United States General Accounting Office

GAO

Report to the Secretary of Defense

November 1992

PROPERTY MANAGEMENT

DOD Can Increase Savings by Reusing Industrial Plant Equipment

147912

GAO/NSIAD-93-8

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-248771

November 6, 1992

The Honorable Richard B. Cheney
The Secretary of Defense

Dear Mr. Secretary:

In September 1991, we began a review of the Defense Industrial Plant Equipment Center, which serves as a clearinghouse in the Department of Defense (DOD) for the purchase, reutilization, and disposal of industrial plant equipment.[1] During our review, the Center was being reorganized, and an internal study of the Center's operations and staffing was under way. This report addresses the management and reutilization of industrial plant equipment, as illustrated by the government's negotiation and sale of an Air Force plant. Results of the Center's reorganization efforts will be addressed in continuing work.

Background

In 1962, DOD established the Defense Industrial Plant Equipment Center in Memphis, Tennessee, to coordinate the purchase and disposal of industrial plant equipment within the services and to repair, rebuild, and overhaul the equipment for reutilization when appropriate. Under the control and direction of the Defense Logistics Agency, the Center became the central clearinghouse in DOD for plant equipment purchases and disposals. Each service requests purchases of plant equipment through the Center, which searches its inventory records to determine if idle equipment is available from another location. Each service is also responsible for reporting its idle or excess equipment to the Center. The Center screens these items against known and projected mobilization and peacetime reutilization requirements. Those items with identifiable potential are retained; the remainder are slated for disposal.

In November 1986, as part of an initiative to improve property management, DOD increased its efforts to transfer ownership of government-owned, contractor-operated plants to the private sector. Such

[1] Industrial plant equipment is metal cutting and forming equipment used for general plant operations. It consists of machine tools that are large, heavy, and expensive and have a long life expectancy. It is used throughout DOD to produce and maintain defense hardware and is primarily located at arsenals, air logistics centers, shipyards, naval aviation depots, and depot maintenance facilities. In this report, references to plant equipment or equipment refer to industrial plant equipment.

plants were placed into one of two categories: "excess to ownership" or "excess to need."[2] Under DOD's plant divestiture practice, the General Services Administration (GSA) negotiates the sale of an essential plant with the contractor that is operating the plant.

The military service need not involve the Defense Industrial Plant Equipment Center because the plant for sale should contain no idle or excess equipment. Any idle or excess plant equipment not needed to support defense contract requirements should have been reported to the Center. In contrast, a nonessential plant is sold to the highest bidder by GSA, after the Center has screened the inventory to determine if any of the equipment is needed within DOD. In 1981, DOD owned 79 contractor-operated plants. DOD has sold 16 of these plants and plans to sell more.

Results in Brief

Because DOD's plant divestiture practice allows a military service to sell, as a package, a government-owned, contractor-operated plant containing plant equipment that may be needed elsewhere in DOD, the government may have to purchase replacement equipment at increased cost. For example, in 1989, the Air Force sold Industrial Plant 36, including land, buildings, and 513 pieces of industrial plant equipment, to the General Electric Company (GE), the contractor, for $18.1 million. At the time, the Defense Industrial Plant Equipment Center had requirements at other locations for 174 pieces of the plant equipment with an estimated replacement value of $26 million. Within a few months after purchasing the plant, GE sold several pieces of the plant equipment to third parties. This sale conflicts with DOD's industrial plant equipment policy, which encourages the reuse of existing idle or excess plant equipment to minimize new procurements.

Plant Equipment Sold Could Have Been Used by Other Defense Units

The Air Force sold Industrial Plant 36, a government-owned, contractor-operated plant, in June 1989. The sale included 66 acres of land, 1.2 million square feet of buildings, a fuel storage area, and 513 pieces of industrial plant equipment. The Air Force had determined that the plant was essential. Air Force Systems Command representatives informed the Center in 1988 that it planned to sell Plant 36 but that its plant equipment was being used under contract and was not excess.

[2] "Excess to ownership" means the production capacity of the plant is essential but the government does not need to own the plant. "Excess to need" means the plant is no longer required and is surplus to DOD, or nonessential.

