

GAO

Report to the Subcommittee on Military  
Construction, Committee on  
Appropriations, U.S. Senate

May 2004

# DEFENSE INFRASTRUCTURE

## Issues Related to the Renovation of General and Flag Officer Quarters





Highlights of [GAO-04-555](#), a report to Subcommittee on Military Construction, Committee on Appropriations, U. S. Senate

## Why GAO Did This Study

Recent cost increases in renovation projects to general and flag officer quarters raised questions about the services' management of the programs. GAO was asked to determine (1) how actual costs of renovation projects for general and flag officer housing compare to service budget estimates provided to Congress and (2) the primary reasons for any increases and the services' procedures to control cost increases. Additionally, GAO is presenting observations about the services' accountability over gifts provided to help renovate some general and flag officer quarters and the extent to which Department of Defense (DOD) guidance provides visibility and control over costs associated with renovation projects for privatized general and flag officer quarters.

## What GAO Recommends

GAO is making several recommendations to the Secretary of Defense to improve controls over renovations to general and flag officer quarters and provide increased visibility and control of renovations to privatized general and flag officer quarters.

In commenting on a draft of this report, DOD concurred with two recommendations and did not concur with the third, while indicating actions to be taken to meet the intent of our recommendation.

[www.gao.gov/cgi-bin/getrpt?GAO-04-555](http://www.gao.gov/cgi-bin/getrpt?GAO-04-555).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barry W. Holman at (202) 512-8412 or [holmanb@gao.gov](mailto:holmanb@gao.gov).

## DEFENSE INFRASTRUCTURE

### Issues Related to the Renovation of General and Flag Officer Quarters

#### What GAO Found

With few exceptions, the services' reported costs for renovation projects for general and flag officer quarters were generally consistent with budget estimates provided to Congress. For fiscal years 1999 to 2003, GAO found that 184, or 93 percent, of the 197 renovation projects over \$100,000 cost less than or the same as budget estimates. While the remaining 13 projects—6 Navy and 7 Marine Corps—exceeded cost estimates, 5 Marine Corps projects exceeded their budgets by more than 10 percent.

Customer-requested changes and unforeseen repairs were the main reasons for cost increases to renovation projects. For 5 of the 7 projects that exceeded their budgets by over 10 percent, about 45 percent of the increased costs was for customer-driven changes, 53 percent for unforeseen repairs, and 2 percent could not be determined. Though the services have guidance to limit customer-requested changes, the Marine Corps approved many such changes that contributed to project costs exceeding budgets. Customer requests included upgraded kitchen and bathroom renovations or initially unplanned work. Unforeseen repairs, such as for termite damage or unexpected historic preservation requirements, occurred because problems were not identified in the inspections on which the estimates were based.

Military services did not properly account for gifts used for general officer quarters in two instances, one involving renovation costs. In that instance, the Marine Corps did not comply with existing regulations to properly accept and account for all gifts used to renovate the Home of the Commandants. The Friends of the Home of the Commandants told GAO it provided about \$765,500 in nonmonetary materials and services (e.g., furnishings and construction labor). However, the Marine Corps could list nonmonetary gifts totaling only \$492,413 because it did not follow specified gift acceptance and accounting procedures. Navy General Gift Fund records show receipt of an additional \$88,300 in monetary gifts from the Friends of the Home of the Commandants. The Marine Corps has receipts for monetary expenditures, but not property records for items purchased with the gift funds. The Navy and Army also accepted gifts to furnish general and flag officer homes. Of those, the Navy did not properly accept and account for about \$3,970 in nonmonetary gifts.

DOD and the military services could lose visibility over housing renovation costs for privatized general and flag officer homes. DOD does not require review of renovation costs for these quarters, such as costs over \$35,000, as required for government-owned quarters. The Navy, Marine Corps, and Air Force are developing guidance to increase visibility and accountability over the spending for these quarters, but the draft guidance is not consistent. Although the services have privatized only 65 of their 784 general and flag officer quarters, they plan to privatize 426 or 54 percent by fiscal year 2008.

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G A O

Accountability \* Integrity \* Reliability

United States General Accounting Office  
Washington, DC 20548

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May 17, 2004

The Honorable Kay Bailey Hutchison  
Chairman  
The Honorable Dianne Feinstein  
Ranking Minority Member  
Subcommittee on Military Construction  
Committee on Appropriations  
United States Senate

Generally, the military services' almost 700 general and flag officer<sup>1</sup> quarters are older and larger than typical housing in the services' family housing inventories, and many are historic, with some dating from the early nineteenth century. These factors make general and flag officer homes costly to maintain, which has been an ongoing concern to Congress. The services have used both appropriated funds and gifts to maintain and pay for renovation costs associated with some of these quarters.<sup>2</sup> Recent cost increases for some major renovation projects at the historic Marine Corps Barracks located at Eighth and I streets in southeast Washington, D.C., have raised congressional concern about the services' management of these programs. Additionally, questions exist regarding the accounting for gifts used to supplement appropriations for renovation projects.

At your request, we reviewed the services' programs for renovating general and flag officer housing to determine (1) how the actual costs of renovation projects for general and flag officer projects compared to the service budget estimates provided to Congress and (2) the primary reasons for any cost increases, including the services' procedures to control cost increases. Additionally, we are providing observations about the services' accountability over monetary and nonmonetary gifts provided to help renovate certain general and flag officer quarters as well as information

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<sup>1</sup> General and flag officers include the Army, Air Force, and Marine Corps ranks of general, lieutenant general, major general, and brigadier general and the Navy ranks of admiral, vice admiral, and rear admiral (upper half and lower half).

<sup>2</sup> Military family housing funds are appropriated through the Military Construction (MILCON) Appropriation Acts. Other funds are provided through gifts of cash, materials and services.

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concerning the extent to which the Department of Defense (DOD) has issued guidance to provide visibility and control over costs associated with renovation projects for privatized general and flag officer quarters.

We focused our review on the services' major renovation projects budgeted for \$100,000 or more during fiscal years 1999 through 2003. To determine how the reported costs of renovation projects for general and flag officer quarters compared to the service budget estimates provided to Congress, we reviewed the services' reported data related to the cost of a project to the budget estimates. We did not validate service budget and actual cost data, but we did discuss data reliability with responsible service officials and obtained information from them on steps they had taken to ensure the data's reliability. Based on this, we believe that the data we used was sufficiently reliable for the purposes of this report. To determine the primary reasons for cost increases, we reviewed contractual actions, interviewed service officials, and documented the reasons for increases. Furthermore, to determine the services' accountability over gifts provided to help renovate general and flag officer quarters, we reviewed applicable laws, DOD and service guidance, gift acceptance documentation, and contract and funding documents and interviewed cognizant officials. Finally, to determine the extent to which DOD has issued guidance to provide visibility and control over renovation projects for privatized general and flag officer quarters, we reviewed and compared DOD and the services' guidance for government-managed versus privatized general and flag officer housing.

