



Standard Guide for Management of Customer-Owned Property Assets in Possession of Supplier, Contractor or Subcontractor¹

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1. Scope

1.1 This guide addresses infrastructure and practices for the life-cycle management of supplier, contractor or subcontractor-held customer-owned property in the possession of a supplier, contractor or subcontractor. This includes the infrastructure and processes and subprocesses in the efforts of acquisition, use, and disposition.

1.2 This guide covers property that is owned by a customer or a buyer (referred to as customer-owned property) that is either directly furnished by a buyer, customer, or acquired by a supplier on behalf of a customer where title to the property ultimately vests with the customer while in the possession of a supplier, contractor or subcontractor.

1.3 *This standard does not purport to address all of the safety concerns, if any, associated with its use. It is the responsibility of the user of this standard to establish appropriate safety and health practices and determine the applicability of regulatory limitations prior to use.*

2. Referenced Documents

2.1 ASTM Standards:²

- E2135 Terminology for Property and Asset Management
- E2279 Practice for Establishing the Guiding Principles of Property Asset Management
- E2452 Practice for Equipment Management Process Maturity (EMPM) Model
- E2936 Guide for Contractor Self Assessment for U.S. Government Property Management Systems

2.2 IAASB Standard:³

- 3402 International Standard on Assurance Engagements (ISAE)

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² For referenced ASTM standards, visit the ASTM website, www.astm.org, or contact ASTM Customer Service at service@astm.org. For *Annual Book of ASTM Standards* volume information, refer to the standard's Document Summary page on the ASTM website.

³ Available from International Federation of Accountants (IFAC), 529 5th Avenue, New York, NY 10017, <http://www.ifac.org>.

2.3 PCAOB Standard:⁴

- Auditing Standard No. 2 An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements

2.4 Federal Standards:

- GAO-12-331G Government Auditing Standards⁵
- U.S. OMB Circular A-123 Management's Responsibility for Internal Control⁶
- 18 U.S.C. 641 Public Money, Property or Records⁷

3. Terminology

3.1 *Definitions*: For definitions related to property and asset management, refer to Terminology E2135.

3.1.1 *acquired property, n*—property under the possession or control of an entity that is not deemed “furnished property” and was acquired for business operation purposes.

3.1.2 *contract, n*—agreement creating obligations enforceable by law. [<http://www.law.cornell.edu/wex/contract>]

3.1.3 *contractor, n*—independent entity that agrees to furnish a certain number or quantity of goods, material, equipment, personnel, or services that meet or exceed stated requirements or specifications at a mutually agreed upon price and within a specified timeframe.

[<http://www.businessdictionary.com/definition/contractor.html>]

3.1.4 *customer, n*—for customer furnished property arrangements, the customer is generally considered the entity or decision maker that has issued a contract or subcontract.

3.1.4.1 *Discussion*—The customer may be the issuer of the original contract or may be a prime contractor to a subcontractor. Synonyms may include: buyer, purchaser, contracting officer and client. Customers have authority to issue and make determinations, commitments and administer a contract or

⁴ Available from Public Company Accounting Oversight Board (PCAOB), 1666 K St., NW, Washington, DC 20006-2803, <http://pcaobus.org>.

⁵ Available from U.S. Government Accountability Office, 441 G St., NW, Washington, DC 20548, <http://www.gao.gov>.

⁶ Available from U.S. Office of Management and Budget, 725 17th Street, NW, Washington, DC 20503, <http://www.whitehouse.gov/omb/circulars>.

⁷ Available from U.S. Government Printing Office, 732 N. Capitol St., NW, Washington, DC 20401-0001, <http://www.gpo.gov>.

subcontractor and are limited to those individuals who have delegated authority by the asset’s owner. Lessors are not customers. Not all employees of an entity are customers as they do not have delegated authority to make determinations and commitments on behalf of the entity, for example, auditors who are working in an auditor capacity that require independence.