Accordingly, Air Force Systems Command officials did not involve the Defense Industrial Plant Equipment Center during the sale of the plant.

We requested the Center to review the plant equipment appraisal, which we had obtained from GSA, and identify any equipment they had requirements for in June 1989. Of the 513 pieces of plant equipment in the appraisal, the Center had requirements for 174. The estimated replacement value of these 174 pieces of equipment was $26 million.

According to officials in the Office of the Secretary of Defense, over 5 years elapsed between the decision to sell Plant 36 and the actual sale. During this period, plant equipment apparently became excess to the Air Force's contract requirements, but because DOD practice "froze" the status of all equipment during this period, the Air Force did not report any excess equipment to the Center. According to DOD officials, existing divestiture practice does not require plant equipment becoming excess during plant sale negotiations to be reported to the Center for reutilization screening.

Shortly after the purchase of the plant, GE wanted to buy additional plant equipment that was not included in the earlier purchase. The Air Force plant representative informed the Center that it planned to sell the equipment. Center officials tentatively identified certain equipment that it had requirements for, but Air Force Systems Command officials proceeded with the sale to the contractor because DOD divestiture practice did not require the involvement of the Center in the sale.

Contractor Resells Excess Industrial Plant Equipment

During two auctions (on January 4 and May 23, 1990), within months after the plant was purchased, GE sold to third parties many pieces of industrial plant equipment that were included in the sale of Plant 36. For example:

- A Cincinnati Milacron vertical milling machine, purchased in 1957 for $32,517 and appraised at $4,125, was resold by the contractor for $15,557. The replacement value was $89,500.
- A Lucas Machine Company vertical boring machine, purchased in 1956 for $39,965 and appraised at $7,215, was resold by the contractor for $16,557. The replacement value was $461,825.
- A vertical boring machine, purchased in 1944 for $67,650 and appraised at $12,525, was resold by the contractor for $12,256. The replacement value was $544,000.

Center records indicate that over the past 3 years the Center has rebuilt and overhauled plant equipment to a like-new condition and saved about one-half of the replacement cost. Thus, the potential loss from the sale of these three items is estimated at over $500,000.

We did not determine all the formerly owned government plant equipment that the Center had requirements for and that the contractor sold to third parties. However, we cite the examples to demonstrate the potential for increased DOD savings by modifying existing government plant divestiture practice and regulations.

DOD Plant Divestiture Practice and Industrial Plant Equipment Policy Appear Incompatible

DOD's plant divestiture practice permits the package sale of a plant, including the plant equipment, without requiring the Defense Industrial Equipment Center to screen and identify plant equipment that would be reutilized if it became excess during plant sale negotiations. This practice seems to be incompatible with DOD's industrial plant equipment policy and the Center's mission. Unless the Center is involved in future divestitures of essential plants, the services may sell plant equipment that becomes excess during plant negotiations and is needed for other DOD requirements. This equipment may then have to be replaced by DOD at much higher cost.

Records show that the Center has saved substantial amounts of money by coordinating the plant equipment needs of DOD components. The Center's records for fiscal year 1990 indicate that DOD owned over 84,000 pieces of industrial plant equipment acquired over the years for more than $3.5 billion. It would cost over $13 billion at today's prices to replace this equipment.

During the past 3 years, the Center has redistributed over 1,000 pieces of equipment costing $60 million, which includes $28 million in acquisition costs and $32 million to overhaul and rebuild the equipment. (The rebuilt equipment is warranted as new equipment by the Center.) This redistribution and reuse of previously idle or excess equipment displaced the purchase of about $125 million of new equipment.

Recommendation

To avoid unnecessary purchases of new industrial plant equipment and increase DOD savings, we recommend that you direct the Assistant Secretary of Defense, Production and Logistics, to modify applicable DOD practices, directives, instructions, and regulations to require that each service

- report to the Defense Industrial Plant Equipment Center any idle or excess plant equipment when a divestiture decision is made on a government-owned plant and during negotiations for the sale of a plant and
- inform the Center of any decision to negotiate the sale of a plant to ensure that the Center has the opportunity to assess the condition of plant equipment for reuse elsewhere in the DOD, in the event it becomes excess during negotiations.

