contracts that are past their final delivery date.
 - All sensitive Government property that has not had any usage transactions in the past 12 months (or other length of time that may be appropriate for the contract).
 - For material, this would mean no issuance.
 - For special tooling, special test equipment, and equipment, this would mean no usage.
- Sensitive items are tested as a separate population, using a double sampling plan that identifies defects of 10% or more, if they exist, 97% of the time as described in paragraphs 8.3.1.1. and 17.2.3. of Chapter 1.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Discuss whether the contractor disclosed and reported excess Government property promptly. The PA will measure the promptness of those two actions in relation to when the property became excess.
- Describe the process the contractor uses to identify and disclose excess property and indicate whether the contractor implemented that process as set forth in its procedures.

PMSA ELEMENT 16 - CONSUMPTION

REQUIREMENT:

FAR 52.245-1(f)(1)(viii)(A), Utilizing Government property: “The Contractor shall...consume... Government Property only as authorized under this contract.”

BACKGROUND:

The FAR does not define the word “consumption.” For property management purposes, consumption is the process of incorporating material into a higher-level assembly or end item, or otherwise expending it in the performance of a contract. “Consumption” applies only to material.

PAs will evaluate the adequacy of the contractor's consumption of Government material by performing a consumption analysis, which is perhaps the most difficult and challenging aspect of a PMSA. Stated as simply as possible, a consumption analysis is a matter of tracing what became of Government material that came into the contractor's possession, and determining whether the material is consumed consistent with contract requirements, with reasonable allowances for scrap and salvage. To perform this analysis, the PA will subtract the

balance on-hand from the quantity of Government property the contractor received, and then determine what happened to the difference. That is, how much Government property was incorporated into the end item, how much is still in WIP, and how much was disposed of in accordance with the contractor's scrap procedures.

The adequacy and accuracy of the contractor's records are critical as they will reflect the quantities of property received, issued, and on-hand.

When assessing the quantities of material required for contract performance, PAs must take into consideration the type of contract involved. Production contracts may clearly spell out consumption rates, including scrap. Alternatively, that information may be in the contractor's material requirements lists, bills of materials, and master production schedules.

Material requirements for research and development contracts may be vague and driven largely by an engineer's individual program requirements, interim engineering drawings, a proof of concept, or testing parameters. The PA may have to interview the engineer, scientist, or principal investigator who requisitioned material under the contract, soliciting information through an interview process as to the need for the material, the quantity needed, evidence of actual consumption (i.e., examining the item created where possible), and determining whether there is any excess property. The PA must take care to ensure that materials not consumed under the contract by the engineer or scientist or principal investigator are not stashed away in a desk drawer or cabinet, as opposed to the contractor returning the property to stores for proper management. The decision of whether the consumption was reasonable depends primarily on the PA's judgment supported by sufficient investigation to reach a decision. PAs may use additional discussion with other DCMA functional specialists, such as Engineers and Industrial Specialists to confirm conclusions.

For repair contracts, the contract frequently identifies material requirements in repair analysis documents. The PA needs to be aware that work that is out of scope of the contract may arise during the performance of the repair or overhaul. This out-of-scope work may require the acquisition of CAP material under a cost reimbursement contract line item number (CLIN). Overhaul and maintenance contracts may set forth consumption allowances in the terms and conditions.

Cost-reimbursement type contracts or contracts with progress payments generally have a requirement for an MMAS. See DFARS 242.7200 for the prescription to use DFARS 252.242-7004 for the specific contractor and Government requirements. The MMAS requires the use of an accounting system to manage the material. Material under the MMAS includes CAP under cost reimbursement contracts, progress payments inventory under fixed-price contracts with financing, as well as the contractor's own material – all of which may be commingled. Contractors may credit and debit this material between contracts (Government and commercial) on a daily basis. Therefore, if the contractor has an MMAS, the PA must use extreme caution in ensuring to test only material of the CAP variety, ensure the CAP material is allocated to a specific Government contract, and trace that material as it is consumed. In some cases, CAP under an MMAS system may not be allocated to a DCMA-administered contract until it is needed for issuance. In these circumstances, the PA may need to work backward to perform a

consumption review by selecting a deliverable end item, and determining what material was issued to create it.

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).

Unreasonable consumption of Government materials is not considered loss of Government property under the risk-of-loss provisions. In cost reimbursement-type contracts where the PA identifies unreasonable consumption, the PA will forward the case to the ACO recommending cost disallowance action under the FAR Part 31 cost principles. In fixed-priced contracts where unreasonable consumption of GFM is found, the PA will forward the case to the ACO, and the ACO will determine whether or not consideration should be requested from the contractor.

PROCEDURES:

The contractor's procedures need to describe how they will ensure that material is consumed only as authorized under the contract. This may entail the creation of specific consumption records. For a smaller R&D company, this may be as simple as maintaining a log book at the scientist's workbench detailing what they have used, and how they have used it. In other cases, the contractor's official property record data elements for disposition and posting reference and date of transaction may suffice.

If the contractor's procedures provide for the establishment and maintenance of consumption records above and beyond what is maintained within the contractor's general property records, the PA will identify incomplete, inaccurate, or nonexistent consumption records as non-compliances that require correction. Because this would constitute a noncompliance with the contractor's procedures, rather than a noncompliance with paragraph (f) of the property clause, the PA may not be identify the issue as shortcoming in the property management system that materially affects the ability of DoD officials to rely upon information produced by the system that is needed for management purposes.

