



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

REPORT
No. 90-013

December 6, 1989

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT)

SUBJECT: Report on the Audit of the Administration of Rental of
DoD Plant Equipment at Boeing Helicopters
(Project No. 9AC-0022.01)

Introduction

This is our final report on our Audit of the Administration of Rental of DoD Plant Equipment at Boeing Helicopters (Boeing), provided for your information and use. It is part of our ongoing audit of the Administration of Contractor Rental of DoD Plant Equipment and Collection of Nonrecurring Costs. Nonrecurring cost issues will be addressed in a separate report. Comments on a draft of this report were considered in preparing the final report. We made the audit from January 1989 through July 1989. The objectives of the audit addressed in this report were to determine whether contracting officers adequately administered contractors' rental of DoD plant equipment and to evaluate the effectiveness of related internal controls. This is the first in a series of reports on contractor rental of DoD plant equipment. DoD provided \$6.2 billion of plant equipment to contractors on 3,789 contracts as of September 30, 1987.

Scope of Audit

Boeing Helicopters had custody of \$2.8 million of DoD-owned plant equipment as of September 30, 1987. The equipment consisted of 38 items of industrial plant equipment with an acquisition cost of \$1,160,378, and 97 items of other plant equipment with an acquisition cost of \$1,657,774. The Army Aviation Systems Command provided the equipment to the contractor under facilities contract DAAJ09-83-A001. In calendar year 1988, Boeing paid \$66,793 in rent for non-Government use of DoD-owned plant equipment.

We conducted the audit at the Army Plant Representative Office, Boeing Helicopters, Philadelphia, Pennsylvania. Our review focused on rent paid for non-Government use of DoD plant equipment in 1988, and included a review of related documentation from 1983 to 1989. We reviewed contract documents at the procurement and administrative contracting offices, and commercial sales accounts that we selected from the contractor's

chart of accounts. We verified the percentage of non-Government use of plant equipment at the contractor location and the accuracy of rental rates and calculations. We also determined whether the equipment was properly authorized for the contractor to use for non-Government work.

This economy and efficiency audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary. We deemed that the internal controls applicable to the contractor's use and rental of DoD plant equipment were effective, since the audit disclosed no material deficiencies. A list of activities visited or contacted is at Enclosure 3.

Background

Contractors are ordinarily required to furnish all property necessary to perform Government contracts. In some circumstances, however, it is in the best interest of the Government to furnish certain items of property to the contractors. When contractors have Government property in their custody, the Government contracting officers must ensure that the property is used to the maximum extent possible in performing Government contracts, give written approval before permitting the contractors to use the property for non-Government work, and charge appropriate rental fees when the property is authorized for use on other than a rent-free basis.

The Federal Acquisition Regulation (FAR), Subpart 45.1, defines plant equipment as personal property of a capital nature for use in manufacturing supplies or performing services, or for any administrative or general plant purpose. Plant equipment includes equipment, machine tools, test equipment, furniture, vehicles, and accessory and auxiliary items, but does not include special tooling or special test equipment.

The contractor determines the non-Government (rent-pay) usage of plant equipment and computes the rent due the Government for each rental period. Within 90 days after the end of each rental period, the contractor must submit a written statement on the use of the property and the rent due to the contracting officer, along with payment.

Rent for plant equipment is calculated using the rates in the FAR, Subpart 52.245-9, "Use and Charges" clause, Table I. The monthly rental rates specified in the FAR are applied to the acquisition cost of the equipment according to the Federal supply class and age of the equipment. The full rental value of plant equipment is calculated as if 100 percent of the applicable property is in a rent-pay status. The FAR requires that a credit

amount for rent-free usage be deducted from the full rental value. The rent-free usage credit is based on a unit of measure that will result in an equitable division of the rental charge between rent-pay and rent-free usage. The FAR identifies direct labor hours, sales, and hours of use as possible units of measure for this purpose. The rent-free use is divided by the total use and the resulting quotient is multiplied by the full rental value to determine the rent-free usage credit. The rent-free usage credit is then subtracted from the full rental value to calculate the total rent due.

Prior Audit Coverage

We identified no prior audits of the administration of contractor rental of DoD plant equipment during the last 5 years.

Discussion

Overall, the procurement and administrative contracting offices properly administered Boeing's rental of DoD-owned plant equipment. Rental calculations were generally accurate and payments were submitted by the contractor in a timely manner. However, we identified a minor problem in the area of rent-free usage. Boeing misclassified its non-Government use of DoD plant equipment associated with sales to Korea as rent-free when calculating rental payments for 1988. This resulted in underpayment of rent by \$6,866. In addition, use of an incorrect sales figure in the December 1988 calculation overstated the rent-free usage, resulting in underpayment of rent by \$2,216.

