

GAO

United States General Accounting Office

Report to the Acting Secretary of the
Army and the Acting Chief Financial
Officer of the Department of Defense

November 1993

**FINANCIAL
MANAGEMENT**

**Army Real Property
Accounting and
Reporting Weaknesses
Impede Management
Decision-making**



Accounting and Information
Management Division

B-253657

November 2, 1993

General Gordon R. Sullivan, USA
Acting Secretary of the Army

Mr. Alvin Tucker
Acting Chief Financial Officer
Department of Defense

We were unable to express an opinion on the Army's fiscal year 1991 financial statements,¹ in part because of significant uncertainties about the reasonableness of the Army's reported \$61 billion in real property and \$34 billion in construction-in-progress. This report discusses the continuing problems with the Army's accounting and reporting of real property and construction-in-progress noted during our audit of the Army's fiscal year 1992 financial statements.²

Results in Brief

The Army's Facilities System, used at each installation and at headquarters to record and report real property at installations, could not provide complete and accurate information on the quantity and type of Army structures and facilities. This information is needed to (1) develop real property maintenance budgets and (2) provide readily available accurate information for use in the base realignment and closure process. As a result, real property maintenance budget requests were unreliable, and additional verification was required for real property status information used in the Army's base realignment and closure evaluation process.

While the Army has efforts underway in the continental United States and Europe to improve Facility System management and accounting information, these initiatives are proceeding slowly. However, many of the problems with cost information in the Facilities System and in the Corps' construction-in-progress accounting cited in our fiscal year 1991 audit remained uncorrected at the end of fiscal year 1992. For example, a \$3.6 billion unreconciled difference existed between the Facilities System and the Army's consolidated general ledger, and an estimated \$276 million of completed projects cost was improperly reported as construction-in-progress.

¹Financial Audit: Examination of the Army's Financial Statements for Fiscal Year 1991 (GAO/AFMD-92-83, August 7, 1992).

²Financial Audit: Examination of the Army's Financial Statements for Fiscal Year's 1992 and 1991 (GAO/AIMD-93-1, June 30, 1993).

In addition, onetime efforts, such as the reviews in Forces Command and Europe, do not address the underlying problems or build confidence that data accuracy can be sustained over the long term.

Background

The Facilities System is the Army's standard real property management and accounting system. The system is composed of two components—the Integrated Facilities System used at Army installations throughout the world³ (Installation Facilities System), and the Headquarters-Integrated Facilities System operated at Army headquarters (Headquarters Facilities System). The Facilities System contains different kinds of data, including accounting information (such as costs to buy land and construct or procure buildings or other structures) and management information (such as building square footage, land acreage, and category codes identifying facility type). Quarterly, installations' engineering and housing directorates prepare a tape to update real property information in the Headquarters Facilities System. The Facilities System maintains records for over 207,000 buildings and 12.7 million acres of land.

The Army uses the Installation Facilities System data to develop two reports on real property—the Unconstrained Requirements Report (requirements report) and the Technical Data Report. These reports are used to prepare and support the Army's budget request for real property maintenance funds. Army Regulation 420-16 requires each installation to prepare an annual requirements report that specifies the installation's funding needs for operating and maintaining real property during the next fiscal year. Each major command is responsible for consolidating its installations' requirements reports; then, the Assistant Chief of Engineers' office at Army headquarters summarizes the command reports and forwards them to the Army budget office for preparation of budget requests. The Technical Data Report provides prior year operating costs for all real property maintenance at Army installations as a baseline. The Army includes information from both the requirements report and the Technical Data Report in the detailed supplemental information submitted to the Congress in support of the President's Budget.

The Installation Facilities System is the subsidiary ledger supporting real property account balances in each installation's general ledger. Installations send summary financial information to the Defense Finance and Accounting Service at Indianapolis, which is responsible for

³At smaller installations, real property data may be maintained on the Desktop Resource for Real Property.

maintaining the departmental-level general ledger for the Army and preparing the Army's overall financial statements and reports. Because the Headquarters Facilities System is a consolidation of Installation Facilities System data, the dollar value recorded in the Headquarters Facilities System should equal the Army's total dollar value of real property assets as reported in the Army's general ledger and financial statements.

The Headquarters Facilities System contains real property management information, such as facility type and building square footage that are factors considered in the Army's base realignment and closure analysis. For example, the Army uses this system data to analyze whether an installation has the capacity and types of physical structures needed to support another unit if reassigned to that installation. The Army also uses the recorded costs in the Facilities System as a starting point in negotiating how much the German government should pay the United States for facilities turned over to Germany.

Objectives, Scope, and Methodology

We reviewed Army real property accounting and reporting as part of our audit of the Army's fiscal year 1992 financial statements under the Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576). The overall objectives of that audit were to opine on the Army's financial statements, internal controls, and compliance with laws and regulations, and to evaluate key controls over the Army's financial operations. This report presents the results of our evaluation of (1) the effect of inaccuracies in the Facilities System on managerial decision-making and (2) the Army's progress toward correcting Facilities System and construction-in-progress data inaccuracies.

To evaluate the effect of inaccuracies in the Army's real property data, we interviewed cognizant Army officials at installations, major commands, and Army headquarters. We reviewed Army guidance and procedures to understand and assess the process for developing real property maintenance budget requests and exhibits as presented in the Army's budget justifications supporting the President's fiscal year 1992 budget (the last justification prepared at the time of our review). We also analyzed Army procedures for using the Facilities System information in developing its base realignment and closure recommendations.

