

# Introduction to Government Property and More



Redstone  
Government Consulting

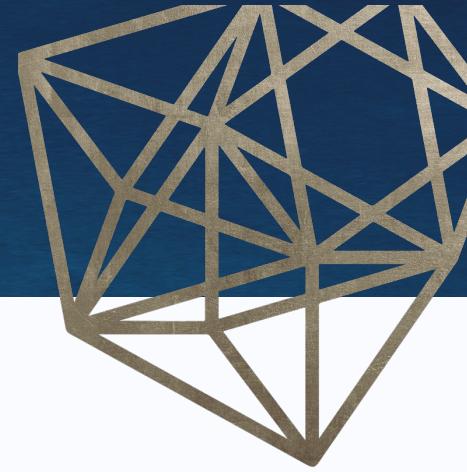
*Helping You Navigate the Maze of Government Contracting*



**Instructor**  
**Jonas Clem**



# Company Overview



## Who Are We?

- A team of the most senior industry veterans and the brightest new talent in the industry.
- Many are former director level consultants from “big four” accounting and consulting firms with a strong mix of DCAA and GovCon industry executives.

## What Do We Do?

- Government Compliance Consulting, Accounting, Human Resources, and Business Systems Consulting Services, and Training Programs for Government Contractors

## Where Are We Located?

- We are based at 501 Madison Street SE, Suite 100, Huntsville, AL 35081







# Jonas Clem

Senior Managing Consultant

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Jonas is a Senior Managing Consultant for Special Projects for Redstone Government Consulting, Inc. Jonas works with the Redstone GCI client base on a variety of issues pertaining to government cost and compliance. His specialty areas include development of compliant cost volumes and proposal pricing, as well as assisting contractors after contract award with program control, financial, cost accounting and audit issues. Jonas works on incurred cost proposals, indirect rate calculation and analysis, proposals and project control issues for Redstone.

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# Why All the Sudden Interest in Government Property?

- Contractors control more Government property than all agencies combined.
- In many cases, Government personnel don't understand which property clauses to include.
- It is the most misunderstood business system by both contractors and Government personnel.
- Government property is no longer an afterthought.



# How Do I Know if a Property Management System is Required?

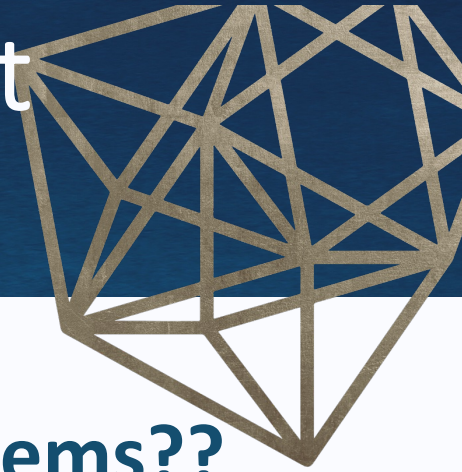


## **FAR 52.245-1**

- FAR clause that gives property instruction to contractors
- Defines contractor's responsibility in tracking and maintaining Government property
- Lists and describes all “outcomes” contractor is responsible for ensuring compliance with
- There are two “Alternates” to this clause that change it slightly
- Clause is basis for most all Government property policies & procedures



# How Do I Know if a Property Management System is Required?

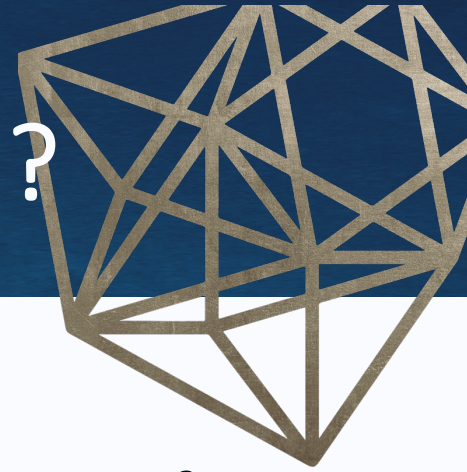


## Based on \$\$ thresholds like other DFARS business systems??

- There are no dollar-thresholds listed for Government property
- Individual contracts may set dollar thresholds but most do not
- In most cases, contractors can't set their own thresholds in company policies
- Property system requirements come from contract clauses or contractual language
- Before 2014, Government agencies were not required to track any Government property below \$5K. That has now changed.