OBJECTIVE: The PA will determine whether the contractor consumes Government property only as authorized by the contract to which it is accountable and whether that consumption is reasonable.

POPULATION: All Government owned material accountable to contracts administered by, or delegated to, DCMA that was issued for use within the past 12 months.

SUPPORT DOCUMENTS: Bills of material, material requirement lists, issue documents, contract statements of work (For R&D), proofs of concept (Also for R&D), repair evaluation documents, blueprints, etc.

SAMPLING:

PAs will test the element of Consumption statistically for standard PMSAs using a sample selected from the contractor's records.

The PA will use judgmental sampling to test Consumption when performing a limited PMSA. The PA must support all conclusions with sample documentation provided by the contractor.

TESTING CONSIDERATIONS:

- The PA will 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 ensure that material is consumed in reasonable quantities.
- For each sample item determine:
 - The quantity needed as evidenced by the material requirements list (MRL), bill of materials (BOM), or other supporting document.
 - The total quantity issued of each line item of material.
 - Any scrap for each line item of material.
 - Any loss for each line item of material.
 - The total quantity of higher-level assembly or end item delivered.
- The PA will select a separate population for sensitive material that is accountable to contracts administered by DCMA to determine the adequacy of consumption of those items.
- Sensitive items are tested using a double sampling plan that identifies defects of 10% or more, if they exist, 97% of the time.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- In the Audit Report, the PA will explain the consumption analysis, addressing the source used for each data element (e.g., the total quantity needed was computed by multiplying the quantity needed per end item as identified in the BOM by the total number of end items) for each item sampled.
- PAs will also describe the rationale used to determine whether the consumption of the selected samples was reasonable.

PMSA ELEMENT 17 - MOVEMENT

REQUIREMENT:

FAR 52.245-1(f)(1)(viii)(A), *Utilizing Government property*: “The Contractor shall...move... Government Property only as authorized under this contract.”

BACKGROUND:

- Contractors are required to manage the movement of Government property to ensure the physical protection of the property.
- Contractors routinely transport property from receiving areas to storage facilities, to manufacturing areas, or other locations. The contractor may use a variety of processes to transport Government property. Movement may require the use of material handling equipment such as forklifts, cranes, hoists, positioning equipment, tugs, motor vehicles, and other equipment.

PROCEDURES:

In order to be considered compliant, the contractor's procedures must establish processes to minimize or prevent possible damage to property. Where appropriate, the contractor's procedures must also address controls for the proper operation of material handling equipment including roles and responsibilities of authorized operators.

Compliant procedures must ensure that accurate location changes are promptly posted to the record any time Government property is moved unless that property is managed using the low risk practice methodology as described in the DCMA Low Risk Practice SOP.

There are some contractors that do not create separate movement documentation for internal moves, and instead document those move solely by updating the location data element in the property record. A contractor that uses this methodology would need to clearly describe this process in the written procedures in order to be compliant.

OBJECTIVE: The PA is responsible for determining whether the contractor performs movement of Government property under proper authority, whether appropriate support documentation is prepared and maintained, and that location changes are promptly recorded by the contractor. Additionally, the PA will determine whether the contractor adequately protects Government property during movement, and whether the contractor promptly reported any losses resulting from inadequate protection.

POPULATION:

The population consists of all moves of Government property, both internal and external to the contractor's facility, performed within the past 12 months.

For those contractors that do not use separate movement documentation for internal property moves, and update the location data element in the property record to document those moves, the PA will test property movement concurrently with Records, putting emphasis on location accuracy. In such a case, the PA will indicate in the Audit Report that the sample used to test Records will also be used to test Movement because the contractor cannot provide a separate property movement population. In the findings and observations section of the Audit Report, the PA will address location accuracy of the contractor's records. Even if the contractor does not separately document internal property moves, external property moves would have shipping documentation that the PA can sample and test. If a contractor has both internal and external moves, but the contractor does not separately document internal property moves, the PA will identify a separate population and sample for those external movement transactions, and address them separately within the Audit Report.

SOURCE DOCUMENTS: Source documents include location change orders, move tickets, custodial transfer documents, maintenance work orders, issue slips, shipping tickets, DD1149s, DD1348s, Bills of Lading, and other similar documents.

SUPPORT DOCUMENTS: Support documents include the contractor's Government property records and other documents generated for the movement of property.

SAMPLING:

The element of Movement is tested statistically by PAs for standard PMSAs using the contractor’s documentation. This documentation is used to verify that the contractor performs movement in accordance with the contractor’s procedures.

The PA will use judgmental sampling to test Movement when performing a limited PMSA. Support for all conclusions must include sample documentation provided by the contractor.

TESTING CONSIDERATIONS:

- Determine whether movement is performed in accordance with the contractor’s written procedures.
- Ensure that all information required in order to update the Government property record is included in the contractor’s movement documentation.
- Determine whether the contractor is updating records of movement in accordance with the timeframes identified in the contractor’s written procedures.
- Determine whether there were any losses that occurred due to the contractor’s movement practices, and if so, whether those losses were reported to the PA.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Determine and discuss whether the movement the sampled items was performed under proper authority and whether appropriate support documentation was prepared and maintained.
- Address whether the contractor updated the Government property record to reflect the location change within the timeframes established in the procedures.
- Address whether there were any losses resulting from inadequate protection of property.

