

Who Cares About Commercial and Company Property, Anyway? It's Not Regulated by FAR!

BY TERRI L. SNOOK, CPPM, LOS ANGELES CHAPTER

"It's just commercial property." ... "It's a commercial customer; he doesn't care." ... "It's company property, who cares?" ... "It doesn't matter if we lose commercial or company property, we don't have to report it to the government." ... "So what if we lose it, we'll just buy another one."

Have you heard these statements before? Maybe you've even made them yourself. Well, they're true, right? We (the contractor) own the property, so the government doesn't care what happens to it. FAR doesn't apply. There's no risk.

Wrong! The government may not care (directly) about our commercial or company property, but it certainly has an indirect interest in it. The key word here is indirect. Our indirect costs are absorbed in our government contracts through the G&A rates, reflective of our overhead costs, and established in accordance with Generally Accepted Accounting Principles (GAAP), as set forth by the Financial Accounting Standards Board (FASB). So, yes, the government is definitely concerned about what we spend!

There is also the simple matter of our Property Control System. How many of you maintain two (2) separate systems...one for government property and a second one for company and commercial property? Do you also maintain two (2) sets of Property Control Procedures? Imagine how costly that would be for the contractor! No, the vast majority of contractors maintain one Property Control System and one set of Property Control Procedures. So, what kind of message are we sending the government if we aren't managing the commercial and company assets? We're also not managing the government assets, putting the government at risk, as well as our company. The processes are the same...the system is the same... the result should be the same for all property.

Now, let's get down to the bottom line here. Are you a stockholder in your company interested in making a profit? Of course you are! You benefit from that profit through various profit sharing programs, annual merit reviews, and investment of your retirement and 401K funds. What happens to that profit when you can't find a piece of critical equipment? Profit dollars are spent to replace that piece of equipment, most likely at a higher price than the original cost. What happens if the company overbuys material because "we might need it for a future contract that we don't have yet?" We build up a stockpile of excess material,

costing us both directly and indirectly. Directly, we are paying for property we don't need and indirectly, we pay for storage, inventory control and taxes! That's right...we have to pay taxes on both the lost item (it's in our property control system, at least until we write it off) and on the replacement item, as well as all that material we bought that we don't really need. Speaking of "writing it off", those write-offs impact our overhead rate as an increase. Another increase to the overhead rate to consider is the "depreciation cost" associated with any unlocated capital assets. Our costs go up...we roll it into our contracts through the G&A rates...we are now less competitive and potentially lose contracts.

As company employees, I believe we should care as much (or more) about our commercial or company-owned property as we do about government property. Yes, we all dread those DCMA audits and the resulting corrective actions and possible system disapproval, so we place a great deal of emphasis on the management of government property. However, the mismanagement of our commercial and company property directly affects the ultimate financial stability of our companies. We must also satisfy Board of Equalization (BOE) tax audits, and customer directed external CPA audits, as well as the DCAA financial audits. Excessive "write-offs" of property could be questioned and possibly disallowed due to poor company property management practices.

We as property professionals have the responsibility and the capability to ensure the success of our companies by placing the same emphasis on the management of commercial and company property as we do for government property.

Are you willing to step up to plate and work just as hard for your company's interest as you do for the government's interest? It's a personal commitment. Your paycheck depends on it! ♦

TERRI L. SNOOK, CPPM'S career in Property Management has spanned nearly 25 years, during which she has held staff and management positions in several major DoD and Commercial contractors. Her vast experience is a result of "starting at the bottom" as a clerk in the storage/surplus warehouse for Hughes Aircraft Company in the late 70's and working her way through the 15 property functions at Hughes, Northrop Grumman and now Boeing Satellite Systems. She has held the position of Senior Auditor for the past 14 years, performing critical internal reviews, both with and for DCMA, as well as subcontractor surveillance. Terri currently has transitioned into a position where she has the responsibility of establishing and tracking material and labor budgets as well as Earned Value for major satellite programs.