



The Low Dollar Deviation: Musings From the Field

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In 1997 a phenomenon came on the property scene that many thought would go far to ease property recording and tracking requirements in defense contracts. The Low Dollar Deviation was introduced in 1997 by way of a policy letter issued from the office of the Director of Defense Procurement.

Class deviation 98-O0007 relaxed some of the recording requirements for specific classes of non-sensitive, non-hazardous Government Property (GP). Plant equipment, special tooling, and special test equipment with acquisition costs less than \$1,500 only had to be tagged and recorded on receipt, with no requirement to post location changes or to include the items in the annual physical inventory. Reporting the loss, damage, or destruction (LDD) of GP was also waived until contract completion unless the item was needed for performance on the contract. The deviation was reissued in 1999 as deviation 99-O0008. It raised the exempted acquisition cost to \$5,000 and was to keep the deviation in place until the changes were incorporated into the FAR part 45 rewrite. We're still waiting for that one.

The deviation was, and still is, the topic of discussion among contractor and government property professionals. It was primarily enacted to relieve the contractor of the burden to focus as much of his attention on a \$25 piece of tooling as on a \$250,000 item of plant equipment. The contractor needed relief from the overhead costs associated with inventories. Except for the giants in government contracting like the Boeings, the Lockheeds, the Northrop Grummans, et al, many failed to see just how the deviation would be of any benefit. The vast majority of contractors are in possession of smaller GP inventories, as well as property belonging to other customers. To separate the low-dollar property is often more time consuming than including it in the inventory.

I was surprised to hear of a property professional from the private sector bring up the question of authorized performance. FAR 45.508 states, in part, "...Personnel who perform the physical inventory shall not be the same individuals who maintain the property records or have custody of the property unless the contractor's operation is too small to do otherwise." Based on the fact that the plain paper method is the purest way to conduct an inventory, if the individual performing the inventory is astute enough to know the acquisition costs and thus know which are the

low-dollar items to be excluded, why is that person conducting the inventory?

Consider this: Physical inventory is a very good tool for discovering LDD, but the deviation relaxes the reporting requirement until contract closeout. FAR 45.508-1(b) provides the option to waive the closeout inventory if the property is to be transferred in its entirety to a follow-on contract. Since the FAR predates the deviation, it is mute on the requirement to report low-dollar LDD at the end of the contract. As a result, these factors together could culminate in the contractor listing what would amount to be phantom GP. The contractor's procedures should provide for the reporting of low-dollar LDD at contract's end, follow-on contract notwithstanding.

Some contractors who have older contracts that predate the deviation have the misconception this deviation includes all of the GP in their possession. Unless an older contract has been modified to include the deviation, the contractor will continue to have the full requirement to track all of the GP accountable to that particular contract, regardless of the presence of the deviation in newer contracts. This requirement cannot be waived except by contract modification and adequate consideration to the government.

The deviation was published to offer relief to the contractor, but few are taking full advantage. Many have attained or are striving to attain ISO certification. One of the ISO requirements is for the tagging and identification of all property in his/her possession. This, in turn, has led more and more contractors to acquire and use bar code systems. In my experience as a Government Property Administrator, contractors find it quicker and easier to scan every barcode in sight, rather than take the time to separate the low-dollar items. When this practice is coupled with software that automatically updates the property records when the scanned data is downloaded, the relief provided by the deviation to refrain from performing physical inventory on the low-dollar items is rendered moot. Therefore, I suggest that the real beneficiaries of the deviation are the Government Property Administrators. It greatly reduces the population and, by virtue of random sampling, the number of items that must be observed when performing the analyses of affected functions and functional segments.

But these are just the random musings of a guy in the field. ♦