

owned material in the possession of contractors in order to assure adequate control and safeguarding of the assets and also reliable reporting of the amounts on hand, and (2) 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, 85, and 86).

Comment

Financial controls for material have been the subject of study for many years in DOD. These studies are being continued. In addition, a proposal will be submitted for consideration by the ASPR Committee for criteria to establish contractor requirements for accounting for contractor-acquired Government material.

DOD is currently revising its procedures to exclude from the previous definition of Government-furnished material those items sent to contractors for processing and return. Accounting for these items will be performed by the cognizant inventory control point or other activity of the DOD component in both quantitative and monetary terms. While the contractor will be required to keep item records for scheduling purposes, he will be relieved of financial property accounting.

12. *Recommendation.*—We are recommending that the Department increase management efforts to ensure compliance of ASPR requirements with regard to control of property by DIPEC. We are also recommending that the ASPR be revised to (1) require financial accounting control of Government-owned industrial plant equipment, special tooling, and special test equipment at non-profit institutions, (2) provide more specific criteria regarding "controlled" equipment which is not to be transferred to universities, particularly with respect to its application to industrial production equipment controlled by DIPEC, and (3) require proper internal control procedures in the taking of physical inventories, which would include appropriate segregation of duties of participating personnel. (Pages 22, 91, 96, and 97).

Comment

Paragraph C211.6, Appendix C, Manual for Control of Government Property in Possession of Nonprofit Research and Development Contractors, requires colleges and universities to maintain financial accounts for Government-owned real property and plant equipment. We agree that there has been a failure to exercise compliance with this requirement. We will take the necessary steps to assure compliance.

We question the advisability of requiring financial accounting for special tooling and special test equipment provided non-profit contractors. It is DOD policy to charge special tooling and special test equipment for use on the initial contract as an operating cost. As mentioned in our comment to recommendation #10, we feel it is not desirable to require financial accounting for special tooling. We hold the same view with respect to special test equipment.

We agree that industrial plant equipment costing over \$1,000 a unit, at colleges and universities, should be reported to DIPEC for management and control purposes. Also, available equipment of this type should be screened for utilization prior to donation to the nonprofit contractor under provisions of 42 U.S.C. 1892. A revision to DSA regulations and ASPR designed to meet this objective, will be processed.

13. *Recommendation.*—We are recommending that the DOD (1) place continuing emphasis on efforts to upgrade and improve the quality of property administrators and thus the effectiveness of their surveillance over Government-owned property in the possession of contractors, (2) consider what appropriate incentives should be provided to encourage the establishment and maintenance, by contractors, of an approved system for control over Government-owned property, and (3) initiate an effective program of internal audit of property administration. (Pages 23 and 99).

Comment

DOD has established a joint study project to evaluate current position classification standards for property administrators (GS-1103), establish position guidelines supplementing those of the Civil Service Commission, and provide qualification and performance standards. We consider this project of utmost importance. You may be assured that it will receive our close attention.