

30649
126397

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

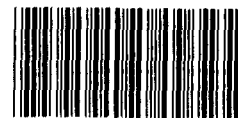
FOR RELEASE ON DELIVERY
March 6, 1985

STATEMENT OF

FRANK C. CONAHAN
DIRECTOR
NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION

BEFORE THE
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES

ON
MANAGING AND ACCOUNTING FOR
PROPERTY FURNISHED TO DEFENSE CONTRACTORS



126397

031427 - 126397

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our work concerning the management of and accounting for property furnished to Defense contractors by the Department of Defense (DOD) and the military services. Our testimony will provide you with information on the actions DOD and the services have taken in response to this Subcommittee's 1981 recommendations on government furnished material (GFM), which is used in the production, overhaul, and repair of weapon systems. We will also discuss Defense's management of government furnished equipment (GFE), which we define for purposes of this testimony, as industrial plant equipment, other plant equipment, and special test equipment.

The most recent available information indicates that property with an acquisition cost of about \$22 billion may be in the hands of contractors. Of that total, about \$14 billion is GFM and about \$8.0 billion is GFE.¹ These figures may be understated because contractor records in many instances do not adequately account for this property, and the DOD does not have the financial or management systems in place which could independently verify contractor records.

One factor contributing to this accountability gap is that Defense has not adequately enforced the provisions of the Federal Acquisition Regulations, which require that contractors account for and safeguard government property in their possession. In

¹Contractors have an additional \$15.5 billion of other government property, such as real estate, in their possession.

our opinion, contractors must be held accountable for government property to ensure that maximum benefits accrue to the government and that the sizeable investment in this property is protected.

Concerning GFM, Defense has taken steps to correct some of the problems noted during your 1981 hearing on this subject. However, management and accountability problems remain. Similar problems exist with respect to GFE. As far back as 1967, GAO reported a number of problems with GFE, ranging from lack of financial controls to inadequate equipment usage and unauthorized use of equipment for commercial work. Since then, GAO and Defense internal audit staffs have reported that these problems continue.

This suggests that Defense corrective actions have not been adequate, and that more needs to be done to improve management and accountability over both GFM and GFE. To accomplish this, we believe, the Subcommittee's 1981 report recommendations on the management and accountability of GFM should be implemented and, where applicable, be extended to GFE. We also believe that Defense should reemphasize the need for recording use data for industrial plant equipment, and hold contractors accountable for poor property management and losses of government property.

BACKGROUND

DOD furnishes GFM and GFE to contractors for use on Defense production, overhaul, and repair contracts. GFM includes parts, components, assemblies, raw and process materials, and supplies that are attached to or incorporated into final products--such as

tanks, ships, and aircraft. GFE includes industrial plant equipment (IPE), other plant equipment (OPE), and special test equipment (STE) used or capable of being used in the manufacture of products or performance of services. IPE is equipment with an acquisition cost of \$5,000 or more that is used to cut, grind, shape, or form metal or other materials. OPE includes equipment such as vehicles, materials-handling equipment, and furniture. STE means either single or multi-purpose integrated test units engineered, designed, fabricated, or modified to accomplish special purpose testing in the performance of a contract.

Federal Acquisition Regulations and contract provisions prescribe that contractors are responsible for establishing and maintaining property control systems to account for and safeguard GFM and GFE. Further, the contractors' property accounting records are the official accounting records for GFM and GFE, and Defense relies almost entirely on contractors for management reports and other information. Generally, Defense maintains no independent records of such property in the possession of contractors.

To ensure that contractors adequately carry out their responsibilities, Federal Acquisition Regulations require that government property administrators approve each contractor's property control system and perform annual surveys of the systems. The surveys are divided into ten or more categories ranging from acquisition and use to maintenance and disposal of property. Deficiencies noted during these surveys are to be reported to the contractor for prompt corrective actions.

According to the Federal Acquisition Regulations, if the contractor fails to maintain an effective property control system and the government disapproves the system, Defense can hold the contractor liable for future losses of the property.

GOVERNMENT FURNISHED MATERIAL:

LIMITED PROGRESS ON

NEEDED IMPROVEMENTS

Since 1967, congressional committees, GAO, and Defense audit agencies have repeatedly criticized Defense for its inability to properly account for, control, and administer government materials furnished to contractors. This led to a hearing by this Subcommittee in 1981 and its subsequent report entitled "Inadequate Controls Over Government Furnished Material Furnished to DOD Contractors." This report made the following recommendations:

1. DOD should place the responsibility for coordinating all actions planned and underway for improving management and accountability for GFM in one adequately staffed central office.
2. DOD property administrators should enforce the provisions of contracts in accordance with the Defense Acquisition Regulation and should periodically check the GFM for losses and excesses.
3. DOD should develop a plan of action as soon as possible to install accounting controls over GFM within DOD and get the applicable systems approved by GAO.

