



# Prepare for Self-Certification of the Government Property Management System

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## Summary:

Government Property Management is one of the 6 mandatory business systems for contractors, required by the Department of Defense. In theory, contractors should perform periodic self-assessments on these business systems, but they are not mandatory. However, this might change soon. The Department of Defense (DOD) may be on the verge of imposing on contractors mandatory self-certification requirements for business systems.

This article provides some basic information about the FAR/DFARS requirements on Government Property Management system, some best practices and common challenges. Hopefully contract managers can use this information to assess how well their companies' Government Property Management system meet the FAR/DFARS requirements, so they can determine their strategy for managing specific contracts and proposals.

## **Mandatory Self-Certification on Contractor's Government Property Management System May Happen Soon**

As we know, the Department of Defense established, through the "Business Systems Rule," mandatory requirements for six contractor business systems: (1) accounting and billing; (2) estimating; (3) purchasing; (4) material management; (5) government property; and (6) earned value management.

For contract management professionals, a significant portion of their job responsibility is to ensure your company's business systems meet the requirements, whether through self-assessment or responding to DCAA/DCMA audits. Because the Business Systems Rule would permit DoD to withhold payments for significant deficiencies in any contractor business system, that's where contract management professionals add significant value to the company. They help reduce the financial risks for the company, while improving the practices in financial management and physical asset management.

While in theory, contractors should perform periodic self-assessments on these business systems, but they are not mandatory. However, this might change soon. The Department of Defense (DOD) may be on the verge of imposing on contractors mandatory self-certification requirements for business systems. While the actual requirements of DOD's upcoming business systems update are currently unknown, such a requirement will impose greater burdens and costs on contractors in an era of declining revenues.

According to a Government Contracts Advisory report published by the law firm McKenna Long Aldridge, DOD is preparing a proposed update to the DFARS business systems rule, DFARS Case 2012-D042. According to the most recent version of the DFARS case report, "this update will revise the existing DFARS business systems clauses to include contractor reporting and documentation requirements regarding contractor compliance with DFARS

business systems criteria.” The report also added that “DOD may view this self-reporting requirement as potentially helping DCMA and DCAA clear their considerable backlog.”

DoD’s increasing focus on business systems is driven by its strategic priorities. The Government Accounting Office (GAO) has identified DOD’s financial management as “high risk” since 1995 because of “pervasive deficiencies in its financial and related business management systems, processes, and controls.” DoD has taken important steps in establishing sustained top-level support and in improving its strategic planning in this area. It refined its strategic plan to focus on two important departmental priority areas: (1) budgetary information and (2) accountability for its mission-critical assets.

Since mission critical assets are a large percentage of DoD’s budget, that’s why we are seeing increased enforcement on contractors implementing a compliant Government Property Management business system. Having contractors properly accounting for the Government Property in their custody is a critical piece for DoD to deliver its strategic plan in the priority areas.

All signs indicate that DoD is increasingly putting pressure on contractors to have a compliant Government Property Management system. Perhaps it’s time to prepare for some basics in case you need to go through the mandatory self-certification soon.

### **FAR/DFARS Requirements on the Contractor’s Government Property Management System**

When a contract requires the management of Government Property (GFE, GFP, CAP), usually, the languages in the RFI or RFP will refer to clauses in FAR/DFARS:

- ✓ Material: FAR 45.101, 52.245-1(a)
- ✓ Equipment: FAR 45.101, 52.245-1(a), Special Test Equipment (FAR 2.101)
- ✓ Special Tooling: FAR 2.101
- ✓ Sensitive Property and Real Property: FAR 45.101, 52.245-1(a)

- ✓ Contractor Property Management System Compliance: DFARS § 245.105, DFARS § 252.245-7003
- ✓ Material Management and Accounting System: DFARS § 252.242-7004
- ✓ UID marking and reporting: DFARS 252.211-700X series

Overall, 10 performance outcomes from the Government Property Management system are required:

1. Acquisition
2. Receiving
3. Records
4. Physical Inventory
5. Subcontract control
6. Reports
7. Relief of Stewardship
8. Utilization
9. Maintenance
10. Property closeout

The “10 outcomes” is a good place for contractors to start when preparing for the self-certification of the Government Property Management system. By understanding the best practices and common challenges in these 10 outcome areas, you can quickly get a picture of the health of your company’s Government Property Management system.

You can find some general best practices and key performance metrics for Government Property Management from industries associations, such as the Aerospace Industries Association (AIA), the National Property Management Association (NPMA). We work with many government contractors to implement Government Property Management system. Based on our experiences, we believe there are some high impact practices contractors should adopt. These practices will streamline activities, save labor hours, reduce errors, and ensure

compliance. Adopting these high impact practices will help to avoid some common mistakes in implementing the Government Property Management business system. We have summarized our perspectives in Table 1. Best Practices and Common Mistakes in Managing Government Property.