We conducted our work from October 2003 through March 2004 in accordance with generally accepted government auditing standards. A more thorough description of our scope and methodology is presented in appendix I.

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## Results in Brief

With a few exceptions, the services' reported actual costs<sup>3</sup> for renovation projects for general and flag officer quarters were generally consistent with or less than the budget estimates provided to Congress.<sup>4</sup> During fiscal years 1999 through 2003, we found that 184, or about 93 percent, of the 197

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<sup>3</sup> For the purpose of this report, we used the obligations reported for the specific project to report actual costs.

<sup>4</sup> For the purposes of this report, we used obligation estimates included in budget justifications submitted to Congress as project budget estimates.

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renovation projects of more than \$100,000 for general and flag officer quarters cost less than or the same as the estimate included in the service's budget justification. While the remaining 13 projects—6 Navy and 7 Marine Corps—exceeded the services' cost estimates, only the Marine Corps projects exceeded their budgets by more than 10 percent.

Customer requests for changes and unforeseen repairs were the primary reasons for cost increases to renovation projects.<sup>5</sup> The services have guidance that seeks to limit customer-requested changes based on personal preferences, but we found numerous Marine Corps approvals for customer-requested changes for renovations that contributed to project costs exceeding budget estimates. We found that for 5 Marine Corps projects that exceeded their budgets by more than 10 percent, about 45 percent of the increased costs associated with the changes were customer driven, about 53 percent were due to unforeseen repairs and about 2 percent could not be determined.<sup>6</sup> Cost increases due to customer requests included upgraded kitchen and bathroom renovations or work that was not included in the original scope of work and occurred because the customer wanted the change and the housing manager or higher level official acquiesced. Cost increases due to unforeseen repairs—such as for termite damage; undetected structural deficiencies, such as sagging floor supports; and unforeseen historical restoration costs—occurred because these deficiencies or requirements were not identified during the inspections upon which the initial project cost and budget estimates were based.

We found two projects where military services did not properly account for gifts used for general officer quarters; the gifts for one project were associated with renovation costs and used to supplement appropriations for general officer quarters. The Friends of the Home of the Commandants<sup>7</sup> acknowledged providing about \$765,500 in nonmonetary

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<sup>5</sup> The "customer" is usually the quarter's occupant, but sometimes is the installation's housing or command officials.

<sup>6</sup> Four of the five projects were located at the Marine Corps Barracks located at Eighth and I Streets, Washington, D.C., and one at Kaneohe, Hawaii.

<sup>7</sup> The Friends of the Home of the Commandants (FOTHC) is a nonprofit organization under section 501(c) (3) of the Internal Revenue Code, established in 1999 under the auspices of the Community Foundation of the National Capital Region to receive tax-deductible contributions for the express purpose of generating privately donated funds to help renovate the Home of the Commandants.

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materials and services<sup>8</sup> and about \$88,300 in funding to supplement funding for renovation of the Home of the Commandants. The Marine Corps did not comply with existing guidance to properly accept and account for all nonmonetary gifts used to help renovate the home and had difficulty accounting for the gifts at the time of our review. After some delay, the Marine Corps could provide a listing of only \$492,413 in nonmonetary gifts and had no documentation to support formal acceptance and recording of these gifts. In addition, Marine Corps records do not fully account for items bought with the monetary gifts provided to help renovate the Home of the Commandants, although Navy General Gift Fund financial records do document the receipt of \$88,300 donated by the Friends of the Home of the Commandants. The Navy and Army also accepted gifts to furnish general and flag officer quarters. The gifts were not used for renovation expenses. Of those, the Navy did not properly accept and account for about \$3,970 in nonmonetary gifts.

DOD could lose visibility over maintenance and repair spending for an increasing number of general and flag officer housing units because DOD has no policy requiring the services to review renovation costs on these homes, such as is done for maintenance and repair projects over \$35,000 for government-owned quarters. By the end of fiscal year 2003, the services had privatized 65 of their 784 general and flag officer quarters and planned to privatize 426, or 54 percent, by the end of fiscal year 2008. The Air Force has developed draft guidance, expected to be issued in May 2004, which will provide more visibility and accountability over spending to maintain and repair privatized general and flag officer housing. The Navy and the Marine Corps have also developed draft guidance that requires headquarters approval for all renovation projects over a certain dollar threshold. The Army has no such guidance.

We are making recommendations to the Secretary of Defense to ensure that existing guidance regarding customer-driven changes to general and flag officer housing renovation projects is followed, to properly account for all gifts used to help renovate the Home of the Commandants, and to provide for review of renovation projects to ensure the standardization and periodic review of the expenditure levels for individual privatized units on a programmatic basis, to include general and flag officer quarters.

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<sup>8</sup> Nonmonetary material gifts included materials such as kitchen cabinets, furniture, wall coverings, draperies, and furniture upholstery. Services included interior design services and construction labor.



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In commenting on a draft of this report, DOD concurred with our first and second recommendations and did not concur with the third, while indicating actions to be taken that meet the intent of our recommendation. We refined this third recommendation to better reflect our intent and stay within the parameters of the privatization program.

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## Background

General and flag officers' quarters are government-provided quarters for military officers with the rank of brigadier general or rear admiral (lower half) (O-7) and above. The services have a total of 685 general and flag officer quarters, of which 372, or about 54 percent, are considered historic as table 1 below shows.<sup>9</sup>

**Table 1. Number of General and Flag Officer Quarters Maintained by the Military Services as of February 29, 2004**

Service	Historic	Nonhistoric	Total
Army	125	114	239
Navy	105	56	161
Marine Corps	10	9	19
Air Force	132	134	266
<b>Total</b>	<b>372</b>	<b>313</b>	<b>685</b>

Source: GAO analysis of DOD data.

The general policy in the military services is that general and flag officer housing is to be maintained in an excellent state of repair, commensurate with the rank of the occupant and the age and historic significance of the building. Accordingly, general and flag officer housing is expensive to maintain; and the age, size, and historic significance of some of these quarters tend to escalate their operations and maintenance costs as the following examples show:<sup>10</sup>

- **Army:** The Commandant's home at Carlisle Barracks was built in 1932. The house is a two-story stone structure with 8,156 square feet of living

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<sup>9</sup> The National Historic Preservation Act (codified at 16 U.S.C. 470 et seq.) outlines the policy for designating a residence "historic."

<sup>10</sup> Average annual maintenance and repair costs shown for the four examples are the average of reported maintenance and repair costs less major renovation costs, for fiscal years 1999 through 2003.

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space and is currently undergoing a major renovation. The residence has an average annual maintenance and repair cost of about \$14,000.

