

What's the Low-Down on the Low Value Property Rule?

(or "How to Avoid Low-Hanging Fruit")

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In July 1995, the Department of Defense issued a Class Deviation, which reduced the level of record-keeping and changed the physical inventory practices for plant equipment and special tooling valued at less than \$1500. The deviation also permitted contractors to defer the reporting of loss, damage, destruction until contract completion or termination. The deviation was to remain in place for two years or until FAR Part 45 was revised...whichever occurred first, which shouldn't be a problem. After all, everyone knows property management is "low-hanging fruit."

In June 1997, the deviation was extended through July 1998 or until FAR 45 was revised...whichever occurred first (which shouldn't be a problem; after all, everyone knows property management is "low-hanging fruit"). In July 1998, the deviation was extended again through July 1999 or until FAR 45 was revised...whichever occurred first (which shouldn't be a problem; after all everyone knows...oh never mind!). Finally, in July 1999, the deviation was extended yet again.¹ But as we now know, the low-value property (LVP) rule was never codified in the Federal Acquisition Regulation.²

Jefferson Davis once said the confederacy: "died of a theory." The LVP rule met a similar fate – but its problem was more tactical than strategic. The premise of the LVP rule was correct – that some property is of lower risk and should be treated differently; the "some" in this case being property with an acquisition cost below a predetermined dollar threshold (\$5,000). This dollar threshold was based loosely on the accounting treatment for expensed items.

Indeed, dollar thresholds are often used as criteria for assessing risk; however, it soon became clear that the threshold used in the LVP case was more of a proxy for risk. In other words, just because property is expensed (from an accounting perspective) did not necessarily mean that the item would be, or should be, controlled (from a



property accountability perspective) in a manner differently than other types of property (i.e., non-expensed items). For example, there are "high risk" items that are expensed (small arms); and there are "low-risk" items that are capitalized (a milling machine (they tend not to move around or explode)) – and vice-versa.

Unfortunately, like many regulations, the LVP deviation was not flexible enough to foresee the many levels of risk. Arguably, no amount of regulation could. And so, the LVP ultimately "died of a theory." But all is not lost, for we have developed a much greater understanding of the complexities involved in property management. Many such "lessons learned" have helped in the re-writing of the FAR Part 45 and its associated clauses.

But unlike the LVP rule, this new effort is designed to provide a framework for solutions – accepting the natural complexities inherent in property management and focusing instead on certain standards and outcomes. The proposed rule embraces the fact that Property Administrators, based on their first-hand knowledge of the contractor's operation, can best determine the best way to assess the level of risk – and by extension, the optimal level of control. In short, the new FAR proposed rule provides the means to pursue best value solutions. In contrast, the LVP deviation moved decision-making away from the PA, ultimately condemning the rule-making effort to an untimely demise.

It should be noted that the Class Deviation for LVP remains in effect – and will remain in effect until the "new" draft property rule is published as a final rule, which shouldn't take that long. After all, everyone knows property management is low-hanging fruit. ♦

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¹ The dollar threshold was raised from \$1,500 to \$5,000

² As of this writing, FAR case 2003-012 was not officially cancelled