PMSA ELEMENT 18 - STORAGE

REQUIREMENT:

FAR 52.245-1(f)(1)(viii)(A), *Utilizing Government property*: “The Contractor shall...store Government Property only as authorized under this contract.”

BACKGROUND:

Contractors are required to provide protection for Government property when it is in storage. That protection includes, but is not limited to, physical security, control of access, and storage and handling processes that minimize potential for breakage or damage from heat, humidity, static, or other causes.

PAs must be aware of outside storage areas and will ensure the contractor applies proper protection to property while in outside storage.

PROCEDURES:

In order to be compliant, the contractor's procedures must identify how Government property is stored when not in use. The procedures will also address how the contractor will limit access to the property, as well as protect the property from unauthorized removal, pilferage, and theft. The procedures may also include direction for protection from water damage, insect and rodent infestation, or from deterioration because of dust, temperature, static electricity, and humidity, where applicable.

Compliant procedures will also address any special protection needed for sensitive property such as arms, ammunition, and explosives, hazardous materials, shelf-life items, classified property, etc.

OBJECTIVE: The PA is responsible for determining whether the contractor stores Government property appropriately to ensure adequate protection and preservation. This includes proper protection from unauthorized removal, pilferage, and theft; protection from water damage, insect and rodent infestation, or from deterioration because of dust, temperature, static electricity, and humidity, where applicable.

POPULATION: All locations where Government property is stored when not in use.

SOURCE DOCUMENTS: There are no source documents for this element.

SUPPORT DOCUMENTS: Any approvals of special storage provided by buying offices and/or outside agencies (e.g., for AA&E or for classified storage).

SAMPLING: Test the element of Storage judgmentally for both standard and limited PMSAs. Support for conclusions of storage adequacy when the PA has not performed a site visit consists of photographs provided by the contractor that show all of the locations where Government property is stored when not in use, and input from other DCMA functional specialists who make site visits (e.g., QARs, Safety, Plant Clearance). If the contractor has sensitive property, the PA must review all storage locations that house the sensitive property on-site.

TESTING CONSIDERATIONS:

- Determine whether Government property that is in storage is adequately protected against unauthorized removal, to include pilferage and theft.
- Review how the contractor controls access to stored property in order to ensure that only authorized employees have access.
- Where applicable, determine whether the contractor adequately protects property from damage caused by water, rodents and insects, dust, temperature changes, static electricity, humidity, and other applicable environmental factors.
- Determine whether the contractor effectively implements any special protections that may be required for sensitive, hazardous, or classified property.
- Assess whether contractor storage areas are neat, clean, and well-organized.
- Verify whether the contractor's physical security for stored Government property is adequate for the type of property.

- If the contractor utilizes outside storage, determine whether the contractor uses a type of outdoor storage appropriate for the stored type of property, and that the contractor has put sufficient security measures in place.
- Ensure that the contractor's storage areas for Government property awaiting plant clearance processing are appropriate for assuring the property's physical safety and preserving the property's suitability for use.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Describe how the contractor protects the Government property against unauthorized removal, describing the security measures employed, and assessing their appropriateness and effectiveness.
- State how the contractor controls access to Government property that is not in use, and ensures that only authorized employees have access.
- Where protection from damage caused by water, rodents and insects, dust, temperature changes, static electricity, humidity, and other applicable environmental factors is applicable, detail the protection the contractor provides and indicate whether it is effective, providing the rationale for your conclusions.
- Describe any special protections the contractor uses as part of storage of sensitive, hazardous, or classified property, and indicate whether the contractor effectively implements the protections.
- Report whether storage areas are neat, clean, and well-organized.
- Summarize the physical security the contractor uses for Government property that is not in use, and explain whether the security measures are adequate.
- Describe any Government property located outside and address whether it is appropriate for that type of property to be stored outside, and whether the contractor has put sufficient security measures in place.
- Explain whether the contractor has appropriate protections for Government property awaiting plant clearance processing to assure the property's physical safety, and preserve the property's suitability for use.

PMSA ELEMENT 19 – STORAGE COMMINGLING

REQUIREMENT:

FAR 52.245-1(f)(1):

(viii)(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.

BACKGROUND:

- Commingling means the storage of Government materials with contractor materials in a single location, mixed so the property loses the identification of the property's ownership. For example, if 100 washers with the same part number, 50 belonging to the Government and 50 contractor-owned, are stored in the same bin, and the contractor no longer

separately identifies ownership of the washers, the contractor has commingled the washers.

- PAs must distinguish commingling from co-location of property. Co-location occurs when Government-owned material is stored in the same location with contractor-owned material, but the property does not lose its identity with regard to ownership due to the contractor's identification, marking, and recording of the Government property. Contractors are permitted to co-locate Government material with contractor owned material. In the example above, if the contractor segregated the 50 washers owned by the Government and the 50 contractor-owned washers in separate bags, with each bag clearly identified and marked, one bag as Government property, and one as contractor-owned property, and stored the bags in the same bin, the property would be considered co-located.
- While an MMAS allows commingling of Government-owned material with contractor material, contractors may not include Government-furnished material (GFM) in a MMAS except for production planning purposes (e.g., GFM is recorded in the same computerized database as MMAS materials, but is not available for transfers between contracts like the contractor acquired material in the MMAS system.) Contractors may not commingle GFM with contractor material in a MMAS.
- The issue with commingling is that property can lose its identity as Government property, thereby potentially affecting consumption rates, and increasing the potential for unauthorized use.