- **Navy:** Tingey House, the home of the Chief of Naval Operations, is located in the historic Navy Yard, Washington, D.C. Constructed in 1803, the quarters was one of the earliest buildings erected at the Washington Navy Yard. The home is a 2 1/2-story brick structure containing 12,304 square feet of space and has an average annual maintenance and repair cost of about \$27,500.
- **Marine Corps:** The Home of the Commandants—located within the Marine Corps Barracks at Eighth and I Streets S.E., Washington, D.C.—has been the home of the Marine Corps Commandants since its completion in 1806. The Marine Corps considers the quarters as much a museum as a residence. The home is a three-story structure containing approximately 15,605 square feet of space and has an average annual maintenance and repair cost of about \$41,811.<sup>11</sup>
- **Air Force:** Carlton House is the home of the Superintendent of the U.S. Air Force Academy and was constructed in the 1930s. The home is a two-story structure with a total of 10,925 square feet of space and has an average annual maintenance and repair cost of about \$21,000.

All of these homes are used extensively for official entertainment purposes and all but the Commandant's home at Carlisle Barracks are listed on the National Register of Historic Places. However, the Commandant's quarters at Carlisle Barracks is considered historic and is eligible for listing on the National Register of Historic Places.

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<sup>11</sup> The Marine Corps believes that \$87,000 for a one-time emergency repair to termite-damaged basement stairs and floors in fiscal year 1999 should not be included when calculating the average annual maintenance cost even though it was reported as a cost in fiscal year 1999, and that the true average annual cost for fiscal years 1999 through 2003 should be \$14,239

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The services are to follow DOD Financial Management Regulations and service-specific guidance to prepare budget estimates for major repair projects to general and flag officer quarters.<sup>12</sup> For example, the Navy and Marine Corps justify projects on the basis of mission, life-cycle economics, health and safety, environmental compliance, or quality of life. The services generally hire architectural and engineering firms to inspect and assess the property for projects expected to cost more than \$50,000 to determine needed repairs and establish a project cost estimate. Using information developed during the project justification and cost-estimating process, the services are to prepare budget estimates that are submitted to Congress for approval during the annual appropriations cycle.

Congress has acted to control spending associated with maintaining these homes by establishing expense thresholds and reporting and notification requirements. For example, the services must include in their annual family housing budget submitted to Congress detailed budget justification material explaining the specific maintenance and repair requirements for those homes expected to exceed an annual \$35,000<sup>13</sup> threshold for maintenance and repair expenses.<sup>14</sup>

Section 2601, of Title 10, United States Code authorizes the service Secretaries to accept, hold, administer, and spend any gift of real or personal property made on the condition that it is used for the benefit—or in connection with the establishment, operation, or maintenance—of an organization under the jurisdiction of their departments. Monetary gifts are accepted and deposited in the Treasury in service-designated

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<sup>12</sup> DOD Financial Management Regulation 7000.14R, Volume 6A, Chapter 9, *Accounting and Reporting of Operations and Maintenance of the Family Housing Program*, (Feb. 1996). Also, see, for example, DOD Manual 4165.63-M, *DOD Housing Management*, (Sept. 30, 1993); DOD Directive 4710.1 *Archeological and Historic Resource Management*, (June 21, 1984); Army Regulation 210-50, *Housing Management*, (Feb. 26, 1999); Secretary of the Navy Instruction SECNAVINST 11101-73A, *Approval Authority for Maintenance and Repair of Flag and General Officers' Quarter*, (Oct. 27, 1989); and Air Force Instruction AFI 32-6003, *General Officer Quarters*, (Sept. 10, 2003).

<sup>13</sup> The Military Construction Appropriation Act, 2000, Pub. L. No. 106-52, Sec. 128 (1999), provided that “not more than \$25,000 per unit may be spent annually for the maintenance and repair of any general or flag officer quarters without 30 days advance prior notification of the appropriate committees of Congress.” This reporting threshold was increased to \$35,000 in the Military Construction Appropriations Act, 2003, Pub. L. No. 107-249, Sec. 127 (2002).

<sup>14</sup> Maintenance and repair expenses include recurring work (service calls, preventive maintenance, and routine work between occupancies) as well as major repairs.

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accounts. In some instances, these funds have been used to supplement appropriations for renovations to general and flag officer quarters. The Military Construction Appropriation Act for fiscal year 2000<sup>15</sup> directed that funds, appropriated under the act, were to be the exclusive source of funds for repair and maintenance of all military family housing. This excluded the use of gift funds to repair or maintain general and flag officer quarters. A year later, however, Congress expressly authorized the use of gift funds pursuant to Section 2601, of Title 10, United States Code, to help fund the construction, improvement, repair and maintenance of the historic residences at the Marine Corps Barracks at Eighth & I Streets S.E., Washington, D.C.<sup>16</sup> DOD guidance<sup>17</sup> provides the services with a framework for property accountability policies, procedures, and practices.

The 1996 Military Housing Privatization Initiative<sup>18</sup> allows private sector financing, ownership, operation, and maintenance of military family housing including, in some cases, housing occupied by general and flag officers. The goal of the initiative is to help the services remove inadequate housing from their family housing inventories and improve service-member morale. Under the program, DOD utilizes various means to encourage private developers to renovate existing housing or construct new housing on or off military installations. Service members, in turn, may use their housing allowance to pay rent and utilities to live in the privatized housing. The privatization firms use the housing allowances to pay for the maintenance and repair of the quarters. As of March 2003, the military services had privatized about 28,000 family housing units, only a small number of which were general or flag officer quarters. The services plan to privatize about 183,000 units, or 72 percent of their total family housing inventory, by fiscal year 2007 and will increasingly include general or flag officer housing.

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<sup>15</sup> Pub. L. No. 106-52, Sec. 128 (1999).

<sup>16</sup> Military Construction Appropriations Act, 2001, Pub. L. No. 106-246, Sec. 135 (2000).

<sup>17</sup> DOD Instruction 5000.64, *Defense Property Accountability*, (Aug. 13, 2002).

<sup>18</sup> See the National Defense Authorization Act for Fiscal Year 1996 (Pub. L. No. 104-106, Sec. 2801 (1996)).

## Actual Renovation Costs Generally Were Consistent with or Less Than Budget Estimates

With a few exceptions, the services' reported actual costs for renovation projects for general and flag officer quarters were generally consistent with or less than the budget estimates provided to Congress. For fiscal years 1999 to 2003, of the 197 projects estimated to cost more than \$100,000, 184 (about 93 percent) were under or met their budget estimates; and 13 (about 7 percent) exceeded their budget. While we did not identify any Air Force renovation projects that exceeded their budgets, we did learn of other concerns about costs associated with Air Force plans to replace and repair general officer quarters. See appendix II for further information on this issue.

