

With regard to establishing a study project to determine the procedures to be used and the point at which financial control of special tooling should be established, the Deputy Assistant Secretary advised us that no change to the special tooling provision currently in ASPR was planned. He stated that, on the basis of prior experience of both the military departments and the commercial industry, special tooling had been and should continue to be considered as expendable (consumable) property and that the provision for detailing in each contract the special tooling required to produce end-items under the contract was considered an adequate basis of control. He stated also that, normally, special tooling was produced solely for a particular process or machine and that, upon determination by the contracting officer that this special tooling was no longer required by the Government, it should be disposed of in accordance with ASPR, section VIII, part 5.

We do not agree that the provision for detailing special tooling in each contract is an adequate basis for control. The preparation of such lists may be postponed indefinitely because a contracting officer may elect to waive the requirement until completion of the contract or subsequent follow-on production contracts. We noted one such instance where preparation of the lists was still pending for special tooling originating in 1952. Also, disposal of special tooling according to ASPR, section VIII, part 5, when it is no longer required is not responsive to the matters set forth in our report inasmuch as we are concerned with control (1) while the tooling still has utility to the Government and sale or rental value for commercial purposes and (2) to ensure the integrity of special tooling at such time as a subsequent decision is made to sell or otherwise dispose of it.

The Deputy Assistant Secretary's position that special tooling is expendable is at variance with Air Force reviews which established that much tooling was, in fact, facility-type items. ASPR requires that such facility-type items be under financial control. The Government has provided special tooling under major defense programs, to the aircraft engine and air frame industries. Subsequently, the introduction and manufacture of substantially similar products for commercial uses has resulted in additional uses for much of this tooling. For example, the Air Force sold its KC-135 special tooling to a contractor because the items could be applied to similar commercial airplanes.

Special tooling at the 11 aircraft engine and air frame contractors included in our review had a total approximate acquisition cost in excess of \$299 million and at five of these contractors we established that portions of the special tooling had been used at one time or was currently being used for the manufacture of commercial components. The items which we question have long-term value and in some cases have multiuse characteristics. We believe that timely determinations regarding the classification of special tooling as facility-type items is essential and that careful control of special tooling under a system of financial control accounts is needed.

Recommendations

We recommend 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 maintained. Also, we recommend that periodic examinations be made of special tooling to identify multiuse characteristics and that the items identified be reclassified and controlled as facility-type items.

Material

Accounting systems to control Government material need improvements

The accounting systems employed by contractors did not provide for financial control and acceptable physical inventories of Government-owned material. We attribute the weaknesses to indefinite instructions existing in ASPR, deficient physical inventory taking, and departure from good property management practices. The physical protection and security procedures were, with one exception, adequate to protect the Government-owned material at the plants we examined. To alleviate the inadequacy, the contractor agreed to reduce from 26 to 8 the number of employees having access to storage areas.

Financial accounting controls not maintained.—Government-owned material at six contractor plants was not controlled under monetary accounts. ASPR assigns to contractors the responsibility for maintaining an adequate property control system, without clearly establishing the essential characteristics of such a system. The existence of stock record cards was usually considered to be sufficient to comply with ASPR, and these were not tied into a monetary control account. We found that contractors maintained individual property records