4. DOD should involve as many contractors as feasible to test the practicability of selling material to contractors instead of providing GFM.
5. DOD should review the various GAO and DOD audit reports relating to GFM and should implement the recommendations contained therein. In particular, DOD should systematically review its major GFM contracts to identify any excess material and the finding should be validated.
6. DOD should increase the number of property administrators assigned to contractor plants.
7. DOD should control production contractors' access to DOD's supply system.

After the Subcommittee report was issued, the Defense Inspector General also issued a report on GFM. The findings and recommendations of this report generally reinforced those of the Subcommittee. A brief summary of this report is included in attachment I.

While Defense initiated a series of actions (see attachment II), it has not fully implemented the Subcommittee's recommendations. Since the attachment details the actions Defense has taken on each recommendation, we will discuss here only those with which we are most concerned: inadequate accounting controls and fragmented management.

Accounting Controls

Since 1967, GAO has recommended that DOD establish accounting systems that adequately account for (1) the quantity and

value of GFM and (2) the use of this material by contractors. These systems would provide property administrators with independent data so that they would be able to judge whether contractor records are in conformance with the Federal Acquisition Regulations.

Between 1981 and 1983, DOD did establish general accounting principles and standards for GFM, but the services have done little to implement these standards because, according to the services, the Comptroller in the Office of the Secretary of Defense (OSD) has not provided specific guidance. To provide this guidance, the OSD Comptroller activated in 1984 an ad hoc group of accounting and acquisition management representatives. The charter for this group was signed February 6, 1985. Given existing resources, DOD now estimates that implementation of the accounting standards is still years away.

Fragmented Management

At the time of the 1981 hearing, DOD's responsibility for GFM was divided among several offices. In OSD, the Deputy Under Secretary for Acquisition Management was responsible for establishing and promulgating policy and guidance for GFM provided to contractors who were producing new weapon systems. The OSD Deputy Assistant Secretary for Logistics and Materiel Management was responsible for establishing and promulgating Defense policy affecting the maintenance and overhaul of weapon systems and directing access of contractors to the DOD supply systems. The Deputy Assistant Secretary for Management Systems in the Office of the Comptroller was primarily concerned with accounting

practices related to GFM. Responsibility for GFM in the military services followed a similar pattern. The Subcommittee concluded that this split responsibility did not result in adequate coordination for all corrective actions then planned or underway for improving management and accountability for GFM, and recommended that such responsibility be placed in one adequately staffed central office.

DOD agreed that GFM management needed to be carefully coordinated among the three Defense organizations, but in lieu of a central office for the management of GFM, it established, in April 1983, a Defense Government Property Council, whose responsibility included government furnished property. This council consists of senior executives from OSD and the military services. The purpose of the Council is to "motivate positive Defense actions for property issues instead of being in a reactive mode to outside stimuli."

Whether the establishment of the Council will adequately accomplish the objective of the Subcommittee's recommendation of coordinating needed management improvements is questionable. We are concerned, for example, that the Council did not take action when the Army did not respond for nearly a year to three OSD requests for status reports on its GFM actions. The DOD-IG had to intervene in order to finally get a response. In addition, Council members serve on a part-time basis and staff assistance is also on a part-time basis.

Finally, we found that only one of the Council's eight ad hoc working groups, the Property Accounting Standards group

(which did not have its charter approved until February 1985), is concerned with matters directly related to GFM accountability. Therefore, no Council group focuses on the host of other GFM management problems.

The current reorganization underway within Defense will combine the acquisition and logistics areas under one Assistant Secretary of Defense. This reorganization could be used to determine whether the needed improvements in management can be accomplished under the aegis of the Council or whether an alternative structure, such as a central office, needs to be established.

GOVERNMENT FURNISHED EQUIPMENT:

NEED FOR BETTER MANAGEMENT AND CONTROL

Since 1967, numerous reports have identified recurring problems in the management and use of GFE. (See attachment III.) These reports contain many examples showing that contractor records cannot be relied on to adequately account for GFE. The reports state that this situation exists because (1) government property administrators do not adequately enforce the Federal Acquisition Regulations to ensure that the contractors maintain systems that provide visibility and control over GFE in their possession, and (2) guidance provided by the Regulations for accountability over the use of GFE is inadequate.

Our review of these reports, supplemented by the results of limited work we recently completed at eight major Defense production contractors, showed the following recurring management problems.

Inadequate Financial Accounting Controls

For some time, congressional committees and GAO have taken the position that Defense should maintain financial accounting records for government property. Only the Army has implemented such a system. Even then, on the basis of two 1983 Army command reviews, the Army Audit Agency concluded that the system contained inaccurate data and, therefore, could not be used to maintain internal controls or visibility over property provided to contractors. The audit agency also said that the Army's plant equipment accounts may have been understated by as much as \$826 million. Furthermore, none of the services have established an account for the value of special test equipment.

