

We found at one contractor's plant that, some tools were not marked for identification and identification could be made only by reference to engineering drawings.

At the other plants, Government-owned tooling had been commingled with like items of contractor-owned tooling and identification as to ownership could not be readily determined because inventory record cards did not indicate who owned the tooling. To illustrate, we found at one contractor's plant, that records maintained for tools included those acquired at a cost of \$55 million under Government production contracts but did not identify the tooling as either contractor or Government owned. The identification of tooling ownership could be made only through physical examination of the tools and isolation of those bearing Government marks. Further, the tool records did not always show the location of the tool, which made identification of the special tooling more uncertain.

Physical inventories

The taking of physical inventories is a necessary check on the effectiveness of the contractors' systems through the identification and evaluation of the propriety of any differences between or changes in the amount of Government-owned special tooling and test equipment in their possession and that shown in the records. This important element of control is recognized both by ASPR and the accounting principles and standards prescribed by the Comptroller General. ASPR does not, however, specifically require periodic physical inventories but provides that it shall be the responsibility of the property administrator to review and approve the type and frequency of physical inventories to be taken.

We found that in some cases contractors were not taking physical inventories at regular intervals and that the Government property administrators had not required that the inventory be taken. In another case, we found that the contractor was employing poor inventory practices.

At one plant, Government-owned tooling originally acquired at a cost of \$55 million under supply contracts starting in 1952 had never been inventoried.

At another plant, the corporate policies and procedures, as approved by the Government property administrator, provided for a complete inventory of special tooling at least once a year. We found that physical inventories had been taken only at the completion or termination of contracts and that, as a result, items of significant amount acquired under other than facilities contracts had not been inventoried.

At a third plant, we found that the inventory taking had been limited to determining whether a particular item was on hand, without regard to the quantity of identical items that should be on hand.

We have reviewed Contract Administration Panel Case 64-310 which contains proposed changes to ASPR. Incorporated in the proposed changes is a requirement that "The contractor shall periodically physically inventory all Government property * * *" and also that " * * * the type and frequency of physical inventory and the procedures therefore shall be established by the contractor and approved by the property administrator * * *." In our opinion, this proposed change, if properly implemented, will result in improved control over special tooling and special test equipment. We note, however, that the proposed change does not impose a requirement for appropriate segregation of duties to ensure independence in inventory taking. Thus, an important element of internal control is not prescribed.

Need for improved controls over special tooling provided to subcontractors

Under prevailing instruction in ASPR, the Government does not exercise surveillance over tooling provided by prime contractors to various subcontractors. Thus, the Government does not review the existence, condition, or use of this property unless the prime contractor or the Government property administrator at the location specifically requests the assistance of the Government property administrator having cognizance at the subcontractor's plant.

Our review of tooling in the hands of subcontractors revealed that financial accounting controls were lacking and that property records in the three cases we examined had omitted cost data. In one instance, the subcontractor had no written procedures for the control of special tooling. We found also that in some instances Government-owned tooling provided to the subcontractor had not been clearly identified and recorded and that physical inventories had not been taken.

We found that Government property administrators responsible for property at the subcontractor's plant did not review special tooling unless requested to do so by the property administrator assigned to the prime contractor's plant and that the property administrator had made very few requests of this nature. There