Agency Comments

The Assistant Secretary of Defense, Production and Logistics, provided written comments to this report on August 27, 1992 (see app. I). He concurred or partially concurred in four instances and did not concur in two. First, DOD disagreed that its plant divestiture policy was a problem, citing GSA policy/practice instead. Throughout the report, we have changed the words divestiture policy to divestiture practice. GSA officials made it clear to us that they are acting as agents in selling essential plants for DOD and, as such, would adjust the plant equipment inventory as DOD directs. If plant equipment becomes excess during negotiations, GSA, at DOD direction, would remove it from the sale package.

Second, DOD did not agree with our recommendation to include the Center in the decisions on plant and equipment divestitures. The purpose of our recommendation is to help ensure that excess equipment needed by another DOD component is not included in the future sale of an essential plant, as was apparently the case in the divestiture of Plant 36. We do not intend to establish a new mission for the Center, but rather to extend existing Center responsibilities. Implementation of our recommendation would be a logical part of the Center's reutilization responsibilities.

We note that DOD did not comment on potential savings it could achieve by having the Center reutilize plant equipment identified as excess during negotiations of sales of essential plants. The Center's experience indicates that rebuilding and reusing excess plant equipment can save the government over half the cost of new plant equipment.

Scope and Methodology

We interviewed officials from the Office of the Secretary of Defense, the Defense Logistics Agency, and the General Services Administration in Washington, D.C.; the Defense Industrial Plant Equipment Center, Memphis, Tennessee; and an industrial plant repair/rebuild depot in Mechanicsburg, Pennsylvania. We also reviewed the Center's data on the reuse of equipment and DOD's policies on the purchase and disposal of industrial plant equipment and the sale of government-owned, contractor-operated plants. We performed our review from September 1991 to August 1992 in accordance with generally accepted government auditing standards.

Under 31 U.S.C. 720, the head of a federal agency is required to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days from the date of this report. A written statement must also be submitted to the Senate and House Committees on Appropriations with the agency's first request for appropriations made more than 60 days from the date of the report.

We are sending copies of this report to the Chairmen, Senate and House Committees on Armed Services and the Subcommittees on Defense, Senate and House Committees on Appropriations; the Director, Office of Management and Budget; and other interested parties. We will make copies available to others upon request.

Please contact me at (202) 275-8412 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix II.

Sincerely,

Donna M. Heivilin
Director, Logistics Issues

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-8000

PRODUCTION AND LOGISTICS

27 AUG 1992

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "PROPERTY MANAGEMENT: DoD Can Increase Savings and Reuse of Industrial Plant Equipment by Modifying Policy," July 30, 1992, (GAO Code 398094), OSD Case 9156. The DoD partially concurs with the report.

The GAO addresses the operation of the Defense Industrial Plant Equipment Center in relation to DoD policy to divest ownership of Government-owned plants by negotiated sale to the using contractors. Those sales (commonly referred to as "excess-to-ownership" sales) of essential active plants and equipment are conducted by the General Services Administration.

The DoD does not concur with the GAO recommendation that would essentially establish a new mission for the Defense Industrial Plant Equipment Center and involve them in the divestiture of Government owned and contractor operated plants. The GAO identifies a case where equipment that was part of a sales package may not have been identified as excess, because of a General Services Administration policy/practice to "freeze" all equipment during sales negotiation.

It should be recognized, however, that the Military Departments are responsible for managing active equipment and dealing with the General Services Administration in the sale of Government-owned plants and equipment. Involving the Defense Industrial Plant Equipment Center in that process would be duplicative and conflict with established procedures. The Assistant Secretary of Defense (Production and Logistics) will reemphasize to the Military

Departments that, if during a negotiated sale of a Government-owned, contractor-operated facility, industrial plant equipment becomes excess to requirements, it should be identified for potential reuse.

Detailed comments to the findings and recommendations in this draft report are included at the enclosure. The DoD appreciates the opportunity to comment on the GAO draft report.