Improper Classification

A June 1982 joint service report on the management of special test and plant equipment pointed out that the most recent Defense audit had found that 50 percent of the about 20,000 items sampled, valued at \$104 million, were improperly classified as special test rather than general purpose test equipment. The audit projected that, DOD-wide, this misclassification amounted to \$800 million. As a result of this misclassification, contractors received extra funds for overhead, general accounting, and profit. Furthermore, a 1982 Florida Institute of Technology study of government-owned IPE at contractor plants stated that, of a total of 42 Defense audit reports reviewed, 7 contained evidence of improper equipment classification.

Inadequate Equipment Use

Federal Acquisition Regulations do not contain specific guidance on how contractors are to record equipment use. The regulations currently stipulate that contractors have written procedures for (1) recording authorized and actual use, and (2) requiring periodic analyses of current and known future production needs. However, contractors frequently either do not record use data or record this data in different ways, such as by direct labor hours, machine-use hours, or parts processed. Without adequate equipment-use data, proper computation for paying adequate rent to the government or evaluating the need for equipment retention cannot be made. Prior reports have identified a series of problems with use data. The following are some examples:

--In 1972, GAO identified 327 items of equipment, costing \$11.4 million at 13 contractor locations, which were idle, had little use, or were used predominantly for commercial work. Of the 327, 78 items costing \$1.7 million could have been used at other contractor locations.

--In 1982, a Florida Institute of Technology study reported that 19 out of 42 contractor locations reviewed had incomplete data on equipment use. The report stated that this lack of data resulted in a loss of revenue to the government through contractor use of equipment without paying sufficient rents and in problems in justifying the acquisition and retention of equipment. The report also

identified the lack of equipment use standards and guidance on recording equipment use and concluded that, if Defense wished to have effective accountability over the use of IPE, better standards and guidance are necessary.

--A 1983 Naval audit service report showed that property administrators at two locations reviewed did not have any information on equipment use and had not established minimum-use levels for any of the \$5.2 million of IPE.

--In 1985, we found that, of the 8 contractor locations we visited, 5 did not maintain data on equipment use in accordance with the Federal Acquisition Regulations. At 4 locations, the government had waived the requirement that the contractors maintain use data.

Inadequate Government Property Surveys

A 1983 report by the President's Council on Integrity and Efficiency stated that, at 38 of 40 contractor locations, government officials had not performed required periodic property surveys or that the surveys were of insufficient scope or depth to adequately evaluate the effectiveness of internal controls over government furnished property. Moreover, when deficiencies were noted during these surveys, government officials did not always take aggressive actions to ensure that the contractor took timely corrective actions. The report noted that, in one case, a Defense contractor was allowed to maintain an inadequate property control system for 10 years. The report

also noted that many of the government personnel who performed property surveys did not have the training necessary to conduct them properly.

Weaknesses in Contractor Property Control Systems.

The President's Council on Integrity and Efficiency also reported on one or more weaknesses in the internal controls maintained over government property by 34 of 40 contractors. These weaknesses related to the adequacy of property records, physical inventory and identification, physical control, and reporting procedures for excess property. The following are some examples of the weaknesses found:

- At one contractor, the last physical inventory conducted disclosed that 1,499 items, valued at \$3.7 million on the contractor's property records, could not be located.
- At another contractor, about \$31 million of government tools and industrial equipment provided to the contractor had never been inventoried.
- A contractor had not investigated items reported missing from the last physical inventory. Many items ranged in value from \$5,000 to \$45,000 and some were sensitive or pilferable type items such as cameras, television sets, and calculators.

In our current review, we found, at one of the contractors we visited, that the contractor had not inventoried attachments, accessories, and auxiliary items for IPE for 15 years. Based on initial corrective steps taken, the contractor has declared

excess about 4,700 line items valued at about \$374,000. At this same contractor, government officials found evidence of excess equipment in all categories of GFE, and the contractor was directed to identify and dispose of all excess equipment. Data we obtained shows that, so far, 230 pieces of IPE and 159 pieces of STE valued at about \$8.2 million and \$530,000, respectively, are in excess of any current or future requirements.

Lack of Financial Liability of Contractors

Under current standard government contract provisions for cost-reimbursable contracts, contractors cannot be held liable for lost or damaged government property unless, among other things, willful misconduct or lack of good faith by the contractor can be proved.² Apparently, negligence or mere indifference to duty does not constitute willful misconduct or lack of good faith. However, the government may, theoretically, hold contractors financially liable for lost or damaged government property if the contractor has an unapproved property control system. Examples where the government did not hold contractors financially liable follow:

--At one contractor, over 1,000 items of equipment with a total value of about \$382,000 were reported missing and were written off property records with the Army's approval.

--At another location, over \$2 million of lost government property was written off without any financial

²In fixed-price contracts, contractors can be held liable for all losses or damages to government property.

liability. This occurred even though the contractor had an unapproved property control system.