3.1.5 *customer-owned property*—property owned by a customer.

3.1.5.1 *Discussion*—If an entity receives a government contract and is required, by contract, to be furnished property to complete the work—this is defined as customer-owned or customer furnished. This may include property that is subsequently furnished to suppliers and subcontractors. Those who are furnished this property generally refer to this property as customer furnished property or customer-owned property.

3.1.6 *entity owned*—property owned by an entity.

3.1.6.1 *Discussion*—If entity (ZXY Corporation) is in the business of selling commercial products and needs to provide owned property to a supplier to do work, this is entity (XYZ Corporation) owned property from the perspective of the owner, but is customer-owned property from the perspective of the supplier.

3.1.7 *furnished property, n*—property actually furnished to but not paid for by a supplier, contractor or subcontractor within the contractual arrangement. This guide does not include controls specifically for items sent in for repair, modification, or upgrade under service agreements.

3.1.8 *internal controls, n*—organization’s business system of internal control designed to provide reasonable assurance of achieving: (1) effective and efficient operations (E&EO), (2) reliable reporting (RR), including financial and performance, and (3) compliance with applicable laws and regulations (CLR). **[Adapted from GAO-12-331G]**

3.1.8.1 *Discussion*—The framework and elements of internal controls have remained fairly consistent for operational, accounting, and auditing purposes over the years and generally apply internationally. In the United States, internal control requirements apply to publicly traded corporations as well as U.S. Government operations. For publicly traded corporations the requirement for internal controls is included in the: Securities Exchange Act of 1934; Sarbanes Oxley Act of 2002; and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) publication *Internal Control – Integrated Framework* (2013).⁸ For the U.S. Federal Government operations guidance and contractual requirements are included in OMB Circular A-123, Management’s Responsibility for Internal Control; and the Federal Acquisition Regulation (FAR) Part 45 and the associated Clause 52.245-1 Government Property, under Paragraph (b) Property Management. Other standards for international applicability include International Auditing and Assurance Standards Board (IAASB) and International Standard on Assurance Engagements (ISAE) 3402. Internal controls in business operations are analogous to “vital signs” in the medical field—it is the starting point, providing the fundamental indicators of good health.

3.1.9 *must, v*—an unconditional requirement: practitioners must comply with an unconditional requirement in all cases where such requirement is relevant.

[Adapted from GAO-12-331G]

3.1.10 *prime contractor, n*—contractor that has issued one or more subcontracts.

3.1.10.1 *Discussion*—The prime contractor is frequently referred to as the “buyer” or “customer” by the subcontractor. From the perspective of a subcontractor, the prime contractor is the entity with whom the subcontractor is directly engaged in a subcontract. There are numerous variations to this relationship, for example, a prime contractor may, in turn, be a subcontractor to another entity, which would then be that subcontractor’s prime contractor. In another context, the prime contractor may refer to the contractor that holds the direct contract with the ultimate customer.

3.1.11 *reasonable assurance, n*—management’s assessment or opinion regarding the effectiveness of internal controls relating to effective and efficient operations, reliable reporting, and compliance to laws and regulations. **[Adapted from Paragraph 17 of the PCAOB Auditing Standard No. 2]**

3.1.11.1 *Discussion*—Reasonable assurance includes the understanding there is a remote likelihood that material misstatements or occurrences will not be prevented or detected on a timely basis. Although not absolute assurance, reasonable assurance is, nevertheless, a high level of assurance.

3.1.12 *should*—a presumptively mandatory requirement: practitioners must comply with a presumptively mandatory requirement in all cases where such a requirement is relevant, except in rare circumstances. In such rare circumstances, practitioners should perform alternative practices to achieve the intent of that requirement. Documentation justifying the departure should be maintained. Cost-benefit and materiality concepts apply. **[Adapted from GAO-12-331G]**

3.1.13 *subcontract, n*—contract subordinate to another contract in which a party has contracted for the performance of certain work and, in turn, engages a third party to perform the whole or a part of that which is included in the original contract.

