Self-Assessment

The Self-Assessment provides Property Services with an opportunity to review business processes associated with all the facets of fixed assets management. Per our Government Property Management Plan, “Self-assessments will be performed periodically as deemed necessary by Property Services." At a minimum, Caltech will complete the self-assessment on a go forward basis every two years beginning with FY2015. In addition to the Self-Assessment, other reviews of the system occur on a regular basis as a result of formal audits, internal audit reviews, the equipment inventory process, preparing property analysis required to respond to internal inquiries regarding specific property or populations of property. Results of the self-assessment will be made available to ONR upon completion of the assessment including management review and to sponsors upon request.

Initially, Caltech will perform a risk assessment to evaluate the effectiveness and efficiency of its property management system. A risk assessment will be utilized to determine the property system outcomes to review during the Self-Assessment. As a result of the Self-Assessment, improvements may be made to the property control system and procedures. Any significant deficiencies will be documented and corrected.

Within the scope of a Self-Assessment, compliance with any or all of the following areas, which are not listed in a specific order, may be examined:

- Acquisition and Procurement Practices
- Receiving and Acceptance
- Record Completeness, Accuracy, and Timeliness
- Physical Inventory
- Subcontract Property Management
- Property Reports
- Excess Property Disposal
- Utilization of Property
- Closeouts of Awards
- Other Facets of Property Management (i.e. property security, equipment maintenance and calibrations, etc.)

**Methodology**

The Self-Assessment shall follow the following methodology:

I. Select the process for review
II. Define objective and measurable criteria or outcomes for that process
III. Define the population:
   a. Transactional which requires time frame parameters, i.e. month, quarter, fiscal year, calendar years, etc.
   b. Non-transactional
IV. Select Sample:
   a. Used accepted sampling methods such as random sampling, judgmental (not generalizable), purposive (not generalizable), etc.
   b. Sample could be the entire population if the population is small.
V. Test the sample items against the defined criteria or outcomes.
VI. Evaluate the sample for:
   a. Compliance
   b. Adequacy
   c. Significance

**Goal Results**

Site metrics that fall below the prescribed goal will require an investigation and Root Cause Analysis (RCA). If the discrepancy is not systemic or repetitive, an informal written Corrective Action Plan (CAP) will be generated. If the discrepancy is systemic or repetitive, a formal CAP will be issued via a Corrective Action System (CAS).
Property Services will:

- Review the investigation and RCA to determine which type of CAP will be required.
- The Senior Director of Cost Studies and Property Services and the Executive Director of Audit Services and Institute Compliance (ASIC) will provide final approvals of the CAP.

Caltech has a responsibility to take corrective action to resolve issues and mitigate risks as they become known during the Self-Assessment. Please direct any questions, comments, or suggestions to Property Services.

**Definitions**

**Defects - E2936 Definitions.**

**Defect**, n – a condition in which a functional segment, a sample item or sample item element of a property control system contains one or more deficiencies (E2315).

**Critical defect** – a significant and systemic defect that would have a material effect on contract performance or cause concern for the reliability of the information provided by the property management system.

**Minor defect** – a defect that is administrative in nature, non-systemic and would have no material outcome for the control of Government property.

**Major defect** – a significant, but not systemic defect that may affect the control of government property, possibly increasing the risk to the Government.

Defects should be analyzed from both a quantitative and qualitative perspective.

**Quantitative** - based on the acceptance rates in the statistical sampling program.
Qualitative - the relative significance and materiality of the defects.

Significant Deficiency – According to DFARS 252.242-7005, “Significant deficiency” means a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon information produced by the system that is needed for management purposes. This is a high bar that should not be hastily applied.

Other Definitions

Adequacy - sufficient to satisfy a requirement or meet a need.

Compliance - following applicable internal control procedures, rules, or laws.

Government Furnished Material (GFM) – property that is given to the Institute by the Federal government and for which ownership remains with the Federal government. GFM may be incorporated or attached to an end item to be delivered under a contract or may be consumed or expended in the performance of an agreement.

Government Furnished Property (GFP) - property that belongs to the Federal Government and is used pursuant to the ongoing agreement identified by the sponsor.

Government Owned Equipment (GOE) - all property acquired by a contractor where title is retained by the Federal government.

Government Owned Property (GOP) – all property where title is retained by the Federal government. Government owned property includes government furnished property (GFP) and government owned equipment (GOE).

Government Property Administrator (GPA) – authorized representative of the contracting officer appointed in accordance with government agency procedures. He or she is responsible for administering the contract.
requirements and obligations relating to Government property in the possession of a contractor.

**Materiality** – when considered individually or in aggregate could reasonably be expected to influence the decisions of the “intended users” or stakeholders.

**Non-Systemic Discrepancy** - involves a discrepancy or occurrence that is an isolated incident.

**Significance** – the relative importance of a matter within the context in which it is being considered.

**Systemic Discrepancy** – involves discrepancies throughout the entire system

### ASTM Standards

E2279 Standard Practice for Establishing the Guiding Principles of Property Management

E2605-8 Standard Practice for Receiving of Assets

E2132-11 Standard Practice for Inventory Verification: Electronic and Physical Inventory of Assets

E2604-9 Standard Practice for Data Characteristics of Equipment Records

E2453-05 Standard Practice for Determining the Life-Cycle Cost of Ownership of Personal Property

E2131-09 Standard Practice for Addressing and Reporting Loss, Damage, or Destruction of Tangible Property

E2676-09 Standard Practice for Tangible Property Mobility (MI)

E2674-09 Standard Practice for Assessment of Impact of Mobile Data Storage Device (MDSD) Loss
Gather the following documents before the start of the assessment:

I. Export or download a file with current relevant information from Oracle Fixed Assets (OFA) or Equipment Tracking System to MS Excel. Use this report to identify government equipment currently under the responsibility of Caltech.

II. Office of Sponsored Research (OSR)/Subcontractor/Project Accounting (PA) file for each unique contract or subcontract associated with equipment purchased during the assessment period (month, quarter, or year). In addition to the terms and conditions of the agreement, this file should, if applicable, contain the following items:
   a. Subcontractor Self-Assessment Questionnaire
   b. List of all Government Furnished Property
   c. DD 250 – Material Inspection and Receiving Report
   d. DD 1149 – Requisition and Invoice/Shipping Document
   e. NF 1018 – NASA Property in the Custody of Contractors

III. Procurement documents for each new acquisition made during the assessed period (Purchasing Services’ subcontracts group).

IV. Fabrication request forms (Property Services)

V. Packing slips for each of the new acquisitions (End-users/Requesters)

VI. Donation/Loan documents (Property Services or End-users)
VII. Asset Information Forms for each property movement, transfer, or retirement that took place during the assessment period (Property Services)

VIII. Loss, Damage, Destruction, or Theft (LDDT) reports/forms for each incident that occurred during the assessment period (Property Services).

IX. Inventory reports (Property Services)

X. Closeout reports (Property Services)

XI. Annual/Year end property reports (Property Services)
   a. NF 1018 - NASA Property in the Custody of Contractors
   b. IUID (Item Unique Identification) registry
   c. Other custom reports

Self-Assessment Process

Process: Acquisition and Procurement Practices

Caltech uses the acquisition and procurement process to acquire equipment and materials. Caltech acquires property through purchases, loans, donations, contractual transfers, and fabrications. The Institute is obligated to ensure government or sponsor owned property under its responsibility is used and cared for in accordance with the terms and conditions of the applicable agreement.

Metrics

I. Prior approvals (when required) – The percentage of acquisitions of Government Owned Equipment with no documentation of Caltech acquiring prior approval from the sponsor.