# How Does DCMA Audit a Property System?



## Property Management System Analysis (PMSA)

- A PMSA is a systematic, objective review and evaluation of a contractor's PMS including the procedures and the implementation of applicable property management processes to determine whether the contractor is complying with contractual terms and conditions relating to property management.



# Property Management System Analysis (PMSA)

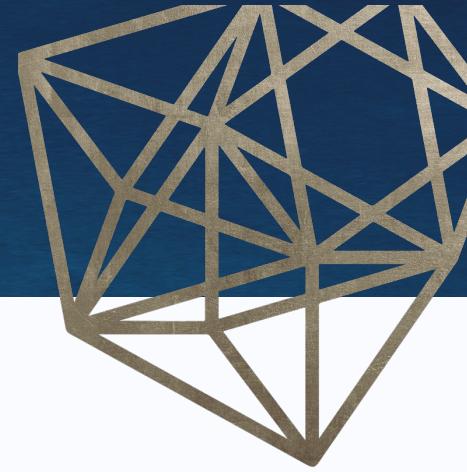


## Two Types

- Standard: Require entrance and exit conferences, involve plant visits, formal examinations with detailed work-papers generated, and formalized conclusions drawn as to the health of the contractor's system. The depth and detail of review and analysis are far greater for a standard system analysis than for a limited system analysis.
- Limited or “desk audits”: Permit less formal testing methods and techniques including contractor responses to a series of questions covering each applicable element of a contractor's PMS, and interviews of contractor personnel among other methods as appropriate, depending on the risk level, amount and value of property, etc.



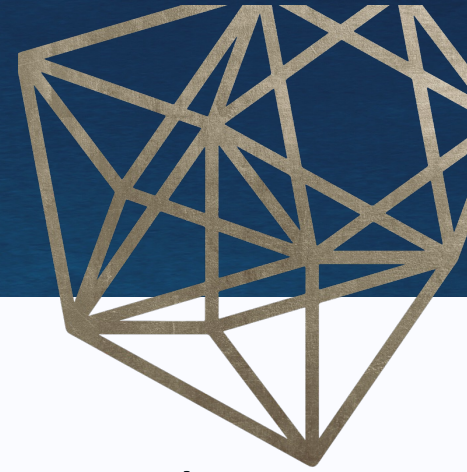
# PMISA Factors - Risk Levels



- What is an auditor looking for?
  - What is your risk level?
    - High Risk – PMISA annually
    - Moderate Risk – At least every two years
    - Low Risk – At least every three years
  - What determines your risk level?
    - Contractor's history of loss, theft or damage
    - Dollar value of property
    - Physical inventory adjustments
    - Instances of unauthorized risk of property



# PMSA Factors - Where to Start



## Policies and Procedures

- Does your Government property system address all required outcomes in your procedures?
- Are your policies achievable in everyday scenarios?
- Do your employees who handle Government property understand the procedures? Training?
- Are you following those procedures in maintaining all Government property?

\*\*\* Having an adequate PMS greatly reduces your risk on future audits

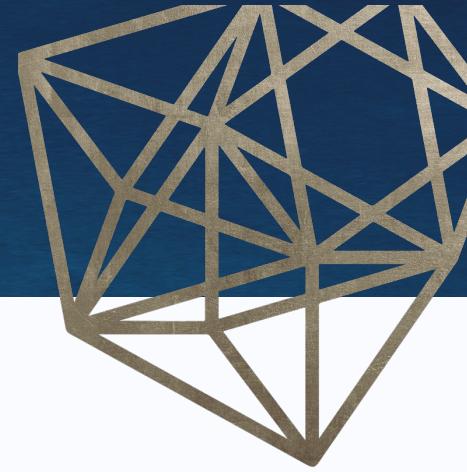


# Required Outcomes in Property Procedures

- i. Acquisition of Property
- ii. Receipt of Government Property
- iii. Records of Government Property
- iv. Physical Inventory
- v. Subcontractor Control
- vi. Reports
- vii. Relief of Stewardship
- viii. Utilizing Government Property
- ix. Maintenance
- x. Property Closeout