--At one contractor location we visited, there were several instances of stolen and damaged equipment, but the contractor was not held financially liable. In fact, the government had waived the contractor's liability for such losses.

In the time available to us to respond to the Subcommittee's request on GFE, we were unable to determine why contractors were not held financially liable.

* * * * *

Many of the specific problems identified in the above examples, have either been corrected or are being corrected at the local level. However, similar types of problems continue to recur because DOD has not corrected the systemic GFE management problems.

INADEQUATE GFE DATA

The problems in GFE accountability previously discussed are compounded by the lack of visibility over STE and inaccurate data on IPE and OPE. Data on STE is not reported to the services' headquarters. To determine how much STE contractors have, one would have to query each of over 900 production contractors. The last time such a determination was made was in September 1981, when it was reported that STE with an acquisition value of about \$2.8 billion was in the hands of contractors.

Defense does have visibility over IPE and OPE in its DAR B/C 311 report on government property in the possession of contractors. However, the accuracy of its data--especially that on OPE--is in doubt. Information from this report is used in the preparation of an annual report to Congress on the Defense industrial reserve which includes GFE. As of September 30, 1984, the reported amounts of active GFE at contractor locations were are follows:

	<u>IPE</u>	<u>OPE</u>	<u>STE^a</u>	<u>TOTAL GFE</u>
	-----(\$million)-----			
Air Force	272.9	1,763.2	1,063.5	3,099.6
Army	844.8	1,477.0	24.8	2,346.6
Navy	138.6	780.6	518.8	1,438.0
Defense Logistics Agency	<u>4.4</u>	<u>3.3</u>	<u>1,151.5</u>	<u>1,159.2</u>
TOTAL	<u>1,260.7</u>	<u>4,024.1</u>	<u>2,758.6</u>	<u>8,043.4</u>

^aAmount of STE as of September 1981. This figure was compiled by a special Defense task force on GFE and was reported to the House Government Operations Committee.

For OPE and IPE, we found omissions in some of these figures. For example, two of the eight contractor locations we selected for review were not included in the 1984 Defense report. As of February 1985, OPE and IPE worth about \$37 million were at these two locations.

We discussed these omissions with DOD officials. They commented that the accuracy of the data contained in the report has been a long-standing problem. According to an internal

DOD document, (1) reported amounts were seldom verified; and (2) source documents contained error rates up to 50 percent and were inconsistent from year to year.

* * * * *

In summary, the Department of Defense and the services have had long-standing problems with the management and accountability for the property--GFM and GFE--they have furnished to contractors. As a result, the government's sizeable investment in such property has not been adequately protected. In the GFM area, Defense has generally not yet implemented this Subcommittee's 1981 recommendations. In the GFE area, problems identified as far back as 1967 still exist.

We believe that Defense's management of and accountability for property furnished to contractors would be improved if

- the Subcommittee's recommendations on GFM were extended to GFE and implemented for both as soon as possible;
- Defense ensured that contractors record data on the use of IPE, as required by the Federal Acquisition Regulations, and did so in a uniform manner.
- contractors were held accountable for poor property management practices and for losses of government property.

SUMMARIES OF GAO AND
DEFENSE REPORTS ON GOVERNMENT FURNISHED MATERIAL

U.S. GENERAL ACCOUNTING OFFICE

"Weaknesses in Accounting for Government-Furnished Materials at Defense Contractors' Plants Lead to Excesses" (FGMSD 80-67, Aug. 1980).

DOD relies almost solely on contractor records to account for GFM and has no independent accounting controls. As a result, it is shipping excess material worth millions of dollars to contractors.

GAO's review of four production contractors showed that the lack of accounting controls led to DOD's providing or initiating shipments of \$1.3 million in material above contract allowances. For example, 14 semitrailers worth \$251,700 over contract allowance were being supplied to an Army contractor. Shipping costs would have been \$9,000.

To ensure that there is adequate accounting for GFM, the Secretary of Defense should, among other things, direct the services to:

- Develop accounting systems that show the quantity and value of GFM authorized, provided to, received by, and used by contractors.
- Provide the accounting system data to property administrators so that independent data will be available and used to reconcile differences between government and contractor records.

"The Navy is not Adequately Protecting the Government's Investment in Materials Furnished to Contractors for Ship Construction and Repair" (PLRD-81-36, June 1981).

The Navy needs to make improvements in its management of GFM to ensure the Government's investment is adequately protected.

The Navy has no central point of control or accountability for GFM. Instead, many commands are involved in its management, and their efforts are not coordinated to prevent duplication or to ensure consistency. These problems are compounded by the lack of inventory manager visibility over GFM in the possession of the Navy's Supervisors of Shipbuilding, Conversion and Repair (SUPSHIPS) and contractors. Moreover, no activity actively monitors the performance of the various SUPSHIPS to ensure consistent interpretation and application of GFM regulations and directives.