To determine the status of the Army's progress in correcting previously reported inaccuracies in Facilities System cost information, we interviewed cognizant Army departmental, command, and

installation-level officials; Corps staff; and Defense Finance and Accounting Service personnel who maintain the Facilities System and prepare and report real property financial information. We reviewed the results of both the U.S. Army Europe and the Forces Command efforts to improve the accuracy of information recorded in the Installation Facilities System. Also, we judgmentally selected six installations at which to evaluate the status of real property reporting deficiencies found in our fiscal year 1991 audit.

We did not audit the accuracy of the \$29 billion in real property at the Corps civil works locations because Corps officials told us that the conditions we found during our fiscal year 1991 audit,⁴ which then precluded an audit, remained largely unchanged. We did, however, review the Corps efforts to improve the construction-in-progress accounting deficiencies identified during the fiscal year 1991 audit. Specifically, we randomly selected 300 projects from 22 locations—100 military construction projects and 200 civil construction projects—which, based on our review of available accounting records, appeared to be substantially complete at the end of fiscal year 1992. The 300 projects represent \$2.9 billion of the Army's reported \$32 billion of construction-in-progress. Using a structured questionnaire we developed, we asked the commanders of the 22 Corps locations whether the costs associated with completed projects remained in the construction-in-progress accounts as of September 30, 1992. As of the completion of fieldwork in April 1993, we had received questionnaire responses from 20 of the 22 locations on 76 military and 131 civil construction projects.

We conducted our audit work from September 1992 through April 1993 in accordance with generally accepted government auditing standards. As listed in appendix I, we performed our work at 10 Army and Corps locations and contacted 44 other Army and Corps locations. The Department of Defense (DOD) provided written comments on a draft of this report. These comments are evaluated in the Agency Comments and Our Evaluation section of this report and are reprinted in appendix II.

⁴As part of our fiscal year 1991 financial statement audit, we reported that the Corps of Engineers real property at civil works programs was unauditible because no subsidiary records supporting the balance existed.

Unreliable Real Property Management Information Impeded Decision-making

Inaccurate management information in the Army's Facilities System resulted in unreliable budget requests and necessitated extra efforts to verify certain data used in the Army's base realignment and closure process. Inadequate guidance and inconsistent reporting requirements for reports used in the budget development process added to the unreliability of the budget requests.

Inaccurate information in the Installation Facilities System adversely affects the reliability of the Army's requirements and Technical Data reports used to develop and support budgets submitted to the Office of the Secretary of Defense, the Office of Management and Budget, and the Congress. Also, in fiscal year 1992, responsible Forces Command and Training and Doctrine Command officials stated that requirements and Technical Data Reports were inaccurate. Army officials at the Engineering and Housing Support Center, the organization with primary responsibility for the Facilities System operations, acknowledged that the reports were inaccurate, but they told us that these reports were the only available source of real property data.

Army budget justification books provided to the Congress in January 1992 as part of the President's Budget for fiscal year 1993 contain exhibits supporting the amounts requested for real property maintenance. The Assistant Chief of Engineers prepared justifications using work load information (such as square feet) obtained from the Army's requirements and Technical Data Reports.

On March 12, 1993, the Secretary of Defense recommended 165 bases, including 7 Army bases, to the Defense Base Closure and Realignment Commission for closure, realignment, or other action. In April 1993, we reported⁶ that the recommendations and selection process were generally sound, that the Army's process was well documented, and that the data upon which recommendations were based were audited by the Army Audit Agency. While the data used in the final decision process were accurate, weakness in the Facilities System database caused the Army to perform additional data validation reviews. The recommendations were the second of three rounds required by the Defense Base Closure and Realignment Act of 1990 (Public Law 101-510, Title XXIX, Part A). The final round is scheduled for 1995. More accurate Facilities System management information would help make future base closures and realignment analysis more efficient.

⁶Military Bases: Analysis of DOD's Recommendations and Selection Process for Closures and Realignments (GAO/NSIAD-93-173, April 15, 1993).

To improve the accuracy of this information, Forces Command initiated an internal evaluation of the accuracy of the Installation Facilities System databases at its 22 major installations. As of February 28, 1993, the teams had completed 18 of the 22 reviews. Forces Command graded 16⁶ of the Installation Facilities System operations it reviewed by comparing the system data with real property actually at the installations, and rated 11 as either fair or poor. Appendix III shows the grades assigned to those installations.

The review identified significant errors at each of the bases visited. For example,

- One installation had an off-base family housing facility with over 675,000 square feet not reported in the Facilities System. This resulted in a \$663,779 underestimate of maintenance requirements for fiscal year 1993.⁷
- Another installation misclassified unit support buildings (brigade, battalion, and company headquarters) as general purpose administrative space, resulting in an understatement of the installation's operational capacity and overstatement of its administrative capacity. Also, because of different recurring maintenance factors for these two types of facilities, as prescribed by Army Regulation 420-16, maintenance requirements would be overstated by \$610.44 per thousand square feet.

Real property inventory at Forces Command locations represents approximately one-third of the Army's 859 million square feet of real property in the continental United States. Army officials told us that the other major commands had not yet initiated reviews because of resource constraints.

Technical Data and Requirements Reports Prepared Inconsistently

We found inconsistencies in (1) how installations and major commands prepared the Technical Data and requirements reports, (2) the sources used to report costs, and (3) the presentation of information in the reports. These inconsistencies, which were primarily attributable to a lack of specific guidance, increased the difficulty and inefficiency of the reporting process. As a result, comparison of reports among major commands was not necessarily meaningful, and the consolidated reports to support Army-wide budget requests were unreliable.