PROCEDURES:

The PA will ensure that the contractor's procedures specifically state that the contractor will not commingle Government property with contractor property, absent authorization. The procedures must address any exception that stems from contract or PA authorization to commingle Government material with contractor material.

The contractor's procedures must provide sufficient detail to describe how the contractor will avoid unauthorized commingling of property.

If the contractor will commingle Government material with contractor material, the contractor's procedures must address the authorizations required, and the issuance, use, and identification controls adequate to prevent loss in excess of that which would be reasonable if the contractor did not commingle the property, and kept it segregated. The contractor also must address in the procedures how the contractor will equitably apportion any inventory loss.

OBJECTIVE: The PA will determine whether the contractor is commingling Government material with contractor material. If the contractor is commingling Government material with contractor material, the PA will determine whether the contract or PA authorized the commingling.

POPULATION: All Government-owned material that is accountable to contracts administered by DCMA.

SOURCE DOCUMENTS: There are no source documents for this element.

SUPPORT DOCUMENTS: Any contractual provisions authorizing commingling or any approvals of commingling provided by the PA.

SAMPLING:

The element of Storage Commingling is tested judgmentally for standard reviews, and is based on observations made by the PA while reviewing other elements, to include Records, Identification, and Storage.

The PA will also use judgmental sampling when reviewing the contractor's written responses for limited PMSAs. The PA may support conclusions of storage adequacy when the PA has not performed a site visit through the following: photographs provided by the contractor, evidence from the contractor or Government officials that material is appropriately identified, and feedback from other DCMA functional specialists who perform contractor site visits (e.g., QARs, Safety, and PLCO).

TESTING CONSIDERATIONS:

- PAs will review this element by visually inspecting those areas where Government material is stored.
- If the contractor is commingling materials, the PA will determine whether the contractor has the required authorization to do so.
- If the contractor is commingling property, and has authorization to do so, describe the nature of that authorization. Address whether the authorization is specific to a contract or group of contracts, and whether that authorization has any further limitations.
- Describe how the contractor addresses commingling, and any authorization to do so, within the contractor's written procedures. If the contractor has authorization to commingle property, determine whether the contractor follows its procedures addressing the commingling.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Describe how judgmentally sampled items of property are stored by the contractor in sufficient detail to establish whether the property is segregated or commingled.
- If Government-owned material is commingled with contractor-owned material, the PA must address whether the contract or PA authorizes the commingling, and whether the materials is commingled as part of an MMAS. Any PA approvals will be specifically identified with an attached copy documenting the approval. PAs will identify any contractual provision authorizing commingling.

PMSA ELEMENT 20 - MAINTENANCE

REQUIREMENT:

FAR 52.245-1(f)(1):

(ix), *Maintenance*. The Contractor shall properly maintain Government property. The Contractor's maintenance program shall enable the identification, disclosure, and

performance of normal and routine preventative maintenance and repair. The Contractor shall disclose and report to the Property Administrator the need for replacement and/or capital rehabilitation.

BACKGROUND:

- Preventative maintenance is any regularly scheduled inspection, calibration, and maintenance performed to sustain the property’s suitability for its intended use, and to detect and correct minor deficiencies before they result in damage to property. Preventative maintenance could include such tasks as lubrication, servicing, inspection, and normal parts replacement. These actions will forestall excessive property wear, malfunction, or deterioration, and ensure effective use of the property for its designated purpose. The contractor may perform maintenance at production or non-production facilities.
- Capital rehabilitation is any work the contractor performs or commissions outside of the normal maintenance obligation, i.e., preventative and corrective maintenance. If routine and preventative maintenance is not sufficient to sustain a property item’s suitability for the property’s intended use, the contractor should notify the PA promptly and request direction regarding repair or replacement, or other actions directed by the Government. Note that the performance of capital rehabilitation requires PCO or ACO authorization.
- Special contract terms and conditions may require a higher level of maintenance or special maintenance provisions. The PA will review contracts for any special provisions.

PROCEDURES:

In order to be compliant, the contractor’s procedures must describe the process for identifying Government property that requires maintenance. Identification of maintenance requirements should generally be accomplished upon initial receipt of the property. The procedures should describe how the contractor will evaluate each item to determine whether the item requires normal and routine preventative maintenance. If the property requires maintenance, the procedures will specify the type of routine and preventative maintenance required. The contractor’s procedures must also explain how the contractor will document the results of its evaluation of property requiring routine preventative maintenance.

The PA will determine whether the contractor’s maintenance procedures address how the contractor will ensure that Government property is returned to the Government in the same; or better condition, less normal wear and tear. Maintenance control processes addressed in the contractor’s written procedures may include but are not limited to:

- Planning maintenance and inspection.
- Scheduling work.
- Initiating work orders.
- Controlling maintenance performance.
- Ensuring field reporting (completed work orders returned noting work accomplished and providing remarks on equipment status).
- Work order status.

- Backlog.
- Records. Records will include complete historical data on each item of property; i.e., all maintenance efforts, cost, accumulative cost (parts and labor), and documentation of repetitive failures.
- Maintenance analysis.
- Reporting.

