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DEPARTMENT OF THE NAVY

NAVAL FACILITIES ENGINEERING COMMAND
200 STOVALL STREET
ALEXANDRIA, VA 22332 2300

IN REPLY REFER TO

Ser 111A-97-86
26 Aug 97

From: Commander, Naval Facilities Engineering Command
To: Distribution

Subj: Government Property (47-97)

Encl: (1) ASN (RD&A) memo of 10 July 97

1. Enclosure (1) is provided for your information as a reminder of DOD policy relative to the acquisition of general purpose equipment.

Please distribute to all appropriate personnel.

A handwritten signature in black ink, appearing to read "J. D. Schneider".

J. D. SCHNEIDER
By direction

Distribution:

- COMPACNAVFACENGCOM (00, 02)
- COMLANTNAVFACENGCOM (00, 02)
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- CO PWC WASHINGTON (00, 200)

Subj: Government Property (47-97)

PMR TEAM

CO, CIVIL ENGINEER CORPS OFFICERS SCHOOL

NAVAL FACILITIES CONTRACTS TRAINING CENTER

NAVAL FACILITIES CONTRACT OFFICE, PORT HUENEME (27)

00J

CODE 92



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

10 JUL 1997

MEMORANDUM FOR PROGRAM EXECUTIVE OFFICERS
DIRECT REPORTING PROGRAM MANAGERS
HEADS OF THE CONTRACTING ACTIVITIES

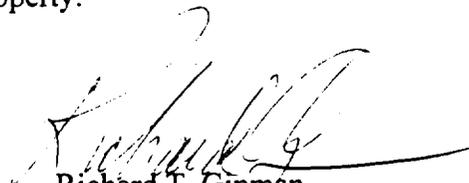
Subj: GENERAL PURPOSE EQUIPMENT

Encl: (1) DUSD(A&T) memorandum May 30, 1997: General Purpose Equipment

Government property, particularly property in possession of contractors, is undergoing significant scrutiny. In FY96, more than \$88 billion of DoD property was in the possession of contractors. Despite DoD policy to reduce property held by contractors, the FY96 figure is double that reported 10 years ago.

USD(A&T) chartered an integrated process team to identify changes necessary to stem the growth of Government property in the possession of contractors and to reduce the inventory now in their possession. The Contract Property IPT reviewed many factors that contribute to the growth of Government contract property. Authorizing contractors to acquire general purpose equipment under contracts for other items or services received special attention.

It is Government policy that contractors furnish all property necessary to perform contracts unless otherwise determined to be in the Government's interests. Authorizing contractors to acquire specific general purpose equipment is inconsistent with this policy and current management objectives (enclosure (1)). Contract work statements should not direct contractors to acquire, or specify the use of, general purpose equipment except when there is a legitimate, documented need for such property.


Richard T. Ginman
Captain, SC, US Navy
Deputy for Acquisition and
Business Management



ACQUISITION AND
TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010



MAY 30 1997

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
ATTN: SERVICE ACQUISITION EXECUTIVES

SUBJECT: General Purpose Equipment

During a special review of property management practices, the Commander, Defense Contract Management Command (DCMC) found that authorization for contractors to acquire general purpose equipment on contracts for other items or services was widespread. I have attached a November 1996 memorandum from the Director of Defense Procurement that addressed the same issue and some examples of the questionable property management practices identified by DCMC. Please distribute the attachments to your program executive officers and program managers.

I am working with the Under Secretary of Defense, Comptroller, to improve government property management practices and reduce the amount of government property in the possession of our contractors. Authorizing contractors to acquire specific general purpose equipment items is inconsistent with current policy and our management objectives. The practice permits some contractors to charge directly costs which should be allocated as indirect costs and increases the amount of government property. Particularly for electronic office equipment, the property often is obsolete by contract completion.

Please remind your program executive officers, program managers, and contracting officers that contractors are expected to own the means to perform Government contracts and Part 45 of the Federal Acquisition Regulation (FAR) limits the circumstances under which the Government might furnish property to contractors. I also ask that you review your approval levels for the Determination and Finding required by FAR 45.302-1(a) to assure appropriate management involvement.

R. Noel Longuemare
Acting Under Secretary of Defense
(Acquisition and Technology)

Attachments





ACQUISITION AND TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON WASHINGTON, DC 20301-3000



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.



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
8728 JOHN J. KINGMAN ROAD, SUITE 2833
FT. BELVOIR, VIRGINIA 22060-4321

IN 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(TA&I))