

We will review the need to revise our guidelines as they apply to both new, and existing, major Defense programs. However, we feel that the problems highlighted in the GAO report stem primarily from administration of the modernization program, not inadequate guidelines. These deficiencies will be corrected through a program to improve the technical competency of our property administrators, by a more detailed evaluation of the validity and review of justification and experience data at the local level, and by a requirement for workload projections far enough in the future to allow for administrative and procurement lead time.

The ASPR Committee has had under consideration for some time the subject of recovery of savings under all types of contracts. The views contained in your letter of 30 March 1967 on recovery of savings in the repricing of incentive-type contracts are being considered by the committee.

8. *Recommendation.*—We are recommending that contracting practices and ASPR provisions be studied, with the objective of providing a method for appropriately accumulating, recording and reporting transportation and installation costs which are borne by the Government. (Pages 18, 68 and 69).

*Comment*

We agree that, as a general principle, the cost of plant equipment should include the cost of transportation for delivery to the current installation site, including the cost of installation. In order to comply with ASPR 7-702.12, it is necessary that cost of plant equipment include the costs of transportation to, and installation in, the present location of plant equipment in Defense contractors' plants for the purpose of charges for use of the equipment. Action will be taken to assure compliance with this requirement by amending ASPR after study of the most feasible way of obtaining equitable cost data, by accounting or statistical methods.

9. *Recommendation.*—We are therefore recommending that a study be made of methods by which DIPEC records could be used for Navy property management purposes, with the objective of eliminating duplicate recordkeeping by the Navy; and that the Department of Defense investigate the possibility of similar duplications in the other military services (Page 67).

*Comment*

Duplicate recordkeeping related to Navy-owned IPE in possession of contractors is being discontinued. The requirement for records will be satisfied by reliance upon both the contractor and DIPEC property records.

ASPR (Appendices B and C) is being revised to prevent duplication of property records in all Defense agencies. If other duplication is found in the Military Departments, corrective action will be initiated.

10. *Recommendation.*—We are therefore recommending that the Secretary of Defense establish a study project to determine the procedures to be used and the point in the contracting process at which financial control of special tooling should be established. Further, we are recommending that an appropriate section of ASPR be revised to require that proper internal control procedures be employed in the taking of physical inventories which would include appropriate segregation of duties of participating personnel. (Pages 20, 72, 79 and 81).

*Comment*

Based upon prior experience of both the Military Departments and commercial industry, special tooling has been and should continue to be considered as expendable (consumable) property. The provision of detailing in each contract the special tooling required to produce end items under the contract is considered an adequate basis of control. Normally, special tooling is produced solely for a particular process or machine. Upon determination by the contracting officer that this special tooling is no longer required by the Government, it should be disposed of in accordance with ASPR, Section VIII, Part 5. Therefore, we plan no change to the special tooling provision currently in ASPR.

DOD concurs with the recommendation that we require proper internal control procedures, which include segregation of duties of responsible contractor personnel taking physical inventories of Government property. We will further review the desirability of an ASPR revision (Appendices B and C) in this regard.

11. *Recommendation.*—Accordingly, we are recommending to the DOD that the ASPR be changed to require (1) financial accounting controls for Government-