



Designation: E2131 – 16 (Reapproved 2022)

Standard Practice for Addressing and Reporting Losses of Tangible Property¹

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1. Scope

1.1 This practice focuses on addressing and reporting losses of tangible property.

1.2 Loss occurrences are key aspects of risk management. Projecting the possibility or probability of losses, discovering, disclosing, reporting, managing, and minimizing losses to a reasonable extent is a critical economic factor in the success of the owning or holding entity. This practice also establishes acceptable levels of losses.

1.3 Losses are often discovered as a result of an occurrence, a physical inventory, property custodian or entity self-assessment, or external audit. An actual loss occurrence can be at any time during the property life cycle.

1.4 Assessing and determining financial liability for losses is not addressed in this practice; such assessments are generally subject to individual contracts or other arrangements.

1.5 *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.*

1.6 *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:*²

E2132 Practice for Inventory Verification: Electronic and Physical Inventory of Assets

E2135 Terminology for Property and Asset Management

¹ This practice is under the jurisdiction of ASTM Committee E53 on Asset Management and is the direct responsibility of Subcommittee E53.04 on Reutilization and Disposal.

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² For referenced ASTM standards, visit the ASTM website, www.astm.org, or contact ASTM Customer Service at service@astm.org. For *Annual Book of ASTM Standards* volume information, refer to the standard's Document Summary page on the ASTM website.

E2279 Practice for Establishing the Guiding Principles of Property Asset Management

E2378 Practice for the Recognition of Impaired or Retired Property Assets

E2608 Practice for Equipment Control Matrix (ECM)

E3015 Guide for Management of Customer-Owned Property Assets in Possession of Supplier, Contractor or Subcontractor

2.2 *ISO Standard:*³

ISO 31000 Risk Management

2.3 *Federal Standard:*⁴

FAR Federal Acquisition Regulations

2.4 *Other Document:*⁵

Risk Management Guide for DOD Acquisition, Sixth Edition

3. Terminology

3.1 *Definitions*—For definitions relating to property and asset management, refer to Terminology E2135.

3.2 *Definitions of Terms Specific to This Standard:*

3.2.1 *acquisition cost, n*—cost to buy goods, services, or assets, minus discounts and adding relevant costs based upon accounting standards.

3.2.2 *entity, n*—an agency, company, or institution.

3.2.3 *equipment, n*—tangible item that is functionally complete for its intended purpose, durable, nonexpendable, and needed for the performance of a contract. Equipment is not intended for sale, and does not include material, real property, special test equipment, or special tooling. **FAR Part 45**

3.2.4 *loss of property, n*—unintended, unforeseen or accidental loss, damage, or destruction of property that reduces the expected economic benefits of the property.

3.2.4.1 *Discussion*—Loss of property does not include occurrences such as purposeful destructive testing, obsolescence, normal wear and tear, or manufacturing defects. Loss of property includes, but is not limited to:

³ Available from National Institute of Standards and Technology (NIST), 100 Bureau Dr., Stop 1070, Gaithersburg, MD 20899-1070, <http://www.nist.gov>.

⁴ Available from <https://www.acquisition.gov/>.

⁵ Available from Defense Acquisition University, 9820 Belvoir Road, Fort Belvoir, VA 22060, <https://www.dau.edu/cop/pqm/DAU%20Sponsored%20Documents/2006%20RM%20Guide%204%20Aug%2006Final.doc>.

- (1) Items that cannot be found after a reasonable search;
- (2) Theft;
- (3) Damage resulting in unexpected harm to property requiring repair to restore the item to usable condition; or
- (4) Destruction resulting from incidents that render the item useless for its intended purpose or beyond economical repair, and
- (5) Significant loss variances beyond contractual arrangements within a material management and accounting system.

Adapted from FAR Part 45.101

3.2.5 *low-risk property, n*—assets that are monitored and controlled at the discretion of asset managers and typically consists of low risk tagged items, for example children of equipment, special tools, and children of special test equipment valued under \$5000, excluding sensitive, controlled, customer serially managed, or mission essential property.

