

no time has the use of the Government-owned facilities for commercial work exceeded 25 percent. The GAO position that this 25 percent limitation should apply on a machine-by-machine basis would impose an overwhelming and exceedingly expensive burden on both the Government and the contractor and would not be consistent with the objectives sought to be achieved. It is understood that our position in this matter is supported by the cognizant component of the Department of Defense.

6. *Improper use of Government-owned IPE*

"In another instance the Navy furnished a contractor an automatic turret lathe costing \$45,600 on the basis of the contractor's projected initial year saving of \$25,800 in operating costs. We noted that during the first year the new lathe, without advance OEP approval, was used 513 hours, or 24 percent of the actual production time, on Government rent-free work and chiefly for commercial work the rest of the time. Thus the Government did not receive the benefit of most of the saving in operating costs. At the same time, Government rent-free work totaling 5,756 hours was processed on five older, less efficient turret lathes." (page 19)

Comment: Subsequent to the period of study by the GAO from which their conclusions were drawn, the machine has been used for Government work at a rate which should yield a return on investment to the Government considerably *greater* than that anticipated when the machine was requested. This was essentially the workload we anticipated which led to the acquisition of this machine. We strongly dispute the idea that the use of the new automatic chucking turret lathe in the period referred to by the GAO was in any way improper or not in accordance with our facilities management contract. The projected savings were based on an anticipated workload (which subsequently materialized) rather than the workload actually existing at the time the lathe was acquired. When this machine was installed, there was not sufficient Government work for the full use of this new equipment. The implications in the sentence "At the same time, Government rent-free work totaling 5,756 hours was processed on five older, less efficient turret lathes," are misleading since the work performed on the older machines consisted of short runs and was not suitable for production on an automatic chucking lathe which is designed for production quantity runs.

7. *Agency comments and our evaluation*

"Our review established that, of the 17 contractors examined, only five contractors maintained adequately comprehensive machine-by-machine utilization data. Two of the five contractors accumulated the data by manual postings and the other three through mechanized procedures (tab card system). One of the contractors was converting from mechanized procedures to an electronic data collection system designed for manufacturing industries." (page 22)

Comment: We are gratified to have been singled out as the one contractor of the 17 examined with the most advanced system of electronic data collection enabling us to maintain comprehensive machine-by-machine utilization data and to provide excellent control over the use of Government property in our possession.

8. *Rental of industrial plant equipment—general current lease terms permit inequities*

"At another location, the contractor computed the rent credit on the basis of the average utilization of the machines used for Government work. The inclusion of certain downward adjustments, because it was considered a reserve plant, and the use of an average ratio of machine utilization in the calculation resulted in a lower rent liability than would have resulted from calculating rent on a machine-by-machine basis. On the basis of machine usage for a 10-week period, we estimate that a machine-by-machine calculation would have increased the rent payment for the 12 months ended September 30, 1966, from \$226,400 to \$809,000 or \$582,600 in excess of the present method. The cost of maintaining utilization records, machine-by-machine, amounted to \$7,400, as estimated by this contractor, and the details of this estimate are shown on page 23 of this report." (page 28)

Comment: The provisions of our facilities management contract that permits an adjustment in the rent paid to the Government for the use of Government facilities because the NIROP, Minneapolis is maintained for industrial reserve purposes is proper and in accordance with the provisions of ASPR. The GAO calculation which demonstrates a theoretical increase in the rent does not result