⁶A grading system had not been developed at the time of the Fort Stewart and Fort Irwin reviews.

⁷Army Regulation 420-16 prescribes recurring maintenance factors to determine the annual recurring requirement for facilities. Family housing buildings require \$983.05 per thousand square feet.

While Army Regulation 420-16 establishes responsibilities and procedures for preparing the Technical Data and requirements reports, this regulation does not provide specific guidance for preparing these reports. For example, the guidance did not provide details on how to identify and report annually recurring requirements versus onetime requirements.⁸

We contacted six installations and two major commands and found the following inconsistencies in the way reports were prepared:

- Five installations adjusted their reporting for real property maintenance requirements based on existing real property assets and expected real property additions and deletions, while one location based its requirements only on existing real property assets.
- One major command consolidated the amounts the installations reported, while another did not use these data but rather calculated requirements based on quantities recorded in the Facilities System and standard maintenance factors it had developed.

Although the Installation Facilities System was designed to record costs, such as utility expenses and costs to maintain and repair facilities, Army Regulation 420-16 does not specify the source for obtaining this cost information. The six installations we contacted obtained repair and maintenance cost information from three different sources because of lack of guidance. Four of the six installations we contacted obtained repair and maintenance costs from the Standard Finance System,⁹ one obtained it from the Installation Facilities System, and one obtained it from a database separate from either of those systems.

Also, inconsistencies in how required information was accumulated in the Facilities System and how it was reported on the Technical Data Report added to the inefficient and cumbersome report preparation process. For example, the Technical Data Report used the number of lights as the exterior lighting measurement, while the Facilities System presented exterior lighting in linear feet.

⁸Recurring requirements represent the annual level of operations, maintenance and repair, and services funding needed to sustain occupant activities and avoid deterioration of real property. Onetime requirements are generally related to a specific action such as changes in mission, programs, and operational needs.

⁹The Standard Finance System (STANFINS) is the Army's standard accounting system for posts, camps, and stations. Installations' general ledgers are maintained in this system.

Inaccuracies in Real Property Accounting Information Continue

Many of the previously reported problems with the Facilities System cost information and construction-in-progress accounting continued. Our review of a judgmental sample of six installations showed that the same control problems that we reported in our fiscal year 1991 audit continued to exist. Also, the Corps made limited progress in removing costs of completed projects from its construction-in-progress accounts.

During our fiscal year 1991 financial audit, we identified deficiencies in the Army's Facilities System database and construction-in-progress accounting. For example, we reported that the Facilities System records were incomplete and inaccurate at installations in Forces Command, Training and Doctrine Command, Pacific Command, and the Military District of Washington because of (1) not reconciling the Facilities System's real property cost information with the Army's general ledger, (2) not always recording the costs of completed construction projects, and (3) data entry errors.

Also during this review, we found that costs associated with installation projects under construction that were the responsibility of the engineering and housing directorate were not accumulated in a construction-in-progress account as required by Army Regulation 37-1.

Many Facilities System Cost Information Inaccuracies Remain

Our review of cost information in the Facilities System at Forts Stewart, Irwin, Carson, Meade, Lee, and Dix, as of September 30, 1992, revealed the following problems:

- Army installations did not reconcile balances of their Installation Facilities System with their general ledger real property balances to verify accuracy.
- Unexplained differences existed between the Installation Facilities System and the Headquarters Facilities System.

The Army did not reconcile the \$3.6 billion difference between the \$24.2 billion in real property shown in the Army's general ledger and the \$27.8 billion shown in the Headquarters Facilities System for Army installations in the United States at the end of fiscal year 1992.

In response to our fiscal year 1991 financial statement audit, in July 1991, the Defense Finance and Accounting Service issued guidance on reconciling the Installation Facilities System with the general ledger. The guidance required that each installation reconcile its Facilities System balance with its general ledger balance as of September 30, 1991. However,

it did not provide detailed guidance on conducting reconciliations and whether installations' real property reconciliations should be performed on an ongoing basis for fiscal year 1992 and subsequent periods.

Without more detailed guidance, Army installations may not make appropriate reconciliations. For example, in its response to our management letter,¹⁰ Fort Shafter—not one of the six locations we reviewed as part of our fiscal year 1992 financial audit—stated that it reconciled its general ledger and Installation Facilities System by adjusting the general ledger “in favor” of the balance in the Installations Facilities System. However, without verifying supporting documentation for the amounts shown in the Installation Facilities System, the installation would have no assurance which, if either, balance were complete and accurate.

Construction-in-Progress Accounting Did Not Provide Adequate Data for Effective Financial Management Oversight

The Army's accounting for construction-in-progress did not provide complete and accurate cost and financial management information for billions of dollars in construction costs. While the Corps carries out the majority of the Army's major construction projects, some projects are carried out by installations.¹¹ Although required by Army Regulation 37-1, at the six installations reviewed, construction projects are not accounted for in construction-in-progress accounts. Also, the Corps did not compare and reconcile accounting records with engineer records.

As a result of not establishing or maintaining effective construction-in-progress accounting procedures at the Corps and installations, the Army could not effectively ensure that all projects, their costs, and other associated information were properly recorded. Maintaining a construction-in-progress account would allow installations to reconcile completed construction project information with quarterly updates from the Installation Facilities System to help ensure that management information is accurate for all completed projects. Specifically, if construction projects were monitored through the use of construction-in-progress accounts, the Corps could help ensure the accuracy of the documents transferring ownership of completed projects from the Corps to an installation.

