SUBJECT: Accountability and Management of DLA-Owned Contract Property

References: Refer to Enclosure 1

1. PURPOSE. This Instruction:

   a. Establishes policy, assigns responsibilities, and provides procedures for Government property that is, or is intended to be, in the custody of a contractor in accordance with the guidance and the authority in References (a), (b) and (c).

   b. Strengthens accountability and management of inventory owned by DLA when the inventory is furnished on contracts and requisitioned from Department of Defense (DoD) supply sources by a contractor.

   c. Reinforces internal controls regarding logistics traceability, tracking, financial reporting and stewardship responsibility for Government property furnished to, or acquired by contractors and third parties.

   d. Implements policies consistent with requirements and procedures of Reference (b) which apply to Government property furnished to, or acquired by, contractors and third parties, including (but not limited to) Government property furnished or acquired under DLA Vendor Managed Inventory (VMI) programs.

2. APPLICABILITY. This instruction applies to DLA Aviation, Land and Maritime, and Troop Support only.

3. DEFINITIONS. See Glossary.
4. POLICY. It is DLA policy that:

   a. DLA shall establish and maintain records and accountability for Government property (of any value) furnished to contractors, or acquired by contractors and third parties, as Government furnished property (GFP) in accordance with DoD Instruction 4161.02 (Reference (b)) and (c).

   b. The Total Item Property Record (TIPR) in Enterprise Business System (EBS) shall include, as a minimum, DLA-owned materiel that is due in, in-transit, in organic repair facilities, in a contractor’s custody, on loan, and on-hand in DoD wholesale and retail storage activities, in accordance with DoD 4140.1-R (Reference (d)).

   c. The use of electronic transactions shall be implemented to strengthen internal controls and oversight practices in the “DoD GFP Business Environment” as directed by the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics in (Reference (e)). The standard DoD business rules, procedures, and transactional requirements can be found in DLM 4000.25, DLM 4000.25-1, and in ADC 1014 (References (f), (g) and (h)).

   d. When a contractor provides a service to DLA that requires the contractor to hold, manage, or distribute government property, accountability shall be established by ensuring the contractor maintains an adequate property system in accordance with the Federal Acquisition Regulation (FAR) clause 52.245-1(b)(1) (Reference (c)).

   e. Contractors may be authorized access to DoD supply sources under the policies and procedures of Reference (c) and FAR Part 51 (Reference (c)).

5. RESPONSIBILITIES. See Enclosure 2

6. PROCEDURES. See Enclosure 3

7. INFORMATION REQUIREMENTS. None

8. INTERNAL CONTROLS. The DLA Acquisition (J7) Procurement Management Review (PMR) (Reference (i)) Program provides a structured approach to procurement oversight. DLA Acquisition (J7) will form teams from across the Agency to conduct periodic review of Contracting Offices to ensure the integrity of the procurement system is maintained and best practices are identified and shared. Within the PMR Program venue, DLA Acquisition PMR Teams may assess Contracting Offices for procurement compliance (proper clauses included in solicitations and contracts) related to Accountability and Management of DLA-Owned Government Property.
9. **RELEASABILITY. UNLIMITED.** This instruction is approved for public release and is available on the Internet from the DLA Issuances Internet Website.

10. **EFFECTIVE DATE.** This Instruction:

    a. Is effective on June 6, 2013

    b. Must be reissued, cancelled, or certified current within 5 years of its publication in accordance with DLAI 5025.01, DLA Issuance Program. If not, it will expire effective June 6, 2023 and be removed from the DLA Issuances Website.

Enclosure(s)

- Enclosure 1 – References
- Enclosure 2 – Responsibilities
- Enclosure 3 – Procedures

Glossary
REFERENCES

(a) DoD Instruction 4140.01, “Supply Chain Materiel Management Policy,” December 14, 2011
(b) DoD Instruction 4161.02, “Accountability and Management of Government Contract Property,” April 27, 2012
(c) Federal Acquisition Regulation, current edition
(g) DLM 4000.25-1, “Military Standard Requisitioning and Issue Procedures (MILSTRIP),” June 13, 2012
(k) DLM 4000.25-2, Chapter 7 “Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP),” June 13, 2012
(l) DLA Instruction 1121, “Inventory Records Management Process,” October 12, 2010
(m) Defense Federal Acquisition Regulations Supplement (DFARS), current edition
(o) DFARS Procedures, Guidance and Information (PGI)
(p) DoD Guidebook for Contract Property Administration, April 2012
ENCLOSURE 2

RESPONSIBILITIES

1. THE DIRECTOR, LOGISTICS OPERATIONS (J3):
   a. Is responsible for administering logistics management for the Agency; and
   b. Provides overall guidance for logistics management in DLA.