II. Screening – The percentage of acquisitions of Government Owned Equipment with acquisition cost of $10,000 or more with no documentation of the required pre-acquisition equipment screening.

III. Ownership – The percentage of Government Owned Equipment misclassified as Caltech Owned and vice versa.
Supporting Documents

I. Government Furnished Materials (GFM)/Government Furnished Property (GFP) contract/subcontracts documents (OSR and Subcontracts Files) – These documents will list any furnished property Caltech will need to be responsible for.

II. Procurement documents – In addition to other potentially relevant information, these documents will include information about equipment screenings and equipment classification at the time of acquisition.

III. Fabrication request forms – In addition to other potentially relevant information, these forms will contain information about the fabricated equipment, proposed budget, and funding sources.

IV. Packing slips – The packing slips will contain information about when the equipment was received, who received it, and what quantity was received in addition to other potentially relevant information.

V. Donation/loan documents – These documents will contain any use restrictions, loan periods, the involved agencies and individuals in addition to other potentially relevant information.

Outcomes

Any percentage other than 100 percent compliance (supported by documentation) is a minor defect. Any noncompliance in the ownership metric will be considered a major defect.

I. Acquisitions are properly supported via authorizations, documented, and are made according to each individual sponsor’s terms and conditions.

II. Equipment screenings were performed, when required, and documented.

III. Equipment ownership or title classification is in accordance with the each individual sponsored agreement’s terms and conditions.
**Population**

Population will include acquisitions (including fabricated, furnished, or loaned equipment) over the last fiscal year funded by the federal government with an acquisition cost of $10,000, or more.

**Acquisition Process Assessment Procedures**

I. Property Services runs a report from Oracle Fixed Assets to identify Government Owned Equipment acquired during the assessment period.

II. For each unique contract or subcontract, Property services compiles all necessary supporting documents from the document’s owners/custodians.

III. Property Services forwards the documents from the previous two steps to Cost Studies, who will then test the metrics for compliance.

**Additional references**

See Appendix A for the full text of the following:

- FAR 52.245-1 (f)(1)(i) Acquisition of property.

**Process: Receiving and Acceptance**

Receiving is the process by which an equipment or material is physically received by Caltech. Acceptance is the process by which the Institute acknowledges that the property has been received in an acceptable condition and assumes responsibility and accountability for the property. This is when nonconforming products are discovered, identified, controlled, and addressed.

**Metrics**

I. Receipts of items are properly identified and documented – The end-users will need to check each shipment to verify the shipment was delivered to the right destination.
II. Inspections are performed and documented – The end-users will need to inspect the property to check for damage.

III. Notifications to involved parties – The end-users have to notify Property Services as soon as they have received, inspected, and accepted any Government Owned Equipment.

IV. Information needed to maintain equipment is documented and forwarded to the end-users, if needed. (Sponsor)

V. Written statement to Government Property Administrator (GPA) acknowledging receipt of Government property – Property Services will tag all GFE, if necessary, add the property records to Oracle Fixed Assets, and notify the GPA acknowledging receipt of the GFP and that Caltech has official custody of the GFP.

**Supporting Documents**

I. DD 250

II. DD 1149

III. Packing slips

IV. Donation/loan documents

**Outcomes**

Any percentage other than 100 percent compliance (supported by documentation) is a minor defect. Any noncompliance in the notification metric test will be considered a major defect.

I. Timely and accurate receiving and identification of property in addition to the reporting of discrepancies.

II. Prompt acknowledgement of received GFE and GFM

III. DD 250s and/or DD 1149s documentation for all GFP

**Population**

All of government or sponsor owned equipment received during the last fiscal year.
Receiving Process Assessment Procedures

I. Property Services runs a report from Oracle Fixed Assets to identify Government Owned Equipment acquired during the assessment period.

II. Property Services gathers all supporting documents from the end-users for each acquisition (or group of acquisitions)

III. Property Services forwards the documents from the previous two steps to Cost Studies, who will then test the metrics for compliance

Additional references

See Appendix A for the full text of the following:

- FAR 52.245-1 (f)(1)(ii) Receipt of Government property.
- FAR 52.245-1 (f)(1)(ii)(B) Contractor-acquired property.

Process: Records

The government requires Caltech to maintain responsible management policies and develop information systems to manage property. These systems should allow for physical and financial control, accountability, movement, inventory, utilization, maintenance, calibration, disposal, reporting of administrative information, and property reports.

Metrics

I. Timeliness, completeness, and accuracy of property records.

II. Authorized and documented property movements, transfers, retirements, and necessary documentation for stored equipment.

III. Supporting Documents
   a. Property records (Oracle Fixed Assets and Equipment Tracking System)
   b. GFM/GFP contract/subcontracts documents (OSR documents)
   c. Fabrication Request Forms
d. Packing slips  
e. Asset Information Forms  
f. Donation/loan documents  
g. LDDT forms

Outcomes

To ensure that Government property records are complete and accurate. Any percentage other than 100 percent compliance (supported by documentation) is a minor defect. Equipment records with justified reasons for not having serial number information (i.e. the serial number was inaccessible, or the equipment was custom built with no serial number) will not be considered as defects.

I. Ensure Caltech property records are accurate, current, and complete. Property records must be maintained that include a description or the property, a serial number or other identification number, the funding source identification, who holds title, quantity, acquisition date, and the cost of the property.

II. Acquisitions, movements, transfers, or location changes are documented and promptly updated in the property records.

III. Records contain data elements necessary to account for and control all Government property in Caltech’s possession.

Population

All Government or sponsor owned equipment under Caltech’s responsibility.

Record Process Assessment Procedures

I. Property Services runs a report from Oracle Fixed Assets to identify Government Owned Equipment acquired during the assessed period. Property Services will also generate from Oracle Fixed Assets a report of transfers (movements) and retirements of Government Owned Equipment (GOE) during this same assessment period.

II. Property Services gathers all supporting documents from the end-users for each acquisition (or group of acquisitions). Property Services will
also compile supporting documents for transfers, retirements, donations, loans, etc. for review.

III. Property Services forwards the documents from the previous two steps to Cost Studies, who will then test the metrics for compliance

Additional references

See Appendix A for the full text of the following:

- FAR 52.245-1 (f)(1)(iii) Records of Government property.
- FAR 52.245-1 (f)(1)(iii)(A)

See Appendix B for the full text of the following:

- 2 CFR, Part 200.313 Equipment

Process: Physical Inventory

A physical inventory is the process of physically locating and counting the property under Caltech’s responsibility and comparing it with the Institute’s official property records. According to ASTM E2221-02, physical inventories should be performed by personnel identified in the Property Inventory (PI) plan and inventory results should be independently verified unless otherwise agreed upon and documented in the PI plan.

Metrics

I. Physical inventories of Government Owned Property (GOP) are conducted on time according to the Institute’s policies and procedures.

II. Accuracy of physical inventory of Government Owned Equipment (GOE) found by asset count (line items).

III. Timely reporting of physical inventories completion to Government Property Administrators.
Outcomes

Failure to inventory Government Owned Property as prescribed in the Institute’s policies and/or during contract/subcontract closure will be considered a defect. Any noncompliance on retirement, movements, and transfers requirements (supported by documentations) will be a major defect.

I. Physical inventory of Government Owned Property was conducted periodically and/or at the end of the agreements (contract or subcontract closeout).

II. Transfers of government equipment were approved (see FAR 52.245-1(f)(vii) Relief of responsibility and liability) and documented.

III. Retirements of government equipment were approved (see FAR 52.245-1(f)(vii) Relief of responsibility and liability) and documented.