Table 2 shows a comparison of actual costs to budget requests for the 197 renovation projects of more than \$100,000 included in our review.

**Table 2: Comparison of Actual Costs to Budget Requests for General and Flag Officer Quarters with Major Repair Projects of More Than \$100,000 (Fiscal Years 1999 through 2003)**

Service	Total projects	Actual Cost	
		Same as or less than budget	Greater than budget
Army	59	59	0
Navy	93	87	6
Marine Corps	10	3	7
Air Force	35	35	0
<b>Total</b>	<b>197</b>	<b>184</b>	<b>13</b>
Percent	100	93	7

Source: GAO analysis of DOD data.

Of the 13 over-budget projects, 5 of the 7 Marine Corps projects—4 located at the Marine Corps Barracks at Eighth and I streets, Washington, D.C., and the other located at Kaneohe, Hawaii—exceeded their budgets by more than 10 percent. The other 2 Marine Corps projects exceed their budgets by about 9 percent, and the 6 Navy projects exceed their budgets by less than 2 percent.

As seen in table 2, the majority of renovation projects stayed within their budgets. However, some projects cost less than budgeted because the scope of planned work was revised or canceled for a project. For example, the Navy identified instances where the scope of work was reduced or cancelled because a change in occupancy did not occur as scheduled and planned repair work could not be accomplished. Army housing officials

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cited examples where the scope of renovation projects was reduced because the contractor's final bid for lead-based paint and asbestos removal exceeded the government's estimate. The projects' scope had to be reduced or the budgets would be exceeded.

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## Cost Increases Due to Customer-Requested Changes and Unforeseen Repairs

Customer requests for changes and unforeseen repairs were the primary reasons for cost increases to renovation projects. To help minimize costs, housing handbooks provided to general and flag officers occupying government quarters discourage customer-requested changes based on personal preferences and entrust final approval of such changes to the discretion of the installation housing officer or the commanding officer. Although these handbooks seek to limit customer-requested changes, we found numerous approvals for customer-requested changes granted for renovations at the Marine Corps' Home of the Commandants that contributed to project costs exceeding the budget estimate.

Customer driven requests, such as upgraded kitchen and bathroom renovations, or work that was not included in the original scope of work were responsible for about 45 percent of the total cost increase for the 5 Marine Corps projects that exceeded their budgets by more than 10 percent.<sup>19</sup> Table 3 shows the reasons for changes in scope for the projects as well as the amount of cost increase and the percent of the total increase associated with the changes.

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<sup>19</sup> The Marine Corps Barracks, at Eighth and I streets, Washington, D.C., established in 1801, contains five historic quarters, four general officer quarters (Quarters 1, 2, 4, and 6) and one senior officer quarters (Quarters 3). Quarters 6 has been the Home of the Commandants since 1806. Renovations at Quarters 1 included three projects, two over budget and one the same as budget; Quarters 2 included two projects, both over budget; Quarters 4 included two projects, one over and one under budget; and Quarters 6 included two projects, one the same as and one over budget.

**Table 3: Reason for Cost Increases for Five Marine Corps Major Renovation Projects That Exceeded Their Budgets by More Than 10 Percent (Fiscal Years 1999 through 2003)**

Reason	Amount <sup>a</sup>	Percent
Customer Driven	\$ 518,100	45
Unforeseen circumstances	\$ 607,000	53
Undetermined <sup>b</sup>	\$ 28,300	2
<b>Total</b>	<b>\$ 1,153,400</b>	<b>100</b>

Source: GAO analysis of Marine Corps Data.

Note: Four of the five projects are located at Marine Corps Barracks, Washington, D.C., and one is located at Kaneohe, Hawaii.

<sup>a</sup>The dollar amounts shown for each reason reflect the total of the differences between each project's actual cost and the initial budget estimate that was provided to Congress.

<sup>b</sup>The dollar amount shown reflects the difference between the actual cost and budget estimate, for which we could not conclusively determine the reason for the cost increase.

Six Navy projects exceeded their budgets by less than 2 percent. According to the Navy, the overruns were mostly due to planned work costing more than was originally budgeted—a fairly regular occurrence since budgets are submitted nearly 18 to 24 months before the work is accomplished. However, some of the increases occurred due to such customer requests as additional interior painting and such unforeseen repairs as the need to replace an old, broken boiler heating system with a new forced-air system.

Customer-requested changes for the 5 projects that exceeded their budgets by more than 10 percent occurred because the customer, usually the quarters' occupants, wanted various changes and the housing manager, the commanding officer, and at times the service headquarters acquiesced and approved the changes. For example, at the Marine Corps Barracks Home of the Commandants, where one project exceeded its budget by about 52 percent, customer-requested changes resulted in identifiable cost increases totaling about \$338,000.<sup>20</sup> The single largest identifiable increase

<sup>20</sup> Conferees approved a \$500,000 project for exterior repairs and roof replacement in Conference Report (H.R. Conf. Rep. No. 106-710, at 93 (2000)) accompanying the fiscal year 2001 military construction appropriation bill, H.R. 4424 (which became Pub. L. No. 106-246 (2000)). On June 25, 2001, the Deputy Assistant Secretary of the Navy (Installations and Environment) notified Congress of the Marine Corps' intent to change the scope of the previously authorized project to include kitchen renovations and other interior renovations in lieu of the exterior improvements.

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was due to a customer request for a major kitchen renovation not included in the original scope of work and costing more than \$197,256. Major cost drivers for the kitchen renovation included cabinets, granite counter tops, butler pantry, and flooring that the occupant requested. Other customer-requested changes included the renovation of attached guest quarters that included the construction of public, handicap-accessible restrooms and replacement of a newly installed marble tile floor. Cost increases due to customer requests for Quarters 1, 2, and 4 included requests for upgraded kitchen cabinets and counter tops, upgraded bathroom fixtures, and wall-to-wall carpeting.

To help minimize costs, the services' provide handbooks to general and flag officers occupying government quarters that address the propriety of and seek to discourage customer-requested changes based on personal preferences. The installation housing officer or the commanding officer has final approval for such changes. However, we found numerous approvals for customer-requested changes granted for renovations at the Marine Corps' Home of the Commandants and other quarters at the Marine Corps Barracks that contributed to project costs exceeding the budget estimates. Navy and Army housing officials told us that controlling costs due to customer requests is directly related to a housing officer's ability to say no to requests that could be perceived as excessive and draw undue public scrutiny upon the service.