¹⁰GAO/AFMD-92-77ML, July 8, 1992.

¹¹Construction projects performed by the Corps of Engineers are usually those with both estimated costs over \$200,000 and funding by the military construction appropriation. Construction projects that are the responsibility of an installation's engineering and housing directorate are typically those with estimated costs of less than \$200,000 and funding by the operation and maintenance appropriation.

Upon completion of construction projects, project managers responsible for the work—either the Corps, or an installation's directorate of engineering and housing—are to prepare documentation showing total project costs and related descriptive management information. An installation's directorate of engineering and housing is required to use this documentation to update real property records in the Installation Facilities System. Quarterly, each installation's engineering and housing directorate is required to submit real property cost information from the Installation Facilities System to the finance and accounting office for use in preparing the Army's financial statements and other financial reports.

Army Regulation 37-1 requires capitalization of construction costs in a construction-in-progress account. However, Army regulations governing engineering and housing directorates do not require them to inform, until after construction, the finance and accounting office of construction projects that should be accounted for as assets. Consequently, the finance and accounting offices record these costs as expenses, rather than as construction-in-progress as required by Army Regulation 37-1. As a result, installation engineering and housing officials were unable to use construction-in-progress records to identify whether cost or management information in the Facilities System was complete and accurate.

In 1991, we reported¹² that the Corps did not routinely remove completed military and civil works construction projects and associated costs from its construction-in-progress account. In response, DOD stated that the Corps would verify whether its construction-in-progress account was purged of completed projects and whether completed projects were properly accounted for in the accounting records. To determine the status of these efforts, we distributed a structured survey to 22 Corps accounting offices, inquiring about the accounting status of 300 projects. The 20 offices responding told us that 87 completed civil projects with costs of \$79.2 million and 47 completed military projects with costs of \$196.7 million remained in the Corps' construction-in-progress account as of September 30, 1992.

Also, because the Corps did not monitor and properly maintain construction-in-progress records, real property assets may have been reported twice in the Army's financial statements. For example, a \$560,000 building addition reported on an installation's general ledger as real property was also reported in the Corps' general ledger as

¹²GAO/AFMD-91-62ML, April 23, 1991.

construction-in-progress because the Corps did not remove the cost of the completed project when it transferred it to an Army installation.

As a result, the suggestions in our April 23, 1991, letter to the Corps are still appropriate. Specifically, we suggested that the Corps review the construction-in-progress account and establish procedures to ensure the prompt removal of costs for completed projects from the Corps general ledger.

Efforts to Improve Facilities System Database Proceeding Slowly

The Army is trying to improve the accuracy of both management and cost information in the Facilities System and its construction-in-progress accounting. Its review of the records of all facilities in Germany, which the Army estimates account for 82 percent of the Army's reported 371 million square feet of overseas real property inventory, is expected to be completed in 1995. Also, as previously discussed, a review of the accuracy of the Installation Facilities System management and cost information at Forces Command's installations is almost complete. However, Forces Command accounts for only about one-third of the Army's real property in the continental United States.

Between 1990 and 1992, the Army began ensuring the accurate recording of all facilities and the associated costs for facilities scheduled to be returned to Germany's possession. The Army initiated the review because the Status of Forces Agreement between the United States and Germany allows the United States to obtain the residual value¹³ of Army investments in real property turned over to the host country. The Army expanded the review to include all Army facilities in Europe. As a result of this review, the value of real property in the Installation Facilities System database for Army facilities in Germany increased from \$1.9 billion as of September 30, 1990, to \$3.2 billion as of July 31, 1992. For example, the review found that the Installation Facilities System had not recorded \$1.2 million for an officers club and \$9 million in costs associated with the Wiley Barracks in Neu Ulm, Germany. Army officials estimate that by the completion of the review of real property records for all 858 Army facilities in Germany, the total value for buildings and structures could reach \$5.25 billion.¹⁴

¹³The Army estimates residual value by taking facility investments and adjusting them for appreciation due to inflation and for depreciation due to age or condition. The actual amount of residual value, if any, is what the German government pays the United States after negotiations.

¹⁴See U.S. Military Presence In Europe: Issues Related to the Drawdown (GAO/T-NSIAD-93-3, April 23, 1993) for a discussion on the status of negotiations with Germany on residual value of U.S. investments.

Also, although the Forces Command review of the Installations Facilities System is nearly complete, data on about two-thirds of the Army's real property in the continental United States has not been reviewed. Other major commands with most of the remaining real property in the United States, primarily the Training and Doctrine Command and the Army Materiel Command, have not initiated similar reviews.

Conclusions

The Army has had continuing problems in obtaining reliable accounting and management information on its real property at installations. Although progress has been slow, completion of efforts like those in Europe and at the Forces Command can help ensure the accuracy of the real property data used to support real property operations and facility maintenance budgeting. However, these actions will only address the accuracy of the data as of the date reviews are completed. Without correcting systemic problems and establishing an effective financial oversight mechanism to maintain data accuracy, these efforts may be wasted.

We believe that achieving the institutional discipline to obtain reliable databases, and hence a solid foundation for decision-making can be achieved through (1) establishing procedures and monitoring accounting for construction-in-progress at installations, (2) prompt reporting and transfer of completed Corps construction projects to receiving installations, as recommended in our prior report, and (3) reconciliation of general ledger balances with the Facilities System.