3.1.13.1 *Discussion*—A subcontract may also be referred to as a “purchase order,” “purchase contract,” or “purchase agreement.”

3.1.14 *subcontractor, n*—contractor that has engaged in a contract to perform a whole or a part of another contractor’s original contract.

3.1.14.1 *Discussion*—Subcontractor may also be referred to as the “seller,” or “supplier.”

3.1.15 *timely manner, n*—within an agreement, the action to be taken by a specified date, or within a given or reasonable time frame. What is reasonable is determined by the decision making needs of the owner, the contracting parties, or other interested parties.

3.1.15.1 *Discussion*—When a finite quantitative direction is not provided—a timely manner is subjective, circumstantial and reasonable—cost-benefit considerations apply.

⁸ Available from <http://www.coso.org>.

3.2 *Acronyms and Abbreviations:*

3.3 *CLR*—Compliance with applicable laws and regulations

3.4 *E&EO*—Effective and efficient operations

3.5 *EAR*—U.S. Export Administration Regulation

3.6 *ITAR*—U.S. International Trafficking in Arms Requirements

3.7 *OMB*—U.S. Office of Management and Budget

3.8 *RR*—Reliable reporting

4. Summary of Guide

4.1 Organizations must establish internal control systems to manage the life cycle of customer or entity owned property held or under the responsibility of suppliers, contractors or subcontractors.

4.2 Internal controls must be built into the elements of each phase (acquisition, use, and disposition) of the life cycle rather than a break-then-fix approach or an inspect-in approach.

4.3 Internal controls and efforts should reflect circumstances and considerations of materiality, risks, and cost-benefit.

4.4 The goal of good supplier, contractor or subcontract management of customer or entity owned property is to optimize the short- and long-term value of the property, including considerations such as associated capability, availability, minimization of administrative requirements and costs, care and handling costs, and risk management.

4.5 Internal policies to manage and account properly for supplier, contractor or subcontract held property must be harmonized among various owners of internal business systems, for example, asset management, procurement, quality, program management, and accounting.

5. Significance and Use

5.1 This guide promotes the importance of effective and efficient use of resources to satisfy various needs of participants: those who furnish property—customers and owners, those who receive customer or entity property—suppliers, contractors, and subcontractors, and the audit community, while providing reasonable assurance of effective internal controls.

5.2 The objective of this guide is to promote a life-cycle approach using the elements of good internal controls.

5.3 For optimization, this guide may be used in conjunction with Practice [E2279](#) and Practice [E2452](#).

6. Life-Cycle Phases and Elements

6.1 *General*—Organizations should have documented plans and policies covering the life cycle, internal processes, organizational responsibilities, and controls of subcontractor and supplier management.

6.1.1 Internal controls should strive to promote and achieve optimum operational effectiveness and efficiency under the circumstances. These plans and policies should:

6.1.1.1 Reflect appropriate requirements, directions, and needs of the owner, customers, and other stakeholders;

6.1.1.2 Be harmonized among the functional elements and business system owners, for example, asset management, procurement, quality, program management, and accounting, via internal policies and management practices. In addition, various functional elements may all have a different understanding of property ownership when a supplier acquires property against a subcontract;

6.1.1.3 Be scalable and adaptable to various operational and contractual needs, controls and processes to manage assets.

6.1.1.4 Be reasonable and achievable with adequate staffing, technology, and resources and should reflect circumstances and considerations of materiality, risks, and cost-benefit while striving to minimize administrative costs; and

6.1.1.5 Have built-in processes and practices that identify and eliminate or substantially ameliorate deficiencies or less than optimal conditions.