For the 5 projects that exceeded their budgets by more than 10 percent, cost increases due to such unforeseen repairs as for termite damage or such undetected structural deficiencies as sagging floor supports occurred because these deficiencies or requirements were not identified during initial inspections. For example, at the Home of the Commandants, identifiable changes due to unforeseen repairs resulted in cost increases totaling about \$559,416. The single largest cost increase due to unforeseen repairs was for the roof. The initial budget estimate was around \$192,189. However, the architectural and engineering firm that did the initial inspection upon which the budget estimate was based did not actually inspect the roof for damage and did not perform destructive testing to look for structural deficiencies.<sup>21</sup> The current roof estimate is around \$582,730, an increase of more than \$390,541 with about 70 percent of the

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<sup>21</sup> Destructive testing is accomplished by making openings/perforations in walls, floors, or other structural apparatus in order to inspect fully for problems, such as termites, sagging support beams, corroded pipes, or frayed wiring that cannot be detected unless the openings/perforations are accomplished.



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total increase due to unforeseen deficiencies at the Home of the Commandants. Another unforeseen repair involved replacing a portion of the wood flooring on the first floor because of severe termite damage that was not detected until the old flooring was removed. Again, the deficiency went undetected because destructive testing was not performed. According to service officials, destructive testing is often not accomplished because the quarters' occupants do not want either the testing to interfere with their entertainment responsibilities or the inconvenience of having their homes in disrepair.

Additionally, for the Marine Corps project in Kaneohe, Hawaii, unforeseen historical restoration requirements caused actual renovation costs to exceed the budget estimate by about \$47,600 or nearly 25 percent. Marine Corps officials stated that the state historical preservation office wanted the interior walls restored with the same materials used when the house was originally built in 1941. The Marine Corps budget estimate did not include this requirement.

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## Marine Corps and Navy Did Not Properly Account for Gifts Used to Help Renovate the Home of the Commandants

The Army, Navy and Marine Corps each received private donations of cash, property, or services to furnish and renovate general and flag officer quarters. While the Army and Navy accepted gift funds to furnish quarters, the Marine Corps accepted and used gift funds to both furnish and help renovate the Home of the Commandants. Although guidance exists to ensure such gifts are properly accepted, held, and used in accordance with the donor's wishes, neither the Navy nor the Marine Corps followed these procedures for all gifts associated with furnishing the quarters of the Superintendent of the Naval Academy and the renovation of the Home of the Commandants.

Section 2601, of Title 10, United States Code, provides gift acceptance authority to each service Secretary to accept, hold, administer, and spend any gift of real or personal property made on the condition that it is used for the benefit—or in connection with the establishment, operation, or maintenance—of an organization under the jurisdiction of their departments. In addition to this legislative authority, the Secretary of the Navy has issued an instruction<sup>22</sup> to help implement and centralize gift acceptance authority. The Marine Corps implements the Secretary's policy and re-delegates authority to subordinate commands under its jurisdiction.

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<sup>22</sup> SECNAVINST 4001.2G CH-2, *Acceptance of Gifts*, (Dec. 7, 1999).

The following table summarizes Navy and Marine Corps procedures for accepting gifts.

**Table 4: Navy and Marine Corps Processes for Gift Acceptance and Accounting**

Monetary Gifts	Nonmonetary Gifts
<ul style="list-style-type: none"> <li>• Secretary of the Navy formally accepts gift funds; private funds then become appropriated funds of the Department of the Navy.</li> <li>• AAUSN<sup>a</sup> deposits funds in the Treasury, Department of the Navy General Gift Fund.</li> <li>• AAUSN allots funds to the intended recipient, such as the Marine Corp Barracks, so the funds may be disbursed.</li> <li>• Recipient is responsible for managing allotment.</li> </ul>	<ul style="list-style-type: none"> <li>• Secretary of the Navy formally accepts gifts valued in excess of \$50,000.</li> <li>• Commandant of the Marine Corps may accept on behalf of Navy Secretary gifts, other than real property, valued at \$50,000, or less.</li> <li>• Navy or Marine Corps may take temporary custody over gifts pending formal acceptance.</li> <li>• Gift is placed on the property account of the recipient when formally accepted and treated as official U.S. property.</li> </ul>

Source: GAO analysis of SECNAVINST 4001.2G CH-2, and MCO P5800.16A.

<sup>a</sup>The Assistant for Administration, Under Secretary of the Navy (AAUSN) has oversight responsibility for the Navy’s space and facilities, services, Pentagon Renovations, and other “Special Programs” to include approving authority for the Navy Gift Fund.

Although aware of these procedures, Navy and Marine Corps officials acknowledge that in two projects, they did not list nonmonetary gifts on the property accounts and cannot fully account for those gifts made to furnish and renovate two general and flag officer quarters.

According to Marine Corps officials, they did not follow the prescribed procedures for accepting and accounting for the estimated \$765,500 in nonmonetary gifts (materials such as kitchen cabinets, furniture, wall coverings, draperies, and furniture upholstery) from the Friends of the Home of the Commandants. We contacted the Friends of the Home of the Commandants, which provided us with a listing of donations and their value totaling \$765,500 provided to the Marine Corps to help renovate the Home of the Commandants. After some delay, the Marine Corps provided us with a list of nonmonetary gifts totaling \$492,413 from the Friends of the Home of the Commandants but had no documentation to support formal acceptance of the gifts and that the gifts were recorded in property records. According to Marine Corps officials, the Friends of the Home of the Commandants provided the remaining \$273,087 in nonmonetary gifts

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directly to the project contractor.<sup>23</sup> However, the Marine Corps also did not document that these gifts were formally accepted and accounted for in property records. Furthermore, Navy and Marine Corps financial records document receipt of about \$88,300 donated to the Navy General Gift Fund from the Friends of the Home of the Commandants during fiscal years 1999 through 2003. The Marine Corps, after some delay, produced receipts to account for expenditures using these gift funds to help renovate and furnish the Home of the Commandants. However, the Marine Corps property records do not include the items purchased with the gift funds. These gifts were used to supplement \$2,269,000 in appropriations for renovations to the Home of the Commandants.<sup>24</sup>

The Navy and Army also accepted nonmonetary or monetary gifts for furnishings for flag and general officer quarters. The gifts were not used for renovations to the quarters. The Navy acknowledges receiving about \$59,780 in nonmonetary gifts provided by various donors as furnishings to help decorate the home of the Superintendent of the Naval Academy. However, similar to the Marine Corps, the Navy did not properly accept and account for about \$3,970 of the gifts in the property records.<sup>25</sup> The Army properly accepted \$50,000 in furnishings from the Army War College Foundation for the home of the Commandant of the Army War College at Carlisle Barracks.<sup>26</sup>

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<sup>23</sup> These gifts were also used for interior design services.

<sup>24</sup> When we started our review, the Marine Corps could account for only about \$51,000 in expenditures paid for with Navy General Gift Fund monies. After some delay, the Marine Corps was able to produce receipts for expenditures totaling \$90,250. The Marine Corps also noted a discrepancy between the Navy General Gift Fund balance and the balance reported by the Defense Finance and Accounting Service. The Marine Corps and Defense Finance and Accounting Service are working to resolve the discrepancy.

