

In another instance the Navy furnished a contractor an automatic turret lathe costing \$45,600 on the basis of the contractor's projected initial year saving of \$25,800 in operating costs. We noted that during the first year the new lathe, without advance OEP approval, was used 513 hours, or 24 percent of the actual production time, on Government rent-free work and chiefly for commercial work the rest of the time. Thus the Government did not receive the benefit of most of the saving in operating costs. At the same time, Government rent-free work totaling 5,756 hours was processed on five older, less efficient turret lathes.

In another case, during the 9-year period ended September 1966, an ammunition facility was used about 80 percent of the time for commercial work which represented over \$24 million in sales. The facilities contract, dated in November 1959, allowed use for commercial products provided this did not interfere with production of military items. In September 1965 the Navy activated this facility for rocket warhead production calling for delivery of 15,000 to 52,000 warheads a month through June 1966. Although the facilities contract specified that a production capability of 95,000 warheads a month be maintained, the condition of the IPE was such that the contractor could not meet delivery schedules.

We noted that the commercial work remained at about its previous level; however, the contractor advised us that this did not interfere with military production because some of the machines being used could not hold the tolerances required for rocket warhead production. We were unable to determine the effect of the commercial production on the present condition of the IPE. It should be noted however, that Navy officials were unaware of the extent of commercial production at this facility.

From the records made available to us, we could not tell whether a determination as to the condition of the IPE and the effect of commercial production, had ever been made. While Navy officials conceded that previous commercial use may have contributed to the equipment's inability to meet required tolerances, they pointed out that such commercial use was allowed under the contract. The contract had not been amended to insert the OEP approval requirement which became effective June 1957.

Conclusions

The need for good property management is evident in view of the Government's large investment in IPE and the widespread demands for these resources. In our opinion, the circumstances described in the preceding pages are indicative that the Government has not always followed a policy which results in the most desirable use of its IPE.

We believe that the present methods of controlling the use and disposition of Government-owned IPE are not adequate, primarily because of a requirement for contractor property accounting systems to include meaningful utilization data as a tool for property management. We believe also that proposed ASPR changes (ASPR Case 66-314) which require the contractor to maintain IPE utilization records in accordance with sound industrial practices and to establish utilization standards are not specific enough to protect the Government's interests.

Additionally, we believe that the Government should prescribe the standards and the information needed to properly manage its equipment, including information not only as to the extent but also as to the manner of use (i.e., commercial work, Government work for which rental is paid, Government rent-free work, etc.). Moreover, the proposed ASPR revisions, in our opinion, do not adequately delineate utilization procedures and practices to be followed or required by the Government property administrator and the contractors, with respect to the special category of IPE designated as test equipment, nor do they suggest the type of standards by which retention by the contractor should be evaluated.

We proposed therefore that the provisions of the proposed ASPR changes be revised to meet the predominate need of providing records and a means to determine whether the extent and manner of use of Government IPE is satisfactory. We recognize that this procedure may be practicable only for IPE above some established cost level, such as the \$1,000 prescribed for DIPEC reporting procedures and should also exclude IPE when the Assistant Secretary of Defense has restricted and reserved use of IPE to specific military programs. Moreover, in our opinion, attention should be directed to the question of whether or not lease of IPE for commercial work is desirable. We identified a number of instances where need for equipment so used existed at other DOD contractor plants.