6.1.2 Plans and policies and associated infrastructure should include the capability and processes to be able to generate useful, reliable, relevant, and timely financial and operational reports that are suitable for necessary financial and recovery reporting and decision making. These plans and policies and associated infrastructure should include:

6.1.2.1 Functional roles of individuals, processes, databases, data streams, and functional systems to achieve sound end-to-end processes;

6.1.2.2 Automated electronic systems over manual paper-based systems; and

6.1.2.3 Appropriate security systems and processes for the proper collection, protection, and access to classified information, that is, items identified as “confidential,” “secret,” or “top secret.” An example of this, if the entity is engaging in certain U.S. Government contracts, is subject to U.S. International Trafficking in Arms Requirements (ITAR); and Export Administration Regulation (EAR), entity operational or proprietary data should be secure. This may include for example, contractual information.

6.1.3 Plans and policies and associated infrastructure must be, in all material respects, consistent with applicable laws, regulations, standards, contractual requirements, and internal policy and associated controls.

6.1.3.1 Requirements, directions, contracts, other actions, and behaviors of the entity and individuals must be in compliance with these applicable governmental laws, regulations, standards, and so forth.

6.1.3.2 Management of publicly traded corporations are required to establish a system of internal controls by the Securities Exchange Act of 1934. The U.S. Federal Government is required to do the same through OMB Circular A-123.

6.1.3.3 Management and employees are required to abide by the internal controls. Circumvention of internal controls defeats the purpose of having internal controls and may even be illegal and, in some cases, criminal.

6.1.3.4 When inconsistencies become apparent through reviews or reporting processes they should be recognized, addressed, and corrected.

6.1.3.5 Contract requirements regarding the life cycle of property management at the prime contract and subcontract level should be specific and understandable amongst and

between the parties to where there is a reasonable understanding of the requirements. The contract requirements should be appropriately funded and include an expectation of adequate performance or completion. For example, liability for the risk of loss of customer property should be clearly expressed and mutually understood in each of the contract tiers. Ambiguity results in misunderstandings, unreasonable cost, and performance risk.

6.1.3.6 Agreed upon operational and performance plans and procedures should be used as a vehicle to clarify and confirm expectations, identify approach, and build appropriate infrastructure to accomplish agreed upon requirements within the plan among the various organizational elements of the contractual participants. Properly designed and appropriately sized checklists and decision trees are also useful tools and should be used. **Appendix X1** provides an example of an assessment tool for the oversight of subcontractors who have a limited amount of furnished property.

6.2 Asset Life Cycle:

6.2.1 *Acquisition Phase*—Generally, suppliers, contractors or subcontractors provide their own property—material, equipment, special tools and special test equipment to accomplish the given work under a contractual arrangement. In fact cost, capability, and competence are generally considered elements when awarding contracts. Under some circumstances, however, customer-furnished material, equipment, special tools and special test equipment are necessary or are a strategy to accomplish objectives, such as to meet cost and schedule. Frequently under cost reimbursable type contracts, items acquired become customer-owned and may be subsequently furnished and become subject to this guide.

6.2.1.1 The tradeoffs between cost-benefit and risk should be considered under a contractual arrangement by an entity or the prime contractor when determining if property will be furnished to a supplier, contractor or subcontractor.

6.2.1.2 Property that must be acquired as a specific contract line item or a direct cost of a cost reimbursable arrangement in which the title of the property belongs to the customer or ultimate customer should be specifically identified in the contract with directions such as pre-purchase approvals, inspections, identifications, reporting, disposition, and so forth.

6.2.2 *Acquisition Phase Internal Controls:*

6.2.2.1 *Effective and Efficient Operations (E&EO)*—Furnishing property to a supplier, contractor or a subcontractor or allowing the acquisition of property that becomes customer owned should reflect good decision making in which cost, schedule, and risk factors lead to a more effective and efficient outcome and are better than the alternative of not furnishing the property.

(1) Amounts of material provided or supplier acquired should be justified by appropriate economic order quantity concepts, bulk purchases or min/max formulas.

(2) Timing of deliveries should be time phased and consistent with production schedules.