Recommendations

We recommend that the Acting Secretary of the Army:

- Direct the other major commands to conduct reviews, similar to the reviews in Europe and Forces Command, on the accuracy of the financial and management information in the Facilities System database. Each review should include identifying and correcting any errors in recorded facility classifications, costs, and units of measurement. These reviews for continental United States bases should be completed in time to upgrade the reliability of data available for the 1995 base realignment and closure process.
- Direct the Chief of Engineers to clarify existing guidance on preparing the requirements and Technical Data reports.
- Determine and allocate the resources needed to effectively maintain the Facilities Systems.

We also recommend that the Acting Chief Financial Officer of the Department of Defense direct the Defense Finance and Accounting Service and the Acting Secretary of the Army to:

- Provide guidance on how to perform a quarterly reconciliation of the general ledger real property accounts with the Facilities System or with other supporting detailed records at those installations not using the Facilities System.
- Establish procedures for housing and engineering directorates to follow when projects are initiated, including informing finance and accounting offices of construction projects for which costs should be capitalized in a construction-in-progress account.
- Establish procedures for reconciling and reporting Corp and installation construction-in-progress accounts with supporting detailed records.

Agency Comments and Our Evaluation

DOD concurred with all of our findings and with four of our recommendations to improve accounting and reporting for Army's real property. DOD partially concurred with our two other recommendations.

DOD concurred with our recommendations concerning inaccuracies in the Facilities System database and the need to allocate sufficient resources to maintain the Facilities System. DOD also cited corrective actions taken or planned. Specifically, in response to our recommendation to review the accuracy of the Facilities System database, DOD stated that the Army has requested installations to update their information by September 30, 1993. In response to our recommendation to allocate the resources needed to maintain the Facilities System, the Army stated that it has updated its funding plans for fiscal years 1995 through 2000 and that it would address additional funding needed for fiscal year 1994.

In response to our recommendation to establish procedures for reconciling construction-in-progress accounts with supporting detailed records, DOD stated that the Army Corps of Engineers had already established such procedures. However, we found that existing Corps procedures were not sufficiently detailed. None of the installations reviewed had performed the required reconciliations. Consequently, we continue to believe that more detailed procedures are required.

In response to our recommendation to clarify existing guidance on preparing requirements and Technical Data reports, DOD stated that the

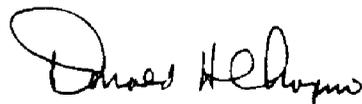
Army is developing revised automated procedures for preparing the Technical Data Report. However, DOD did not state whether it would clarify guidance on preparing the requirements reports. We believe that without clarified guidance, requirements reports used to develop real property maintenance budgets will continue to be unreliable.

DOD partially concurred with our recommendation to develop guidance on how to reconcile the general ledger with the Facilities System quarterly. DOD stated that while the reconciliations appear to have merit, it will determine whether such reconciliations are cost-beneficial. If so, it will develop and implement procedures to perform the reconciliations. However, DOD's response does not indicate whether such reconciliations will be performed quarterly or, as DOD policy requires for real property ledger accounts, "periodically." We continue to believe that without quarterly reconciliations, the Army cannot be sure of the accuracy of the quarterly updates the engineering and housing directorates send to the finance and accounting offices for the general ledger real property accounts.

DOD also partially concurred with our recommendation to establish procedures for housing and engineering directorates to follow when projects are initiated. DOD stated that while it had procedures for recording construction in progress, it would strengthen those procedures for implementing departmental policy. DOD also stated that the U.S. Army Center for Public Works is working with the Defense Finance and Accounting Service to ensure that applicable Army installations receive appropriate guidance on collecting and reporting construction in progress quarterly. However, DOD did not state whether the revised procedures will include instructions for informing finance and accounting offices of construction projects for which costs should be capitalized. We believe that Army engineering and housing directorates, to ensure that cost and management information in the Facilities System is complete and accurate, need additional procedures clearly describing when and how construction projects should be accounted for as assets.

We are sending copies of this report to the Director of the Defense Finance and Accounting Service; the Director of the Office of Management and Budget; the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs, House Committee on Government Operations, Senate Committee on Armed Services, and House Committee on Armed Services; and other interested parties. We will also make copies

available to others upon request. This report was prepared under the direction of David M. Connor, Director, Defense Financial Audits, who may be reached at (202) 512-9095 if you or your staff have questions or wish to discuss matters in this report. Major contributors to this report are listed in appendix IV.



Donald H. Chapin
Assistant Comptroller General

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Abbreviations

CFO	Chief Financial Officers Act
DOD	Department of Defense
STANFINS	Standard Finance System

Locations Visited and Contacted

Locations Visited

Army Headquarters, Washington, D.C.
Forces Command, Fort Gillem, Georgia
Forces Command, Fort McPherson, Georgia
Engineering and Housing Support Center, Fort Belvoir, Virginia
U.S. Army, Europe, Frankfurt, Germany
Defense Finance and Accounting Service, Indianapolis
Fort Belvoir, Virginia
Fort Meade, Maryland
Corps of Engineers Headquarters, Washington, D.C.
Corps of Engineers, Fort Worth District, Fort Worth, Texas