IV. Utilizations of government property were as authorized.

V. Government equipment is stored appropriately assuring the property’s physical safety and suitability for use.

Supporting Documents

I. Oracle Fixed Assets and Equipment Tracking System

II. Asset Information Forms

III. DD 250

IV. DD 1149

V. LDDT forms

Population

The population will consist of all of Government or sponsored owned property under Caltech’s responsibility or custody.

Inventory Process Assessment Procedures

I. Property Services prepares a report of the latest physical inventories completed before the self-assessment. The inventories will be either the ones performed periodically or the ones performed at contract/subcontract completion or termination.
II. Property Services also compiles supporting documents for transfers, retirements, donations, loans, etc. involving Government Owned Equipment.

III. Property Services obtains a copy of the letter or email sent to GPA (ONR) disclosing physical inventory completion and results.

IV. Property Services forwards the documents from the previous three steps to Cost Studies, who will then test the metrics for compliance.

Additional references

See Appendix A for the full text of the following:

- FAR 52.245-1 (f)(1)(iv) Physical inventory.
- FAR 52.245-1 (f)(1)(vii) Relief of stewardship responsibility and liability.
- FAR 52.245-1 (f)(1)(viii)(A) and (B) Utilizing Government property.
- FAR 52.245-1 (f)(1)(ix) Maintenance.

See Appendix B for the full text of the following:

- 2 CFR, Part 200.313

See Appendix C for the full text of the following:

- DFARS 252.242-7004 Material Management and Accounting System

Process: Subcontractor Control

Subcontractor management is the process of establishing and managing the guidelines and regulations projecting Caltech’s and its sponsors’ interests when a scope of work within a project has been delegated to another contractor.

Metrics

I. Subcontractor Self-Assessment Questionnaire for each new agreement (Subcontractor Risk Assessment).
II. Annual property inventory reports per the agreements terms and conditions.

III. Accuracy of Property Records by data element including quantity and dollar values.

IV. Prior approvals, if needed, before purchase or Government Owned Property.

V. Timely reports of LDDT, transfers, movements, and dispositions.

**Outcomes**

Any percentage other than 100 percent compliance (supported by documentation) is a minor defect. Noncompliance in the risk assessment metric test will be considered a major defect.

I. Caltech reviewed and approved (or disapproved) of the subcontractor’s Property Management System (Risk Assessment)

II. Caltech reviewed subcontractor’s property records for compliance with T&Cs of the agreement.

III. Property reports were received as required by the T&Cs of the agreement.

**Supporting Documents**

I. Subcontractor Self-Assessment Questionnaire

II. GFM/GFP contract/subcontracts documents

III. NF 1018

IV. DD 250

V. DD 1149

VI. Closeout Reports

**Population**

All government subcontract issued by Caltech during the last fiscal year
**Subcontractor Control Process Assessment Procedures**

I. Property Services works with Procurement Services to obtain a list of active subcontracts. The list will only include subcontracts with budgets for acquisition of Government Owned Property.

II. Property Services compiles documentation to support subcontractor’s risk assessment, property records, inventory, and closeout reports. Property Services will also include any property system audits and/or system analysis (PCSA) outcome reports obtained from subcontractors with Government Owned Property.

III. Property Services forwards the documents from the previous two steps to Cost Studies, who will then test the metrics for compliance.

*Additional references*

See Appendix A for the full text of the following:

- FAR 52.245-1 (f)(1)(v)(A) and (B) Subcontractor control.

**Process: Reports**

Caltech sponsors require the Institute to be accountable for all property acquired, loaned, or furnished under an agreement. Sponsors also require property reporting at the agreement level. Reporting may be using government forms or special Institute created reports on an annual basis, at end of project, or some other period specified by the agreement. Caltech’s Property System must support the accuracy and timeliness of the information reported.

**Metrics**

I. Closeout Reports – Government contract and Subcontract property closeouts need to be submitted within the prescribed time period.

II. Year End Reports – Government contract and Subcontract property reports need to be submitted within the prescribed time period and frequency.
III. Annual Inventory Reports (including WIP) – Inventory completion, discrepancy, and LDDT reports needs to be submitted to the GPA or the prime contractor’s Property Manager.

Supporting Documents

I. Property Services’ files
II. GFM/GFP contract/subcontracts documents
III. OSR files or PA files
IV. NF 1018
V. IUID
VI. LDDT

Outcomes

Any percentage other than 100 percent compliance (supported by documentations) is a minor defect.

I. Property reports are submitted as required in the sponsoring agreement (annual inventories, closeout inventories, LDDTs, etc.).
II. Shipment of government property is documented and parties involved in the transactions are promptly notified.
III. Ensure a process to create and distribute property reports punctually. The data should reflect timely submission of property reports as required by sponsor agreements or regulation at specified intervals (i.e. monthly, quarterly, annually, etc.)

Population

All active and closed (within last fiscal year) government contracts under Caltech’s responsibility.

Reports Process Assessment Procedures

I. Property Services works with OSR and Procurement Services to generate a list of active contracts and subcontracts.
II. Property Services compiles all LDDTs, annual, inventories, and closeout reports prepared and submitted during the assessed period.

III. Property Services forwards the documents from the previous two steps to Cost Studies, who will then test the metrics for compliance.

Additional references

See Appendix A for the full text of the following:

- FAR 52.245-1 (f)(1)(vi) Reports.

Process: Closeout

Caltech is required to promptly perform and report to its sponsors property closeouts, which includes reporting, investigating, and securing closure of all loss, damage, destruction, or theft cases; physical inventorying all property upon termination or completion of agreements; and disposing of items at the time they are determined to be excess to agreement needs.

Metrics

I. Timeliness of closeouts (both standards and early terminations) – The basis of this metric is to obtain verification that property steps are taken in the contract or subcontract closeout process as well as measuring the timeliness of each action.

II. Accuracy of records to reflect relief of stewardships – This metric tie in with the Records and Inventory processes.

III. Count of Government owned property found after closeout – This metric will provide quantitative verification regarding completeness of contract or subcontract closeout.

Supporting Documents

I. Oracle Fixed Assets

II. OSR or PA files
III. Property Services’ Closeout files

IV. NF 1018

V. DD 250

VI. DD 1149

VII. LDDT

**Outcomes**

Any percentage other than 100 percent compliance (supported by documentation) is a minor defect

I. Closeouts are submitted on time.

II. Records are updated to reflect changes in ownerships during the closeout.

III. No Government Owned Property should be assigned to any closed government contracts or subcontracts.

**Population**

All closeouts completed during the previous 12 months

**Subcontractor Control Process Assessment Procedures**

I. Property Services works with Procurement Services and OSR to obtain a list of contracts and subcontracts closed within 12 months prior to the assessment month.

II. Using the list above, Property Services generates a list of property associated with the contract and subcontracts.

III. For each closed agreement, Property compiles supporting documents.

IV. Property Services forward the documents from the previous three steps to Cost Studies, who will then test the metrics for compliance.

**Additional references**

See Appendix A for the full text of the following:

- FAR 52.245-1 (f)(1)(vii) Relief of stewardship responsibility and liability.
- FAR 52.245-1 (f)(1)(x) Property closeout.
Appendix A

Federal Acquisition Regulations (FAR)
52.245-1 -- Government Property (April 2, 2012)

As prescribed in 45.107 (a), insert the following clause:

Government Property (Apr 2012)

(a) Definitions. As used in this clause—

“Cannibalize” means to remove parts from Government property for use or for installation on other Government property.

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

“Contractor inventory” means—

(1) Any property acquired by and in the possession of a Contractor or subcontractor under a contract for which title is vested in the Government and which exceeds the amounts needed to complete full performance under the entire contract;

(2) Any property that the Government is obligated or has the option to take over under any type of contract, e.g., as a result either of any changes in the specifications or plans thereunder or of the termination of the contract (or subcontract thereunder), before completion of the work, for the convenience or at the option of the Government; and

(3) Government-furnished property that exceeds the amounts needed to complete full performance under the entire contract.