(3) Proper vesting of title for ownership and the classification of the type of property are very important in this phase; it should be documented in the agreement consistent with the intent of the owner and compliant with regulatory

requirements, accounting standards, and internal instructions, for example, Federal Acquisition Regulations, Cost Accounting Standards, Generally Accepted Accounting Principles, International Financial Reporting Standards, etc.

(4) Administrative cost and responsibilities associated with ownership should be considered in taking ownership of property. Ownership of property outside of normal operating locations may be very expensive to administer, protect, and control. Once ownership of property is acquired, responsibilities and management costs may increase significantly. Costs and benefits should justify initial and long-term ownership. Administrative cost includes cost of the acquisition process and care and handling such as maintenance, insurance cost, inventory cost, oversight, travel, taxes, disposal cost, etc.

(5) Contracts and subcontracts should include disposition instructions for customer-owned property. Generally, property care and handling cost may be minimized if disposition instructions are provided early in the contract process.

(6) Furnished property must be accountable to one contract at a time. Accountability to a contract ensures that:

(a) Terms and conditions for the proper management and liability of property loss are identified to protect the interest of the property owner,

(b) Suppliers, or subcontractors do not retain customer property for which there is no valid contractual requirement, and

(c) Suppliers, contractors or subcontractors do not store customer property for potential future use without proper authorization and consideration, for example, monetary compensation or other forms of consideration.

6.2.2.2 *Reliable Reporting (RR)*—To have RR, the agreement, in the acquisition phase, must clearly define specific requirements for RR. RR may be applicable for numerous processes including but limited to: receiving, records, accounting, use, losses, physical inventory performance, self assessments, and disposition.

6.2.2.3 RR should be effective and efficient, current, accurate, and complete as well as compliant with overall requirements. Electronic standard reports are generally preferred over paper-based and ad hoc reports.

6.2.2.4 RR includes providing reports in a timely manner at specified timeframes for certain processes, for example, inventory performance or self-assessments, or following certain occurrences, for example, acquisition or losses.

6.2.2.5 Reports should be worthwhile to generate and be useful for decision-making purposes—materiality and cost-benefit concepts apply.

6.2.2.6 Compliance with applicable laws and regulations (CLR) may be requirements of the entities whether specifically included in the contract or not, for example, environmental laws such as the Resource Conservation and Recovery Act (RCRA) and the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). Certain standards, such as accounting standards, apply under certain circumstances or professional standards applying to certain professionals. For a general guide, practitioners should recognize that the greater likelihood of harm of noncompliance, the greater likelihood that a particular law, regulation, or standard

should be included in the terms and conditions of the contract. Noncompliance is wrong, harmful, potentially illegal or criminal, and is an impediment to E&EO.

6.2.2.7 When contracts require appropriate flow down of contract terms and conditions (for example, extent of liability for loss of property) to suppliers, contractors or subcontractors, subcontract agreements must reflect the requirements of the prime contract. Alternate approaches must be agreed upon in advance between the contracted parties. This does not imply or preclude reasonably enhanced or more detailed requirements than in the prime contract.

6.2.2.8 Compliance to internal policy and management direction is also important and generally necessary for E&EO as well as perhaps a condition of employment. Alternate approaches must be agreed upon in advance by appropriate management.

6.2.3 *Use Phase*—The use phase begins when items are furnished or acquired and are ready for use and ends when items are determined excess and no longer required for contract performance. The determination of excess does not relieve the supplier, contractor or subcontractor from properly maintaining and caring for the customer property.

6.2.3.1 Use includes various quantitative and qualitative factors:

(1) Examples of Quantitative Factors—How much it is used, is it used to the extent as expected, could it be used more efficiently elsewhere, etc.?

(2) Examples of Qualitative Factors—Does the property function properly with minimum downtime for repair, is there sufficient use to justify retention?

6.2.4 *Use Phase Internal Controls:*

6.2.4.1 E&EO include the presence in agreements that the supplier, contractor, or subcontractor-acquired property should be used effectively and efficiently under the circumstances consistently with the contract and approved plans.