Although the SUPSHIPS' basic regulations and directives for GFM management are the same, they did not interpret and apply these in the same manner. As a result, their effectiveness in managing GFM varied widely.

The Seattle SUPSHIP was managing GFM in a more effective manner by enforcing DAR's requirements on contractors and by using an in-house computerized monitoring system for management prior to delivery to the contractor.

The failure of three more SUPSHIPS to fully enforce DAR led to inaccuracies and inefficiencies in contractors' GFM control systems, caused excess items to be held for extended periods of time, and inadequately protected the Government's interest.

Other areas need improvement:

- Unnecessary costs may be incurred when SUPSHIPS do not screen excess new GFM against future needs.
- NAVSEA activities involved in GFM procurement lose sight of items located in both the contractors' and SUPSHIPS' warehouses. This creates the potential for unneeded procurement.

DEFENSE REPORTS

DOD INSPECTOR GENERAL

"Government-Furnished Material at DOD Production Contractors," DOD-IG Audit Report (84-032, Feb. 1984).

The DOD IG, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency audited the use of GFM by production contractors. The audits showed that the special reports on GFM, requested by OSD from the military departments, were inaccurate and incomplete. In most cases, the contractors and cognizant property administrators had not been contacted to respond to the OSD request for data on GFM.

Excess material worth \$24.8 million was found at 15 production contractor plants. This excess resulted from DOD activities shipping more material than required to production contractors, and from contractors ordering more than required. Some of the excess could have been used to satisfy operational requirements of the services.

STATUS OF THE SUBCOMMITTEE'S 1981
RECOMMENDATIONS MADE TO DOD, AS OF FEBRUARY 1985

In its December 1981 report, the subcommittee made seven specific recommendations to DOD. The recommendations made and their status, as of February 1985, follow.

Recommendation 1: DOD should place the responsibility for coordinating all actions planned and underway for improving management and accountability for GFM in one adequately staffed central office.

Status: Defense agreed that GFM management needed to be carefully coordinated among the three Defense organizations, but considered it impractical to assign that function to a single office because it would pull expertise away from other property-oriented disciplines, such as logistics and acquisition.

In lieu of a central office for GFM, Defense established a Defense Government Property Council in April 1983. This council is responsible for managing all government property, including GFM and GFE. The council created a coordinating committee and eight ad hoc groups to deal with the various property issues. Individuals selected and assigned to the council and ad hoc groups consist of senior executives from DOD and the military services.

Recommendation 2: DOD property administrators should enforce the provisions of contracts in accordance with the Defense Acquisition Regulation and should periodically check the GFM for losses and excesses.

Status: In April 1984, DOD asked the military services and DLA to implement the recommendations made in the DOD IG February 2, 1984, report on GFM. One of the report's recommendations incorporated the subcommittee's second recommendation. The services and DLA are reviewing major contracts, all contractors, the contract administration office, and logistics procedures. They estimate that they will complete the review by the end of June 1986.

Recommendation 3: DOD should develop a plan of action as soon as possible to install accounting controls over GFM within DOD and get the applicable systems approved by GAO.

Status: Between 1981 and 1983, Defense established principles and standards for accounting for government furnished property, including GFM, and issued them to the services. The services have done little to implement the standards, purportedly due to a lack of specific guidance from the Office of Assistant Secretary of Defense (Comptroller). In July 1984, the Property Council established an ad hoc group consisting of accounting and acquisition management representatives. This group will provide the guidance and pin down the procedures and source documents for implementing the GFM portion of the accounting standards. The

group's charter, however, was not signed until early February 1985; its first meeting was scheduled for late February 1985; and Defense now says that it appears that full implementation of the standards within the military services will not occur until 1989.

Recommendation 4: DOD should involve as many contractors as feasible to test the practicability of selling material to contractors instead of providing GFM.

Status: Defense completed its test program and issued a final report on this subject in October 1983. The report recommended against selling government material to maintenance contractors in lieu of providing it as GFM. Reasons for the report's conclusions included the following:

- The cost of implementing the sale of GFM and the continued funding of the process would place all but the smallest of contracts financially out of reach of small businesses.
- Contractors would require more, not fewer, personnel.
- Contractors would have to increase the price of the contract to include the cost of material plus overhead and general and administrative costs to handle what was GFM.

Recommendation 5: DOD should review the various GAO and DOD audit reports relating to GFM and should implement the recommendations contained therein. In particular, DOD should systematically review its major GFM contracts to identify any excess material and the finding should be validated.

Status: The DOD Assistant Inspector General for Audit Follow-up has been working with the staff of the Deputy Under Secretary of Defense for Acquisition Management in tracking the implementation of all the various audits and reports on GFM. Also, the DOD IG incorporated the recommendation in its February 1984 report on GFM. The services and DLA are in the process of implementing the IG's recommendations for determining excess GFM at contractor plants, and Defense expects them to be completed by the end of June 1986.

