10. *Recommendation.*—We are therefore recommending 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 established. Further, we are recommending that an appropriate section of ASPR be revised to require that proper internal control procedures be employed in the taking of physical inventories which would include appropriate segregation of duties of participating personnel. [Deleted.]

Comment

Based upon prior experience of both the Military Departments and commercial industry, special tooling has been and should continue to be considered as expendable (consumable) property. The provision of detailing in each contract the special tooling required to produce end items under the contract is considered an adequate bases of control. Normally, special tooling is produced solely for a particular process or machine. Upon determination by the contracting officer that this special tooling is no longer required by the Government, it should be disposed of in accordance with ASPR, Section VIII, Part 5. Therefore, we plan no change to the special tooling provision currently in ASPR.

DOD concurs with the recommendation that we require proper internal control procedures, which include segregation of duties of responsible contractor personnel taking physical inventories of Government property. We will further review the desirability of an ASPR revision (Appendices B and C) in this regard.

11. *Recommendation.*—Accordingly, we are recommending to the DOD that the ASPR be changed to require (1) financial accounting controls for Government-owned material in the possession of contractors in order to assure adequate control and safeguarding of the assets and also reliable reporting of the amounts on hand, and (2) that proper internal control procedures be employed in the taking of physical inventories which would include appropriate segregation of duties of participating personnel. [Deleted.]

Comment

Financial controls for material have been the subject of study for many years in DOD. These studies are being continued. In addition, a proposal will be submitted for consideration by the ASPR Committee for criteria to establish contractor requirements for accounting for contractor-acquired Government material.

DOD is currently revising its procedures to exclude from the previous definition of Government-furnished material those items sent to contractors for processing and return. Accounting for these items will be performed by the cognizant inventory control point or other activity of the DOD component in both quantitative and monetary terms. While the contractor will be required to keep item records for rescheduling purposes, he will be relieved of financial property accounting.

12. *Recommendation.*—We are recommending that the Department increase management efforts to ensure compliance of ASPR requirements with regard to control of property by DIPEC. We are also recommending that the ASPR be revised to (1) require financial accounting control of Government owned industrial plant equipment [deleted] and special test equipment at nonprofit institutions, (2) provide more specific criteria regarding "controlled" equipment which is not to be transferred to universities, particularly with respect to its application to industrial production equipment controlled by DIPEC, and (3) require proper internal control procedures in the taking of physical inventories, which would include segregation of duties of participating personnel. [Deleted.]

Comment

Paragraph C211.6, Appendix C. Manual for Control of Government Property in Possession of Nonprofit Research and Development Contractors, requires colleges and universities to maintain financial accounts for Government-owned real property and plant equipment. We agree that there has been a failure to exercise compliance with this requirement. We will take the neceessary steps to assure compliance.

We question the advisability of requiring financial accounting for [deleted] special test equipment provided non-profit contractors. It is DOD policy to charge [deleted] special test equipment for use on the initial contract as an operating