<sup>25</sup> According to the Navy, the DOD Inspector General identified this discrepancy during a 1999 audit of general and flag officer quarters. However, according to the Navy, the details concerning the \$59,780 in nonmonetary gifts (reported during fiscal year 1999) were not included in the final report.

<sup>26</sup> The Secretary of the Army accepted another gift offer on Feb. 19, 2003, which included a donation of real property and an offer to construct three sets of general officer type quarters (with an estimated value of \$1,000,000) for Redstone Arsenal, Ala., from the Federal Building Authority and the city of Huntsville, Ala.

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## Privatization Could Reduce Oversight of Renovations to General and Flag Officer Quarters

DOD and the military services could lose visibility over spending to maintain and repair an increasing number of privatized general and flag officer housing units because there is no consistent DOD-wide policy requiring review of maintenance and repair projects over certain dollar thresholds. By the end of fiscal year 2003, the services had privatized 65 of their 784 general and flag officer quarters and planned to privatize 426, or 54 percent, by the end of fiscal year 2008. DOD has no policy requiring the services to review renovation costs on these homes, such as is done for maintenance and repair projects of more than \$35,000 for government-owned quarters. However, the Air Force has developed draft guidance, expected to be issued in May 2004, which will provide more visibility and accountability over spending to operate and maintain privatized general and flag officer housing. The Navy and the Marine Corps have also developed draft guidance that requires headquarters approval for all renovation projects over a certain dollar threshold. No such policy is under development in the Army.

Currently, all service headquarters are required to review any renovation project exceeding \$35,000 for a government-owned general or flag officer quarters. However, there is no such requirement to review renovations projects involving privatized general and flag officer quarters. Recognizing the need for direction, the Navy, Marine Corps, and Air Force are developing draft guidance and procedures that will provide more visibility over the spending to operate and maintain privatized general and flag officer housing. For example, the Air Force draft guidance applies the same project approvals for renovations to privatized general officer homes as currently exist for government-owned homes, which is all renovation projects over \$35,000.<sup>27</sup> Likewise, the Navy and the Marine Corps have developed draft guidance for internally reviewing annual operating budgets for privatized housing that would require approval by Navy or Marine Corps headquarters officials for costs that exceed \$50,000 in one year for any house. The Army has no plans to issue additional guidance regarding costs to maintain and repair privatized housing. According to Army officials, annual operating budgets for privatized housing are reviewed by headquarters officials, which they believe will provide adequate visibility over renovations to privatized housing. We agree that reviewing annual budgets provides visibility over renovation costs but question its ability to provide oversight where renovation costs for selected residences are higher than the norm.

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<sup>27</sup> Air Force Instruction AFI 32-6007, *Privatized Family Housing* (draft).

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## Conclusions

The services' procedures to develop cost estimates for renovation to general and flag officer quarters generally produce budget estimates that are consistent with the projects' actual costs. However, Marine Corps officials approved costly customer-requested changes based on personal preferences notwithstanding guidance in handbooks discouraging the approval of such requests. The Marine Corps failed to follow established guidance and procedures and properly accept and account for gifts, especially nonmonetary gifts, used to help renovate and furnish the Home of the Commandants. Thus, they have no assurance that the nonmonetary gifts remain in their possession. Finally, DOD and the military services could lose visibility over renovations to general and flag office quarters that are privatized. While some services are taking some steps to ensure that renovation projects over certain dollar thresholds are reviewed internally, there is no consistent DOD-wide guidance.

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## Recommendations

We recommend that the Secretary of Defense take the following three actions: Direct the Secretary of the Navy to (1) reemphasize the importance of limiting customer-driven changes to renovation projects for general and flag officer housing and (2) properly account for all gifts accepted and used to help renovate the Home of Commandants of the Marine Corps. Furthermore, we are recommending the Secretary of Defense direct the Under Secretary for Acquisition, Technology, and Logistics to ensure the standardization and periodic review of the expenditure levels for individual privatized units on a programmatic basis, to include general and flag officer quarters, with periodic reports to the office of the Secretary of Defense.

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## Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD concurred with our first and second recommendations and did not concur with the third. With regard to the first two recommendations, DOD indicated that the Navy has agreed to reemphasize the importance of limiting customer-driven changes to renovation projects for general and flag officer housing, properly accounting for all gifts accepted and used to help renovate the Home of Commandants of the Marine Corps, and incorporating accountability measures into revisions of Secretary of the Navy guidance governing the general and flag officer quarters program. However, DOD did not provide a time frame for accomplishing these actions.

Our draft report also contained a third recommendation to the Secretary of Defense. He was asked to direct the Under Secretary for Acquisition, Technology, and Logistics to develop departmentwide guidance that

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provides similar project review and approval for renovation projects to privatized general and flag officer housing as required for government-owned quarters over certain dollar thresholds. However, DOD did not agree with that recommendation expressing the view that extending the same government oversight to privatized housing is contrary to the fundamental tenets of privatization. DOD added that currently projects are monitored to protect government interests, including expenditure levels on individual units, but that the monitoring is not linked to a specific type of housing such as general and flag officer quarters. DOD indicated that although it intends to continue to rely on private sector cost-control mechanisms, it would review standardization of individual unit expenditure levels on a programmatic basis. Such action, to the extent it incorporates general and flag officer housing, meets the intent of our recommendation. Accordingly, we refined our recommendation to better reflect this intent and stay within the parameters of the privatization program.

Additionally, the Principal Assistant Deputy Under Secretary commented that our report did not capture the Air Force's response to issues the DOD Inspector General raised concerning the Air Force's plans to renovate or replace general officer housing. As we note in appendix II, the Air Force disagreed with the Inspector General's findings. This disagreement appears largely based on differences between the Air Force and the Inspector General concerning individual renovation projects versus the Air Force's broader strategic plans for addressing general officer quarters collectively and upgrading the housing to today's standards, rather than undertaking only immediate repair needs.

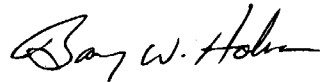
Other technical comments are incorporated in the report where appropriate. The Principal Assistant Deputy Under Secretary's comments are included in appendix III of this report.

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We are sending copies of this report to interested congressional committees; the Secretaries of Defense, Army, Navy and Air Force; the Commandant of the Marine Corps; and the Director, Office of Management and Budget. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

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Please contact me on (202) 512-8412 or Michael Kennedy, Assistant Director, on (202) 512-8333 if you or your staff have any questions. Major contributors to this report were Claudia Dickey, Jane Hunt, Richard Meeks, and Michael Zola.