(1) Production cycles and fluctuations in demand or overhaul and maintenance contracts may require certain property to be used infrequently. Frequency of use in and of itself may or may not be an indicator or determiner of inefficient use. Multiple factors may have to be considered before determining if internal use property is used inefficiently. Determinations for consumable material may be much easier—comparisons of expected use versus actual use. Determinations of excess should be based upon current and identified future needs.

(2) Use controls should be in place to assure property is not diverted to other supplier, contractor or subcontractor needs without owner authorization. Various controls, procedures, policies, aids, and mistake proofing should be used to assure against unauthorized use such as the use of storerooms, dedicated production areas, unique part numbers, labels, physical inventories, self-assessments, and so forth.

6.2.4.2 RR includes providing current, accurate, and complete reporting of the use or consumption of property as required by the contract. Useful reports are contingent upon keeping current, accurate, and complete records.

(1) Reports in the use phase may include documents concerning: actual usage records, inventory levels, losses, unreasonable consumption, excess determinations, and so forth.

(2) RR generally requires the establishment of lines of authority and responsibility and processes to generate each required report.

(3) Electronic standard reports are generally preferred to over ad hoc or paper-based reports.

(4) RR includes providing reports in a timely manner at specified dates (for example, inventories or self-assessments) or as with certain occurrences (for example, losses).

(5) Reports should be worthwhile to generate and be useful for decision-making purposes—materiality and cost-benefit concepts apply.

6.2.4.3 CLR under the use phase includes unauthorized use of property under the contract, for example, under a U.S. Government contract, U.S. law applies and it is illegal to use U.S. Government property without proper authorization. This law applies to employers and individuals (18 U.S.C. 641).

(1) Other areas of compliance may include: commingling of government-furnished material with contractor acquired property to where the government may be inappropriately billed; improper product substitution; environmental violations with the use and exposure to chemicals; improper disposals; and improper crediting of disposal proceeds to wrong accounts.

6.2.5 *Disposal Phase*—This phase begins when property held under the control of a supplier, contractor or subcontractor is no longer required under the contract and is declared excess by notifying the owner or customer, taking action as identified in the contract, or other actions if included in the entity's agreed upon plans, policy, or business practices. This phase ends with delivery or proper disposal of items under the contract, updating records, closing out the contract, and issuance of necessary final reports.

6.2.6 *Disposal Phase Internal Controls:*

6.2.6.1 Effective and efficient disposal of property includes assessment and screening for reutilization purposes, minimization of movement and other care and handling costs, and maximizing residual value of the property (reasonable estimate of expected sales proceeds less care and handling and selling cost), and compliant with any federal, state or local environmental laws or regulations.

(1) Some nonprofit or government entities place a high priority on fulfilling public policy, such as donating property to other government entities, charitable organizations, or specified groups. If a supplier, contractor or subcontractor is contractually obligated to dispose of a customer's property, disposal should be in accordance with the contract.

6.2.6.2 The overall disposal phase should be effective and efficient as determined by the owner and the entity paying for the effort.

6.2.6.3 An inefficient and ineffective disposal processes results in a waste of resources. Waste of resources should be avoided in the disposal process, which is, excessive time, labor, transportation, storage, etc.

6.2.6.4 Effective and efficient disposal processes include risk management and should be part of a supplier's, contractor's or subcontractor's process. Risk includes reasonably possible harm to members of the supply chain as well as the initial user and customer.

6.2.6.5 Disposition activities are often charged as overhead or indirect costs, charging practice should not exempt activities from adequate internal controls.

6.2.6.6 Materiality and cost-benefit concepts should apply to the disposal phase so long as these concepts are in accordance with regulatory requirements.

6.2.6.7 RR in the disposal phase includes timely determinations: when property changes status, for example, from active, excess to surplus; when property changes classification, for example, usable to scrap. For usable items, RR includes adequate and reasonably understandable descriptions including condition of excess property, and so forth. Assignment of a condition or status, that is, excess, surplus or scrap, should be reported as they are purported to be, without misrepresentation.