3.2.5.1 *Discussion*—Low-risk property does not include expendable or expended material—in that these items are expected to be depleted during performance. (Be aware, the \$5000 threshold may be increased based upon internal policy or arrangements with customers.) The definition and management of low-risk property should be included in the entity's property plan and procedures. Many factors may contribute for an item to be determined low risk. For example, a \$700.00 laptop computer with its data appropriately encrypted and its essential data properly backed up should be a low-risk property item. If, on the other hand, this item's data are not encrypted or backed up, it is probably not low-risk property and as it may be sensitive property. Within a property plan, when discussing low-risk or low-value property, entities may establish different thresholds for entity property versus customer property.

3.2.6 *normal wear and tear, n*—wear on a property item that takes place with normal or reasonable use for which the item is intended or provided.

3.2.7 *not found status, n*—status of an item during an inventory, or otherwise, that has not been located and a reasonable reconciliation or search has not been performed and this determination of when an item changes from a “not found” status to a “loss” status is made by asset managers based upon facts, circumstances, schedule, materiality, and the professional judgment and certainty of the asset manager.

3.2.7.1 *Discussion*—Items in a not found status (frequently referred to with like type terms (for example, missing and cannot locate) are not a loss, nor should clerical errors or omissions be reported as a loss. For an item to be reported as a loss there should be a reasonable certainty that the item, based upon facts and circumstances, is a valid (more than 80 % certainty) loss. (See Practice E2279 regarding reports.) Careful consideration should be used in some circumstances to determine if a loss has occurred, for example: A unique special tooling item under contact closeout is at a warehouse awaiting proper disposal. Somehow between a warehouse worker and the scrap dealer the item was inadvertently taken as scrap and was not recoverable. There is no known future use for the item as special tooling. The item was expected to be scrapped eventually but not in this manner, as standard processes were not followed. Is this a reportable loss? No, as there is no economic harm. The incident may result however, in notifying

the property's owner and an internal corrective action request being issued. The timing and the resources used to locate items not found is determined upon the facts and circumstances of the situation, including costs, schedule, criticality of identified use and business rhythm. In any event, practices and cost should remain reasonable.

3.2.8 *reasonable, n*—action is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business.

Adapted from FAR Part 31

3.2.9 *representation, n*—statement made by one of two contracting parties to the other, before or at the time of making the contract, in regard to some fact, circumstance, or state of facts pertinent to the contract, which is influential in bringing about the agreement.

Black's Law Dictionary⁶

3.2.10 *risk, n*—concept that denotes a potential negative impact.

3.2.11 *risk assessment, n*—determination of quantitative or qualitative value of risk related to a concrete situation and a recognized threat.

3.2.12 *risk management, n*—structured approach to managing uncertainty through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources.

3.2.12.1 *Discussion*—A good primer on risk management that should be considered is the *Risk Management Guide for DOD Acquisition*.

4. Summary of Practice

4.1 This practice pertains to the reporting of losses of tangible property. Owners of property are entitled to be properly and accurately notified of losses to or of their property. These reports are important for accounting, possible replacement, recovery, and managerial and owner decision making. For internal control purposes, accurate reporting is necessary to achieve effective and efficient operations, reliable financial and operational reporting, and compliance to applicable laws and regulations.

4.2 This practice recognizes the process by which an item is neither accounted for nor lost but in a not found status until the item is found or determined lost.

5. Significance and Use

5.1 Losses of property are indicators of the effectiveness of operations. Excessive losses can indicate poor internal management and controls, policy or procedural weaknesses, or lack of compliance, any one of which can have a negative impact on profitability, mission, performance, or reputation.

5.2 Addressing and reporting losses provides indicators of needed potential action by decision makers.

5.3 Though the term *equipment* is used consistently throughout this practice, this process may be used for the other classes of property, for example, raw material in inventory.

⁶ Available from <http://www.thelawdictionary.org>.