Compliant contractor procedures should include a discussion of the contractor's preventative maintenance program. These procedures may include such responsibilities as lubrication, servicing, inspection, and normal parts replacement to forestall excessive wear, malfunction, or deterioration. The contractor may perform the maintenance activities at production or non-production facilities, but must ensure maintenance promotes effective use of the property for its designated purpose. The contractor's preventative maintenance program should also identify any special maintenance requirements. The contractor's procedures should ensure that the contractor performs maintenance on Government property in a timely manner, and that the contractor documents all actions. Work orders for preventative maintenance must identify all maintenance required. When the contractor plans for preventative maintenance to be performed by equipment operators, the procedures will identify tasks, checklists, frequencies, recording requirements, and provide for reporting of deficiencies when corrective maintenance is required. These procedures may be based on:

- Manufacturer's recommendations, Government instructions, or technical manuals and publications.
- Plant experience (peculiar operating conditions).
- Engineering analysis (age and condition).
- Tolerance requirements.
- Safety considerations.
- Industry leading practices.

The contractor's procedures must provide for the reporting, initiating, and performance of maintenance outside the scope of preventative maintenance, but within the contractor's normal maintenance obligation. The procedures should include instructions for the following:

- Disclosure and reporting of deficiencies by operational personnel.
- Disclosure of deficiencies identified through preventative maintenance or inspections.
- Initiating work orders with detailed assignment, guidance, and responsibilities.
- Recording work accomplished.

The contractor's procedures should address the requirement to disclose the need for capital rehabilitation, or any work that is outside of the normal maintenance obligation, i.e., preventive and corrective maintenance, to the PA. If routine and preventative maintenance is not sufficient to sustain property's suitability for its intended use, the contractor will coordinate with the PA promptly, and request direction regarding repair, replacement, or other actions directed by the Government.

Special test equipment may require minimal maintenance other than calibration.

For special tooling, maintenance may involve proper preservation of tools before placing the property into long-term storage, particularly proper protection of critical surfaces, seasoning of molds after usage, and proper calibration and tolerance checks before putting tools back into service.

OBJECTIVE: There are several objectives to achieve in testing the element of Maintenance:

- The PA will ensure the contractor identifies, discloses, and performs normal and routine preventative maintenance and repair.
- The PA will determine whether the contractor discloses and reports to the PA the need for replacement or capital rehabilitation.

POPULATION:

- The population used to test whether the contractor performs normal and routine preventative maintenance and repair is all Government property accountable to contracts administered by DCMA that requires normal and routine preventative maintenance and repair. This population typically includes special tooling, special test equipment, and equipment but not material.
- To test whether the contractor discloses and reports to the PA the need for replacement or capital rehabilitation, the population is all Government property accountable to contracts administered by DCMA that required replacement or capital rehabilitation within the preceding 12 months.

SOURCE DOCUMENTS: Maintenance records and logs, calibration stickers, repair work orders, replacement purchase orders, and documentation of the need for normal and routine preventative maintenance.

SUPPORT DOCUMENTS: Technical manuals, the contractor's maintenance procedures, and contracts with special maintenance provisions.

SAMPLING:

For standard PMSAs, PAs will test the element of Maintenance by selecting a statistical sample from the applicable populations identified above.

The PA will use judgmental sampling to test Maintenance when performing a limited PMSA. PAs will request sample maintenance documents for the items sampled. Support for all conclusions must include sample documentation provided by the contractor.

TESTING CONSIDERATIONS:

- PAs should seek input from quality assurance representatives or engineers when questions arise about matters they may not have the technical expertise to adequately address. Examples of such matters may include whether an item should be scheduled for normal and routine preventative maintenance or whether the type of maintenance the contractor is performing is adequate.

- PAs may use the calibration records, stickers, etc., to support findings in the areas of maintenance of special test equipment.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- When addressing whether the contractor identifies and discloses the items that require normal and routine preventative maintenance and repair, the PA will discuss:
 - When, as part of its process, the contractor identifies the need for normal and routine preventative maintenance and repair. For example, does the contractor identify required routine and preventative maintenance as part of the receiving process? If so, at what point in the process is identification of required routine and preventative maintenance accomplished? If the contractor performs a periodic review, how frequently does that review take place?
 - How the contractor identifies property that requires preventative maintenance and the nature of that maintenance.
 - How the contractor discloses the need for normal and routine preventative maintenance and repair.
 - How the contractor documents the identification and disclosure of property requiring routine preventative maintenance and repair.
- For the items sampled, the PA's discussion about whether the contractor performs normal and routine preventative maintenance and repair will address:
 - The date the contractor performed maintenance or repair compared with the date it was scheduled to determine whether the contractor performed the maintenance as scheduled.
 - How the contractor documents the performance of normal and routine maintenance.

PMSA ELEMENT 21 - DISPOSAL

REQUIREMENT:

FAR 52.245-1(f)(1):

(x) *Property closeout.* The Contractor shall promptly perform and report to the Property Administrator contract property closeout, to ... disposing of items at the time they are determined to be excess to contractual needs.

BACKGROUND:

- Because of the potential harm that some types of sensitive property may cause, the contract may include special direction for the disposal of sensitive property and other types of property that could cause harm during the disposal process.
- Except when otherwise provided for in a contract, contractors must dispose of contractor inventory only as authorized by the Plant Clearance Officer (PLCO).
- Contractors are required to remove and destroy any markings identifying the property as Government-owned property prior to its disposal if they are not returning the property to the Government. See FAR 52.245-1(j)(7)(i).