Locations Contacted

Training and Doctrine Command, Fort Monroe, Virginia
Army Materiel Command, St. Louis, Missouri
Fort Bliss, Texas
Fort Benning, Georgia
Carlisle Barracks, Pennsylvania
Fort A.P. Hill, Virginia
Fort Stewart, Georgia
Fort Irwin, California
Fort Riley, Kansas
Fort Carson, Colorado
Fort McPherson, Georgia
Fort Lee, Virginia
Fort Lewis, Washington
Fort Campbell, Kentucky
Fort Drum, New York
Fort Pickett, Virginia
Fort McCoy, Wisconsin
Fort Sam Houston, Texas
The Presidio of San Francisco, California
Fort Ord, California
Fort Bragg, North Carolina
Fort Devens, Massachusetts
Fort Dix, New Jersey
Fort Rucker, Alabama
Corps of Engineers, Kansas City District Office, Kansas City, Missouri
Corps of Engineers, Baltimore District Office, Baltimore, Maryland
Corps of Engineers, New York District Office, New York, New York
Corps of Engineers, Alaska District Office, Elmendorf Air Force Base,
Alaska
Corps of Engineers, Louisville District Office, Louisville, Kentucky

**Appendix I
Locations Visited and Contacted**

Corps of Engineers, Japan District Office, Camp Zama, Japan
Corps of Engineers, Mobile District Office, Mobile, Alabama
Corps of Engineers, Savannah District Office, Savannah, Georgia
Corps of Engineers, Los Angeles District Office, Los Angeles, California
Corps of Engineers, Sacramento District Office, Sacramento, California
Corps of Engineers, St. Louis District Office, St. Louis, Missouri
Corps of Engineers, Vicksburg District Office, Vicksburg, Mississippi
Corps of Engineers, St. Paul District Office, St. Paul, Minnesota
Corps of Engineers, Portland District Office, Portland, Oregon
Corps of Engineers, Huntington District Office, Huntington, West Virginia
Corps of Engineers, Jacksonville District Office, Jacksonville, Florida
Corps of Engineers, Wilmington District Office, Wilmington,
North Carolina
Corps of Engineers, New Orleans District Office, New Orleans, Louisiana
Corps of Engineers, Europe District, Frankfurt, Germany
Corps of Engineers, Huntsville Division, Huntsville, Alabama

Comments From the Department of Defense

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



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

AUG 20 1993

(Management Systems)

Mr. Donald H. Chapin
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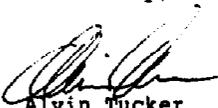
Dear Mr. Chapin:

This is the Department of Defense (DoD) response to the General Accounting Office draft report, "FINANCIAL MANAGEMENT: Army Real Property Accounting and Reporting Weaknesses Impede Management Decisionmaking," dated June 9, 1993 (GAO Code 918799), OSD Case 9276-B. The Department generally concurs with the draft report.

The Department has taken a number of actions in recent years to improve accounting and reporting. The most significant action is the consolidation of accounting operations into the Defense Finance and Accounting Service. Implementation of the accounting and reconciliation improvements recommended in the draft report will be facilitated by the new centralized organization.

The detailed DoD comments on the draft report issues and recommendations are provided in the enclosures. The Department appreciates the opportunity to comment on the draft report.

Sincerely,


Alvin Tucker
Deputy Comptroller
(Management Systems)

Enclosures

GAO DRAFT REPORT - DATED JUNE 9, 1993
(GAO CODE 918799) OSD CASE 9276-B

"FINANCIAL MANAGEMENT: ARMY REAL PROPERTY ACCOUNTING AND
REPORTING WEAKNESSES IMPEDED MANAGEMENT DECISIONMAKING"

DEPARTMENT OF DEFENSE COMMENTS

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DISCUSSION ISSUES

- **ISSUE 1: Unreliable Real Property Management Information Impeded Decisionmaking.** The GAO concluded that the Army had continuing problems in obtaining reliable accounting and management information on its real property at installations. The GAO further concluded that, although progress has been slow, completion of efforts like those in Europe and at the Forces Command can help ensure the accuracy of the real property data used to support real property operations and facility maintenance budgeting. The GAO also concluded, however, that those actions will only address the accuracy of the data as of the date reviews are completed--without correcting the systemic problems and establishing an effective financial oversight mechanism to maintain data accuracy--therefore, the efforts may be wasted. (pp. 9-15, p. 26/GAO Draft Report)

DoD RESPONSE: Concur. By August 16, 1993, the Army plans to issue a memorandum to all major commands that hold real property restating the real property review requirement to conduct reviews and surveys of real property and requiring the identification and correction of errors in recorded facility classification, facility costs, and units of measure for facilities in the real property inventory. The memorandum will also request an update to the Army world-wide inventory--the Headquarters Integrated Facilities System database--for the fourth quarter of FY 1993. During FY 1994, the Army plans to visit randomly selected installations to validate the completion of the required reviews.

- **ISSUE 2: Inaccuracies in Real Property Accounting Information Continue.** The GAO concluded that many of the previously reported problems with the Facilities System cost information and construction-in-progress accounting continued to be unresolved. The GAO review of a judgmental sample of six installations showed that the same control problems it reported in its FY 1991 audit of Army financial management operations (OSD Case 8674 series) continued to exist. In addition, the GAO concluded that the Corps of Engineers had made only limited progress in removing costs

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Now on pp. 5-7 and p. 12.

See comment 1.

Now on pp. 8-12.

of completed projects from its construction-in-progress accounts. In summary, the GAO concluded that the suggestions in its April 23, 1991, letter report to the Corps (OSD Case 8674) are still appropriate--i.e., that the Corps (a) review the construction-in-progress account and (b) establish procedures to ensure the prompt removal of costs for completed projects from the Corps general ledger. (pp. 16-23, p. 26/GAO Draft Report)

DoD RESPONSE: Concur. The Army has placed, and will continue to place, an emphasis on this area. Army efforts, in response to the FY 1991 audit, are expected to resolve the weakness during FY 1993. In addition, on March 30, 1993, the Army issued a memorandum to the major commands, which emphasized the need for reporting an engineer project obligation as an expense when it occurs. Furthermore, a formal process review group has been established for the review and simplification of housing business practices in the financial management area.

