

"A report issued in March 1966 by the Air Force property administrator located at this plant stated:

"It was observed that identical items sitting side by side carried facility property tags in one instance and special tooling tags in another instance. This would reemphasize the need for a comprehensive review and reappraisal of the criteria for determining how and at what point these items were sorted into facilities or special tooling. The existence of complete machines built as special tools, articles attached to facilities or real property on a permanent or semi-permanent basis, items so general in nature and so obviously nonspecialized, and yet identified as special tooling makes an ambiguous and untenable situation."

"The property administrator stated that the tooling in question was being used by the contractor on all programs without payment or rent and recommended that it be transferred to the facilities contract. Apparently as a result of the property administrator's recommendation, a pending lease agreement between the contractor and the Air Force provides for the payment of rent for commercial use of special tooling and test equipment costing about \$3.6 million. This amount was determined by the contractor by reviewing the list of standard tools comprising the \$36 million total previously mentioned and estimating the quantity and value of such tools that could be used for commercial purposes."

"Because there was no itemized listing of the \$3.6 million of tooling which the contractor intended to use, it appears to us that any amount of the \$36 million of tooling could be available to the contractor for commercial use. Although the lease agreement had not been executed at the time of our review, it appears that the standard tools are to retain their special tooling classification."

Comment: The report is correct in stating on pages 51 and 52 that the company may use, under the lease referred to above, any of the \$36 million of tooling. The tooling which could or would be used on commercial work was estimated to be 10 percent of such total by knowledgeable Boeing and Air Force personnel and the lease was prepared accordingly. The Air Force and Boeing recognize that a problem exists in the disposition of excess special tooling. We have been working with the Air Force for approximately one year in arriving at a contractual means to retain special tooling that is necessary for future Government work and to dispose of that which is truly surplus. It is believed that a significant amount of the special tooling will be authorized for disposition in the near future.

With respect to use of special tooling by Boeing on commercial programs without payment of rent, such use was of very minor significance prior to the effective date of the lease and we are presently negotiating an agreement for payment of rent for such usage prior to the date of the lease agreement.

"For example, the Air Force sold its KC-135 special tooling to a contractor because the items could be applied to similar commercial airplanes."

Comment: In addition to the purchase price, Boeing had paid rental for use of this tooling in amounts exceeding the cost of the tools. In our experience the opportunity for use of Government-owned special tooling on commercial work is a rare occurrence.

"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 manufacturer of commercial components. The items which we question have long-term value and in some cases have multiuse."

Comment: To the extent that this applies to the Boeing Company, it is covered by our comments on the items appearing on pages 51 and 52.

(The following wire sent today as follows:)

CLEVELAND, OHIO, January 4, 1968.

CHARLES M. BAILEY,
Deputy Director, Defense Accounting and Auditing Division, U.S. General Accounting Office, Washington, D.C.

This will confirm the oral comments given to your Mr. Hammond yesterday pursuant to your letter of November 29, 1967, and in response to his urging that TRW's comments concerning GAO's report to Congress dated November 24, 1967 (B-140389) had to be given at that time in order to receive any consideration before the release of TRW's name as one of the contractors referred to in that report.