2. THE DIRECTOR, MATERIEL POLICY, PROCESS AND ASSESSMENT (J33) shall:
   a. Establish and maintain GFP management policies and procedures to achieve and sustain effective accountability, management oversight, physical inventory, traceability, and asset reporting of DLA-owned Government property that is or is intended to be in custody of contractor.
   b. Grant waivers to this instruction, when required, in response to contingency operations and specific agency needs.
   c. Develop and implement electronic traceability of GFP when property owned by DLA is furnished on contracts and requisitioned from DoD supply sources by contractors, consistent with References (f), (g) and (h).
   d. Establish and maintain business rules with DLA Transaction Services Defense Automatic Addressing System (DAAS) to ensure the DLA Authorized Contractor-Furnished Materiel (CFM) Department of Defense Activity Address Book (DoDAAC) table is maintained for initial validation of requisitions submitted by DLA contractors. Pending EBS upgrade DAAS will provide management control activity (MCA) validation for CFM requisitions processed external to EBS.

3. THE DIRECTOR, ACQUISITION MANAGEMENT (J7) shall:
   a. Within the parameters of Reference (i), review Contracting Offices operations for compliance with Reference (b), (c) and (d). Provide guidance and assistance to ensure contracts with GFP involved have the required clause(s) within.
   b. Establish prescriptions, clauses, and Procedures, Guidance and Information (PGI), to implement the policies and procedures of this Instruction, where appropriate.
4. THE DIRECTORS/COMMANDERS OF DLA AVIATION, LAND AND MARITIME, AND TROOP SUPPORT shall:

   a. Ensure program managers, item managers, contracting officers, and other acquisition professionals, logisticians, and property managers understand and adopt the accountability, property management, physical inventory, traceability, and asset reporting requirements of this Instruction when defining contractual requirements for Government contract property that is, or is intended to be, in the custody of a contractor.

   b. Delegate property accountability for materiel not in the physical custody of a DoD storage activity in accordance with References (c), (d) and (k).

   c. Use Enclosure (3) to guide development of contractual requirements when DLA-owned materiel is to be furnished to contractors, or acquired by contractors to maintain integrity between the contractor’s accountable property record and the EBS Total Item Property Record (TIPR).

   d. Provide for segregation of duties such as receiving, counting, researching discrepancies, issuing, and requisitioning in the contractor work force to ensure no single individual can adversely affect the inventory accuracy. When adequate segregation of duties is not practical or cost-effective, other risk mitigating controls shall be put in place, such as increased supervision and sampling.

   e. Notify DAAS when to add/remove DoDAACs from the DLA Authorized CFM DoDAAC Table to ensure DAAS MCA edits are provided for CFM/Government-Furnished Materiel (GFM) requisitions submitted external to EBS. Pending EBS upgrade, this action is required to ensure control over all requisitions submitted to DoD supply sources by contractors when the terms of the DLA contract authorize the contractor to requisition DoD property.

   f. Submit a copy of the contractor’s annual inventory report to J-332.
ENCLOSURE 3

PROCEDURES

1. GENERAL PROVISIONS: DLA Primary Level Field Activities (PLFA) shall implement
   the policies and procedures in this Instruction to enhance and sustain effective accountability,
   control and visibility of DLA-owned Government property in accordance with Reference (b);
   and ensure proper management, and reporting of accountable property records in support of
   business processes, which depend upon asset balance data, e.g., physical security, requirements
determination, financial accounting and requisition processing. DLA PLFA shall:

   a. Establish EBS Plant records and require an accountable property record be maintained in
      connection with DLA contract property in the custody of contractors. This includes the
      requirement for maintaining a complete trail of all transactions suitable for audit and will be an
      authoritative source for validating the existence and completeness of an asset.