Sincerely,

Colin McMillan
Assistant Secretary of Defense
(Production and Logistics)

Enclosure

GAO DRAFT REPORT - DATED JULY 30, 1992
(GAO CODE 398094) OSD CASE 9156

"PROPERTY MANAGEMENT: DOD CAN INCREASE SAVINGS AND REUSE OF INDUSTRIAL PLANT EQUIPMENT BY MODIFYING POLICY"

DEPARTMENT OF DEFENSE COMMENTS

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FINDINGS

FINDING A: Background. The GAO reported that, in 1962, the Defense Industrial Plant Equipment Center was established to coordinate the purchase and disposal of industrial plant equipment within the Services. The GAO observed that, under the control and direction of the Defense Logistics Agency, the Center became the central clearing house in the Department of Defense for all such plant equipment purchases and disposals. The GAO noted that the Military Departments are responsible for reporting idle or excess equipment to the Center. The GAO further noted that the Center screens the items against known and projected mobilization and peacetime re-utilization requirements.

The GAO also observed that, in 1986, as part of a DoD initiative to improve property management, the Department increased efforts to transfer ownership of Government-owned, contractor-operated plants to the private sector. The GAO found that the plants were placed into one of two categories--(1) "excess to ownership"--i.e., the production capacity of the plant is essential, but the Government does not need to own the plant, or (2) "excess to need"--i.e., the plant is no longer required and is surplus to the DoD, or nonessential. The GAO noted that, under the DoD plant divestiture policy, the General Services Administration negotiates the sale of an essential plant with the contractor operating the plant, and the Services need not involve the Center because the plant for sale should contain no idle or excess equipment. The GAO further noted that, in contrast, a nonessential plant is sold to the highest bidder by the General Services Administration, after the Center has screened the inventory to determine if any of the equipment is needed within the DoD. The GAO reported that, in 1981, the DoD owned 79 contractor operated plants. The GAO found that the DoD has sold 16 of them, and plans to sell more. (pp. 1-3/GAO Draft Report)

Now on pp. 1-2.

DoD RESPONSE: Concur.

Enclosure

FINDING B: Plant Equipment Sold Could Have Been Used By Other Defense Units. The GAO reported that, in June 1989, the Air Force sold Industrial Plant 36 (Government-owned, contractor-operated). The GAO noted that the Air Force had determined that the plant was essential. The GAO found that, because the Air Force determined that the plant equipment was being used under contract and was not excess, the Air Force did not involve the Defense Industrial Plant Equipment Center during the sale. During its review, the GAO requested that the Center evaluate the plant equipment appraisal the GAO had obtained from the General Services Administration. The GAO reported that, of the 513 pieces of plant equipment included in the appraisal, the Center had requirements for 174 pieces of equipment, with an estimated replacement value of $26 million. The GAO concluded that, during the 5 years between the decision to sell Plant 36 and the actual sale, the plant equipment became excess to Air Force requirements; however, because the DoD policy "freezes" the status of all equipment during sales negotiations, the Air Force did not report any excess equipment to the Center (existing DoD divestiture policy does not require it to be so reported). The GAO also found that, shortly after the purchase of Plant 36, General Electric wanted to buy additional plant equipment that was not included in the earlier purchase. The GAO observed that, after being notified by the Air Force, Center officials tentatively identified certain equipment for which it had requirements, but because DoD policy does not require the involvement of the Center in the sale, the Air Force proceeded with the sale to the contractor. (pp. 4-5/GAO Draft Report)

Now on pp. 2-3.

DoD RESPONSE: Partially concur. The GAO states that it is DoD policy to "freeze" the status of property during sales negotiations, and therefore the Air Force did not report any equipment as excess to the Defense Industrial Plant Equipment Center. Actually it was a General Services Administration policy/practice, not a DoD policy, that existed, because of the impact changes in the amount of equipment in a sales package would have on negotiations and the costs of reappraisals. The DoD divestiture policy does not contain any such policy. The DoD cannot verify the requirements data as portrayed in the finding. Whether or not the Defense Industrial Plant Equipment Center had requirements during the Air Force plant sale is a hypothetical point, since active equipment was not available to the Center for idle storage or reuse. The 174 pieces of equipment for which the Center reported as having requirements is not linked, within the report, to "excess to requirements" equipment that may have been available for redistribution. The portrayal of data is therefore, theoretical and the resulting conclusion, conjecture.

