

the development of an adequate contractor inventory accounting system and that a thorough review be made of any misuse or unauthorized use of Government property in the hands of contractors.

We have devoted a considerable amount of time to these areas during the past year, but there is more work to be done.

PROPERTY ACCOUNTING SYSTEMS

Records of the Department of Defense indicate Government-owned facilities and material in the possession of contractors approximate a value of \$11 billion located at about 5,500 plants. This does not include the value of special tooling, special test equipment, and military property as the Department does not require contractors to report the value of such property in their possession.

The Armed Services Procurement Regulation (ASPR) places responsibility on the contractor for maintaining official records of Government property in its possession under a property accounting system approved by the property administrator. The property administrator is required periodically to test the contractor's system to insure that adequate control over Government-owned property exists.

We found the approval process to be of questionable value. For example, at one location we found that the contractor's system had been approved in August 1962. Selective floor checks subsequently conducted by the Government property administrator disclosed numerous instances where commercial work was performed with industrial plant equipment for which the contractor had not requested advance approval as prescribed. Although corrective action was promised, the incidence of discrepancies rose from 7.5 percent of items tested during late 1964 and early 1965, to 13.5 percent of items tested during the first 9 months of 1966. The approved status of the contractor's system had not changed.

Many contractors did not maintain financial control accounts for Government-owned material and special tooling. For example, at one contractor's plant the Government, about 12 years ago, acquired \$55 million in special tooling. The value and quantity of such tooling now on hand cannot be readily determined. The contractor indicated that, to identify Government-owned special tooling, a physical inventory would have to be taken and that such an inventory would take 20 men 1 full year to complete.

Many of the contractors we visited either were not taking periodic physical inventories, or applied improper inventory procedures. For example, at one location the same contractor personnel that had custody of the material also took inventories, and in addition, maintained the stock records. We believe that appropriate segregation of the duties of personnel taking physical inventories is essential to good property control.

For the past 1½ years, relatively few audits have been made of the effectiveness of property administration at all of the contractors' plants having Government-owned property.

We have made a number of recommendations for improvement in controls over Government-owned property in possession of contractors and many revisions to the ASPR are in process to effect improvements.