      (1) Assign responsibilities and prescribe procedures in accordance with FAR Part 45 for
          accountability and management of DLA-owned Government property in the custody of defense
          contractors.

      (2) Consistent with FAR Subpart 45.201, GFP requirements shall be described and listed
          in an attachment of Section J in any solicitation and contracts. This is to notify the contractor of
          those items of GFP that are due-in from DLA or are authorized for requisitioning from a DoD
          supply source. As a minimum, items should be listed by nomenclature, unit measure, serial
          number or NIIN.

   b. Process electronic transactions to transfer DLA property to a contractor and/or return
      property to DoD. All transactions used to transfer and/or return property shall cite a contract
      number and call/order number, when applicable, under which the property is or was accountable.

      (1) When the contractor is required to process an accountable receipt transaction 527R,
          and the issuing owner/manger is DLA, the contractor shall cite the DLA contract number and
          call/order number, when applicable, in the 527R, rather than submit a Material Receipt
          Acknowledgement (MRA).

      (2) The contractor, or MCA (on behalf of contractor) shall prepare an MRA to include the
          contract number and call/order number, when applicable, if a 527R is not required and/or the
          contractor receives materiel on behalf of a DoD customer pursuant to DLA contract terms and
          conditions.

      (3) When a contractor’s requisition is submitted to a source of supply other than DLA,
          the contractor or MCA shall provide a DLMS/MILSTRAP MRA transaction to that source of
          supply citing the DLA contract which authorized the contractor to obtain material under
          GFM/CFM control processing. To ensure timely receipt acknowledgement the contractor may
          be established in Wide Area Work Flow (WAWF) with the role of “Government Property
Receiver” to record property transfer action of GFP. As required, the contracting officer will advise the contractor of Reference (j) requirements.

c. Manage authorization of contractor access to the DoD supply system by assigning a “U” DoDAAC, and ensure that all contractor requisitions of Government property include the DLA contract number under which requisition authority is granted, consistent with procedures of References (g) and (k).

d. Utilize paragraphs 2 through 5 below, to ensure crucial components of GFP management related to accountability, management, physical inventory, and reporting are agreed to when DLA property is, or is intended to be, in the custody of a contractor.

2. ACCOUNTABLE PROPERTY RECORD:

a. In support of its stewardship responsibilities for Government property accountable to the contract, the contractor shall create and maintain an auditable property record, in accordance with FAR Subpart 45.1, FAR clause 52.245-1, and DLAD 45.106(91).

b. Property records shall be kept current and reflect the current status, location, and condition of asset until authorized disposition of the property occurs. The property records shall provide a complete trail of all transactions suitable for audit and will be the authoritative source for validating the existence and completeness of an asset. (FAR 45 and FAR clause 52.245-1, DLAD 45.103 and 45.106, and Reference (b)).

c. The contractor shall establish and maintain records of Government property and accountable documentation, as required by the contract, particularly in the areas of Contractor acquired property (CAP) requisitioning, loss of Government property, and disposition of GFP materiel, in accordance with the provisions of FAR 45.105, FAR clause 52.245-1, and DLAD 45.103 and 45.106. Accountable documentation, as defined by References (f) and (k) includes: accountability change documents such as receipts, issues, shipments, transfers, inventory adjustments; transaction histories, adjustment research, and physical inventory results.

d. The cognizant Contracting Officer, in consultation with the Government Property Administrator (GPA) shall determine if the contractor’s property management and control systems are adequate in accordance with DFARS 245.105(b), DLAD 45.106 and DFARS clause 252.245-7003 (Contractor Property Management System Administration). The Government may, at its discretion, accept third-party testing of control procedures.

3. PROPERTY MANAGEMENT:

a. The contractor shall develop a property management plan as part of the performance plan for inventory control which includes the physical location of the government-owned property. Consistent with FAR Part 45, FAR clause 52.245-1, DFARS clause 252.245-7003 (Contractor Property Management System Administration), and DLAD Part 45, the contractor shall have a system of internal controls to manage (control, use, preserve, protect, repair and maintain) Government property in its possession. In doing so, the contractor shall initiate and maintain the
processes, systems, procedures, records, and methodologies necessary for effective and efficient control of Government property. When the contractor functions as the property custodian for storage and distribution of GFP inventory, contractual requirements shall include:

(1) Receiving shall include off-loading of freight, proper handling, inspection classification, reclassification (to include, but not limited to Kind, Count and Condition procedures), and routing of that materiel. Receiving also includes checking packaging, markings, and the use of research data systems, such as Federal Logistics Information System (FLIS). The contractor shall also maintain documentation, report discrepancies, and identify items requiring inspection or testing by Quality Assurance personnel. In the event property is received in a condition not suitable for its intended use, the contracting officer shall, upon the contractor’s request, advise the contractor on course of action to remedy the problem.