“Contractor’s managerial personnel” means the Contractor’s directors, officers, managers, superintendents, or equivalent representatives who have supervision or direction of—

(1) All or substantially all of the Contractor’s business;

(2) All or substantially all of the Contractor’s operation at any one plant or separate location; or

(3) A separate and complete major industrial operation.
“Demilitarization” means rendering a product unusable for, and not restorable to, the purpose for which it was designed or is customarily used.

“Discrepancies incident to shipment” means any differences (e.g., count or condition) between the items documented to have been shipped and items actually received.

“Equipment” means a tangible item that is functionally complete for its intended purpose, durable, nonexpendable, and needed for the performance of a contract. Equipment is not intended for sale, and does not ordinarily lose its identity or become a component part of another article when put into use. Equipment does not include material, real property, special test equipment or special tooling.

“Government-furnished property” means property in the possession of, or directly acquired by, the Government and subsequently furnished to the Contractor for performance of a contract. Government-furnished property includes, but is not limited to, spares and property furnished for repair, maintenance, overhaul, or modification. Government-furnished property also includes contractor-acquired property if the contractor-acquired property is a deliverable under a cost contract when accepted by the Government for continued use under the contract.

“Government property” means all property owned or leased by the Government. Government property includes both Government-furnished and Contractor-acquired property. Government property includes material, equipment, special tooling, special test equipment, and real property. Government property does not include intellectual property and software.

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

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

“Material” means property that may be consumed or expended during the performance of a contract, component parts of a higher assembly, or items that lose their individual identity through incorporation into an end item. Material does not include equipment, special tooling, special test equipment or real property.
“Nonseverable” means property that cannot be removed after construction or installation without substantial loss of value or damage to the installed property or to the premises where installed.

“Precious metals” means silver, gold, platinum, palladium, iridium, osmium, rhodium, and ruthenium.

“Production scrap” means unusable material resulting from production, engineering, operations and maintenance, repair, and research and development contract activities. Production scrap may have value when re-melted or reprocessed, e.g., textile and metal clippings, borings, and faulty castings and forgings.

“Property” means all tangible property, both real and personal.

“Property Administrator” means an authorized representative of the Contracting Officer appointed in accordance with agency procedures, responsible for administering the contract requirements and obligations relating to Government property in the possession of a Contractor.

“Property records” means the records created and maintained by the contractor in support of its stewardship responsibilities for the management of Government property.

“Provide” means to furnish, as in Government-furnished property, or to acquire, as in contractor-acquired property.


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

“Unit acquisition cost” means—

(1) For Government-furnished property, the dollar value assigned by the Government and identified in the contract; and

(2) For contractor-acquired property, the cost derived from the Contractor’s records that reflect consistently applied generally accepted accounting principles.

(b) Property management.

(1) The Contractor shall have a system of internal controls to manage (control, use, preserve, protect, repair and maintain) Government property in its possession. The
system shall be adequate to satisfy the requirements of this clause. In doing so, the Contractor shall initiate and maintain the processes, systems, procedures, records, and methodologies necessary for effective and efficient control of Government property. The Contractor shall disclose any significant changes to its property management system to the Property Administrator prior to implementation of the changes. 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).

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

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

(4) 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.

(c) Use of Government property.

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

(2) Modifications or alterations of Government property are prohibited, unless they are—

   (i) Reasonable and necessary due to the scope of work under this contract or its terms and conditions;

   (ii) Required for normal maintenance; or

   (iii) Otherwise authorized by the Contracting Officer.
(3) The Contractor shall not cannibalize Government property unless otherwise provided for in this contract or approved by the Contracting Officer.

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

(1) The Government shall deliver to the Contractor the Government-furnished property described in this contract. The Government shall furnish related data and information needed for the intended use of the property. The warranties of suitability of use and timely delivery of Government-furnished property do not apply to property acquired or fabricated by the Contractor as contractor-acquired property and subsequently transferred to another contract with this Contractor.

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

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

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

   (iii) The Government may, at its option, furnish property in an “as-is” condition. The Contractor will be given the opportunity to inspect such property prior to the property being provided. In such cases, the Government makes no warranty with respect to the serviceability and/or suitability of the property for contract performance. Any repairs, replacement, and/or refurbishment shall be at the Contractor's expense.

(3)(i) The Contracting Officer may by written notice, at any time—

   (A) Increase or decrease the amount of Government-furnished property under this contract;
(B) Substitute other Government-furnished property for the property previously furnished, to be furnished, or to be acquired by the Contractor for the Government under this contract; or

(C) Withdraw authority to use property.

(ii) Upon completion of any action(s) under paragraph (d)(3)(i) of this clause, and the Contractor's timely written request, the Contracting Officer shall consider an equitable adjustment to the contract.

(e) **Title to Government property.**

(1) All Government-furnished property and all property acquired by the Contractor, title to which vests in the Government under this paragraph (collectively referred to as "Government property"), is subject to the provisions of this clause. The Government shall retain title to all Government-furnished property. Title to Government property shall not be affected by its incorporation into or attachment to any property not owned by the Government, nor shall Government property become a fixture or lose its identity as personal property by being attached to any real property.

(2) Title vests in the Government for all property acquired or fabricated by the Contractor in accordance with the financing provisions or other specific requirements for passage of title in the contract. Under fixed price type contracts, in the absence of financing provisions or other specific requirements for passage of title in the contract, the Contractor retains title to all property acquired by the Contractor for use on the contract, except for property identified as a deliverable end item. If a deliverable item is to be retained by the Contractor for use after inspection and acceptance by the Government, it shall be made accountable to the contract through a contract modification listing the item as Government-furnished property.

(3) **Title under Cost-Reimbursement or Time-and-Material Contracts or Cost-Reimbursable contract line items under Fixed-Price contracts.**

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

(ii) Title to all other property, the cost of which is reimbursable to the Contractor, shall pass to and vest in the Government upon—

(A) Issuance of the property for use in contract performance;

(B) Commencement of processing of the property for use in contract performance; or
(C) Reimbursement of the cost of the property by the Government, whichever occurs first.

(iii) All Government-furnished property and all property acquired by the Contractor, title to which vests in the Government under this paragraph (e)(3)(iii) (collectively referred to as “Government property”), are subject to the provisions of this clause.

(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:

(i) Acquisition of Property. The Contractor shall document that all property was acquired consistent with its engineering, production planning, and property control operations.

(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, identify as Government owned in a manner appropriate to the type of property (e.g., stamp, tag, mark, or other identification), and manage any discrepancies incident to shipment.

(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.

(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).

(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.

(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).
(v) **Subcontractor control.**

(A) 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).

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

(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.

(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.

(C) Unless the contract provides otherwise, the Contractor shall be relieved of stewardship responsibility and liability for property when—

(1) Such property is consumed or expended, reasonably and properly, or otherwise accounted for, in the performance of the contract, including reasonable inventory adjustments of material as determined by the Property Administrator;

(2) Property Administrator grants relief of responsibility and liability for loss of Government property;

(3) Property is delivered or shipped from the Contractor’s plant, under Government instructions, except when shipment is to a subcontractor or other location of the Contractor; or

(4) Property is disposed of in accordance with paragraphs (j) and (k) of this clause.

(viii) Utilizing Government property.

(A) The Contractor shall utilize, consume, move, and store Government Property only as authorized under this contract. The Contractor shall promptly disclose and report Government property in its possession that is excess to contract performance.
(B) Unless otherwise authorized in this contract or by the Property Administrator the Contractor shall not commingle Government material with material not owned by the Government.

(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.