Barry W. Holman, Director  
Defense Capabilities and Management

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# Appendix I: Scope and Methodology

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We performed our work at the headquarters offices responsible for general and flag officer housing at the Army, the Navy, the Marine Corps, and the Air Force. At each location, we reviewed applicable policies, procedures, and related documents and interviewed responsible officials for the family-housing and general and flag officer quarters program. We also visited and met with officials from several military installations, including Fort McPherson, Georgia, and Fort McNair, the Washington Navy Yard, the Marine Corps' Barracks at Eighth and I, and Bolling Air Force Base, all of which are located in Washington, D.C. At each of these locations we toured general and flag officer quarters that were recently renovated, were undergoing renovation, or had not been renovated. We also discussed our review with officials of Housing and Competitive Sourcing, Office of the Secretary of Defense, and with DOD's Office of the Inspector General.

To determine how the actual costs of renovation projects for general and flag officer quarters compared to the service budget estimates provided to Congress, we reviewed all renovation projects of more than \$100,000 for fiscal years 1999 through 2003. We obtained the budget estimate for each of these projects from the service budget submissions provided to Congress for the fiscal year. We obtained the reported actual obligations related to the cost for each renovation project from the military services. We compared this information to determine which projects were completed for less than or more than budget. We did not validate service budget and reported obligation data, but we did discuss data reliability with responsible service officials and obtained information from them on steps they have taken to ensure the data's reliability. Based on this, we believe that the data we used were sufficiently reliable for the purposes of this report.

To identify the primary reasons for any cost increases and the services' procedures to control cost increases, we held discussions with responsible service family-housing, engineering, comptroller, general counsel, and command officials about those renovation projects that exceeded their service budgets. We also reviewed and analyzed documentation that supported the reasons for cost increases.

To determine the services' accountability over gifts provided to help renovate general and flag officer quarters, we reviewed applicable laws and interviewed cognizant officials to identify those general and flag officer quarters with major renovations of more than \$100,000 during fiscal years 1999 through 2003 that received gifts used to help with renovations. We identified one Army, one Navy, and one Marine Corps quarters that



received gifts either monetary or nonmonetary during the scope of our review. The Army (\$50,000 nonmonetary items, such as furniture and drapery material) and Navy (\$51,952 nonmonetary items, such as rugs, and \$7,830 cash) gifts were for furnishings for the quarters. The Marine Corps used gifts—monetary and nonmonetary—to help with the renovation of a general officer quarters. To determine how the services accounted for monetary and nonmonetary gifts, we reviewed DOD and service gift fund and gift acceptance regulations and guidance; interviewed cognizant service officials; and reviewed administrative, contract, funding and accounting documents. Since only the Marine Corps accepted gifts intended to help with the renovation of a general officer quarters, we focused additional attention on determining how the Marine Corps accounted for monetary and nonmonetary gifts provided to help renovate the Home of the Commandants. We compared the Marine Corps listing of gifts received with a listing of gifts provided by the Friends of the Home of the Commandants—the primary contributor of gifts for the Home of the Commandants during fiscal years 1999 through 2003. We also asked to review property records that showed the Marine Corps’ receipt of these gifts. The Marine Corps was unable to provide receipts or produce property records for the nonmonetary gifts. Further, we compared the Navy Comptroller’s reported balance for the Navy General Gift Fund for the Marine Corps Barracks at Eighth and I, with the Marine Corps Barracks-reported expenditures and supporting documentation. The Marine Corps could not provide documentation to support all Navy General Gift fund expenditures as reported by the Navy Comptroller. As a result, we were unable to verify the total amount of gifts, monetary and nonmonetary, received by the Marine Corps to help renovate the Home of the Commandants. However, where we could, we reconstructed the flow of gifts to the Marine Corps and reconciled individual gifts that we could identify.

To assess the extent to which DOD and the services have issued guidance to provide visibility and control over costs associated with renovation projects for privatized general and flag officer quarters, we interviewed Office of the Secretary of Defense and service officials responsible for family housing and privatization. Where available, we also obtained and reviewed service draft guidance regarding review of renovations to privatized housing.

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# Appendix II: Concerns about Air Force's General Officer Quarters Renovation and Replacement Plans

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While we did not identify any Air Force renovation projects that exceeded their budgets, we did learn of other concerns about costs associated with Air Force plans to replace and repair general officer quarters. The DOD Inspector General recently identified issues concerning the Air Force's plans to renovate or replace general officer quarters.<sup>1</sup> The Inspector General questioned \$21.3 million of the \$73.7 million in Air Force General Officer Quarters Master Plan requirements because its analysis showed the assessment methodology did not always reflect existing conditions.

The Air Force issued a master plan in August 2002 to identify whole house investment requirements for their general officer quarters. Part of the GOQ master plan included a prioritized operations and maintenance plan for each GOQ to manage and minimize maintenance and repair expenditures that may become necessary prior to the execution of a whole-house improvement project. For all 267 general officer quarters, the Air Force developed an individual facility profile. The profile consists of a description of the home, a detailed analysis of existing conditions and functional deficiencies, recommendations for maintenance and repair, house plan suitability recommendations to correct functional deficiencies and bring the unit up to Air Force standards, and the estimated cost to perform a whole-house improvement project. Incorporated within the profile is a condition assessment score<sup>2</sup> for each of the homes major systems and subsystems and house plan suitability scores to arrive at an overall composite score for each general officer quarters. The assessments indicated that 219 or 82 percent of their 267 homes required whole house improvement projects to resolve deficiencies. Based on this information, the Air Force developed a plan to renovate 203 homes at a cost of about \$52.3 million and replace 64 others at a cost of about \$21.4 million, an overall plan cost of about \$73.7 million.<sup>3</sup>

In a January 23, 2004, letter to the Air Force Deputy Chief of Staff for Installations and Logistics, the DOD Inspector General reported that the

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<sup>1</sup> Memorandum for the Air Force Deputy Chief of Staff, Installations and Logistics; Inspector General, Department of Defense, Arlington, Va., Jan. 23, 2004.

<sup>2</sup> Facility systems and subsystems are rated on a 1-to-5 scale (1 being worst, 5 being best) based on appearance, condition, functionality, expansion capacity, life expectancy, energy, and life/safety compliance.

<sup>3</sup> The Air Force's about \$74 million plan also called for the renovation of 6 ancillary buildings and the construction of a new general officers quarters at Peterson AFB, Colo.

Air Force's estimate for renovating and replacing general officer quarters may be overstated by \$21.3 million because the profile recommendations were not consistent with Air Force assessments of existing conditions. According to the Inspector General, some of the homes' systems such as the roof, structural components, or the house plan met standards or needed only minor maintenance and repair, but the Air Force recommended them for replacement, relocation, or reconfiguration. For example, one house at Bolling Air Force Base, Washington, D.C. had a system<sup>4</sup> with a condition rating of "good," "indicating a fully serviceable condition which met standards," but the Air Force master plan included a recommendation to reconfigure rooms and interior walls in the home at a cost of \$190,000. The Inspector General concluded that the Air Force's condition assessment matrix tool design might have contributed to the inconsistencies between existing conditions and maintenance and repair recommendations. The Inspector General also reported that the inconsistency of Air Force recommendations with existing condition assessments demonstrated that the Air Force did not always consider where the home was in its life cycle.

