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.

In another case, rent of IPE applicable to a Navy standby facility is based upon 2 percent of sales prices. ASPR prescribes use of the uniform rates and currently makes no provision for computing rent on this basis. We were unable to make a determination of rent based on machine-by-machine use data in this instance; however, we estimate that, under the current procedures permitted by ASPR, the rent would have increased from $83,000 to $194,000 during the year ended September 30, 1966.

Rent for IPE was computed according to varying formulas in each of four facilities contracts negotiated by different military services with the same contractor. We noted that the rent paid for use of like classes of machines of similar age and value would vary widely due to differences in rent formulas.

Rent payments in another case were minimized through the computation of the rent credit including engineering labor hours which had no relationship to machine hours or to the rent of the IPE. In the rent computation at two contractor locations, the rent liability, before applying the credit, was based on application of the ASPR rates to all Government IPE at one location, while at the other location only the Government IPE requested for commercial use was included.

Prior approval to rent IPE not always requested

We noted instances where contractors were using IPE for commercial work for which approval had not been requested in advance although approval is required by the facilities management contract.

To discourage unauthorized use of Government facilities for commercial work, ASPR 7–702.12(e) and facilities contracts provide:

"If the Contractor uses any item of the Facilities without authorization, the Contractor shall be liable for the full monthly rental, without credit, for such item for each month or part thereof in which such unauthorized use occurs. However, the Contracting Officer may waive the Contractor's liability for such unauthorized use if he determines that the Contractor exercised reasonable care to prevent such unauthorized use. In this latter event, the Contractor shall be liable only for the rental that would otherwise be due under this clause."

In a few instances where the Government property administrator found that machines had been used for non-Government work without prior approval, the machines were subjected to the rent as normally computed. Full monthly rental was not charged because it could not be shown that contractors did not use reasonable care to prevent such use.

At one contractor plant selective floor checks conducted by the Government property administrator at month-end showed numerous instances where IPE was used for commercial work which the contractor had not included in his monthly request to the Government plant representative. In March 1965, the contractor was advised that, in the past 6 months, 7.5 percent of the IPE examined was being used without prior approval. Although corrective action was promised, floor checks revealed that during the year 1965 the incidence of discrepancies was 10 percent and during the first 9 months of 1966 it rose to 13.5 percent.

We noted instances at three other contractor locations where machines were used for commercial work without obtaining prior approval as required by the facilities contracts.

DOD reviews and corrective measures

We found that the reviews of rent by the Defense Contract Audit Agency (DCAA), when performed, were generally limited to verifying the accuracy of data in the rent computations and the procedure for computing the rent in accordance with the contract formula. An evaluation as to whether the prevailing terms of the lease were equitable to the Government was not apparent.

However, inequities which we believe exist in the rent formulas, as discussed in this report, derive from the related clauses negotiated by the respective services as part of facilities contracts. The ASPR Committee now has under consideration a policy (ASPR Case 65–19) under which the contractor will be charged rent for all Government IPE in the contractor's possession. When the IPE is used on a Government contract, the contractor will reduce the gross rent liability by the amount of a rent credit negotiated for each contract. DOD officials believe that the procedure will ensure against competitive advantage and will act as an