(2) Warehousing and materiel issues requirements shall include physically storing of materiel as well as selecting/handling materiel for (issuance) transfer to local DoD customers, and/or preparing out-of-area shipments to return property to DoD custody.

(3) Preservation, protection, maintenance, and refurbishment of Government property shall be performed in accordance with industry-leading practices or otherwise required by the contract.

b. Consistent with FAR clause 52.245-1(b), the contractor shall have a process to enable the prompt recognition, investigation, disclosure and reporting of loss of Government property, including losses that occur at subcontractor or alternate site location. This process shall include the corrective actions necessary to prevent recurrence. DLA contract property lost, damaged, destroyed, or stolen shall be processed in accordance with the terms and conditions of the contract to which the property was accountable.

4. PHYSICAL INVENTORY AND RECONCILIATION:

a. Consistent with FAR clause 52.245-1(b), the contractor shall periodically perform, record, and disclose physical inventory results. See also DFARS 245.602-3 for screening and DFARS PGI 245.602-70 for establishing and procedures for a plant clearance.

b. To ensure existence and completeness, the contractor shall conduct an annual physical inventory of DLA-owned Government property either by sampling or a wall-to-wall inventory to validate record accuracy as close to the end of the fiscal year as possible. When random sampling methodologies are used, the sample shall achieve statistically valid results using a confidence interval of 95% and an error bound within 4%.

(1) In accordance with the DoD Guidebook for Contract Property Administration (Reference (p)) the Government Property Administrator (PA) will: 1) Ensure the frequency of physical inventory and levels of accuracy to be achieved, as defined by the terms and conditions of the contract are documented within the contractor's property management procedure; and, 2) Evaluate all discrepancies reported by the contractor, prior to the contractor submitting the
annual inventory report to the Government. Upon receipt of the annual inventory report the PLFA shall provide a copy to J332.

(2) A minimum 98 percent physical inventory accuracy rate (100 percent for classified or sensitive property) shall be achieved and maintained.

c. The contractor is responsible for conducting research to resolve discrepancies in asset balance comparisons between warehouse counts and the accountable property record. Physical inventory changes, adds, deletions (i.e., gain/loss), and corrections shall be entered by the contractor to update the contractor’s property records. The contractor shall research all Classified and Sensitive item adjustments, regardless of dollar value; all pilferable item adjustments greater than $2,500; uncontrolled item adjustment between $5,000 and $16,000 with a unit variance greater than 25 percent; and, all uncontrolled item adjustments greater than $16,000.

d. The Inventory Records Management (IRM) process is designed to ensure synchronization is maintained between the custodian’s accountable record and the owner/manager’s TIPR. Thus, inventory balances in EBS shall be reconciled with the balances in the contractor’s accountable property record, as described in Reference (I).

(1) As prescribed in References (f) and (k) the contractor, who maintains the accountable property record, shall initiate the IRM process via DLMS, or equivalent electronics communications as agreed to by both parties, at least once annually for a Total Reconciliation (e.g., all line items/each stock number regardless of balance, including zero balances), as close to the end of the fiscal year as possible.

(2) Dependent upon the DLA owner/manager’s requirements, the contractor may also be required to initiate daily closing on-hand balance to EBS for all active records (e.g., line item that had any transaction affecting property record balance) and held in EBS to be processed once per week.