See Comment 1.

FINDING C: Contractor Resells Excess Industrial Plant Equipment. The GAO found that, within months after the plant was purchased, General Electric sold many pieces of industrial plant equipment included in the sale to the third parties. For example, the GAO reported that a Cincinnati Milacron vertical milling machine, purchased in 1957 for $32,517 and appraised at $4,125, was sold to the contractor for an estimated $1,990--and was resold by the contractor for $15,557 (replacement value: $89,500). The GAO also reported that a Lucas Machine Company vertical boring machine, purchased in 1956 for $39,965 and appraised at $7,215, was sold to the contractor for an estimated $3,463 and was resold by the contractor for $16,557 (replacement value: $461,825). The GAO further reported that, similarly, a vertical boring machine, purchased in 1944 for $67,650 and appraised at $12,525, was sold to the contractor for an estimated $6,012--and resold by the contractor for $12,256 (replacement value: $544,000). The GAO concluded that, because the Center had rebuilt and overhauled plant equipment to a like-new condition and saved about one-half of the replacement cost, the potential loss to the Government in the three examples to be over $500,000. (pp. 5-6/GAO Draft Report)

Now on pp. 3-4.

DoD RESPONSE: Partially concur. The fact that General Electric sold excess industrial plant equipment, it owned, to third parties does not necessarily support a conclusion that the Government had a potential loss of dollars because the equipment might have been used elsewhere. The finding does not indicate if, when General Electric sold its excess industrial plant equipment (formerly Government owned), the sales took place because the corporation was replacing that equipment with more modern equipment or other reasons. After contractors purchase a plant, they are responsible under the sales agreement for maintaining the capability to produce Government products. It is possible that a higher price for the former Government equipment could have been negotiated by the General Services Administration during the original sales negotiations. However, there are many factors that can affect sales prices. The Assistant Secretary of Defense (Production and Logistics) will remind the Military Departments that, if industrial plant equipment becomes excess to requirements during an extended General Services Administration sales negotiation, it should be removed from the sales package and excessed in accordance with established regulations. (See the DoD response to Recommendation 1.) In that manner there will be no question about the fact that the negotiated sales only contain active equipment.

See Comment 2.

FINDING D: DoD Plant Divestiture Policy and Industrial Plant Equipment Policy Appear Incompatible. The GAO reported that the DoD plant divestiture policy permits the package sale of a plant, including the plant equipment, without requiring the Defense

Industrial Equipment Center to screen and identify plant equipment that would be reutilized if it became excess during plant sale negotiations. The GAO concluded that the policy seems to be incompatible with the DoD industrial plant equipment policy and the Center mission and that, unless the Center is included in future divestitures of essential plants, plant equipment that is sold may have to be replaced at a much higher cost. The GAO observed that records for FY 1990 indicated the DoD owned over 84,000 pieces of industrial plant equipment it had acquired over the years for more than $3.5 billion, and that the replacement value would be over $13 billion at today's prices. Finally, the GAO observed that, during the past 3 years, the Center had redistributed over 1,000 pieces of equipment costing $60 million (i.e., $28 million in acquisition costs and $32 million to overhaul and rebuild the equipment), which displaced the purchase of about $125 million of new equipment. (pp 7-8/GAO Draft Report)

Now on p. 4.

DoD RESPONSE: **Nonconcur.** The DoD plant divestiture policy and the DoD industrial plant equipment policy are not incompatible. Nor is the DoD plant divestiture policy incompatible with the mission of the Defense Industrial Plant Equipment Center. The GAO statement that: "unless the Center is involved in future divestitures of essential plants, plant equipment that is sold may have to be replaced at a much higher cost," is a subjective statement. Essential active equipment that is sold is not available for reuse.