# What is Audited in a PMSA?



- Written procedures
- Contractor self-assessment (CSA)
- Acquisition
- Receiving
- Discrepancies incident to shipment
- Identification
- Records
- Receipt and issue system
- Physical inventory
- Subcontractor awards and flow-down clauses
- Subcontractor reviews
- Reports
- Relief of stewardship
- Utilization
- Declaration of excess
- Consumption
- Movement
- Storage and commingling
- Maintenance
- Closeout



# PMSA Sampling Factors



- Statistical - A number of items are selected from the population for analysis so that the sample is representative of the entire population from which it was selected.
- Judgment – A number of items are selected from the population for analysis without meeting the random selection and sample size criteria of statistical sampling.
- Purposeful - Known, suspected, or reported conditions of a critical or substantial nature are used to select items, for review to determine the possible adverse systemic impact.



# Findings and Corrective Actions

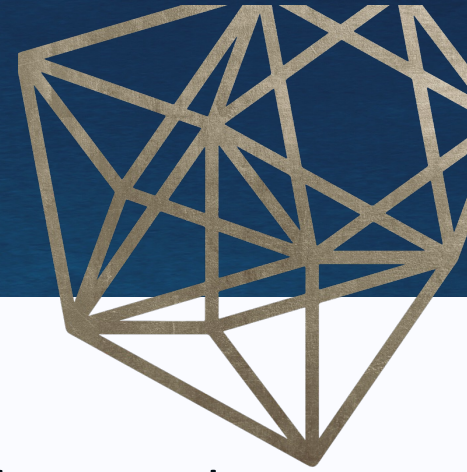


## Corrective Actions

- Level I – Deficiency that can be corrected immediately or during the PMSA
- Level II – Considered “non-significant” but require strong plan to correct to include:
  - Root cause on noncompliance
  - Corrective action taken/planned to eliminate cause and prevent recurrence
  - Actions taken to prevent specific noncompliance
  - Determination of whether other processes are affected by the root cause
  - Determination of whether products are affected by root cause including those already delivered to customer



# Findings and Corrective Actions



## Corrective Actions

- Action taken to correct weakness which allowed deficient product to be presented to the government for acceptance
- Target dates for implementation of planned actions
- Level III – Considered “significant” and addressed to Contractor top management
- Level IV – “Significant” and payments normally withheld; termination of contract an option



# Findings and Corrective Actions

Findings are reported to the Contracting Officer (CO) who either approves or disapproves the PMS in accordance with DCMA-INST 131.

The CO may implement a payment withhold on an individual contract if the contract contains DFARS 252.242-7005, Contractor Business Systems and DFARS 252.245-7003 Contractor Property Management System Administration.

If there are any deficiencies, PA indicates whether they materially affect the ability of DoD officials to rely upon information produced by the system.

PA evaluates the adequacy of all corrective action plans, monitors the performance of corrective actions and determines if corrective actions have been implemented and adequately address the deficiency.



# Types of Government Property



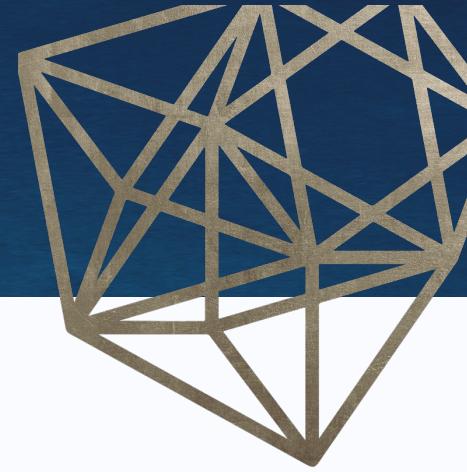
**Government-Furnished Property (GFP) – Property issued to contractor through a contract action for use in contract performance.**

- GFP may be serially managed or non-serially managed
- Special labeling and reporting requirements
- Can be pushed, pulled or transferred

**Contractor-Acquired Property (CAP) – Property the contractor is authorized to buy, fabricate or use from inventory for use in contract performance.**



# Government-Furnished Property (GFP)



## DFARS Clauses Pertaining to GFP

- DFARS 252.211-7003: Ull & Valuation
- DFARS 252.211-7007: Reporting
- DFARS 252.245-7001: Tag, Label and Mark

## Serially-managed versus non-serially managed

Depending on the clauses and designation, GFP is required to have a special label and reported in a government registry.