**Table 1. Best Practices and Common Mistakes in Managing Government Property**

10 Performance Outcomes	High Impact Best Practices	Common Mistakes
<b>1. Acquisition</b>	<ul style="list-style-type: none"> <li>✓ The contractor has a defined project plan to inventory and validate the Government Property when starting the contract.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The Property Management Team is not involved in the proposal stage, therefore the company is not adequately prepared for contract transition.</li> </ul>
<b>2. Receiving</b>	<ul style="list-style-type: none"> <li>✓ Integrate the Government Property Management system with the Procurement system.</li> <li>✓ Identify equipment requiring UII (Unique Item Identifier) and update the information with the IUID registry.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of efficient work flows to exchange data with the IUID registry.</li> </ul>
<b>3. Records</b>	<ul style="list-style-type: none"> <li>✓ Establish an electronic storage system to keep all asset information in one easily searchable database.</li> <li>✓ Assign clear accountability to manage Government Property records.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Unable to track the “parent-child” relationship of equipment.</li> </ul>
<b>4. Physical inventory</b>	<ul style="list-style-type: none"> <li>✓ Use Inventory by Exception (IBE) transaction based inventory methods.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack physical inventory plan (including timing and methods).</li> </ul>
<b>5. Subcontract control</b>	<ul style="list-style-type: none"> <li>✓ Standardize systems and reports for Government Property Management across subcontractors.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of visibility to the data, system and business processes in subcontractors.</li> </ul>
<b>6. Reports</b>	<ul style="list-style-type: none"> <li>✓ Auto generate standard reports and key performance metrics.</li> <li>✓ Automatically update the IUID registry based on event triggers.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lack of auto reporting capability.</li> <li>✓ Lack of capability to customize reports to meet ad hoc requests.</li> </ul>
<b>7. Relief of stewardship</b>	<ul style="list-style-type: none"> <li>✓ Reconcile material differences before the final report.</li> <li>✓ Contract certified providers to destruct electronic devices.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Not regularly monitoring the loss rates, shortages and overages for a contract</li> <li>✓ Failure to retain the records for the destruction of electronic devices</li> </ul>
<b>8. Utilization</b>	<ul style="list-style-type: none"> <li>✓ Keep the digital records of utilization history</li> <li>✓ Autogenerate DD Form 1149</li> </ul>	<ul style="list-style-type: none"> <li>✓ Failure to record asset utilization history</li> <li>✓ Manually fill in Form 1149</li> </ul>
<b>9. Maintenance</b>	<ul style="list-style-type: none"> <li>✓ Establish consistent maintenance policy.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Failure to keep track of the asset maintenance history.</li> </ul>
<b>10. Property closeout</b>	<ul style="list-style-type: none"> <li>✓ Establish cross functional contract close out team.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Have to do a complete physical inventory and reconciliation due to lack of adequate ongoing property controls.</li> </ul>

## Challenges in Implementing the Government Property Management System

Among the 6 mandatory business systems for contractors, the Government Property Management System perhaps has received the least amount of executive attention and corporate investment so far. In contrast, the rest of the 6 mandatory business systems, which are more focused on financial management, have received fair amount of attention.

This is not surprising. If you look at the organizational structure of an average mid-sized government contractors, with revenue between \$50M to \$500M, the Finance Department is responsible for procurement, billing, and accounting. The Finance Department, led by CFO, has the personnel and system to support them. But it's rare that this mid-sized government contractor has a Government Property Management department. Rarely does it have a designated C level executive responsible for managing assets, both Government Property and company owned assets.

Lack of senior executive attention is one of the challenges in implementing the Government Property Management system. Overall, the potential for leveraging enterprise asset management to gain competitive advantages has been overlooked by many businesses. If managing company owned assets is rarely a review topic in senior executive meetings, how could you imagine Government Property Management stack up in terms of priority?

The other challenge in implementing the Government Property Management system is lack of internal expertise. Most government contractors start their business by offering differentiated services or technologies that have nothing to do with managing Government Property. Over the time, they get into contracts with Government Property Management requirements. They tend to let the existing team absorb the added requirements without giving them the proper tools and training. They start with a few hundred items of government property, using excel sheets. As the business grown, they find themselves managing thousands of government property items, still using excel sheets, without a defined business process or trained professionals.

As a matter of fact, today, majority of government contractors are managing government property with excel sheets. Often, the teams that are responsible for managing government property are under staffed and underappreciated. Their petition for more resources often got ignored, until the company is audited by DCMA.

After they receive the notice for the DCMA audit on their government property management business systems, companies find themselves spend on average 3-6 months digging through different versions of excel sheets, purchase records, in order to verify the data and reconcile the differences.

But all these can be avoided if these government contractors have proactively established the business processes for managing Government Property. Besides, being proactive about the business processes for managing physical assets, whether company owned or Government Property, is a fundamental good practice for running the business, so let's make sure we do that.

### **Conduct Contractor Self Assessments to Improve the Government Property Management System**

In order to proactively establish the business processes for managing Government Property in compliance to FAR/DFARS requirements, the most impactful thing you can do is to regularly conduct Contractor Self Assessments. The Contractor Self Assessments will allow the business to proactively identify weaknesses and deficiencies in the business processes and systems, and take corrective actions. These assessments will not only prepare you well for government audits, they are also the necessary steps to fulfill the new requirements in case DoD imposes mandatory self-certification of the business systems.

The Contractor Self Assessments can only be impactful if they meet the following success factors:

1. The person or the team conducting the Contractor Self Assessments need to be trained and objective. My advice to contractors is to hire external experts. It's a high return investment.



2. Use metrics and measurements. Objective and quantifiable standards are key to monitor performances. These standards should be established in the Government Property Management Plan. You can find reference to metrics and measurements and their ideal goal values in professional organizations like the Aerospace Industries Association, and the National Property Management Association.
3. There should be follow up actions to address the gaps and deficiencies identified in these Contractor Self Assessments.

I hope this article has provided some useful information and practical guides for contract managers to assess the state of their company's Government Property Management system. The pressure for contractors to strengthen this business system is real. This is a good time to be proactive. Good luck. If you have any feedback or questions, you can contact me via email ([Jackie.Luo@e-isg.com](mailto:Jackie.Luo@e-isg.com)).

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