The DoD Government-owned, contractor-operated plant divestiture policy (as the GAO discusses in Finding A) is to transfer ownership of Government-owned plants to the private sector by negotiated sales to using contractors when the plants and equipment are determined to have essential continuing Defense requirements, but are "excess-to-ownership." In other words, the DoD needs the plant for production, but it does not need to be the landlord. If the equipment is determined essential, it is either active or retained on-site to support emergency requirements. The equipment in such a sales package is not excess equipment that is available for reuse.

The Defense Industrial Plant Equipment Center mission is to be the manager of idle/excess industrial plant equipment and to screen for potential reuse equipment that is declared as excess to the Military Departments requirements. The Center does not have a mission with active industrial plant equipment, in the possession of contractors, with the exception that it does maintain a data base of where such equipment is located.

In addition, the data regarding the amounts of industrial plant equipment that the Defense Industrial Plant Equipment Center has rebuilt and redistributed do not have any bearing on this finding.

See Comment 3.

* * * * *

RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Assistant Secretary of Defense (Production and Logistics) to modify applicable DoD policies, directives, instructions, and regulations to require each Military Department to report to the Defense Industrial Equipment Center any idle or excess plant equipment when a divestiture decision is made on a Government-owned plant or during negotiations for the sale of a plant. (p.8/GAO Draft Report)

Now on pp. 4-5.

DoD RESPONSE: **Partially concur.** Policy already exists in the Federal Acquisition Regulation and DoD 4161.2-M, "DoD Manual for the Performance of Contract Property Administration, dated December 1991," regarding identifying Government property that is excess to contractual requirements. The applicable Government property clauses and special contract provisions set forth the requirements for the final accounting and disposition of Government property. Government property shall be promptly reported by the contractor for disposition in accordance with the Federal Acquisition Regulation, other contractual requirements, or direction from the contracting officer.

The current policy for excessing the class of property identified as industrial plant equipment requires that it be reported to the Defense Industrial Plant Equipment Center for reutilization screening (Defense Federal Acquisition Regulation Supplement, Subpart 245.3 and the Defense Logistics Agency/Joint Services Manual, 4215.1). The DoD is developing an electronic system for screening and reutilizing Government-owned property in the possession of contractors. That system, Plant Clearance Automated Reutilization Screening System, is being developed in response to a DoD Inspector General Audit that recommended the development of an electronic system to improve property screening and reutilization. The automated reutilization system is a paperless system that will reduce cost and improve property reutilization. At this time, however, industrial plant equipment is not included as part of the system, because of the current policy requirement that the Services must screen the Defense Industrial Plant Equipment Center for reutilization of such equipment (a paperwork process). By November 1, 1992, the Assistant Secretary of Defense (Production and Logistics) will direct the Defense Logistics Agency to investigate including industrial plant equipment into the electronic (paperless) reutilization system, instead of continuing the current paperwork screening (DD Form 1419) requirement. The Defense Logistics Agency is the DoD executive agent for designing, testing, and deploying the Plant Clearance Automated Reutilization Screening System.

The DoD does not agree to direct the Military Departments to report to the Defense Industrial Plant Equipment Center any idle or excess plant equipment when a divestiture decision is made to have the General Services Administration negotiate the sale of a Government-owned, contractor-operated plant and equipment under the "excess-to-ownership" policy. As stated above, policies already exist within the Federal Acquisition Regulation, the Defense Federal Acquisition Regulation Supplement, and DoD 4161.2-M for ensuring the reuse of Government property, in the possession of contractors, when it is excess to requirements. Equipment to be sold under "excess-to-ownership" policy is not to be excess to requirements. By November 1, 1992, the Assistant Secretary of Defense (Production and Logistics) will advise the Services that during Government-owned, contractor-operated plant sales negotiations, industrial plant equipment should be reported for reutilization screening if it becomes excess to requirements.

See Comment 4.

<u>**RECOMMENDATION 2:**</u> The GAO recommended that the Secretary of Defense direct the Assistant Secretary of Defense (Production and Logistics) to modify applicable DoD policies, directives, instructions, and regulations to include the Center early in the negotiations to sell a plant to ensure that excess equipment that is needed elsewhere is not sold with the plant. (p.8/GAO Draft Report)

Now on pp. 4 5.

