

2. IPE used for commercial work

"From the available utilization records, we determined that 115 items of IPE, estimated to have cost \$11.4 million and located principally at four contractor locations, were being used solely or predominantly for commercial work. In this characterization we included IPE used for commercial work 75 percent or more of actual production time during periods ranging from 6 months to 1 year at three locations." (page 14)

(GAO indicates 22 of 115 items questioned apply to Northern Ordnance.)

Comment: As in the case of comment No. 1, the GAO has not identified the specific items questioned. As already outlined above, this contractor does make use of Government-owned facilities for commercial work from time to time in strict accordance with the terms of its facility management contract, and such usage over-all is under 25 percent per year. Commercial work is performed on Government-owned equipment primarily to stabilize the manufacturing workload at this activity which objective has been consistently encouraged by the Department of Defense. Rent for the use of Government-owned equipment for commercial work is being paid in accordance with the Armed Services Procurement Regulations. Furthermore, the commercial work performed at this plant has contributed significantly (1) to the reduction of the cost of Government work through absorption of the fixed portion of plant manufacturing overhead, and (2) in preserving the contractor's skilled work force for performance of Government contracts.

3. IPE used for commercial work

"At three locations Government property officials had not questioned retention of this IPE. Facilities contracts at these locations permitted use of the IPE for commercial work; and, in the cases where this was observed, it was apparently considered that the IPE was used for authorized purposes." (page 14)

Comment: The report is correct in that Government property officials did not question the retention of IPE used periodically for commercial work since this use was in strict accordance with our facilities management contract and for purposes encouraged by the Government.

4. Low utilization of IPE

"These data enabled us to question the basis for retention of 76 items of IPE, estimated to cost \$1.2 million, which did not satisfy the criteria specified by the Assistant Secretary of Defense as we interpreted it. None of this equipment had been reported as excess by the contractor." (page 14)

(GAO indicates 15 of the 76 items questioned apply to Northern Ordnance.)

Comment: Again we are not able to specifically identify the 15 items questioned by the GAO. During the course of GAO investigations at Northern Ordnance, we did provide written justification to the GAO representatives for the retention of some 41 items questioned. The GAO did not furnish us with any response to this justification. It is significant, as we noted previously, that the twelve month period of utilization selected by the GAO representatives in their study represents the period of lowest workload at the NIROP, Minneapolis since immediately after World War II. It was pointed out in prior correspondence with the GAO that a sharply increased level of activity at this plant for production of military equipment for the Government was expected. This sharp increase has now taken place and has had its predicted effect on the utilization of equipment at the NIROP, Minneapolis.

5. Prior approval not obtained although prescribed for use of IPE for non-Government purposes

"In four cases facilities contracts were silent or unclear as to the requirement to obtain OEP prior approval, and Government officials had not sought OEP approval even though items of IPE were being used in excess of 25 percent of actual production time for commercial work. For example, a facilities contract negotiated by the Navy required the contractor to use IPE for at least 75 percent of the yearly total of authorized hours for Government production and it was silent as to conditions that might require OEP approval for other uses." (page 18)

Comment: The facilities management contract held by Northern Ordnance limits the commercial use of all the Government-owned facilities covered by this contract to 25 percent of the total actual production time for all the Government-owned facilities. It has not yet been necessary to secure OEP approval since at