

profit Research and Development Contractors, requires colleges and universities to maintain financial accounts for Government-owned real property and plant equipment, there has been a failure to exercise compliance with the requirement. He indicated that the Department will take necessary steps to ensure compliance. With respect to financial accounting for special test equipment provided non-profit contractors, the Deputy Assistant Secretary stated that it was DOD's policy to charge these items as operating costs to initial contracts and it did not feel it desirable to require financial accounting for them. Concerning the taking of physical inventories, the Deputy Assistant Secretary concurred that appropriate segregation of duties is needed for proper internal control and he indicated that the Department will review the desirability of an ASPR revision.

The Deputy Assistant Secretary agreed that IPE costing over \$1,000 a unit should be reported to DIPEC for management and control purposes. He further stated that available IPE of this type should be screened for utilization prior to its being donated to the nonprofit contractor under provisions of 42 U.S.C. 1892 and that a revision to DSA regulations and ASPR designed to meet this objective would be processed.

The language in paragraph C211.6, appendix C, states that "The contractor's property control system *should* be such as to provide semiannually the dollar amount of Government-owned industrial facilities \* \* \*." (Italic supplied.) Thus, as we interpret it, monetary controls are permissive rather than mandatory. Further, paragraph C211.6 is under the "Physical Inventories" paragraph, which, we believe, confuses application of the instruction. Contract Administration Panel 64-310 revises the wording from "should" to "shall" and this instruction has been placed under part 3—Records of Government Property, paragraph C-301, General. As such, the contemplated change to ASPR appears to require a monetary control account for facilities.

Special test equipment at universities at time consists of an assembly of standard items which include DIPEC-controlled-type items. These standard items have been classified as special test equipment because of their specialized nature once they are integrated with other components into complex laboratory set-ups.

#### *Recommendations*

To achieve effective accounting control over Government-owned property at nonprofit institutions, we recommend to the Secretary of Defense that ASPR be revised to clearly establish the need for monetary control accounts for IPE. We further recommend that standard IPE now classified as special test equipment be reclassified and controlled as facility-type items. Also, we recommend that special test equipment be accounted for under monetary control accounts.

#### *Property Management Functions in the DOD*

##### *Property Management Functions in the DOD Areas for improvement in administration of Government-owned property in possession of contractors*

Appendices B and C of the ASPR provide that the contractor will maintain the official records of Government property in its possession. ASPR further provides that the contractor's property accounting system must be submitted to the property administrator for approval. ASPR 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 as a means to ensure adequate control over Government-owned property was questionable because (1) there was little incentive for the contractor to maintain an approved system and (2) contractor systems were allowed to continue in an approved status even though the property administrator had found a significant weakness in the contractor's control over property, which was not subsequently corrected, or, when other weaknesses were, in our opinion, apparent and should have been corrected. We found that the property administrators' examinations either did not disclose many of the conditions discussed throughout this report, which, in our opinion, were unsatisfactory, or did not produce effective corrective measures. Further, we noted that in some cases the property administrator did not adequately document his work.

We also found that, for the past 1½ years, relatively few internal audits have been made of the effectiveness of property administration at contractors' plants. In addition, audits that were made regarding the adequacy of rental payment were, in our opinion, not sufficiently comprehensive to be fully effective.

DOD has taken or is in the process of taking action to improve the quality of