(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; and disposing of items at the time they are determined to be excess to contractual needs.

(2) The Contractor shall establish and maintain Government accounting source data, as may be required by this contract, particularly in the areas of recognition of acquisitions, loss of Government property, and disposition of material and equipment.

(g) Systems analysis.

(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.

(3) 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.

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

(h) **Contractor Liability for Government Property.**

(1) Unless otherwise provided for in the contract, the Contractor shall not be liable for loss of Government property furnished or acquired under this contract, except when any one of the following applies—

(i) The risk is covered by insurance or the Contractor is otherwise reimbursed (to the extent of such insurance or reimbursement). The allowability of insurance costs shall be determined in accordance with 31.205-19.

(ii) Loss of Government property that is the result of willful misconduct or lack of good faith on the part of the Contractor's managerial personnel.

(iii) The Contracting Officer has, in writing, revoked the Government's assumption of risk for loss of Government property due to a determination under paragraph (g) of this clause that the Contractor's property management practices are inadequate, and/or present an undue risk to the Government, and the Contractor failed to take timely corrective action. If the Contractor can establish by clear and convincing evidence that the loss of Government property occurred while the Contractor had adequate property management practices or the loss did not result from the Contractor's failure to maintain adequate property management practices, the Contractor shall not be held liable.

(2) The Contractor shall take all reasonable actions necessary to protect the property from further loss. The Contractor shall separate the damaged and undamaged property, place all the affected property in the best possible order, and take such other action as the Property Administrator directs.

(3) The Contractor shall do nothing to prejudice the Government's rights to recover against third parties for any loss of Government property.

(4) The Contractor shall reimburse the Government for loss of Government property, to the extent that the Contractor is financially liable for such loss, as directed by the Contracting Officer.

(5) Upon the request of the Contracting Officer, the Contractor shall, at the Government's expense, furnish to the Government all reasonable assistance and cooperation, including the prosecution of suit and the execution of instruments of assignment in favor of the Government in obtaining recovery.
(i) **Equitable adjustment.** Equitable adjustments under this clause shall be made in accordance with the procedures of the Changes clause. However, the Government shall not be liable for breach of contract for the following:

2. Delivery of Government-furnished property in a condition not suitable for its intended use.
3. An increase, decrease, or substitution of Government-furnished property.
4. Failure to repair or replace Government property for which the Government is responsible.

(j) **Contractor inventory disposal.** Except as otherwise provided for in this contract, the Contractor shall not dispose of Contractor inventory until authorized to do so by the Plant Clearance Officer or authorizing official.

1. **Predisposal requirements.**

   (i) If the Contractor determines that the property has the potential to fulfill requirements under other contracts, the Contractor, in consultation with the Property Administrator, shall request that the Contracting Officer transfer the property to the contract in question, or provide authorization for use, as appropriate. In lieu of transferring the property, the Contracting Officer may authorize the Contractor to credit the costs of Contractor-acquired property (material only) to the losing contract, and debit the gaining contract with the corresponding cost, when such material is needed for use on another contract. Property no longer needed shall be considered contractor inventory.

   (ii) For any remaining Contractor-acquired property, the Contractor may purchase the property at the unit acquisition cost if desired or make reasonable efforts to return unused property to the appropriate supplier at fair market value (less, if applicable, a reasonable restocking fee that is consistent with the supplier's customary practices.)

2. **Inventory disposal schedules.**

   (i) Absent separate contract terms and conditions for property disposition, and provided the property was not reutilized, transferred, or otherwise disposed of, the Contractor, as directed by the Plant Clearance Officer or authorizing official, shall use Standard Form 1428, Inventory Disposal Schedule or electronic equivalent, to identify and report—
(A) Government-furnished property that is no longer required for performance of this contract;

(B) Contractor-acquired property, to which the Government has obtained title under paragraph (e) of this clause, which is no longer required for performance of that contract; and

(C) Termination inventory.

(ii) The Contractor may annotate inventory disposal schedules to identify property the Contractor wishes to purchase from the Government, in the event that the property is offered for sale.

(iii) Separate inventory disposal schedules are required for aircraft in any condition, flight safety critical aircraft parts, and other items as directed by the Plant Clearance Officer.

(iv) The Contractor shall provide the information required by FAR 52.245-1(f)(1)(iii) along with the following:

   (A) Any additional; information that may facilitate understanding of the property’s intended use.

   (B) For work-in-progress, the estimated percentage of completion.

   (C) For precious metals in raw or bulk form, the type of metal and estimated weight.

   (D) For hazardous material or property contaminated with hazardous material, the type of hazardous material.

   (E) For metals in mill product form, the form, shape, treatment, hardness, temper, specification (commercial or Government) and dimensions (thickness, width and length).

(v) Property with the same description, condition code, and reporting location may be grouped in a single line item.

(vi) Scrap should be reported by “lot” along with metal content, estimated weight and estimated value.
Submission requirements.

(i) The Contractor shall submit inventory disposal schedules to the Plant Clearance Officer no later than—

(A) 30 days following the Contractor's determination that a property item is no longer required for performance of this contract;

(B) 60 days, or such longer period as may be approved by the Plant Clearance Officer, following completion of contract deliveries or performance; or

(C) 120 days, or such longer period as may be approved by the Termination Contracting Officer, following contract termination in whole or in part.

(ii) Unless the Plant Clearance Officer determines otherwise, the Contractor need not 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. The processing and disposal of other types of Government-owned scrap will be conducted in accordance with the terms and conditions of the contract or Plant Clearance Officer direction, as appropriate.

Corrections. The Plant Clearance Officer may—

(i) Reject a schedule for cause (e.g., contains errors, determined to be inaccurate); and

(ii) Require the Contractor to correct an inventory disposal schedule.

Postsubmission adjustments. The Contractor shall notify the Plant Clearance Officer at least 10 working days in advance of its intent to remove an item from an approved inventory disposal schedule. Upon approval of the Plant Clearance Officer, or upon expiration of the notice period, the Contractor may make the necessary adjustments to the inventory schedule.

Storage.

(i) The Contractor shall store the property identified on an inventory disposal schedule pending receipt of disposal instructions. The Government's failure to furnish disposal instructions within 120 days following acceptance of an inventory disposal schedule may entitle the Contractor to an equitable adjustment for costs incurred to store such property on or after the 121st day.
(ii) The Contractor shall obtain the Plant Clearance Officer's approval to remove Government property from the premises where the property is currently located prior to receipt of final disposition instructions. If approval is granted, any costs incurred by the Contractor to transport or store the property shall not increase the price or fee of any Government contract. The storage area shall be appropriate for assuring the property's physical safety and suitability for use. Approval does not relieve the Contractor of any liability for such property under this contract.

(7) *Disposition instructions.*

(i) The Contractor shall prepare for shipment, deliver f.o.b. origin, or dispose of Contractor inventory as directed by the Plant Clearance Officer. Unless otherwise directed by the Contracting Officer or by the Plant Clearance Officer, the Contractor shall remove and destroy any markings identifying the property as U.S. Government-owned property prior to its disposal.

(ii) The Contracting Officer may require the Contractor to demilitarize the property prior to shipment or disposal. In such cases, the Contractor may be entitled to an equitable adjustment under paragraph (i) of this clause.

(8) *Disposal proceeds.* As directed by the Contracting Officer, the Contractor shall credit the net proceeds from the disposal of Contractor inventory to the contract, or to the Treasury of the United States as miscellaneous receipts.

(9) *Subcontractor inventory disposal schedules.* The Contractor shall require its Subcontractors to submit inventory disposal schedules to the Contractor in accordance with the requirements of paragraph (j)(3) of this clause.

(k) *Abandonment of Government property.*

(1) The Government shall not abandon sensitive property or termination inventory without the Contractor's written consent.

