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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

RELEASED

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MAY 31 1973

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The Honorable George H. Mahon  
Chairman, Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

Your March 5, 1973, letter requested us to study the National Industrial Equipment Reserve established under the "National Industrial Reserve Act of 1948," (Public Law 883, 80th Cong.). We agreed with a member of your staff that we would obtain information that is readily available from the agencies concerning the value of all industrial plant equipment owned by the Department of Defense (DOD), the age and type of equipment assigned to the national reserve, and the distinction, if any, between the national reserve and DOD's general reserve. We also agreed to furnish information on the use of national reserve equipment during the Vietnam buildup and in the school loan program.

Because of the short time we had to comply with your request, we agreed with a member of your staff to provide this information without conclusions or recommendations as to the need for maintaining a separate national reserve and a general reserve.

BACKGROUND

The act established a reserve of machine tools and industrial manufacturing equipment for immediate use to supply the needs of the Armed Forces in a time of national emergency. The act authorizes the Secretary of Defense to determine which excess industrial properties should become part of the reserve and which should be disposed of. The Secretary was also authorized to lend property to nonprofit educational institutions or training schools when he determined that the programs proposed by these organizations would contribute to national defense and the equipment would be properly maintained and returned, if required, without expense to the Government.

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CRITERIA FOR ASSIGNING EQUIPMENT TO THE  
NATIONAL RESERVE OR GENERAL RESERVE

The Defense Industrial Plant Equipment Center (DIPEC), Memphis, Tennessee, assigns equipment to the national reserve or the general reserve. DIPEC directly manages the general reserve. By agreement between DOD and the General Services Administration (GSA), GSA stores, maintains, leases, and disposes of equipment in the national reserve and operates the school loan program. Each reserve consists of unassigned equipment held for general mobilization.

Both reserves have basically the same types of equipment, according to DOD officials. DOD usually assigns to the general reserve newer, more sophisticated equipment with a clear potential for reuse in future defense production. Equipment considered marginal for use in defense production but useful for the school loan program is assigned to the national reserve. Since DOD is responsible for both reserves it occasionally assigns equipment with a clear potential for reuse to the national reserve rather than the general reserve to take advantage of the GSA storage space. According to DOD officials, the quantities in both reserves are still short of mobilization requirements.

DOD-OWNED EQUIPMENT

DOD owns approximately 460,000 pieces of industrial plant equipment costing nearly \$3.9 billion. The following table shows its active and reserve inventory as of December 31, 1972:

<u>Industrial Plant Equipment</u>		
	Number of items <u>(thousands)</u>	Cost <u>(millions)</u>
Active:		
Contractor locations	109	\$1,394
Government locations	<u>279</u>	<u>1,517</u>
	<u>388</u>	<u>2,911</u>
Reserves:		
Plant equipment packages	36	625
General reserve	<u>23</u>	<u>333</u>
	<u>59</u>	<u>958</u>
National reserve	<u>11</u>	<u>84</u>
Total	<u>458</u>	<u>\$3,953</u>

Location, age, and condition of national reserve equipment

Of the 11,400 tools in the national reserve, about 7,900 costing \$39 million were on loan to schools. GSA and DOD are storing another 3,500 tools costing \$45 million. About 2,300 of the 3,500 tools are stored in a GSA depot at Terre Haute, Indiana.

Most of the equipment was manufactured in the 1940s and early 1950s. For the most part it is general-purpose equipment, such as lathes, grinding machines, milling machines, and other types of metal-working equipment. From what we could observe at the GSA facility at Terre Haute, the equipment is in good condition.

Value of the equipment and maintenance cost

It is difficult to estimate the value of the equipment in the national reserve. However, GSA and DOD officials estimate that the cost of replacing such equipment with new equipment would be from 2 to 2-1/2 times the acquisition cost. On the basis of the acquisition cost of approximately \$84 million, it would cost between \$168 million and \$210 million to replace this equipment.

With respect to maintenance costs, GSA budgeted about \$572 thousand for fiscal year 1973 for shop operations, which included analytical testing, repairs, and preservation. Schools maintain tools loaned to them.

EQUIPMENT WITHDRAWN FOR USE IN VIETNAM CONFLICT

During the Vietnam conflict DOD withdrew equipment from both reserves for defense projects. DOD data indicates that from 1964 through 1968 the Department withdrew 1,190 pieces of equipment costing about \$28 million from the national reserve. Most of this--960 items costing \$25.5 million--was issued to about 100 defense contractors. During this time other agencies, such as the National Aeronautics and Space Administration and the Atomic Energy Commission, withdrew 867 items costing \$6.6 million. All the equipment came from storage facilities. Equipment on loan to schools was not called back for this purpose. During this same period, DOD withdrew equipment costing about \$627 million from its general reserve.

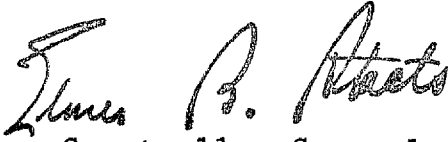
SCHOOL LOAN PROGRAM

The program has grown considerably since it was started in 1958. Each year an average of 565 pieces of equipment are loaned to schools. The 7,921 pieces on loan at December 31, 1972, were located in 394 schools in 44 States. A number of additional schools expressed interest in the program in late 1972 when the program was terminated for lack of funds. Actions pending at that time are as follows:

<u>Number of schools</u>	<u>Category of activity</u>
40	Loans approved by DOD and shipping orders forwarded to GSA
5	Applications approved and tools offered by DOD accepted by applicants before the program was terminated
39	Applications accepted and offers made to applicants to view the equipment
36	Applications received from new schools since program was discontinued
30	Requests from participating schools for additional equipment
136	Inquiries on the loan program

We trust this information is responsive to your request. We plan no further distribution of this letter unless you agree or publicly announce its contents.

Sincerely yours,

  
Comptroller General  
of the United States