

showing description, issues, receipts, balance on hand, and price of the material. This was in accordance with ASPR, which does not require monetary control accounts for this property.¹

In one case differences between unit records and stocks actually on hand were adjusted by requisitions which were not authorized according to the contractor's property control procedures. We found that, during the first quarter of 1966, over \$2,800 of Government-owned material was written off of the inventory records in this manner. Furthermore, the write-offs were not reported to the Government property administrator.

We could not ascertain the causes of the discrepancies at the time of our subsequent review. However, financial control accounts would expose a number of types of discrepancies which would cause differences between the stocks on hand and the records; and exposure could be made in such a way as to permit timely investigation of the reason for the differences. Furthermore, financial control accounts would facilitate an accurate reporting of the dollar amount of inventory write-offs for purposes of investigations by management.

One contractor official, who estimated that several million dollars worth of Government-furnished material was on hand at his plant, stated that monetary controls for the Government-furnished material were impractical and that the contractor was primarily concerned with only quantities. Nevertheless this contractor maintained monetary controls over its own materials inventories.

We have reviewed Contract Administration Panel Case 64-210, which contains proposed changes to ASPR, and we find that these changes have not added a requirement for maintenance of monetary control accounts for material.

Inventory taking ineffective.—The physical inventory-taking procedures contained deficiencies, of varying significance, at 7 of the 10 contractors' plants where we examined material. In some cases adequate internal control did not exist because the taking of the inventory did not incorporate appropriate segregation of duties of participating personnel. For example, at one location, the individual who maintained the stock records was custodian of the material, and he also took inventory. In such cases differences between the records and the physical count can be reconciled by adjusting the records or removing the stock cards, without independent evaluation of the propriety of the transactions.

The inventory taking was incomplete in some cases because it was limited to verifying listings prepared from the property records and furnished to participating personnel; therefore, items which may have been physically on hand but not included on the listings provided would be omitted from the count.

At one location the contractor performed a physical inventory of Government-furnished material but did not require a physical inventory of material it had acquired for the account of the Government. Also, in a few cases, written procedures were lacking, the work was not properly documented, the results were not furnished to the Government, or inventories were not priced out.

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 therefor 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 material. 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 over these assets is absent.

Conclusions

ASPR does not require that financial accounting controls be maintained for Government-owned material in the possession of contractors. It is our opinion that a system incorporating financial control of materials in the possession of contractors is desirable and would be advantageous as a tool of property management. We proposed, therefore, that ASPR B-304.7 be amended to require financial accounting controls for Government-owned material in the possession of contractors in order to ensure adequate control and safeguarding of the assets and reliable reporting of the amounts on hand.

The internal control weakness noted with respect to the taking of physical inventories without appropriate segregation of the duties of participating per-

¹ A description of monetary control accounts and their manner of use was previously discussed in this report, page 48.