

At one location, we noted that the sole evidence supporting the property administrator's system survey was a two-paragraph letter of approval of the system. At another location, where the property administrator reviewed the property control system, no formal documents or workpapers had been prepared, and the evidence of such a review was limited to a notation in the control file.

DOD audit efforts.—The "Accounting Principles and Standards for Federal Agencies," published by the Comptroller General, provides that all performance should be subject to adequate review under an effective internal audit program so as to provide information as to whether performance is effective, efficient, and economical.

Our review showed that, for the past 1½ years, relatively few internal audits have been made of the effectiveness of property administration at contractors' plants. Further, we found that audits that were made regarding the adequacy of rental payment were, in our opinion, not sufficiently comprehensive to be very effective.

Since July 1965, the date when the Defense Contract Audit Agency (DCAA) was established, only a few internal audits have been performed regarding the effectiveness of control over Government-owned property. The reason for this is that DCAA, as a matter of policy, does not audit the effectiveness of their "client" which includes the contracting officer and the property administrator. Further, we were informed that, because of DOD's desire to have one audit agency deal with contractors, internal auditors assigned to the military services and DSA were not permitted access to contractors records.¹ These circumstances resulted in little internal audit effort being applied toward the effectiveness of contract administration of which property administration is a part. For example:

At one plant the most recent audit of the property control system and the property administrator's activity was made in April 1964 by the Resident Air Force audit staff. At another location we were informed that an audit of the property control system had not been made for at least 6 years. At a third location the most recent audit of the property control system was made by the Navy Area Audit Office in May 1964.

In a memorandum to the Deputy Comptroller for Audit Policy, OASD (Comptroller) dated March 22, 1966, the DSA Auditor General indicated the importance of internal audit of contract administration. He noted that internal audit organizations should have access to contractor-maintained records because such access is necessary to determine techniques used by property administrators and to provide assurance that property is properly identified and adequately protected and that utilization is authorized and retention by the contractor is justified. He further indicated that DSA and DCAA could perform most effectively with internal audit's assuming no prerogative of the DCAA for contractor review and with DCAA's assuming no responsibility of internal audit of contract administration.

With regard to audit of contractor rental payments for use of Government-owned facilities, we found that the DCAA reviews were generally limited to (1) verifying the accuracy of data in the computations submitted by the contractor and (2) determining whether the procedure for computing the rent was in accordance with the contract formula. An evaluation as to whether the prevailing terms of the lease were equitable to the Government was not apparent (see p. 29). As discussed in previous sections of this report, we found a number of lease arrangements which, in our opinion, were inequitable to the Government.

Further, at one location we found that DCAA did not consider the question of whether the Government obtained the benefits of rent-free use of the IPE for its procurements. At this location the contractor had orders from nine different customers for 2.75 rocket base blanks, and all were paying rent for use of the Government IPE even though they were entitled to a rent-free waiver. In one of the cases the customer was a Government procurement agency. After we informed the contractor of this situation, it told us that the customers would be advised of the rent-free aspect in the future.

Agency actions and our evaluation

Some actions have been or are being taken by DOD to provide more definitive guidelines in the conduct of the property administrators' surveillance of contractor systems and to improve the quality of property administrators and internal audit effort.

¹ An exception to this policy occurred in late 1965 and early 1966 when DSA was permitted to conduct an audit at several contractors' plants. The results of the agency audit were transmitted to the Subcommittee in March 1966.