



DEPARTMENT OF THE NAVY

NAVAL FACILITIES ENGINEERING COMMAND

200 STOVALL STREET

ALEXANDRIA, VA 22332 2300

IN REPLY REFER TO

Ser 111A/97-44

7 MAR 97

From: Commander, Naval Facilities Engineering Command

Subj: GOVERNMENT PROPERTY (15-97)

Encl: (1) OASN(RD&A) Memorandum of 21 JAN 97

1. Enclosure (1) is provided for your information and action as appropriate.

JOSEPH D. SCHNEIDER
By direction

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NAVAL FACILITIES CONTRACT OFFICE, PORT HUENEME (27)



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
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21 Jan 1997

MEMORANDUM FOR DISTRIBUTION

Subj: GOVERNMENT PROPERTY

Encl: (1) Director, Defense Procurement memorandum of
November 25, 1996

A special review conducted by the Defense Contract Management Command identified contractor acquisition and direct charging of general purpose equipment as a significant problem under DoD contracts. DCMC found evidence that contracts were facilitating acquisition of general purpose equipment, either by specifically stating that contractors were free to purchase whatever property was necessary for contract performance or by incorrectly classifying equipment identified in the contract as material, special test equipment or agency-peculiar equipment.

Generally, FAR 31.102 precludes contractors from allocating general purpose equipment acquisition costs directly to Government contracts if costs incurred for other general purpose equipment in like circumstances have been charged as indirect costs. Enclosure (1) requests that contracting officers be familiar with the limited circumstances under which general purpose equipment costs may be allocated to a Government contract. When there is a legitimate need for the contractor to acquire such property, contracting officers should work with contract administration offices to assure that the property is properly classified and that cost allocation consistent with the contractor's approved accounting practices is identified prior to contract award or modification.


Richard T. Ginman
CAPTAIN, SC, USN
Deputy for Acquisition and
Business Management

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OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
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ACQUISITION AND
TECHNOLOGY

November 25, 1996

DP/MPI

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT,
ASN(RD&A)/ABM
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
DIRECTOR PROCUREMENT POLICY, ASA(RD&A)/SARD-PP
DEPUTY DIRECTOR (ACQUISITION), DEFENSE LOGISTICS
AGENCY

SUBJECT: Government Property

A recent Defense Contract Management Command (DCMC) special review identified contractor acquisition and direct charging of general purpose equipment to be a wide spread problem. The review disclosed that contractors are purchasing general purpose items such as personal computers, fax machines, camcorders, and furniture, and allocating the acquisition costs as direct costs to cost type contracts. I am particularly concerned by DCMC's allegation that our contracts often facilitate that practice. I have attached a copy of a DCMC memorandum that provides an overview of that and other problems disclosed by the review.

Generally, FAR 31.202 precludes a contractor from allocating general purpose equipment acquisition costs directly to a Government contract if costs incurred for other general purpose equipment in like circumstances have been charged as indirect costs. Please be sure your contracting officers are familiar with the very limited circumstances under which general purpose equipment costs may be allocated directly to a government contract. A contractor's contention that general purpose equipment was acquired solely for performance of a specific contract does not alter the fact that under the contractor's cost accounting practices and FAR 31.202, the acquisition costs of general purpose equipment might not qualify for treatment as direct costs.

The inter-agency Part 45 re-write team that I chair has developed a draft Government Property clause for cost type contracts that specifically precludes contractors from acquiring equipment for the Government unless the equipment is specified as a deliverable end item.



ENCLOSURE(/)

I support strongly DCMC's effort to improve government property management practices. Each of you can help by assuring that our contracts do not direct contractors to acquire, or specify the use of, general purpose equipment. When there is a legitimate need to have a contractor acquire such property, your contracting officers should work closely with the Contract Administration Office to assure that the property is properly classified and a cost treatment consistent with the contractor's cost accounting practices is identified prior to contract award or modification.



Eleanor R. Spector
Director of Defense Procurement

Attachment

cc: Mr. John Goodman (DUSD(IA&I))



DEFENSE LOGISTICS AGENCY
THE DEFENSE CONTRACT MANAGEMENT COMMAND
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

REPLY
REFER TO

AQOE

NOV - 8 1996

MEMORANDUM FOR THE DIRECTOR, DEFENSE PROCUREMENT, OUSD(A&T)

SUBJECT: Management and Control of Government Property Provided to Defense Contractors

Several months ago, based on concerns I have had regarding the management of Government property in the possession of contractors, I directed a special property review of three of our largest defense contractors. When we found that the results of those reviews identified significant problems in contractor management of Government property, I expanded the review to the 20 other contractors under DCMC cognizance who have the most Government property in their possession. Unfortunately, the results of this review lead us to believe that we may have systemic problems that are widespread across industry.

The special review focused on contractor practices in the areas of acquiring equipment under cost-type contracts, recordkeeping, and the identification and reporting of excess property. We found significant deficiencies at most contractor locations. DCMC will be aggressively addressing these problem areas during FY 97. However, one of the most troubling problems is the apparent widespread acquisition of general purpose equipment under cost-type contracts. We found contractors often buying and direct-charging items such as personal computers, fax machines, camcorders, and furniture.

We also found that in some instances contracts were facilitating these acquisitions, either by specifically stating that contractors were free to purchase whatever property was needed for contract performance, or by incorrectly classifying equipment identified in the contract as material, special test equipment, or agency-peculiar property. In almost no case did we find compliance with the FAR 45.302-1 policy on providing equipment.

For FY 97, DCMC will be putting more of a focus on reviewing the acquisition of equipment by contractors under cost contracts, and will aggressively challenge contracts which provide plant equipment that seems suspect. However, since we found this problem occurring across industry and across Military Departments, I have prepared a memorandum for your signature to alert the Service Acquisition Executives to the problem.

ROBERT W. DREWES
Major General, USAF
Commander

Attachment
(draft memo)

cc: Mr. John Goodman (DUSD(IA&I))