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

(3) Absent contract terms and conditions to the contrary, the Government may abandon parts removed and replaced from property as a result of normal maintenance actions, or removed from property as a result of the repair, maintenance, overhaul, or modification process.
(4) The Government has no obligation to restore or rehabilitate the Contractor's premises under any circumstances; however, if Government-furnished property is withdrawn or is unsuitable for the intended use, or if other Government property is substituted, then the equitable adjustment under paragraph (i) of this clause may properly include restoration or rehabilitation costs.

(l) Communication. All communications under this clause shall be in writing.

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

(End of clause)

Alternate I (APR 2012). As prescribed in 45.107 (a)(2), substitute the following for paragraph (h)(1) of the basic clause:

(h)(1) The Contractor assumes the risk of, and shall be responsible for, any loss of Government property upon its delivery to the Contractor as Government-furnished property. However, the Contractor is not responsible for reasonable wear and tear to Government property or for Government property properly consumed in performing this contract.

Alternate II (APR 2012). As prescribed in 45.107 (a)(3), substitute the following for paragraph (e)(3) of the basic clause:

(e)(3) Title to property (and other tangible personal property) purchased with funds available for research and having a unit acquisition cost of less than $5,000 shall vest in the Contractor upon acquisition or as soon thereafter as feasible; provided that the Contractor obtained the Contracting Officer's approval before each acquisition. Title to property purchased with funds available for research and having a unit acquisition cost of $5,000 or more shall vest as set forth in this contract. If title to property vests in the Contractor under this paragraph, the Contractor agrees that no costs shall be allowed for any depreciation, amortization, or use under any existing or future Government contract or subcontract thereunder. The Contractor shall furnish the Contracting Officer a list of all property to which title is vested in the Contractor under this paragraph within 10 days following the end of the calendar quarter during which it was received. Vesting title under this paragraph is subject to civil rights legislation, 42 U.S.C. 2000d. Before title is vested and by signing this contract, the Contractor accepts and agrees that—

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

Relevant Excerpts From
2 CFR, Part 200
Uniform Administrative Requirements,
Cost Principles, and Audit Requirements for Federal Awards
(December 26, 2014)

Subpart A – Acronyms and Definitions

§ 200.1 Definitions.

These are the definitions for terms used in this Part. Different definitions may be found in Federal statutes or regulations that apply more specifically to particular programs or activities. These definitions could be supplemented by additional instructional information provided in government wide standard information collections.

§ 200.2 Acquisition cost.

Acquisition cost means the cost of the asset including the cost to ready the asset for its intended use. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Acquisition costs for software includes those development costs capitalized in accordance with generally accepted accounting principles (GAAP). Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in or excluded from the acquisition cost in accordance with the non-Federal entity’s regular accounting practices.

§ 200.12 Capital assets.

Capital assets means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP. Capital assets include:

(a) Land, buildings (facilities), equipment, and intellectual property (including software) whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases; and

(b) Additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance).
§ 200.13  Capital expenditures.

Capital expenditures means expenditures to acquire capital assets or expenditures to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life.

§ 200.20  Computing devices.

Computing devices means machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or “peripherals”) for printing, transmitting and receiving, or storing electronic information. See also §§ 200.94 Supplies and 200.58 Information technology systems.

§ 200.33  Equipment.

Equipment means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or $5,000. See also §§ 200.12 Capital assets, 200.20 Computing devices, 200.48 General purpose equipment, 200.58 Information technology systems, 200.89 Special purpose equipment, and 200.94 Supplies.

§ 200.41  Federal interest.

Federal interest means, for purposes of § 200.329 Reporting on real property or when used in connection with the acquisition or improvement of real property, equipment, or supplies under a Federal award, the dollar amount that is the product of the:
(a) Federal share of total project costs; and
(b) Current fair market value of the property, improvements, or both, to the extent the costs of acquiring or improving the property were included as project costs

§ 200.48  General purpose equipment.

General purpose equipment means equipment which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles. See also Equipment and Special Purpose Equipment.

§ 200.58  Information technology systems.

Information technology systems means computing devices, ancillary equipment, software, firmware, and similar procedures, services (including support services), and related resources. See also §§ 200.20 Computing devices and 200.33 Equipment.
§ 200.59  Intangible property.

Intangible property means property having no physical existence, such as trademarks, copyrights, patents and patent applications and property, such as loans, notes and other debt instruments, lease agreements, stock and other instruments of property ownership (whether the property is tangible or intangible).

§ 200.78  Personal property.

Personal property means property other than real property. It may be tangible, having physical existence, or intangible.

§ 200.81  Property.

Property means real property or personal property.

§ 200.85  Real property.

Real property means land, including land improvements, structures and appurtenances thereto, but excludes moveable machinery and equipment.

§ 200.94  Supplies.

Supplies means all tangible personal property other than those described in § 200.33 Equipment. A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or $5,000, regardless of the length of its useful life. See also §§ 200.20 Computing devices and 200.33 Equipment.

§ 200.96  Third-party in-kind contributions.

Third-party in-kind contributions means the value of non-cash contributions (i.e., property or services) that—

(a) Benefit a federally assisted project or program; and

(b) Are contributed by non-Federal third parties, without charge, to a non-Federal entity under a Federal award.
Subpart D - Post Federal Award Requirements

Property Standards

§ 200.310  Insurance coverage.

The non-Federal entity must, at a minimum, provide the equivalent insurance coverage for real property and equipment acquired or improved with Federal funds as provided to property owned by the non-Federal entity. Federally-owned property need not be insured unless required by the terms and conditions of the Federal award.

§ 200.311  Real property.

(a) Title. Subject to the obligations and conditions set forth in this section, title to real property acquired or improved under a Federal award will vest upon acquisition in the non-Federal entity.

(b) Use. Except as otherwise provided by Federal statutes or by the Federal awarding agency, real property will be used for the originally authorized purpose as long as needed for that purpose, during which time the non-Federal entity must not dispose of or encumber its title or other interests.

(c) Disposition. When real property is no longer needed for the originally authorized purpose, the non-Federal entity must obtain disposition instructions from the Federal awarding agency or pass-through entity. The instructions must provide for one of the following alternatives:

(1) Retain title after compensating the Federal awarding agency. The amount paid to the Federal awarding agency will be computed by applying the Federal awarding agency’s percentage of participation in the cost of the original purchase (and costs of any improvements) to the fair market value of the property. However, in those situations where non-Federal entity is disposing of real property acquired or improved with a Federal award and acquiring replacement real property under the same Federal award, the net proceeds from the disposition may be used as an offset to the cost of the replacement property.

(2) Sell the property and compensate the Federal awarding agency. The amount due to the Federal awarding agency will be calculated by applying the Federal awarding agency’s percentage of participation in the cost of the original purchase (and cost of any improvements) to the proceeds of the sale after deduction of any actual and reasonable selling and fixing-up expenses. If the Federal award has not been closed out, the net proceeds from sale may be offset against the original cost of the property. When non-Federal entity is directed to sell property, sales procedures must be followed that provide for competition to the extent practicable and result in the highest possible return.

(3) Transfer title to the Federal awarding agency or to a third party designated/approved by the Federal awarding agency. The non-Federal entity is entitled to be paid an amount calculated by applying the non-Federal entity’s percentage of
participation in the purchase of the real property (and cost of any improvements) to the current fair market value of the property.

§ 200.312 Federally-owned and exempt property.

(a) Title to federally-owned property remains vested in the Federal government. The non-Federal entity must submit annually an inventory listing of federally-owned property in its custody to the Federal awarding agency. Upon completion of the Federal award or when the property is no longer needed, the non-Federal entity must report the property to the Federal awarding agency for further Federal agency utilization.