6.2.6.8 Reports should be timely to meet expectations of the owner for proper decision making, contract closure, and to minimize care and handling cost.

6.2.6.9 CLR in the disposition phase is required and may include, but is not limited to, areas such as environmental, storage, transportation, export, demilitarization, and the proper crediting of sales proceeds.

7. Oversight and the Corrective Action Request Process

7.1 Oversight of suppliers, contractors or subcontractors who manage or possess a customer's property is required.

7.1.1 The type and scope of oversight should be based upon contractual requirements, complexity of the systems involved, risk assessments, materiality, and cost-benefit considerations to the extent to which there is reasonable assurance of adequate internal controls. See [Appendix X1](#) as an example of criteria applicable to a simple assessment.

7.1.2 Oversight should be managed by plans and schedules, objectives, and milestones with appropriate checklists and desired elements of internal control, similar to those presented in this guide.

7.1.2.1 Supplier, contractor or subcontractor self assessments may be contractually required and even when not

contractually required they are encouraged, as they are useful, especially to inform, identify weaknesses, and stimulate improvements. It is better to have a culture of problem and conflict avoidance rather than efficient problem resolution. See Guide [E2936](#).

7.1.3 The oversight effort should also be subject to good internal controls. It should be effective and efficient; results should be reliable; and the approach should meet laws, regulations, and applicable standards.

7.1.4 The scope of the assessment should include applicable activities of the contracted parties. For example, if the customer furnishes property to a supplier, contractor or subcontractor without adequate documentation this may result in unreasonable time being spent obtaining correct and complete information, an audit finding may be appropriate and a corrective action requested through appropriate channels.

7.1.5 Assigned auditors should meet generally accepted auditing standards regarding areas such as competence and knowledge of requirements, including internal controls, independence, no appearance of or apparent bias, so that the audit is generally perceived to be reliable and worthwhile for decision-making purposes.

7.1.6 Records of audit results should be retained.

7.1.7 In audit reports or assessments, auditors should identify perceived weakness or deficiencies and provide to management for clarification, correction, or resolution. Customer decision makers should apply due process concepts that allow entities to address, challenge and resolve perceived weaknesses or deficiencies identified during the audit prior to making a final determination and issuing contractual penalties against the audited entity.

7.1.8 For tracking and resolving deficiencies and weaknesses, a system using corrective action requests should be used with appropriate business rules.

7.1.9 Identified deficiencies or weaknesses should be reassessed in subsequent reviews.

8. Keywords

8.1 acquisition; contract; customer; disposal; disposition; furnished property; internal controls; prime contract; prime contractor; reasonable assurance; subcontract; subcontractor; timely manner; use; utilization

APPENDIX

(Nonmandatory Information)

X1. SIMPLE ASSESSMENT CHECKLIST EXAMPLE

X1.1 This appendix provides an example of a checklist of a simple assessment that may be helpful in creating checklists in accordance with this guide. Circumstances, complexity and risk drive the requirements of each assessment and corresponding checklist. The desired outcome for each assessment should be to reach reasonable assurance that the assessed entity has adequate internal controls. Once the desired outcome is reached there is no need to go further with the assessment. Concurrently if the assessment and checklist results raise doubt that adequate internal controls are not in place then additional questions should be asked.