5. PROPERTY REPORTING.

a. Conduct and report transfers of Government property accountability in accordance with FAR 45.106 and DFARS PGI 245.103-71 of Reference (m). In reference to DFARS PGI 245.103-71, the contracting officers/item managers shall ensure that Government property transfers are properly reported electronically, including the initial furnishing by DoD of Government property and the subsequent transfer of such property, or its return to the Government. DoD and contractor-operated systems using DLMS-enhanced reporting capability will include authorizing contract number, when applicable, to report initial shipment, receipt acknowledgement, or return of items to DoD in accordance with MILSTRIP and MILSTRAP (References (h) and (k)).

b. The contractor shall establish and/or maintain the capability to perform DLMS Electronic Data Interchange (EDI) transactions, or obtain approval for the continued use of Defense Logistics Standard Systems (DLSS) Document Identifier (DI) 80-character transaction formats,
or, on an exception basis, other electronic communications, which shall be approved by the respective owner/item manager Chief Financial Officer representative. For information on DLMS, MILSTRIP, and MILSTRAP, see [http://www.dla.mil/j-6dlmso/eLibrary/Manuals/dlmso_pubs.asp](http://www.dla.mil/j-6dlmso/eLibrary/Manuals/dlmso_pubs.asp) and click on DoD 4000.25-M, DoD 4000.25-1-M, and DoD 4000.25-2-M, respectively. The required DLMS Supplement number, name and interface are as shown in Figure 1:

Figure 1

<table>
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<tr>
<th>Number</th>
<th>Name</th>
<th>Interface</th>
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<td>Requisition</td>
<td>OF-INT-0055, 0167</td>
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<tr>
<td>527D</td>
<td>Due In, Advance Receipt</td>
<td>OF-INT-0106</td>
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<tr>
<td>527R</td>
<td>Receipt, Inquiry, Response, MRA</td>
<td>OF-INT-0049, 5105, 5108</td>
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<td>824R</td>
<td>Reject Advice</td>
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<td>846P</td>
<td>Physical Inventory Request</td>
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<tr>
<td>846R</td>
<td>Location Reconciliation Request</td>
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<td>867D</td>
<td>Demand Reporting</td>
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<td>867I</td>
<td>Issue</td>
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<td>869A</td>
<td>Reqn Inquiry/Supply Assist Request</td>
<td>OF-INT-0060</td>
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<td>869C</td>
<td>Requisition Cancellation</td>
<td>OF-INT-0057, 0092</td>
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<tr>
<td>888I</td>
<td>Storage Item Correction</td>
<td>OF-INT-9002</td>
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<td>940R</td>
<td>Material Release</td>
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<td>945A</td>
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<td>OF-INT-0011, 0051, 0061, 0091, 5108</td>
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<tr>
<td>947I</td>
<td>Inventory Adjustment</td>
<td>OF-INT-0039, 5108</td>
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</table>

c. When Government property is managed at the item level the PLFA shall assign a Plant Location Code in EBS to account for contractor held inventories to maintain inventory visibility where auditable, accurate, and current inventory balances will be recorded.

d. For other Government property items where the DLMS is not applicable / available, the DoD WAWF Government property transfer system functionality should be used to accomplish reporting requirements. For information on WAWF, see [https://wawf.eb.mil](https://wawf.eb.mil); under the Navigation Menu on the left, there is an “About WAWF” line. Click on list of options” to learn more about WAWF. One of those links is “Access Web-Based Training (External Link).” That link will take the user to [http://wawftraining.com](http://wawftraining.com). This is a web-based, computer-based training type course that includes a section on “Property Shipment and Receipt.”
## GLOSSARY

### PART I. ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>APO</td>
<td>Accountable Property Officer</td>
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<tr>
<td>CAP</td>
<td>Contractor-Acquired Property</td>
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<tr>
<td>CFM</td>
<td>Contractor-Furnished Materiel</td>
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<tr>
<td>DAAS</td>
<td>DLA Transaction Services Defense Automated Addressing System</td>
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<td>DFARS</td>
<td>Defense Federal Acquisition Regulation Supplement</td>
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<td>DLAD</td>
<td>Defense Logistics Acquisition Directive</td>
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<td>DLMS</td>
<td>Defense Logistics Management System</td>
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<td>DLSS</td>
<td>Defense Logistics Standard System</td>
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<td>DoD</td>
<td>Department of Defense</td>
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<tr>
<td>DoDAAC</td>
<td>Department of Defense Activity Address Code</td>
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<tr>
<td>EBS</td>
<td>Enterprise Business System</td>
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<td>EDI</td>
<td>Electronic Data Interchange</td>
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<td>FAR</td>
<td>Federal Acquisition Regulation</td>
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<td>GFM</td>
<td>Government-Furnished Material</td>
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<tr>
<td>GFP</td>
<td>Government-Furnished Property</td>
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<td>IRM</td>
<td>Inventory Records Management</td>
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<td>MCA</td>
<td>Management Control Activity</td>
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<td>MILSTRAP</td>
<td>Military Standard Transaction Reporting and Accounting Procedures</td>
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<td>MILSTRIP</td>
<td>Military Standard Requisitioning and Issue Procedures</td>
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<tr>
<td>MRA</td>
<td>Material Receipt Acknowledgement</td>
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PART II. DEFINITIONS