- **ISSUE 3: Efforts to Improve Facilities System Database Proceeding Slowly.** The GAO concluded that the Army is trying to improve the accuracy of both management and cost information in the Facilities System and its construction-in-progress accounting. The GAO noted that the Army review of the records of all facilities in Germany, which the Army estimates account for 82 percent of the reported 371 million square feet of overseas Army real property inventory, is expected to be completed in 1995. The GAO also noted that a review of the accuracy of the Installation Facilities System management and cost information at Forces Command installations is almost complete. The GAO observed, however, that the Forces Command accounts for only about one-third of the Army real property in the continental United States. The GAO concluded that, achieving the institutional discipline to obtain reliable databases, and hence a solid foundation for decisionmaking can only be achieved through (a) establishing procedures and monitoring accounting or construction-in-progress at installations, (b) prompt reporting and transfer of completed Corps construction projects to receiving installations, as recommended in its prior report, and (c) reconciliation of general ledger balances with the Facilities System. (pp. 23-27/GAO Draft Report)

Now on pp. 11-12.

DoD RESPONSE: Concur. Beginning in March 1992, the Army established an aggressive quality assurance process to ensure that the quarterly real property updates to the Army worldwide real property inventory are both timely and accurate. During the second quarter of FY 1992, the Army developed a process to work with the major commands and installations to resolve issues as they are discovered. The Army also has emphasized quality training for real property personnel and expanded the size of a real property course in 1991. In early 1993, functional real property

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personnel also began attending that course to provide expertise to the students regarding the use of the Facilities System real property module.

In 1992, the Army established an inventory review process by developing standard database queries to evaluate the worldwide real property inventory. As of July 1993, a total of 31 queries has been established--29 that address facility records and 2 that address installation records. Using these queries allows the Army to focus on selected problems with the inventory database.

In March 1993, the Army developed and sent to the field for review a proposed permanent job series for real property personnel. The Army expects this new job series to help avoid a high turnover rate and to develop professionals who will support the real property functional area. The new job series is expected to be available by October 31, 1993.

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RECOMMENDATIONS

- **RECOMMENDATION 1.** The GAO recommended that the Acting Secretary of the Army direct the other major commands to conduct reviews, similar to the reviews in Europe and Forces Command, on the accuracy of the financial and management information in the Facilities System database. (The GAO suggested that each review should include identifying and correcting any errors in recorded facility classification, costs, and units of measurement. The GAO also asserted that the reviews for continental United States bases should be completed in time to upgrade the reliability of data available for the 1995 base realignment and closure process.) (p. 27/GAO Draft Report)

DoD RESPONSE. Concur. By August 16, 1993, the Army will issue a memorandum to all major commands that hold real property restating the real property review and survey requirements and requiring the identification and correction of errors in recorded facility classification, facility costs, and units of measure for facilities included in each installation's real property inventory. This memorandum will also request an update to the Army worldwide inventory--the Headquarters Integrated Facilities System database--for the fourth quarter of FY 1993. Beginning in October 1993, the Army will visit randomly selected installations to validate the completion of the required reviews. Twelve visits to installations have been scheduled during FY 1994.

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Now on p. 12.

See comment 1.

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Now on p. 12.

See comment 2.

Now on p. 12.

Now on p. 13.

See comment 3.

See comment 4.

- **RECOMMENDATION 2.** The GAO recommended that the Acting Secretary of the Army direct the Chief of Engineers to clarify existing guidance on preparing the requirements and Technical Data reports. (p. 27/GAO Draft Report)

DoD RESPONSE. Concur. In April 1993, the Army began developing revised automated procedures for preparing the Technical Data reports. The procedures are expected to be tested at several Army installations from August 9-13, 1993. By September 30, 1993, the automated procedures and clarifying guidance for Technical Data reports will be provided to Army reporting installations for use in reporting FY 1993 data.

- **RECOMMENDATION 3.** The GAO recommended that the Acting Secretary of the Army determine and allocate the resources needed to maintain the Facilities System effectively. (p. 28/GAO Draft Report)

DoD RESPONSE. Concur. In June 1993, the Army updated its FY 1995-1999 Program Objective Memorandum and allocated the necessary resources to ensure proper maintenance of the Facilities Systems. For FY 1994, additional funds that may be required will be addressed after the Congress has completed the FY 1994 appropriation process.

- **RECOMMENDATION 4.** The GAO recommended that the Acting Chief Financial Officer of the Department of Defense direct the Defense Finance and Accounting Service and the Acting Secretary of the Army to provide guidance on how to perform a quarterly reconciliation of the general ledger real property accounts with the facilities system or with other supporting detailed records at those installations not using the facilities system. (p. 28/GAO Draft Report)

DoD RESPONSE. Partially concur. The recommendation is in consonance with existing DoD policy which requires periodic reconciliation of ledger accounts for real property. While the Headquarters and Installation Facilities System records are not categorized as official accounting records, reconciliation with those records appears to have merit. The Acting Army Assistant Secretary for Financial Management and the Director, Defense Finance and Accounting Service, will determine jointly the cost benefits of such a reconciliation. If cost beneficial, supporting procedures will be developed and implemented to perform such reconciliations. These procedures are planned to be developed and implemented within 90 days.