- Contractors will demilitarize Government property prior to shipment or disposal as directed by the PCO. See FAR 52.245-1(j)(7)(ii).
- Contractors will credit the net proceeds from the disposal of contractor inventory to the contract, or to the Treasury of the United States as miscellaneous receipts as directed by the PCO. See FAR 52.245-1(j)(8).
- Unless the PLCO determines otherwise, contractors are not required to identify or report production scrap on inventory disposal schedules, and may process and dispose of production scrap in accordance with its own internal scrap procedures. See FAR 52.245-1(j)(3)(ii).
- Contractors will dispose of all other types of scrap in accordance with the terms and conditions of the contract or PLCO direction, as appropriate.

While the elements of Declaration of Excess, Disposal, and Property Closeout are related, the populations used to test each are different because PAs are assessing separate actions. When testing the element of Declaration of Excess, PAs are determining whether the contractor is effectively identifying excess property so that it can be reported as such. The PA is tasked with determining whether all property that should have been declared as excess has been declared as excess. When testing the element of Disposal, the PA is determining whether property that was reported as excess, and submitted to plant clearance, was disposed of in a timely manner. Incorrectly using a Disposal population to test Declaration of Excess excludes all items that are excess to contract needs that contractor may have failed to declare as excess, as well as all excess items for which the contractor was relieved of stewardship through other means, (e.g., transferred to another contract, returned to the buying activity.) While the declaration and disposal of excess property are often required steps for a contractor performing property closeout, the element of Property Closeout covers other actions as well (i.e., final physical inventory performance, reporting, investigating, and securing closure of all loss cases, and reporting the contract property closeout to the PA.) Because of this, the population for the element of Property Closeout is the contracts that are past their FDD. When testing Property Closeout, the PA is determining whether all closeout actions have been performed.

PROCEDURES:

- In order to be compliant, the contractor's procedures must clearly state that, except when otherwise provided for in a contract, disposal of contractor inventory must be authorized by the PLCO.
- Compliant contractor procedures will establish a method to document and confirm that the contractor removed and destroyed any markings identifying the property as Government-owned prior to its disposal if property is not returned to the Government.
- Disposal of scrap in accordance with the contractor's own internal scrap procedures applies only to production scrap. Those procedures will provide for crediting the net proceeds from the sale of scrap to an appropriate overhead account. See paragraph 17.6 of this Guidebook for more information regarding contractor scrap procedures.

OBJECTIVE: The PA will determine whether the contractor promptly disposes of Government property at the time the contractor determines the property to be excess to contractual needs, in accordance with the terms of the contract.

POPULATION: There are potentially several populations subject to review including:

- All Government-owned property accountable to contracts administered by DCMA that was in the contractor's possession within the preceding 12 months for which there were disposition instructions. The population also includes any Government property for which the contractor had previously received disposal instructions, but not yet carried out the instructions.
- All Government-owned production scrap accountable to contracts administered by DCMA that was disposed of by the contractor in accordance with its own internal scrap procedures within the preceding 12 months.
- All Government-owned property, including scrap, accountable to contracts administered by DCMA that the contractor was directed to sell within the preceding 12 months.

SOURCE DOCUMENTS: All documentation of disposal actions including DD 1149 shipping documents, transfers between contracts, sales documents, and scrap tickets.

SUPPORT DOCUMENTS: Disposal instructions from PLCOs, contracts, and any other sources of disposal instructions.

SAMPLING:

For standard PMSAs, PAs will test the element of Disposal by selecting a statistical sample from the applicable populations identified above.

The PA will use judgmental sampling to test Disposal when performing a limited PMSA. PAs will request sample disposal documents for the property items sampled. The PA must use sample documentation provided by the contractor to support all conclusions.

TESTING CONSIDERATIONS:

- When reviewing the element of disposal, PAs will contact the PLCO responsible for the contractor and request the PLCO's input on the contractor's execution of disposal instructions and any other disposal related issues.
- To determine whether the contractor disposed of the property under proper authority, the PA will review the disposition instructions for the items sampled.
- The PA will compare the date of the disposition instructions with the date of the disposal document to determine whether the contractor disposed of the items sampled promptly.
- The PA will determine whether each sample was submitted to PCARSS within 30 days after identification of excess, 60 days after contract completion, or 120 days after contract termination (plus any authorized extensions.) To do this, the PA will compare the date that the item was determined to be excess (e.g., utilization review, end of contract, level of effort completion) with the date that it was submitted to PCARSS.
- For each sale of property that the PA samples, the PA will review the documentation the contractor used to credit the Government with the proceeds from the sale.
- The PA will review the documentation for each item of scrap to ensure the contractor properly identified items as scrap in accordance with the contractor's procedures and that the contractor properly credits the proceeds from the sale of the scrap to the Government.

- The PA will use separate populations for sensitive property that is accountable to contracts administered by DCMA to determine the adequacy of the contractor's disposal of sensitive items.
- Sensitive items must be tested as a separate population, using a double sampling plan that identifies defects of 10% or more, if they exist, 97% of the time as described in paragraphs 8.3.1.1. and 17.2.3. of Chapter 1.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Discuss the disposal authority for the samples.
- Analyze the promptness with which the contractor disposed of the samples.
- Address how the contractor credited the Government with the proceeds for the sale items sampled.
- Explain how the contractor determines whether an item is production scrap, whether that determination is verified by a Government representative, and how the Government is credited with any proceeds.
- Describe how the PA determined whether the contractor removed and destroyed any markings identifying the property as U.S. Government-owned property prior to its disposal.
- Identify the cognizant PLCO by name and indicate the date you contacted him or her and summarize the information obtained.
- Identify any of the sampled items that required demilitarization, describe how and when the contractor accomplished the demilitarization of the property, and identify the Government official who witnessed the demilitarization.

