so much on the machine-by-machine calculation as from the elimination of the adjustment which recognizes the mobilization function of this plant. This adjustment reflects the fact that while ASPR rentals normally are set on the basis of machine availability for use, this does not apply where machines are maintained for mobilization as well as production purposes. Section 13-404 of ASPR provides that in such circumstances, since the availability is largely for mobilization, not production purposes (i.e., for the Government's, not the contractor's benefit), rentals should be tied to authorized or actual use rather than availability. Elimination of this adjustment would result in rental charges which would be exorbitant by almost any standard of judgment—and unrealistic, as well, for the net consequence would be the emasculation of the mobilization reserve. If this adjustment were eliminated, Northern Ordance—and any other contractor so situated—would request the Department of Defense to remove the facilities maintained for mobilization from this plant which would defeat the concept of maintaining a national industrial mobilization base at this location. It is additionally noted that a change in the method of calculating rent payments would not result in increase in income to the Government since an increase in the cost of using the facilities to include contractor payment for standby capacity (i.e., mobilization availability) would preclude the economic use of the machines for commercial work. The use of the equipment for commercial work and the consequent sharing of fixed overhead results in additional benefits and lower costs to the Government which do not appear as a part of the review made by the GAO.

9. Private investment in plant equipment not always encouraged

"In submitting justifications, contractors generally were not required to include statements as to their ability or willingness to finance the equipment. At most locations where we inquired into this matter, either the contractors had not been requested to acquire privately owned equipment or the files gave no indication that use of private funds had been considered in evaluating the proposals we examined." (page 39)

Comment: This statement does not apply to Northern Ordnance. Each proposal that is submitted to the Department of Defense for the replacement of worn Government facilities includes a detailed item-by-item description (including prices) of the capital items acquired by the contractor for its own account during the two prior fiscal years and the contractor's budgetary data for acquisitions by the contractor of its capital assets in the coming fiscal year for which the proposal is submitted.

10. Private investment in plant equipment not always encouraged

"The fiscal year 1966 modernization program for another contractor included four gear-making machines amounting to $232,100. The justification for replacement was based on data showing that the investment would be repaid within 3 to 4 years through reduced operating costs. We noted that, to achieve this objective, the initial-year use would have had to exceed current use by about eight times but that, as of September 1966, the contractor still had no active requisitions for additional gear machine operators. Moreover, one of the replaced machines had been used exclusively for commercial work for at least a year. Military officials informed us that the contractor had not been encouraged to invest its own capital in these machines." (page 40)

Comment: The recent amount of usage of the old equipment to be replaced cannot always be used as an accurate basis for projecting anticipated usage of the new replacement machines. The recent usage on Government work of the 4 machines to be relpaced was relatively small. This is due in part to the fact that 2 of these machines were 24 years old and the other 2 machines were over 10 years old. Due to their age and condition these machines were not suitable for the close tolerances required for Government work. The new gear machines have just recently been installed and we still anticipate utilization in Government work that will justify the replacement of the old equipment. We regret the apparent misinformation which the GAO seems to have received with respect to the statement that "as of September 1966, the contractor still has no active requisitions for additional gear machine operators". Since September 1966 the number of operators in the contractor's gear department has increased from 10 to 15 men. Gear machinists have been solicited actively through advertising in local newspapers and radio regularly during the last two years, since we are not experiencing an expansion in the activity of our gear manufacturing department. Furthermore, it should also be noted that the contractor has recently invested nearly $200,000 of his own funds in gear manufacturing equipment at this plant.