Recommendation 6: DOD should increase the number of property administrators assigned to contractor plants.

Status: According to Defense, based on the findings in the Subcommittees' 1981 report, this recommendation was directed to DLA. In August 1984, the DLA member of the Defense Government Property Council's Coordinating Committee reported that DLA had fully staffed its major maintenance plants with resident property administrators.

Also, across Defense the GS/GM 1103 Industrial Property Management Specialists and Industrial Property Clearance Specialists have increased from the 695 reported to the House Government Operations Committee in 1981 to 862 as of September 30, 1984.

Recommendation 7: DOD should control production contractors' access to DOD's supply system.

Status: In March 1981, DOD issued instruction 4140.48, "Controls of Access to DOD Material Inventories by Maintenance Contractors," which requires that maintenance contractors submit all

requisitions to a central office for review and validation. This instruction was scheduled to be in effect for maintenance contracts by November 1982; however, as of February 1985, the Army and the Navy had not yet fully implemented the instruction. Defense now estimates full implementation of the instruction by June 1986 for maintenance contracts.

DOD also has been measuring the pay off for extending the controls in instruction 4140.48 to production and supply contracts. Completion of the extension was originally targeted for January 1985. However, as of February, the effort was not completed. Currently, Defense expects full extension by June 1988.

SUMMARIES OF GAO, DEFENSE, AND OTHER REPORTS
ON GOVERNMENT-FURNISHED EQUIPMENT

U.S. GENERAL ACCOUNTING OFFICE

"Need for Improvements in Controls Over Government-Owned Property in Contractor's Plants" (B-140389, Nov. 1967).

Contractors need to improve their use of industrial plant equipment, their rental arrangements, and their accounting for-- and control of--special tooling and material. Further, the reviews conducted by government-property administrators and internal auditors of contractors management and control of government property were inadequate because the reviews were limited to (1) verifying the accuracy of data in the computations the contractor submitted and (2) determining whether the procedure for computing equipment rental was in accordance with the leasing terms.

To improve the administration over government-owned property, DOD should require contractors to furnish data on the use of every machine in their possession. It should also strengthen the controls over special tooling and special test equipment through the use of financial accounting controls.

"Use of Government-Owned Equipment by Certain Large Contractors on Commercial and Defense Work" (B-140389, June 1972).

GAO examined statements made by representatives of the National Tool, Die, and Precision Machining Association that large defense contractors using government-owned equipment have an advantage over smaller contractors in competing for commercial and defense work. The representatives cited 12 examples in which large contractors allegedly had used government-owned IPE for work on commercial programs. They said that small contractors could have performed the work more economically had they had access to the same equipment.

GAO found that all 12 contractors used GFE in performing their commercial work. Eight of them seemed to have used the equipment without proper authorization, and two of them computed the rent credit by a method disadvantageous to the government. Because the contractors did not maintain records on machine use, GAO could not determine the costs of renting the equipment from the government and, thus, could not compare the costs of renting with the costs of private ownership. However, a contractor with large amounts of GFE could benefit from being able to solicit Defense and commercial work without the need for additional capital investment.

"Further Improvements Needed in Controls Over Government-Owned Plant Equipment in Custody of Contractors" (B-140389, Aug. 1972).

DOD has made some progress toward its goal of generally requiring contractors to furnish all equipment needed to perform

government contracts. However, it should reemphasize its phaseout program in order to reduce the amount of equipment remaining in the possession of contractors.

The reuse potential of government-owned IPE has not been fully realized because of weaknesses in the procedures for reporting unneeded equipment to the Defense Industrial Plant Equipment Center (DIPEC) for screening and distribution. For example, at 13 contractor plants, over 300 items of equipment, costing over \$11 million, had not been reported to DIPEC. This equipment was idle, little used, or used predominantly for commercial purposes. Also, some of the contractors used equipment for commercial work without obtaining authorization, and some contractors had inadequate or incomplete records of the use of equipment.

"Challenges to Reducing Government Equipment in Contractor Plants" (LCD 77-417, Sept. 1977).

The Department of Defense has made progress in reducing the amount of government-owned plant equipment in the possession of contractors, but more could be done to phase out this equipment. Uncertainties about the policy for disposing GFE detracted from the success of the phaseout program.

Improvements were also needed to guarantee that all plant equipment required during wartime is specifically identified, justified, and included in plant equipment packages. Control over contractor use of government-owned plant equipment needs to

be strengthened, and DOD must be more aggressive in obtaining contractor compliance with regulations and must improve its administration of contracts to protect the government's best interest.

DEFENSE REPORTS

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY"Summary Report on Audit of Government Property in the Possession of Contractors/Grantees" (Aug. 1983).

This interagency audit report summarizes the internal control problems identified in over 30 agency audit reports on government property provided to contractors and grantees. Internal controls over the acquisition and accountability for government property in the possession of contractors are weak. These weaknesses resulted in unnecessary program costs and the loss of government property.