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In addition, the U.S. Army Center for Public Works is working with the Defense Finance and Accounting Service to resolve reconciliation discrepancies. Resolution should be completed by January 10, 1994.

- **RECOMMENDATION 5.** The GAO recommended that the Acting Chief Financial Officer of the Department of Defense direct the Defense Finance and Accounting Service and the Acting Secretary of the Army to establish procedures for housing and engineering directorates to follow when projects are initiated. These procedures would include informing finance and accounting offices of construction projects for which costs would be capitalized in a construction-in-progress account. (p. 29/GAO Draft Report)

Now on p. 13.

DoD RESPONSE. Partially concur. Current DoD policy requires the recordation of construction in progress upon project initiation and corresponding liquidation of the account upon completion of construction. The Acting Army Assistant Secretary for Financial Management and the Director, Defense Finance and Accounting Service, will strengthen procedures that implement departmental policy. The U.S. Army Center for Public Works is working with the Defense Finance and Accounting Service to ensure applicable Army installations receive appropriate guidance regarding the collection and reporting of construction in progress on a quarterly basis. The guidance is expected to be released by March 31, 1994.

See comment 3.

See comment 5.

- **RECOMMENDATION 6.** The GAO recommended that the Acting Chief Financial Officer of the Department of Defense direct the Defense Finance and Accounting Service and the Acting Secretary of the Army to establish procedures for reconciling and reporting the Corps and installations construction-in-progress accounts with supporting detailed records. (p. 29/GAO Draft Report)

Now on p. 13.

DoD RESPONSE. Concur. Current DoD policy requires periodic reconciliation of real property general ledger accounts, including construction in progress. The Army Corps of Engineers has already established procedures to reconcile construction-in-progress accounts with engineer records and to ensure accurate recording and reporting of information for facilities under construction. The Corps began correcting these deficiencies in June 1991, before the GAO originally reported these findings in its August 1992 final report (OSD Case 8674-L) for FY 1991. Specifically, the Corps requires each accounting and project management office to perform a joint review of the construction-in-progress accounts annually, and to identify and transfer all completed projects to the appropriate accounts. Because the initial reconciliation or joint review required a manual search through years of historical

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records, the GAO found that, as of September 30, 1992, little had been done actually to adjust the construction-in-progress accounts. Since that date, however, the Corps has made significant progress in clearing up these accounts. The Corps headquarters and the Senior-Level Steering Group are monitoring the corrective actions very closely.

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The following are GAO's comments on the Department of Defense's letter dated August 20, 1993.

GAO Comments

1. The Army's Acting Director, U.S. Army Center for Public Works, issued a memorandum to all major commands holding real property restating review, survey, and recording requirements on August 20, 1993.
2. On September 8, 1993, the U.S. Center for Public Works issued guidance, FY 93 Personal Computer Technical Data Reporting System, to all Army installations.
3. Discussed in "Agency Comments and Our Evaluation" section of the report.
4. DOD commented that the Headquarters and Installation Facilities System records are not categorized as official accounting records. However, we found that the Headquarters and Installation Facilities System provides the detail supporting the value of installations' and the Army's real property assets shown in their respective general ledgers. Neither DOD nor Army officials were able to identify records other than Installation Facilities System that represented "official accounting records" for Army's real property during the course of our review.
5. The Army's Engineering and Housing Support Center was renamed the U.S. Army Center for Public Works as a result of reorganization subsequent to the date of our draft report. This reorganization transferred the office from the Assistant Chief of Engineers to the Assistant Chief of Staff for Installation Management.

Grades Given Installation Facilities System Operations at 16 Forces Command Installations

Installation	Grade				
	Excellent	Good	Average	Fair	Poor
Fort Riley	X				
Fort Carson		X			
Fort McPherson					X
Fort Lewis				X	
Fort Campbell				X	
Fort Drum				X	
Fort A.P. Hill		X			
Fort Pickett		X			
Fort Sam Houston					X
Fort McCoy					X
Presidio of San Francisco					X
Fort Ord					X
Fort Bragg					X
Fort Devens					X
Fort Hood		X			
Fort Polk					X
Total	1	4	0	3	8

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Related GAO Products

Management letter to the Commander, Fort Wainwright, Alaska
(GAO/AFMD-93-27ML, January 8, 1993).

Management letter to the Commander-in-Chief, U.S. Army, Europe
(GAO/AFMD-93-6ML, January 5, 1993).

Management letter to the Commanders, U.S. Army Military District of
Washington, U.S. Army Training and Doctrine Command, U.S. Army
Forces Command, and U.S. Army Pacific Command (GAO/AFMD-93-4ML,
October 7, 1992).

Financial Management: Immediate Actions Needed to Improve Army
Financial Operations and Controls (GAO/AFMD-92-82, August 7, 1992).

Management letter to the Commander, Fort Shafter, Hawaii (GAO/
AFMD-92-77ML, July 8, 1992).

Management letter to the Commander, Fort Leavenworth, Kansas
(GAO/AFMD-91-91ML, September 30, 1991).

Management letter to the Assistant Secretary of the Army for Financial
Management; Director, Defense Finance and Accounting Service; Director,
Directorate of Resource Management, Corps of Engineers
(GAO/AFMD-91-62ML, April 23, 1991).

Management letter to the Commander, Fort Devens, Massachusetts
(GAO/AFMD-92-61ML, April 12, 1991).

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