These terms and their definitions are for the purpose of this Instruction.

Accountability. The obligation imposed by law, lawful order, or regulations accepted by an organization or person for keeping accurate records, to ensure control of property, documents or funds, with or without physical possession. The obligation, in this context, refers to the fiduciary duties, responsibilities, and obligations necessary for protecting the public interest; however, it does not necessarily impose personal liability upon an organization or person.

Accountable property. A term used to identify property recorded in the Accountable Property System of record.

APO. An individual who, based on his or her training, knowledge, and experience in property management, accountability and control procedures, is appointed by proper authority to establish and maintain an organization’s accountable property records, system, and/or financial records, in connection with Government property, irrespective of whether the property is in the individual’s possession.

CAP. Any property acquired, fabricated, or otherwise provided by the contractor for performing a contract, and to which the Government has title. CAP that is subsequently delivered and accepted by the Government for use on the same or another contract is considered GFP. Under DLMS (i.e., MILSTRIP), all requisitions that identify the contractor as the bill-to will be processed under CFM requisitioning procedures and include the contract number under which requisition authority is granted.

CFM. Materiel that the contractor is contractually required to provide. The source of supply for CFM may be the commercial market or the DoD supply system when authorized by contract. Under MILSTRIP, CFM is identified by identification of a contractor activity as the bill-to DoDAAC. See “CAP”
**Government contract property.** Property owned by the Government and furnished to a contractor, or acquired by a contractor and title is vested in the Government. Government property does not include property under any statutory leasing authority; property to which the Government has acquired a lien or title solely because of partial, advance, progress, or performance-based payments, software, or intellectual property.

**GFP.** Property in the possession of, or directly acquired by, the Government and subsequently furnished to the contractor for performance of a contract. GFP includes, but is not limited to, spares and property furnished for repair, maintenance, overhaul, or modification. Government-furnished property also includes contractor-acquired property if the CAP is a deliverable under a cost contract when accepted by the Government for continued use under the contract.

**Government property.** All property owned or leased by the Government. Government property includes both GFP and CAP. Government property includes material, equipment, special tooling, Special test equipment and real property. Government property does not include intellectual property and software.

**GFM.** Material owned by the Government and furnished to a contractor to use for specific contract purposes. Title to all material furnished by the Government remains with the Government. GFM is property that may be incorporated into or attached to a deliverable end item or that may be consumed or expended in performing a contract. GFM does not include material sold by the Government to a contractor, equipment, special tooling, special test equipment or real property.

**MCA.** Maintains control over all requisitions submitted to the DoD supply system by contractors and when DoD activity requisitions indicate shipment to a contractor.

**PA.** Property Administrator is an authorized representative of the contracting officer appointed in accordance with agency procedures, responsible for administering the contract requirements and obligations relating to Government property in the possession of a contractor. (Note: The PA is NOT the same as an APO or accountable officer. He/she represents the contracting officer to ensure the APO/accountable officer maintains property records in accordance with the FAR and contract specifications.)

**Physical inventory.** The verification of property existence, accountable property record completeness, location, and quantity. The process may also involve verifying additional information, performing reconciliations, and modifying the accountable property records.

**Stewardship responsibility.** The requirement placed on an organization or individual who acts as the custodian of another individual’s property by controlling, supervising, and managing the property in their care.

**VMI.** A DLA term used to characterize various types of programs which use Government-owned or contractor-owned property whose access and availability is paid for by DLA and is stored and managed from a physical location pursuant to DLA contract terms and conditions. Traditionally, VMI contracts have included GFM, CAP, CFM and Inventory Transfers of GFP.