Contractors acquired and retained more property than they needed for the contracts because of inadequate acquisition guidelines and government oversight. Contractors had few incentives to finance needed property or to exercise prudence in acquiring property with government funds. Weak government and contractor controls resulted in unneeded purchases. The government did not maintain independent financial controls and relied on contractor controls, even though many of the contractors had inadequate property control systems.

With no incentives to maintain effective internal controls for property, contractors had little financial liability for lost or damaged property. As a result, the government did not know how much of its equipment contractors had; contractors did not properly safeguard government property; and program costs increased because of property losses and because contractors bought unneeded property.

Air Force Audit Agency

"Review of Government Property-Pan American World Services--
Arnold Engineering Development Center" (915-16, Dec. 1982).

The Center's procedures and practices for acquiring government property were in accordance with the contract. The Center implemented adequate controls to monitor the need and use of the property. In addition, the property administrator maintained proper surveillance of the contractor's property control system to ensure that the contractor's procedures, controls, and documentation relating to government property were satisfactory. However, the Air Force acquired equipment without determining whether the items were available from other government sources. For example, three items of equipment, priced at over \$25,000 each, were purchased without first determining if the equipment was available from DIPEC.

"Review of Government Property at MITRE Corporation" (940-10, Feb. 1983).

The policies and procedures pertaining to the acquisition and management of government property at the MITRE Corporation need increased management attention. Although there was no evidence of unwarranted or wasteful acquisitions, MITRE Corporation and Electronic Systems Division procedures do not adequately ensure Air Force oversight over the acquisition and disposition of government property. For example, MITRE has acquired Air Force property without the required approval of the Air Force. In addition, government property is stored for long periods of time without adequate justification. Also, MITRE procedures for screening property in-house before buying new property are inadequate.

"Review of Government Property in the Possession of Contractors, Air Force Plant Representative Office, Rockwell International, North American Aircraft Operations, El Segundo, CA" (945-12, Feb. 1983).

Deficiencies existed in the way property was acquired and accounted for at the Rockwell International El Segundo plant. Problems existed in the areas of property inventories, record accuracy, acquisition methods, and classification of equipment. The property administrator at the plant had reportedly made no property survey since 1978.

"Review of Government Property in the Possession of Contractors-
Aerospace Corporation, Special Contracts Office, Space Division,
Los Angeles AFS, CA" (945-14, March 1983).

Administration of government property was satisfactory. All contractor acquisitions of STE were approved. Management effectiveness could be increased through additional emphasis on DIPEC and Defense Automatic Data Processing Equipment Resource Office screening and reporting procedures. For example, of 17 STE components reviewed, only 5 were properly screened. Additionally, not all government property was recorded and tagged.

"Review of Government Property, Air Force Plant Representative
Office, Lockheed-Georgia Company, Marietta, GA" (975-7, March
1983).

Government controls were adequate to ensure that contractor procedures and practices for acquiring government property followed contractual provisions. The property administrator's property surveys were accurate, reliable, and timely. However, government materials on hand were excess to contractual requirements, for which the property administrator had taken no action. Property accountability records, showing locator and identity data, were not always accurate. Also, government equipment was used without proper approval or authority.

"Audit of Selected Aspects of Contract Administration, Leasing of Reproduction, Office, and Automatic Data Processing Equipment, Operations and Maintenance Range Contract, FO 8606-78-C-004" Patrick AFB, FL (352-8, May 1983).

Government practices to permit contractors to lease equipment were adequately established. Contractors made their requests in writing. Existing excess Automatic Data Processing Equipment (ADPE) from other government sources was screened. Lease agreements included provisions to utilize rental payments to reduce purchase price. However, procurement funds were not programmed to support contractor requirements when purchase, rather than lease, was determined to be the most economical method of acquisition. Consequently, reproduction and office equipment were acquired at the most expensive cost to the government. Also, the General Services Administration was not contacted when evaluation indicated an ADPE purchase was the lowest overall cost alternative, and funds were not available at the local level.

"Government Property in the Possession of Contractors" (Project 828168, May 1983).

Current Air Force policies and procedures for the approval, acquisition, control, and use of government property are generally adequate. However, six of seven contractor facilities examined acquired government property before determining whether DIPEC or the Defense ADPE Resource Office could furnish the items. Also, the Air Force was not keeping accurate records of

property locations. The deficiencies were considered to be correctable by local management and were not reported to them. Action by HQ USAF or HQ AFSC was not required in the opinion of the reviewers.

Army Audit Agency

"Government-Furnished Property, U.S. Army Plant Representative Office, Boeing Vertol Company, Philadelphia, PA" (EC 83-601, March 1983).

The contractor proposed building new special tools; however, he used some tools the Army already owned. This reduced the contractor's overall costs and could have lead to the Army's paying about \$1.7 million in incentive fees. Also, the contractor did not adequately identify or report excess government-furnished material. According to records, about \$2 million of excess government-furnished material was on hand at the contractor's plant. A portion of the excess material could have been used to satisfy other Army needs.

