

mandate emphasizing the importance to the national defense of maintaining industrial reserve production capacity for mobilization purposes in times of national emergency.

C. The Government has contracted with Northern Ordnance for the maintenance of the NIROP plant. Under the contract, if the plant should be wholly on Government business, the Government would bear the full cost of fixed overhead. To the extent that commercial work is performed in the plant, the Government is relieved of a pro rata portion of the fixed overhead. In order to reduce the cost to the Government for the maintenance of the Government facilities during the low plant workload period referred to above, the contractor was encouraged by the Government's representatives to expand its commercial work in an effort to spread the cost of maintenance of Government-owned facilities over a larger base. At no time did the amount of commercial work (non-Government) performed on Government-owned facilities exceed 25 percent of all work performed on such facilities during any one-year period. The provisions of the Armed Services Procurement Regulations and the provisions of the contractor's Facilities Management Contract NOW 6204-u do not require the application of a 25 percent non-Government use limitation on a machine-by-machine basis, as suggested by the General Accounting Office, and the contractor has operated in accordance with the terms of its Facilities Management contract. The volume of non-Federal Government work on Government-owned facilities at NIROP, Minneapolis is less than 11 percent of the total work output at the present time.

D. The commercial work undertaken by Northern Ordnance also permitted Northern Ordnance to retain a substantial portion of its highly skilled work force during the low-volume periods of Government work. This has proved to be of major benefit to the Government as its requirements sharply escalated in the last year.

E. The plant operated by Northern Ordnance includes both buildings and equipment owned by FMC Corporation and by the Government. The Government-owned portion of these combined facilities are designated as the NIROP, Minneapolis. The Government- and contractor-owned manufacturing equipment is commingled throughout the plant in order to achieve the most efficient production possible. In order to achieve efficient scheduling of work, all machines are used as available without a concerted attempt by the contractor to perform Government work exclusively on Government-owned machines and commercial work exclusively on contractor-owned machines. Accordingly some of the contractor owned facilities may at a given time be working completely on Government work which could under ordinary circumstances necessitate use of Government-owned machines on commercial work. Moreover, while it is practicable to obtain, after the fact, machine-by-machine data on usage, it is not practicable precisely to schedule in advance machine loadings to control the portion of non-Government work on any individual machine to assure that usage does not exceed 25 percent.

F. A statement is made in the GAO report that DIPEC was unable to fill requisitions for 81 items of IPE which were in either critical or short supply. When we first heard of this situation earlier this year, we asked the GAO officials performing the audit to identify whether any of the 81 critical or short supply items were located at the NIROP, Minneapolis. If there had been any we would have discussed with DOD officials the desirability of removing the items from this reserve plant to satisfy the alleged urgent requirement. We were very puzzled that the GAO officials declined either to confirm or deny that any of these items were located at the NIROP, Minneapolis.

The specific comments which follow set forth Northern Ordnance's position with respect to each of the items appearing in GAO Report B-140389 that were identified by marginal notation as being applicable to Northern Ordnance. The first five below have been responded to above in terms of general policy and on these we simply will add a few applicable details.

1. IPE not in use

"We questioned retention of 133 items of IPE, estimated to cost \$3.3 million, which had not been in use for extended periods of time." (page 13)

(GAO indicates 4 of the 133 items questioned apply to Northern Ordnance.)

Comment: Unfortunately the GAO has not specifically identified the 4 items questioned either in discussions at Northern Ordnance or in its report so it is impossible for us to furnish comments concerning these items. To the best of our knowledge, all facilities at Northern Ordnance are either in use, needed for mobilization or scheduled for disposition.