

unrecognized loss and to provide information to facilitate intelligent decision making in regard to acquisition, dispositions, rentals, and transfers.

We found that accounting systems employed by contractors did not provide for financial control, and in most instances acceptable physical inventories of Government-owned material were not being taken properly. We attribute these weaknesses to indefinite instructions existing in the ASPR, deficient physical inventory taking, and departure from good property management practices.

Financial control accounts are not required by the ASPR to be maintained by nonprofit institutions for IPE and special test equipment, nor were they being maintained by the two universities we visited. We found that periodic inventories were not required by the ASPR nor were they taken by the universities, even though research contracts frequently are in process for several years. Physical inventories are generally taken only upon completion of a contract. In those instances where physical inventories were taken at contract completion, we found that the procedures employed did not provide necessary internal control.

The ASPR provides for the contractor's property accounting system to be submitted to the property administrator for approval. The Regulation also requires that the property administrator periodically test the contractor's system to ensure that adequate control exists over Government-owned property.

We found that the value of the approval process of the contractor's property accounting system by Government property administrators as a means to ensure adequate control over Government-owned property was questionable because contractor systems were allowed to continue in an approved status even though the property administrator had found significant weaknesses.

We also found that relatively few internal audits have been made of the effectiveness of property administration at contractors' plants. Audits that were made regarding the adequacy of rental payments were not sufficiently comprehensive to be fully effective. Generally, the reviews were limited to (1) verifying the accuracy of data in the computations submitted by the contractor and (2) determining whether the procedure for computing the rent was in accordance with the terms of the lease. An evaluation as to whether the prevailing terms of the lease were equitable to the Government was not apparent.

In our draft report to the Secretary of Defense, we made a number of proposals to improve the administration over Government-owned property. In general, we have found agency management receptive to our suggestions. Actions have been taken or planned in response to most of our proposals which, if properly implemented, should result in significant improvements in the control and utilization of such property.

The Department of Defense, however, did not fully agree with, or did not indicate any specific corrective action on, our proposals to (1) require contractors to furnish machine-by-machine utilization data and to obtain prior Office of Emergency Planning approval on an item-by-item basis for the commercial use of industrial plant equipment and (2) strengthen the controls over special tooling and special test equipment through the use of financial accounting controls. We believe that implementation of these proposals or of other acceptable alternatives is necessary to effectively administer this property. Therefore, we are recommending to the Secretary of Defense that he reconsider the Department's position on these matters.

We are also recommending to the Director, Office of Emergency Planning, that prior approvals for planned commercial use of IPE be administered on a machine-by-machine basis.

Following is a tabulation of our major findings and actions taken or under consideration by the Department of Defense to implement improvements needed. The tabulation also sets forth our recommendations for added controls or for strengthening the Department's existing or proposed controls over Government-owned property.