Although the contractor had good accountability over government-furnished property, its internal controls over transactions dealing with government-furnished material rejected from the production line or sent to subcontractors were inadequate. The contractor had not returned about \$146,700 of the government-furnished material to its government property unit. Many of the missing items were found commingled with contractor-owned stocks, increasing the potential for losses of Army material.

"Government-Furnished Property, Detroit Tank Plant, Warren, MI"
(EC 83-603, March 1983).

An audit of the Detroit Tank Plant in Warren, Michigan, showed that the management of government-furnished property in the functions selected for review was inadequate. First, the contractor did not have adequate procedures to identify and report excess GFM. Second, sufficient documentation was not always available to support the contractor's requests, and subsequent Army approval, to acquire GFE. Third, internal controls over equipment and gages were so weak that inventory losses occurred and items were written off accountable records without adequate research. Finally, financial records were inaccurate and could not be used as internal controls, or to make the GFE provided to contractors visible.

"Government-Furnished Property, U.S. Army Plant Representative Office, Bell Helicopter--Textron, Fort Worth and Amarillo, TX"
(SW 83-600, March 1983).

Management of government-furnished property in the functions reviewed was not adequate. Regulatory guidance related to government-furnished property was not always followed, and better management of government-furnished property in the hands of the contractor was needed. The need for replacing or transferring special test equipment to follow-on contracts was not validated. Required property surveys were not performed and accountability over government-furnished material was inadequate.

"Government-Furnished Property, U.S. Army Aviation Research and Development Command and U.S. Army Troop Support and Aviation Material Readiness Command, St. Louis, MO" (MW-83-602, May 1983).

The audit showed that analyses supporting the decisions to have the government provide materials to contractors were not made and documented. Also, excess material items at the contractor's plants were not adequately identified, reported, and used to reduce follow-on contract requirements. In addition, controls were not adequate to insure proper financial accountability and visibility over the property.

"Audit of Government-Furnished Property" (EC 83-605, June 1983).

The management of government-furnished property in some functions was not adequate, and management improvements could result in substantial cost savings. Contractors and Army property administrators were not adequately identifying and reporting excess government-furnished material. Procedures had not been issued to help activities determine whether the government or the contractor should furnish property to be acquired. Property the government furnished to contractors was not always adequately accounted for and safeguarded, and inventory losses occurred.

Annual property surveys of contractor internal control systems were not always performed or were not performed thoroughly enough to detect internal control weaknesses at contractor plants. Also, general and subsidiary ledger accounts for government-furnished property were not maintained. The balances were

inaccurate and could not be used as internal controls, or to help maintain visibility over property provided to contractors.

Naval Audit Service

"Audit of Government-Furnished Property in the Possession of Contractors and Grantees--Phase II" (G 20052, Sept. 1983).

This audit includes work at Naval Plant Representatives Offices (NAVPRO) located at St. Louis, Missouri, and Pomona, California; at the Supervisor of Shipbuilding, Conversion and Repair (SUPSHIP) at Groton, Connecticut; and at the Naval Submarine Bases (SUBASE) at Bangor, Washington, and Kings Bay, Georgia.

The property-control systems contractors used at SUBASE Bangor and NAVPRO Pomona to account for government-furnished property were not always adequate. Government representatives at these two activities as well as at SUPSHIP Groton did not perform the required checks of the integrity of contractors' property control systems. In some instances, adequate control over the acquisition of government-furnished property did not exist at SUBASEs Bangor and Kings Bay and at NAVPRO Pomona.

At SUPSHIP Groton and SUBASE Bangor, government property administrators did not establish DAR-required procedures for evaluating equipment use, setting minimum-use levels, and recording use data. As a result, it could not be determined whether any of the \$5.2 million of industrial plant equipment at the two locations exceeded contractor needs.

OTHER REPORTS

"Problems in Management of Government-Owned IPE at Contractor Plants--Trends and Prospects" (Florida Institute of Technology, Nov. 1982).

The government is making progress toward its goals of minimizing IPE ownership by requiring contractors to furnish more of the equipment themselves. However, with the government's need to support the industrial base, and its providing of IPE to contractors, problems in equipment management continue.

The area that remains a significant problem is accountability for equipment utilization. The entire system of IPE management is dependent on input from the contractor. However, guidance provided by the DAR is insufficient to ensure effective accountability of IPE utilization, resulting in utilization records that are inadequate. As a result, there is no way to ensure that (1) IPE acquisitions were properly justified, (2) IPE is used only for authorized purposes, and (3) excess IPE is identified and disposed of. For example, the report cited 8 occurrences of improper inventories and lost equipment and 19 occurrences of improper usage data. The problems are directly related to the absence of detailed guidance from the DAR.