<u>**DoD RESPONSE:**</u> <u>**Nonconcur.**</u> The recommendation is, in essence, directing that the Assistant Secretary of Defense (Production and Logistics) establish a new mission for the Defense Industrial Plant Equipment Center. The Defense Industrial Plant Equipment Center mission has been and currently is to manage idle and screen for reutilization, excess industrial plant equipment. The Center also maintains records of inuse and idle industrial plant equipment. The Center does not have any involvement with active equipment at Government-owned, contractor-operated or contractor-owned and operated plants. The Military Departments manage active equipment that is being used to support their requirements. Contract administration offices (Defense Contract Management Command, Army, Navy and Air Force) are responsible for enforcing contractual and regulatory requirements regarding the use, control, reuse, and disposal of Government property with contractors.

The Service Secretaries have the responsibility and authority to request the General Services Administration to negotiate the sale of Government-owned plants, including related equipment, with using contractors under "excess-to-ownership," but not excess to requirements policy. Inserting the Defense Industrial Plant

See Comment 5.

Equipment Center into the negotiations to sell a plant, as the GAO recommends, would be a new mission for the Center and duplicate and conflict with established Military Department authorities. The proposed action would not serve any useful purpose, since only active equipment is to be included in such plant sales and, therefore, is not available for redistribution. Any industrial plant equipment that might become excess during the General Services Administration's negotiation will be declared excess, as, discussed in the DoD response to Recommendation 1.

The following are GAO's comments on the Assistant Secretary of Defense's (Production and Logistics) letter dated August 27, 1992.

GAO Comments

1. GSA officials have stated that they act as agents for DOD and, as such, would take directions from DOD about withdrawing any excess equipment from a sale. On the basis of DOD's response, we have changed the word policy to practice. Regarding the balance of DOD's response, we are satisfied that the examples of equipment sales to third parties soon after GE bought Plant 36 demonstrate that excess equipment was available for reutilization.

2. Center records show that rebuilding idle or excess equipment to a like-new condition saves the government about half the cost of new plant equipment. We have no information to suggest that GE replaced equipment sold to third parties with more modern equipment. We contacted GE officials, who told us that there was no modernization program to replace auctioned equipment with new, more modern equipment. DOD's support for removing and reusing equipment that becomes excess during divestiture negotiations should be formalized in directives, instructions, and regulations, as we have recommended.

3. We do not agree that the equipment in essential plant divestitures is not excess equipment that is available for reuse. On the contrary, our examples demonstrate that some of the equipment included in the divestiture of Plant 36 was sold to third parties by GE within months after the purchase was finalized. In fact, GE invited the Center to bid on equipment formerly owned by DOD at auctions held in January and May of 1990. In addition, we do not agree that the Center does not have a mission with active industrial plant equipment. The Center's mission includes condition assessment, repair, and maintenance of active equipment. Also, the rebuilding and redistribution of excess plant equipment are pertinent to this finding because they show that the Center saves DOD over 50 percent when filling requirements with rebuilt/overhauled excess plant equipment rather than DOD purchasing new plant equipment.

4. While DOD's response partially concurs with our recommendation, we believe it does not go far enough. DOD cites the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement as reasons for not fully concurring. These regulations existed during the divestiture of Plant 36 and did not prevent excess equipment from being

sold with the plant while another DOD component had requirements for the same equipment.

5. In our recommendation, we did not intend to establish a new mission for the Center. The Center is already conducting condition determination inspections of government-owned industrial plant equipment at essential plants and elsewhere. Our recommendation does not conflict substantially with the current requirement in the tri-services publication DLAM 4215.1, "Management of Defense-Owned Industrial Plant Equipment (IPE)," chapter 7, section IV, paragraph 70401b, which deals with contractor-owned, contractor-operated and government-owned, contractor-operated facilities, impending idleness, and condition determinations. It is not uncommon for the Center to be involved with active equipment in contractor-operated plants and other facilities. The Center conducts condition assessments and use determinations of such equipment and provides other support services. The purpose of our recommendation is to require the early identification of plant equipment that becomes excess during negotiations in the divestiture of an essential plant so that it may be removed from a plant sale and used where needed in DOD.

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