(b) If the Federal awarding agency has no further need for the property, it must declare the property excess and report it for disposal to the appropriate Federal disposal authority, unless the Federal awarding agency has statutory authority to dispose of the property by alternative methods (e.g., the authority provided by the Federal Technology Transfer Act (15 U.S.C. 3710 (i)) to donate research equipment to educational and non-profit organizations in accordance with Executive Order 12999, “Educational Technology: Ensuring Opportunity for All Children in the Next Century.”). The Federal awarding agency must issue appropriate instructions to the non-Federal entity.

(c) Exempt federally-owned property means property acquired under a Federal award the title based upon the explicit terms and conditions of the Federal award that indicate the Federal awarding agency has chosen to vest in the non-Federal entity without further obligation to the Federal government or under conditions the Federal agency considers appropriate. The Federal awarding agency may exercise this option when statutory authority exists. Absent statutory authority and specific terms and conditions of the Federal award, title to exempt federally-owned property acquired under the Federal award remains with the Federal government.

§ 200.313 Equipment.

See also § 200.439 Equipment and other capital expenditures.

(a) Title. Subject to the obligations and conditions set forth in this section, title to equipment acquired under a Federal award will vest upon acquisition in the non-Federal entity. Unless a statute specifically authorizes the Federal agency to vest title in the non-Federal entity without further obligation to the Federal government, and the Federal agency elects to do so, the title must be a conditional title. Title must vest in the non-Federal entity subject to the following conditions:

1. Use the equipment for the authorized purposes of the project until funding for the project ceases, or until the property is no longer needed for the purposes of the project.
2. Not encumber the property without approval of the Federal awarding agency or pass-through entity.
3. Use and dispose of the property in accordance with paragraphs (b), (c) and (e) of this section.
(b) A state must use, manage and dispose of equipment acquired under a Federal award by the state in accordance with state laws and procedures. Other non-Federal entities must follow paragraphs (c) through (e) of this section.

(c) Use.

(1) Equipment must be used by the non-Federal entity in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by the Federal award, and the non-Federal entity must not encumber the property without prior approval of the Federal awarding agency. When no longer needed for the original program or project, the equipment may be used in other activities supported by the Federal awarding agency, in the following order of priority:

(i) Activities under a Federal award from the Federal awarding agency which funded the original program or project, then

(ii) Activities under Federal awards from other Federal awarding agencies. This includes consolidated equipment for information technology systems.

(2) During the time that equipment is used on the project or program for which it was acquired, the non-Federal entity must also make equipment available for use on other projects or programs currently or previously supported by the Federal government, provided that such use will not interfere with the work on the projects or program for which it was originally acquired. First preference for other use must be given to other programs or projects supported by Federal awarding agency that financed the equipment and second preference must be given to programs or projects under Federal awards from other Federal awarding agencies. Use for non-federally-funded programs or projects is also permissible. User fees should be considered if appropriate.

(3) Notwithstanding the encouragement in § 200.307 Program income to earn program income, the non-Federal entity must not use equipment acquired with the Federal award to provide services for a fee that is less than private companies charge for equivalent services unless specifically authorized by Federal statute for as long as the Federal government retains an interest in the equipment.

(4) When acquiring replacement equipment, the non-Federal entity may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.

(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition.

(5) If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

(e) Disposition. When original or replacement equipment acquired under a Federal award is no longer needed for the original project or program or for other activities currently or previously supported by a Federal awarding agency, except as otherwise provided in Federal statutes, regulations, or Federal awarding agency disposition instructions, the non-Federal entity must request disposition instructions from the Federal awarding agency if required by the terms and conditions of the Federal award. Disposition of the equipment will be made as follows, in accordance with Federal awarding agency disposition instructions:

(1) Items of equipment with a current per unit fair market value of $5,000 or less may be retained, sold or otherwise disposed of with no further obligation to the Federal awarding agency.

(2) Except as provided in § 200.312 Federally-owned and exempt property, paragraph (b), or if the Federal awarding agency fails to provide requested disposition instructions within 120 days, items of equipment with a current per-unit fair-market value in excess of $5,000 may be retained by the non-Federal entity or sold. The Federal awarding agency is entitled to an amount calculated by multiplying the current market value or proceeds from sale by the Federal awarding agency’s percentage of participation in the cost of the original purchase. If the equipment is sold, the Federal awarding agency may permit the non-Federal entity to deduct and retain from the Federal share $500 or ten percent of the proceeds, whichever is less, for its selling and handling expenses.

(3) The non-Federal entity may transfer title to the property to the Federal Government or to an eligible third party provided that, in such cases, the non-Federal entity must be entitled to compensation for its attributable percentage of the current fair market value of the property.

(4) In cases where a non-Federal entity fails to take appropriate disposition actions, the Federal awarding agency may direct the non-Federal entity to take disposition actions.

§ 200.314 Supplies.

See also § 200.453 Materials and supplies costs, including costs of computing devices.

(a) Title to supplies will vest in the non-Federal entity upon acquisition. If there is a residual inventory of unused supplies exceeding $5,000 in total aggregate value upon termination or completion of the project or program and the supplies are not needed for any other Federal award, the non-Federal entity must retain the supplies for use on other activities or sell them, but must, in either case, compensate the Federal government for its share.
amount of compensation must be computed in the same manner as for equipment. See § 200.313 equipment, paragraph (e)(2) for the calculation methodology.

(b) As long as the Federal government retains an interest in the supplies, the non-Federal entity must not use supplies acquired under a Federal award to provide services to other organizations for a fee that is less than private companies charge for equivalent services, unless specifically authorized by Federal statute.

§ 200.315 Intangible property.

(a) Title to intangible property (see § 200.59 Intangible property) acquired under a Federal award vests upon acquisition in the non-Federal entity. The non-Federal entity must use that property for the originally-authorized purpose, and must not encumber the property without approval of the Federal awarding agency. When no longer needed for the originally authorized purpose, disposition of the intangible property must occur in accordance with the provisions in § 200.313 Equipment paragraph (e).

(b) The non-Federal entity may copyright any work that is subject to copyright and was developed, or for which ownership was acquired, under a Federal award. The Federal awarding agency reserves a royalty-free, nonexclusive and irrevocable right to reproduce, publish, or otherwise use the work for Federal purposes, and to authorize others to do so.

(c) The non-Federal entity is subject to applicable regulations governing patents and inventions, including government wide regulations issued by the Department of Commerce at 37 CFR Part 401, “Rights to Inventions Made by nonprofit Organizations and Small Business Firms Under Government Awards, Contracts and Cooperative Agreements.”

(d) The Federal government has the right to:

1. Obtain, reproduce, publish, or otherwise use the data produced under a Federal award; and
2. Authorize others to receive, reproduce, publish, or otherwise use such data for Federal purposes.

(e) Freedom of Information Act (FOIA).

1. In addition, in response to a Freedom of Information Act (FOIA) request for research data relating to published research findings produced under a Federal award that were used by the Federal government in developing an agency action that has the force and effect of law, the Federal awarding agency must request, and the non-Federal entity must provide, within a reasonable time, the research data so that they can be made available to the public through the procedures established under the FOIA. If the Federal awarding agency obtains the research data solely in response to a FOIA request, the Federal awarding agency may charge the requester a reasonable fee equaling the full incremental cost of obtaining the research data. This fee should reflect costs incurred by the Federal agency and the non-Federal entity. This fee is in addition to any fees the Federal awarding agency may assess under the FOIA (5 U.S.C. 552(a)(4)(A)).

