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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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Dear Senator Proxmire:

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At hearings before the Subcommittee on Economy in Government, Joint Economic Committee, on July 1, 1970, you asked the General Accounting Office to look into the use of automatic data processing (ADP) equipment operated by three or four typical Government contractors and to provide you with information regarding who owns the equipment, how the equipment is used, and what regulations govern its purchase. In a report dated May 21, 1971, by the Subcommittee on Priorities and Economy in Government, Joint Economic Committee, you requested that the General Accounting Office obtain additional information concerning Government owned and leased ADP equipment used by contractors.

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ADP equipment used for carrying out Government contracts may be furnished to contractors by the Government or may be owned or rented by the contractors. We have examined into the acquisition, utilization, and disposal of (1) Government-furnished ADP equipment at the Lawrence Radiation Laboratory, Berkeley and Livermore, California, and (2) contractor-furnished ADP equipment at three contractor locations-- Aerojet-General Corporation, Sacramento, California; Lockheed Missiles and Space Company, Sunnyvale, California; and Philco-Ford Corporation, Palo Alto, California. We will respond at a later date to the request made in the Subcommittee report dated May 21, 1971.

2

At each location we reviewed the contractor's policies, procedures, and controls concerning the acquisition, utilization, and disposal of ADP equipment used for carrying out Government contracts. We also reviewed the work performed by the Defense Contract Audit Agency (DCAA) of the costs charged to the Government by the three contractors for use of the contractor-furnished ADP equipment. We interviewed contractor officials and officials of the Atomic Energy Commission (AEC), DCAA, the Department of Defense (DOD), the General Services Administration (GSA), and the National Aeronautics and Space Administration (NASA).

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Government-furnished ADP equipment

Lawrence Radiation Laboratory performs 100 percent of its work under contract with AEC. Most of the ADP equipment operated by the Laboratory was Government owned. AEC contractors are required to submit to AEC feasibility studies and proposals for the acquisition of ADP equipment. AEC reviews the contractors' requests, approves or denies the requests, and monitors bids or participates in negotiations with equipment suppliers.

AEC officials advised us that they relied on the contractors' internal controls and procedures for ensuring that Government-furnished ADP equipment was used in accordance with the terms of the contracts. Since all of the work performed by the Lawrence Radiation Laboratory was under contract with the Government, it appeared that there was little likelihood that the Government-furnished ADP equipment would be used for commercial purposes. During our examination we saw no evidence that Government-furnished ADP equipment at the Laboratory was used for commercial purposes.

Under AEC procedures, contractors may use Government-furnished ADP equipment to provide services to Government agencies and other Government contractors on a reimbursable basis when excess equipment time is available. Also excess equipment time may be provided to other organizations, such as State governments, on a reimbursable basis, upon approval by AEC. AEC procedures provide that reimbursements in excess of the costs incurred by contractors are to be refunded to AEC. We noted that the Lawrence Radiation Laboratory at Berkeley had provided computer services to other Government agencies and to Government contractors on a reimbursable basis.

Office of Management and Budget Circular A-83, issued in April 1967, prescribed the establishment of a Government-wide ADP management information system to be administered by GSA to facilitate and to improve the management of the Government's ADP resources. The circular prescribed the data that agencies

B-115369

were to submit to GSA, including (1) an inventory of equipment, (2) reports showing installations and releases of equipment, and (3) utilization data. Agencies are required to report to GSA data regarding ADP equipment furnished to contractors for use under reimbursement-type contracts or sub-contracts. Inventory and utilization data regarding ADP equipment used at the Lawrence Radiation Laboratory had been reported to GSA by AEC.

GSA's inventory of ADP equipment showed that as of June 30, 1970, there were 1,079 systems furnished by the Government to various contractors, of which 749 were furnished to contractors by AEC. Most of the Government-furnished ADP systems were being used by contractors that performed work almost exclusively for AEC, DOD, or NASA.

Because the Government retains title to Government-furnished ADP equipment, excess equipment is disposed of in accordance with the provisions of the Federal Property Management Regulations. The regulations provide that excess equipment be made available for redistribution within an agency or for use by other agencies.

#### Contractor-furnished ADP equipment

Most contractor-furnished ADP equipment used by the contractors we visited was leased rather than purchased. Title to purchased equipment rested with the contractors. Certain of the lease agreements provided for the earning of purchase credits on the equipment, and ownership of the equipment would rest with the contractor in the event that the contractor exercised the option to purchase the equipment.

The contractors operated ADP service centers, and the Government was charged for use of the equipment. DCAA reviews payments to DOD contractors. The Armed Services Procurement Regulations provide that, in determining the charges to the Government for use of contractor-furnished equipment, rental costs are allowable only up to the amounts that the contractor would have incurred had the equipment been purchased.

B-115369

At each of the contractor locations we visited, DCAA had reviewed the contractors' billing rates being charged to the Government or was in the process of reviewing the billing rates. In addition, at one location, a committee composed of officials of the contractor, the Air Force, the Navy, and DCAA had been established to review the acquisition, utilization, and disposal of ADP equipment. Data concerning contractor-furnished equipment is not required to be reported to GSA.

We found only one instance where contractor-owned ADP equipment had been disposed of. Officials of this contractor advised us that the equipment had been disposed of under their normal policies for disposal of company-owned fixed assets. Two of the contractors visited did not have formal written policies regarding the disposal of contractor-owned ADP equipment. At the time of our examination, neither of these contractors had disposed of their ADP equipment that had been used for Government contract work. Rented equipment that was no longer needed was returned to suppliers.

We plan to make no further distribution of this report unless copies are specifically requested and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

We trust that the information provided has answered satisfactorily your questions. If we can be of further assistance, please let us know.

Sincerely yours,



Comptroller General  
of the United States

The Honorable William Proxmire, Chairman  
Subcommittee on Priorities and Economy  
in Government  
Joint Economic Committee