PMSA ELEMENT 22 – PROPERTY CLOSEOUT

REQUIREMENT:

FAR 52.245-1(f)(1):

(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 of Government property cases; physically inventorying all property upon termination or completion of this contract...

BACKGROUND:

Timely property closeout ensures that Government assets are available for use on other Government contracts and reduces the risk of loss, theft, damage or destruction. Furthermore, timely property closeout reduces Government expenses incurred in storing, inventorying, and maintaining excess Government property as well as the expenses involved with administering an open contract. Contracts may not be closed for property or contract administration until all accountable Government property has been consumed, transferred, returned, shipped, or disposed of, and all loss cases have been adjudicated and closed. Additionally, before contract

closeout, disposition actions for all items submitted to PCARSS must have been carried out as directed by the PLCO.

FAR 52.245-1(j)(3)(i) requires the contractor to submit residual property for plant clearance within 60 days after completion of contract deliveries or performance (generally aligning with the final delivery date), unless the PLCO approves an extension. Contractors frequently find it difficult to comply with that requirement if they wait until completion of contract deliveries or performance to initiate property closeout actions.

If the contractor has written authorization from the PCO to retain excess Government property, the ACO cannot close out the accountable contract for property or contract administration. Contract closeout can only proceed once the Government property is properly transferred to a follow-on contract or otherwise disposed of in accordance with the contract or as authorized by the PLCO.

While the elements of Declaration of Excess, Disposal, and Property Closeout are related, the populations used to test each are different because PAs are assessing separate actions. When testing the element of Declaration of Excess, PAs are determining whether the contractor is effectively identifying excess property so that it can be reported as such. The PA is tasked with determining whether all property that should have been declared as excess has been declared as excess. When testing the element of Disposal, the PA is determining whether property that was reported as excess, and submitted to plant clearance, was disposed of in a timely manner. Incorrectly using a Disposal population to test Declaration of Excess excludes all items that are excess to contract needs that contractor may have failed to declare as excess, as well as all excess items for which the contractor was relieved of stewardship through other means, (e.g., transferred to another contract, returned to the buying activity.) While the declaration and disposal of excess property are often required steps for a contractor performing property closeout, the element of Property Closeout covers other actions as well (i.e., final physical inventory performance, reporting, investigating, and securing closure of all loss cases, and reporting the contract property closeout to the PA.) Because of this, the population for the element of Property Closeout is the contracts that are past their FDD. When testing Property Closeout, the PA is determining whether all closeout actions have been performed.

PROCEDURES:

In order to be compliant, the contractor's procedures must set out a method for identifying contracts approaching physical completion. The procedures must describe how the contractor will ensure that its property management organization is internally notified of the pending or actual completion of contracts, so that closeout actions can begin. The procedures must require that the notification allows sufficient time for the completion of property closeout actions in a timely manner.

The contractor's procedures will establish a process for initiating and completing a final physical inventory of all property accountable to the contract. The contractor will identify the type of physical inventory they will use, provide specific directions on how the contractor will perform the inventory, and describe the count slips, tally sheets, or other means the contractor uses to record the inventory. The contractor's inventory procedures must establish timeframes in

which the contractor will perform the inventory, reconcile the results, and post them to the record.

The contractor's procedures must describe a process to ensure reporting and investigation of all loss of Government property, and to secure closure of all pending cases of Government property loss.

Additionally, the contractor's procedures must establish a timeframe in which the contractor will report to the PA that the contractor no longer has any Government property accountable to the contract in its possession, and that no unresolved issues relating to Government property remain. If for any reason the contractor cannot submit such a report within that timeframe set out by the contractor's procedures, the contractor will notify the PA and identify the issues that remain unresolved, the actions the contractor has undertaken to resolve the issues, and the anticipated date of completion.

While there is no standard format for reporting final property closeout, the contractor must notify the PA in writing, in accordance with FAR 52.245-1(f)(1)(x). Additionally, the notification must explicitly state that there is no residual property accountable to the contract, and address the following:

- Date and results of the final physical inventory.
- That all Government property furnished or acquired under the contract has been consumed, transferred, returned, shipped, or disposed of only as authorized by the terms and conditions of the contract.
- That all inventory adjustments have been posted, and all loss cases have been adjudicated and closed.
- That disposition actions for all items submitted to PCARSS have been carried out as directed by the PLCO. This includes any required demilitarization.
- That Government property records have been updated to reflect zero balances, and the disposition of each accountable item as required by 52.245-1(f)(1)(iii)(A)(8).

OBJECTIVE: The PA will determine whether completed contracts are closed for property administration, and whether the contractor dispositions Government property with proper authority and within required timeframes.

POPULATION: All contracts administered by DCMA that were physically complete at any time within the past year, including contracts that were physically completed in prior years if closeout actions were incomplete at any time during the past year. This will include all contracts that have passed the contract's final delivery date.

SOURCE DOCUMENTS: The contractor's report that closeout actions have been completed, as required by 52.245-1(f)(1)(x).