Additionally, DOD Inspector General officials told us separately of their concerns about Air Force plans to replace two homes at Bolling Air Force Base, which under original Air Force plans were to be renovated. The original fiscal year 2002 project recommended renovating the homes for an estimated \$345,000 per home. However, because the Air Force designated these two homes as Special Command Position quarters,<sup>5</sup> and these homes have additional space requirements for an enlisted aide and for added entertainment requirements, the Air Force now estimates the renovation will cost an estimated \$555,000 per home—an increase of \$210,000—that is more than 70 percent of the estimated cost to replace each house.<sup>6</sup> As a result, the Air Force recommended that each house be replaced rather than renovated as originally planned. Air Force officials

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<sup>4</sup> The "system" in question was "house plan suitability," which includes the size, location and layout of rooms as well as the expansion capacity of the home.

<sup>5</sup> A "Special Command Position" is generally a general or admiral whose position carries public entertainment responsibilities that require the incumbent to represent the interest of the United States in official and social activities involving foreign or domestic dignitaries.

<sup>6</sup> According to the Air Force General Officer Quarters Master Plan, if the cost of whole house renovation exceeds 70 percent of the replacement cost for the home, replacement is recommended unless the home is listed or eligible to be listed on the National Register of Historic Places.

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**Appendix II: Concerns about Air Force's  
General Officer Quarters Renovation and  
Replacement Plans**

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stated that the \$210,000 increase in estimated renovation costs was due to escalation from the 2002 project to the present as well as about \$110,000 for costs associated with structural work to modernize and expand the kitchen, provide an enlisted aide's office area, and correct functional deficiencies in the dining room to provide a more usable space; about \$30,000 for a two car garage; and the remaining approximately \$70,000 to address various unforeseen environmental remediation, force protection, and basement waterproofing requirements, as well as other electrical, plumbing, floor repair, cabinets, countertops and appliances not included in the original estimate. Since the homes are eligible for the National Historic Register, the Air Force must seek approval for their plans with the District of Columbia Historic Preservation Office. According to the Air Force, it initiated contact with the office in October 2002, and is currently proceeding with the regulatory process to obtain approval for their plans. The District of Columbia Historic Preservation Office has not yet approved the Air Force's plans.

The Air Force disagreed with the Inspector General findings.

# Appendix III: Comments from the Department of Defense



ACQUISITION,  
TECHNOLOGY  
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## OFFICE OF THE UNDER SECRETARY OF DEFENSE

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APR 27 2004

Mr. Barry W. Holman  
Director, Defense Capabilities and Management  
United States General Accounting Office  
Washington, DC 20548

Thank you for the opportunity to review the draft GAO draft report, "DEFENSE INFRASTRUCTURE: Issues Related to the Renovation of General and Flag Officer Quarters, dated March 30, 2004, (GAO Code 350436/ GAO-04-555)."

The Department has reviewed the draft report and concurs with recommendation 1 that the Department of the Navy reemphasize the importance of limiting customer-driven changes to renovations projects for general and flag officer (GFO) housing and to properly account for all gifts accepted and used to help renovate the official quarters of Commandants of the Marine Corps.

The Department non-concurs with recommendation 2 that Department-wide guidance be developed that provide similar project review and approval for renovation projects to privatized GFO housing as required for government-owned quarters over certain dollar thresholds. Privatized housing is not owned by the government and extending the same government oversight to privatized housing units as the Department would apply to traditional government-owned housing is contrary to the fundamental tenets of privatization. Housing privatization projects are monitored to protect government interests, including expenditure levels on individual units, but this is not limited to any specific type of housing. The real control on spending is the project cash flows themselves as monitored by the private sector development entity who owns the housing. The Department intends to continue to rely on private sector mechanisms to control costs, but will review standardization of individual unit expenditure levels on a programmatic basis.

Although the GAO draft report did not identify any Air Force renovations projects that exceed their budget, the report did include concerns raised (Appendix II) by the DoD Inspector General (IG) about the Air Force's plans to renovate or replace GFO housing. However, the draft report did not capture the Air Force's comments to the IG's concerns. As stated in a previous DoD response to the IG's concerns, we believe that the Air Force's condition assessment system is an excellent model to assist all Services in improving oversight of their GFO housing programs.



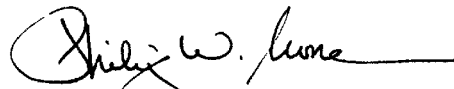
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**Appendix III: Comments from the Department  
of Defense**

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Enclosed are the Department's specific responses to the recommendations, technical comments, and the Air Force's comments regarding Appendix II of the draft GAO report. Request that you include our enclosed comments in your final report.

Sincerely,



Philip W. Grone  
Principal Assistant ~~Deputy~~ Under Secretary of Defense  
(Installations and Environment)

Enclosures  
As stated

GAO DRAFT REPORT – DATED MARCH 30, 2004  
GAO CODE 350436/GAO-04-555

“DEFENSE INFRASTRUCTURE: Issues Related to the Renovation of General and Flag  
Officer Quarters”

DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATIONS

**RECOMMENDATION 1:** The GAO recommends that the Secretary of Defense direct the Secretary of the Navy to reemphasize the importance of limiting customer-driven changes to the renovation projects for general and flag officers housing and to properly account for all gifts accepted and used to help renovate the official quarters of Commandants of the Marine Corps. (p. 17/GAO Draft Report)

**DOD RESPONSE:** The Department concurs with recommendation 1. The Navy has agreed to incorporate accountability measures into the revision of the Secretary of the Navy guidance which governs the General and Flag Officer Quarters program.

**RECOMMENDATION 2:** The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology, and Logistics to develop department-wide guidance that provides similar project review and approval for renovation projects to privatize general and flag officer housing as required for government-owned quarters over certain dollar thresholds. (p. 17/GAO Draft Report)

**DOD RESPONSE:** The Department non-concurs with recommendation 2. Privatized housing is not owned by the government and extending the same government oversight as applied to government-owned housing to privatized GOQ housing contradicts the rules of privatization. Projects are monitored to protect government interests, including expenditure levels on individual units, but this is not limited to any specific type of housing. The real control on spending is the project cash flows themselves as monitored by the private sector development entity who owns the housing. The Department intends to continue to rely on private sector mechanisms to control costs, but will review standardization of individual unit expenditure levels on a programmatic basis.

TECHNICAL COMMENTS

Note: Page numbers in  
the draft report may differ  
from those in this report.

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