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## Standard Guide for Management of Customer-Owned Property Assets in Possession of Supplier, Contractor or Subcontractor<sup>1</sup>

This standard is issued under the fixed designation E3015; the number immediately following the designation indicates the year of original adoption or, in the case of revision, the year of last revision. A number in parentheses indicates the year of last reapproval. A superscript epsilon ( $\epsilon$ ) indicates an editorial change since the last revision or reapproval.

### 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, health, and environmental practices and determine the applicability of regulatory limitations prior to use.*

1.4 *This international standard was developed in accordance with internationally recognized principles on standardization established in the Decision on Principles for the Development of International Standards, Guides and Recommendations issued by the World Trade Organization Technical Barriers to Trade (TBT) Committee.*

### 2. Referenced Documents

2.1 *ASTM Standards:*<sup>2</sup>

[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](#)

<sup>1</sup> This guide is under the jurisdiction of ASTM Committee E53 on Asset Management and is the direct responsibility of Subcommittee E53.20 on United States Government Property Management.

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<sup>2</sup> For referenced ASTM standards, visit the ASTM website, [www.astm.org](http://www.astm.org), or contact ASTM Customer Service at [service@astm.org](mailto:service@astm.org). For *Annual Book of ASTM Standards* volume information, refer to the standard's Document Summary page on the ASTM website.

[E2936 Guide for Contractor Self Assessment for U.S. Government Property Management Systems](#)

2.2 *IAASB Standard:*<sup>3</sup>

[3402 International Standard on Assurance Engagements \(ISAE\)](#)

2.3 *PCAOB Standard:*<sup>4</sup>

[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 Standards](#)<sup>5</sup>

[U.S. OMB Circular A-123 Management's Responsibility for Internal Control](#)<sup>6</sup>

[18 U.S.C. 641 Public Money, Property or Records](#)<sup>7</sup>

### 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.

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

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

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

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

<sup>7</sup> Available from U.S. Government Publishing Office (GPO), 732 N. Capitol St., NW, Washington, DC 20401, <http://www.gpo.gov>.

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 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).<sup>8</sup> 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

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

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.

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,