SUPPORT DOCUMENTS: Inventory schedules, direction from the PLCO, shipping documents, transfer documents, modifications, and the final inventory report. Other documents

related to relief of stewardship should be included, e.g., inventory adjustments, liability relief documentation, etc.

SAMPLING:

PAs will test Contract Property Closeout statistically for standard PMSAs. PAs will request a listing of all contracts that were physically complete (i.e., past their final delivery date) at any time during the past 12 months, to include contracts that became physically complete in previous years if closeout actions are still pending at any time during the timeframe under review. The PA will then verify that the list is complete by comparing it to a listing of all contracts accountable to the contractor in MOCAS.

The PA will use judgmental sampling to test Contract Property Closeout when performing a limited PMSA. PAs will request sample documentation to review for completeness and compliance. Support for all conclusions must include sample documentation provided by the contractor.

TESTING CONSIDERATIONS:

- Compare the final delivery date, or the date of completion of contract performance, with the dates the property management organization received notice of approaching completion of deliveries or contract performance. Consider the date of the contractor’s physical inventory, the date the contractor reported the inventory, investigated and secured closure of any losses, and reported final property closeout letter to the PA.
- Review the method the contractor used to perform the physical inventory, and the adequacy of the documentation.
- Determine the date that the contractor identified and reported all Government property still in its possession after final delivery or completion of performance to the PLCO within the Plant Clearance Automated Reutilization Screening System (PCARSS).
- PAs will verify that all sampled closeout actions are supported by the contractor. In order to be compliant, the contractor must be able to provide documentation showing the disposition of all property accountable to the contract.
- Review the final property closeout letter for adequacy and completeness.
- Regardless of testing methodology, if the contractor has contracts that are more than 60 days past the final delivery date (or 120 days after termination) for which inventory disposal schedules have not been submitted, the PA will (1.) determine whether there have been any contract extensions issued, and (2.) determine whether the delay is caused by a pending property transfer request.
- If the contractor is able to show that they are able to show that they have proactively and regularly contacted the PCO to request a transfer of property to another contract, the PA will assist the contractor with getting resolution. Proactive and regular communication means upon discovery, and at least once within the 30 days prior to identification by the PA. If the contractor is unable to provide evidence of proactive and regular contact, the PA will identify the reporting delay as a noncompliance.

FACTORS FOR THE PA TO ADDRESS IN AUDIT REPORT:

- Compare the applicable contract or order's final delivery date with the date of completion of performance. Discuss whether the contractor was timely in taking the following actions based on the timeframes established in the contractors procedures and the requirements of FAR 52.245-1(j)(3)(i):
 - The contractor's internal notification to its property management organization.
 - The contractor's performance of physical inventory, reporting, investigation, and securing documentation showing completion of adjudication of any open property loss cases.
 - Reporting any remaining property to PCARSS.
 - Reporting the final property closeout letter to the PA.
- If the contractor did not input all residual Government property into PCARSS within 60 days after completion of contract deliveries or performance (or 120 days following contract termination), the PA will determine whether the contractor received approval for an extension from the PLCO.
- Analyze the adequacy of the physical inventory addressing the methodology and documentation.
- Address any losses of Government property the contractor failed to resolve prior to the final delivery date, or the date of completion of contract performance, and whether the contractor reported, investigated, and secured documentation showing completion of adjudication for the loss.
- Address whether the final property closeout letter is adequate and complete.

GLOSSARY – ACRONYMS

| | |
|----------|---|
| ACAT | Acquisition Category |
| ACO | Administrative Contracting Officer |
| BOM | bill of material |
| CAGE | Commercial and Government Entity |
| CAP | contractor-acquired property |
| CAR | corrective action request |
| CDR | contract deficiency report |
| CO | Contracting Officer |
| CPAS | Contract Property Administration System |
| CRR | contract receipt and review |
| CTR | capital-type rehabilitation |
| DCAA | Defense Contract Audit Agency |
| DCMA | Defense Contract Management Agency |
| DCMA-MAN | DCMA Manual |
| DFARS | Defense Federal Acquisition Regulation Supplement |
| DoDI | Department of Defense Instruction |
| DSS | Defense Security Service |
| EDA | electronic document access |
| FAR | Federal Acquisition Regulation |
| FOB | free-on-board |
| FY | fiscal year |
| GCPG | Government Contract Property Group |
| GFP | Government-furnished property |
| GFR | Government Flight Representative |
| GFRC | Ground and Flight Risk Clause |
| GP | Government property |
| HV/HR | High Value/High Risk |
| IAW | in accordance with |
| ILP | industry-leading practices |
| IPMS | Industrial Property Management Specialist |
| IWMS | Integrated Workload Management System |
| MMAS | Materials Management and Accounting System |
| MOCAS | Mechanization of Contract Administration Services |
| NSN | national stock number |

DCMA GUIDEBOOK FOR GOVERNMENT CONTRACT PROPERTY ADMINISTRATION

| | |
|------|---|
| PA | Property Administrator |
| PGI | Procurement, Guidance and Information |
| PIEE | Procurement Integrated Enterprise Environment |
| PIID | procurement instrument identifier |
| PMSA | Property Management System Analysis |
| SAT | simplified acquisition threshold |
| SF | Standard Form |
| ST | special tooling |
| STE | special test equipment |
| VCS | voluntary consensus standards |