FAR, Subpart 45.401, states, "As a general rule, Government use is on a rent-free basis. Non-Government use is on a rental basis." While reviewing the supporting documentation for the fourth quarter CY 1988 rental payment, we noted that Boeing improperly classified its use of DoD plant equipment associated with direct sales of CH-47 helicopters to Korea as rent-free. In addition, the rent-pay sales in December 1988 were understated. Since Boeing uses sales as the unit of measure to determine rent-free versus rent-pay usage of the equipment, the improper classification and the understated sales figure caused an overstatement of the rent-free credit and an underpayment of rent. The contractor agreed with our determination and fully cooperated by reviewing the supporting documentation for 1988 rental payments. On August 21, 1989, Boeing paid \$9,082 additional rent to the Army for its non-Government use of DoD plant equipment in 1988. No further action is required.

We provided a draft of this report to the Assistant Secretary of the Army (Research, Development and Acquisition) on October 6, 1989. The U.S. Army Contracting Support Agency concurred (Enclosure 1) with the monetary benefits identified in Enclosure 2. The management response to the draft report conformed to the provisions of DoD Directive 7650.3. Since this report contains no recommendations and there are no unresolved issues, additional management comments on the final report are not required.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Michael Joseph at (202) 693-0445 (AUTOVON 223-0445) or Mr. David Steensma at (202) 694-1681 (AUTOVON 224-1681). A list of the audit team members is in Enclosure 4. Copies of this report are being provided to the activities listed in Enclosure 5.



Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Army



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
U S ARMY CONTRACTING SUPPORT AGENCY
WASHINGTON, DC 20310-0103



REPLY TO
ATTENTION OF

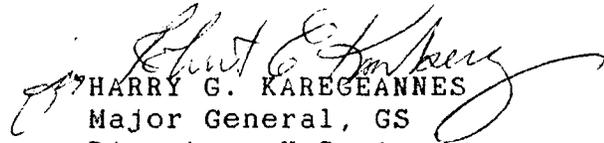
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MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR
AUDITING, DEPARTMENT OF DEFENSE, 400 ARMY
NAVY DRIVE, ARLINGTON, VIRGINIA 22202

SUBJECT: Draft Report on the IG DoD Audit of the
Administration of Contractor Rental of DoD Plant
Equipment and Collection of Nonrecurring Costs at
Boeing Helicopters (9AC-0022.01)

The Army has reviewed the subject draft report and concurs
with the savings realized as a result of the audit.


HARRY G. KAREGEANNES
Major General, GS
Director, U.S. Army
Contracting Agency

ROBERT C. KARLSENG
Colonel, GS
Acting Director, U.S. Army
Contracting Support Agency

ENCLOSURE 1

SCHEDULE OF POTENTIAL MONETARY AND
OTHER BENEFITS RESULTING FROM AUDIT

<u>Type of Savings</u>	<u>Amount of Savings</u>
Collection of CY 1988 plant equipment rent	\$9,082*

* This is a one-time collection, and the amount received was deposited into the U.S. Treasury's miscellaneous receipts account. The savings do not affect a specific DoD appropriation.

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Production and Logistics), Washington, DC

Department of the Army

Assistant Secretary of the Army (Research, Development and Acquisition), Washington, DC

U.S. Army Materiel Command, Alexandria, VA

U.S. Army Aviation Systems Command, St. Louis, MO

Army Plant Representative Office, Boeing Helicopters, Philadelphia, PA

Defense Agencies

Defense Contract Audit Agency, Boeing Helicopters, Philadelphia, PA

Defense Security Assistance Agency, Washington, DC

Non-Government Activities

Boeing Helicopters, A Division of the Boeing Company, Philadelphia, PA

AUDIT TEAM MEMBERS

Nancy L. Butler	Director, Financial Management Directorate
David K. Steensma	Deputy Director, Financial Management Directorate
Michael A. Joseph	Project Manager
Linda A. Pierce	Team Leader
Katherine E. Newman	Auditor
Galfrid S. Orr	Auditor

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Department of the Army Inspector General
Army Materiel Command, Alexandria, VA
Army Aviation Systems Command, St. Louis, MO
Army Plant Representative Office, Boeing Helicopters,
Philadelphia, PA

Department of the Navy

Naval Audit Service

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Non-DoD

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Senate Subcommittee on Defense, Committee on Appropriations
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Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
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House Committee on Armed Services
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Services

U.S. General Accounting Office