## Procurement Integrated Enterprise Environment (PIEE)

# Title to Government Property – FAR 52.245-1



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.



# Title to Government Property

## – FAR 52.245-1

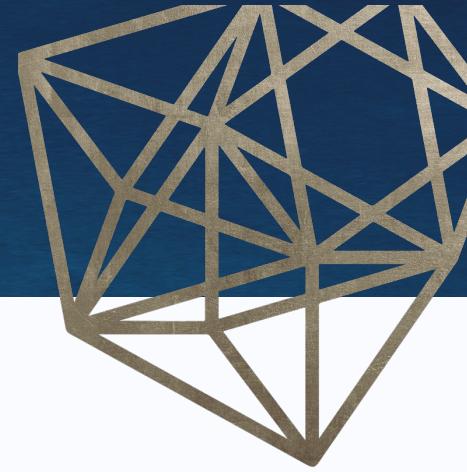


2. Title vests in the Government for all property acquired or fabricated by the Contractor in accordance with the financing provisions or other specific requirements for passage of title in the contract. **Under fixed price type contracts, in the absence of financing provisions or other specific requirements 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.



# Title to Government Property

## – FAR 52.245-1



*3.) Title under Cost-Reimbursement or Time-and-Material Contracts or Cost-Reimbursable 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-**
  - i. Issuance of the property for use in contract performance;**
  - ii. Commencement of processing of the property for use in contract performance; or**
  - iii. Reimbursement of the cost of the property by the Government, whichever occurs first.**



# GP Title Points to Remember

**Government-Furnished Property (GFP) – Government always has title. Must always have system in place to track. Remember special tracking requirements for GFP.**

**Contractor-Acquired Property (CAP) – Title depends on contract type. Fixed-price contracts normally don't require CAP to be tracked. Cost-reimbursable contracts always require CAP to be tracked.**



# What is Important?

- Understand the property clauses inserted in contracts
- Have policies and procedures that can be understood and followed
- Training for all employees who handle Government property
- Ensure all property is identified and labeled correctly
- Ensure each item of property has a property record
- Make sure any movement of property is recorded in property record
- All storage areas for property should be clean and secure
- Make sure any instances of loss or damage are investigated and reported to DCMA
- Make sure that property is utilized only for contract it was issued to or purchased for
- Perform a contractor self-assessment each year and submit results to DCMA
- Perform a full physical inventory each year and submit results to DCMA
- Do your subcontractors have property?
- Ensure contracts are closed out and property is dispositioned

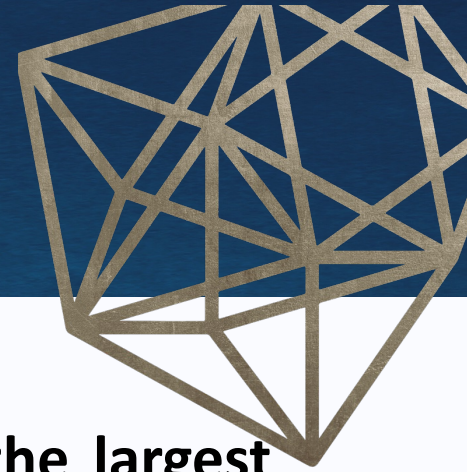


# What are Common Shortfalls?

- Awareness of Government property clauses
- Lack of training
- Contractor not doing self-assessments
- Subs with property
- Lack of physical inventory
- Not identifying someone as a “property administrator”
- Lack of communication
- Policies too difficult to follow



# Why All the Sudden Interest in Government Property?



- **Historically government property has been a non-issue at all but the largest contractors.**
- **DoD began a Financial Improvement and Audit Readiness initiative (FIAR) in 2017.**
  - **DoD Completes First Full Financial Statement Audit; Findings Will Directly Benefit Readiness**
  - Nov. 16, 2018
  - The auditors provided favorable feedback that Army, Navy and Air Force properly accounted for major military equipment and military and civilian pay. Auditors found no evidence of fraud. **They identified issues the department needs to address, including inventory, real property and information technology security.**





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