X1.1.1 In this example a contractor is seeking to adopt the requirements of this guide. The contractor has five subcontractors. These subcontracts are fixed price but the contractor must furnish government owned special tooling and special test equipment to complete the work. Each of the contractors have

less than \$100 000 of special tooling and special test equipment, and these items are not believed to have usefulness for other business of the subcontractors. Delivery of product indicates the existence and condition of the provided items. Furnishing these items to these subcontractors is considered low risk. The value of the items furnished is considered relatively low. The items are considered relatively durable. The past performance of these subcontractors has been excellent, they do not have a prime contract with the government, and their financial strength is also considered good. The appropriate approach taken to reach reasonable assurance is by sending each of the subcontractors a self-assessment checklist that includes appropriate questions as shown below. A sample response is also indicated. A follow up discussion with each of the subcontractors will also be performed to clarify responses, and validate controls and assumptions. (See [Fig. X1.1](#))

Self-Assessment	Company Name:	Covered Contracts:	Date:	
Instructions				Please complete the self-assessment below. This self-assessment must be completed and returned by September 30, 20XX. Along with this document, review the attached listing of property that has been furnished your company and identify updates or corrections that need to be made.
Lifecycle Element	Effective and Efficient Operations (Y/N/NA)	Reliable Reporting (Y/N/NA)	Compliance to Laws, Regulations and Contract. (Y/N/NA)	Comments (All N responses require an explanation, a corrective action plan, and a schedule to complete the corrections.)
General				
Does your organization have documented plans, policies and practices covering the life cycle, internal processes, organizational responsibilities, and internal controls of the property furnished your company?	Y	Y	Y	
Does your organization follow these plans, policies and practices?	Y	Y	Y	
Acquisition				
Your organization understands, based upon our contract that the property provide upon receipt was suitable for use? Directions and limitations on the use of the property were provided? Directions for the care, maintenance, handling, return or disposition were also provided?	Y	Y	Y	

FIG. X1.1 Simple Assessment Checklist Example

Your organization is capable of following these directions?	Y	Y	Y	
Proper receipt, marking and timely establishment of records occurred? Any discrepancies were corrected?	N	Y	Y	Frequently items are furnished without the proper or complete paperwork. This causes delays in receipt, establishment of complete records and actual use of the item. The magnitude, corrective action plan and schedule will be provided under a separate letter.
Use				
Does actual use justify retention of the items furnished?	No, some items are on standby hoping for new orders.	Yes on most but – see comment.	Y	Responsible company individuals will contact your buying activity and determine if these items should remain on standby. The magnitude, corrective action plan and schedule will be provided under a separate letter.
Do the items fulfill their intended use in regards to capability, capacity and condition?	Y	Y	Y	
Are furnished items used only as authorized by contract --- not on other cost objectives (internal or external)?	Y	Y	Y	
Are property records as reported to us current, accurate and complete – including the base record, last inventory date, and losses?	Y	Y	Y	See notes above.
Does your company have clear lines of authority and oversight in the management of items furnished your company? Please identify in the comments section.	Y	Y	Y	- Property custodian - Custodian’s manager - Director of operations - CEO _____ - Asset management specialist - Asset management manager - Controller - CFO

FIG. X1.1 Simple Assessment Checklist Example *(continued)*

Is the furnished property in good working condition and has normal maintenance occurred?	Y	Y	Y	
Disposal Phase				
Is the disposal practice consistent with good internal controls? This includes timely recognition of excess, proper care and handling, and timeliness of the disposition and contract closeout process.	Y	Y	Y	
Overall Assessment				
Do you believe your overall infrastructure, practices and results exhibit good internal controls in all material respects?	Y	Y	Y	
Does your company pursue worthwhile opportunities for improvement in the overall management of furnished property?	Y	Y	Y	
Certification				
As the preparer of this report, the answers in this self-assessment are, to the best of my knowledge, current, accurate, and complete.				Signed _____, Asset Manager of XYZ Company. Name: Phone Number: Email:

FIG. X1.1 Simple Assessment Checklist Example (continued)

As supervisor of the preparer, I have reviewed this self-assessment and to the best of my knowledge, it represents our current condition of our internal controls of furnished property.				Signed _____, Controller of XYZ Company. Name: Phone Number: Email:
Directions For Submittal				
This report must be submitted electronically in an MS Excel format to the email address of the sender with copies to the preparer's supervisor as well as to the sales and buying activities.				

FIG. X1.1 Simple Assessment Checklist Example (continued)

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