2. Published research findings means when:

   (i) Research findings are published in a peer-reviewed scientific or technical journal; or
(ii) A Federal agency publicly and officially cites the research findings in support of an agency action that has the force and effect of law. “Used by the Federal government in developing an agency action that has the force and effect of law” is defined as when an agency publicly and officially cites the research findings in support of an agency action that has the force and effect of law.

(3) Research data means the recorded factual material commonly accepted in the scientific community as necessary to validate research findings, but not any of the following: preliminary analyses, drafts of scientific papers, plans for future research, peer reviews, or communications with colleagues. This “recorded” material excludes physical objects (e.g., laboratory samples). Research data also do not include:

   (i) Trade secrets, commercial information, materials necessary to be held confidential by a researcher until they are published, or similar information which is protected under law; and
   (ii) Personnel and medical information and similar information the disclosure of which would constitute a clearly unwarranted invasion of personal privacy, such as information that could be used to identify a particular person in a research study.

§ 200.316 Property trust relationship.

Real property, equipment, and intangible property, that are acquired or improved with a Federal award must be held in trust by the non-Federal entity as trustee for the beneficiaries of the project or program under which the property was acquired or improved. The Federal awarding agency may require the non-Federal entity to record liens or other appropriate notices of record to indicate that personal or real property has been acquired or improved with a Federal award and that use and disposition conditions apply to the property.
Appendix C

Relevant Excerpts From
Defense Federal Acquisition Regulation (DFARS)
Subpart 242.70—Contractor Business Systems
(Revised February 24, 2012)

252.242-7004  Material Management and Accounting System.

As prescribed in 242.7204, use the following clause:

MATERIAL MANAGEMENT AND ACCOUNTING SYSTEM (MAY 2011)

(a)   Definitions.  As used in this clause—

(1)   “Material management and accounting system (MMAS)” means the Contractor's system or systems for planning, controlling, and accounting for the acquisition, use, issuing, and disposition of material. Material management and accounting systems may be manual or automated. They may be stand-alone systems or they may be integrated with planning, engineering, estimating, purchasing, inventory, accounting, or other systems.

(2)   “Valid time-phased requirements” means material that is—

   (i)   Needed to fulfill the production plan, including reasonable quantities for scrap, shrinkage, yield, etc.; and

   (ii)  Charged/billed to contracts or other cost objectives in a manner consistent with the need to fulfill the production plan.

(3)   “Contractor” means a business unit as defined in section 31.001 of the Federal Acquisition Regulation (FAR).

(4)   “Acceptable material management and accounting system” means a MMAS that generally complies with the system criteria in paragraph (d) of this clause.

(5)   “Significant deficiency” means a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon information produced by the system that is needed for management purposes.
(b) General. The Contractor shall—

(1) Maintain an MMAS that—

(i) Reasonably forecasts material requirements;

(ii) Ensures that costs of purchased and fabricated material charged or allocated to a contract are based on valid time-phased requirements; and

(iii) Maintains a consistent, equitable, and unbiased logic for costing of material transactions; and

(2) Assess its MMAS and take reasonable action to comply with the MMAS standards in paragraph (e) of this clause.

(c) Disclosure and maintenance requirements. The Contractor shall—

(1) Have policies, procedures, and operating instructions that adequately describe its MMAS;

(2) Provide to the Administrative Contracting Officer (ACO), upon request, the results of internal reviews that it has conducted to ensure compliance with established MMAS policies, procedures, and operating instructions; and

(3) Disclose significant changes in its MMAS to the ACO at least 30 days prior to implementation.

(d) System criteria. The MMAS shall have adequate internal controls to ensure system and data integrity, and shall--

(1) Have an adequate system description including policies, procedures, and operating instructions that comply with the FAR and Defense FAR Supplement;

(2) Ensure that costs of purchased and fabricated material charged or allocated to a contract are based on valid time-phased requirements as impacted by minimum/economic order quantity restrictions.

(i) A 98 percent bill of material accuracy and a 95 percent master production schedule accuracy are desirable as a goal in order to ensure that requirements are both valid and appropriately time-phased.

(ii) If systems have accuracy levels below these, the Contractor shall provide adequate evidence that—
(A) There is no material harm to the Government due to lower accuracy levels; and

(B) The cost to meet the accuracy goals is excessive in relation to the impact on the Government;

(3) Provide a mechanism to identify, report, and resolve system control weaknesses and manual override. Systems should identify operational exceptions, such as excess/residual inventory, as soon as known;

(4) Provide audit trails and maintain records (manual and those in machine-readable form) necessary to evaluate system logic and to verify through transaction testing that the system is operating as desired;

(5) Establish and maintain adequate levels of record accuracy, and include reconciliation of recorded inventory quantities to physical inventory by part number on a periodic basis. A 95 percent accuracy level is desirable. If systems have an accuracy level below 95 percent, the Contractor shall provide adequate evidence that—

   (i) There is no material harm to the Government due to lower accuracy levels; and

   (ii) The cost to meet the accuracy goal is excessive in relation to the impact on the Government;

(6) Provide detailed descriptions of circumstances that will result in manual or system generated transfers of parts;

(7) Maintain a consistent, equitable, and unbiased logic for costing of material transactions as follows:

   (i) The Contractor shall maintain and disclose written policies describing the transfer methodology and the loan/pay-back technique.

   (ii) The costing methodology may be standard or actual cost, or any of the inventory costing methods in 48 CFR 9904.411-50(b). The Contractor shall maintain consistency across all contract and customer types, and from accounting period to accounting period for initial charging and transfer charging.

   (iii) The system should transfer parts and associated costs within the same billing period. In the few instances where this may not be appropriate, the Contractor may accomplish the material transaction using a loan/pay-back technique. The “loan/pay-back technique” means that the physical part is moved temporarily from the contract, but the cost of the part remains on the contract. The procedures for the
loan/pay-back technique must be approved by the ACO. When the technique is used, the Contractor shall have controls to ensure—

(A) Parts are paid back expeditiously;

(B) Procedures and controls are in place to correct any overbilling that might occur;

(C) Monthly, at a minimum, identification of the borrowing contract and the date the part was borrowed; and

(D) The cost of the replacement part is charged to the borrowing contract;

(8) Where allocations from common inventory accounts are used, have controls (in addition to those in paragraphs (e)(2) and (7) of this clause) to ensure that—

(i) Reallocations and any credit due are processed no less frequently than the routine billing cycle;

(ii) Inventories retained for requirements that are not under contract are not allocated to contracts; and

(iii) Algorithms are maintained based on valid and current data;

(9) Have adequate controls to ensure that physically commingled inventories that may include material for which costs are charged or allocated to fixed-price, cost-reimbursement, and commercial contracts do not compromise requirements of any of the standards in paragraphs (e)(1) through (8) of this clause. Government-furnished material shall not be—

(i) Physically commingled with other material; or

(ii) Used on commercial work; and

(10) Be subjected to periodic internal reviews to ensure compliance with established policies and procedures.

(e) Significant deficiencies.

(1) The Contracting Officer will provide an initial determination to the Contractor, in writing, of any significant deficiencies. The initial determination will describe the deficiency in sufficient detail to allow the Contractor to understand the deficiency.
(2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies significant deficiencies in the Contractor's MMAS. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.

(3) The Contracting Officer will evaluate the Contractor's response and notify the Contractor, in writing, of the Contracting Officer’s final determination concerning—

(i) Remaining significant deficiencies;

(ii) The adequacy of any proposed or completed corrective action; and

(iii) System disapproval if the Contracting Officer determines that one or more significant deficiencies remain.

(f) 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.

(g) Withholding payments. If the Contracting Officer makes a final determination to disapprove the Contractor’s MMAS, and the contract includes the clause at 252.242-7005, Contractor Business Systems, the Contracting Officer will withhold payments in accordance with that clause.

(End of clause)