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General Accounting Office
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Accounting and Financial
Management Division



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We recently completed a comprehensive review of the U.S. Army's financial management systems and operations. The primary objectives of that review were to assess the Army's internal control systems and audit the fiscal year 1991 financial statements pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576). As part of that review, we examined internal controls used to account for and control real property at installations included in the

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Army's major commands.¹ We reported in our opinion on the Army's principal statements² that there are material uncertainties concerning the reliability of the amounts reported for most of the Army assets, including the \$33 billion reported for real property. Further, we found that the real property system maintained by Army installations did not contain complete and accurate data and was not always reconciled with installation general ledgers.

The purpose of this letter is to report to you specific concerns over your commands' ability to account for real property. These issues were discussed with responsible personnel at each of the installations we visited. We would appreciate receiving an update on the actions taken at the installations where we identified problems as well as any actions taken at locations we did not visit within your respective commands if similar conditions exist at those locations.

This letter addresses weaknesses identified at 10 installations. The eleventh location we visited is in Europe and will be discussed separately in a management letter to the Commander of the U.S. Army, Europe. Other management letters³ presenting findings similar to those discussed in this letter were issued to the commanders of three installations, Fort Devens, Fort Leavenworth, and Fort Shafter.

BACKGROUND

The Integrated Facilities System (IFS) is the Army's standard real property system. IFS, designed and maintained by the Corps of Engineers, is operated by Army installations throughout the world. IFS maintains detailed real property records for each installation. The Finance and Accounting Office at each installation maintains summary financial

¹Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82, August 7, 1992).

²Financial Audit: Examination of the Army's Financial Statements for Fiscal Year 1991 (GAO/AFMD-92-83, August 7, 1992).

³GAO/AFMD-92-77ML, July 8, 1992; GAO/AFMD-91-91ML, September 30, 1991; GAO/AFMD-91-61ML, April 12, 1991.

records for real property in the Standard Finance System general ledger. This summary information is sent to the Defense Finance and Accounting Service at Indianapolis for inclusion in the Army's overall financial reports.

Upon completion of construction projects, total project costs and related quantitative information, such as square footage, are generally recorded on a Transfer and Acceptance of Military Real Property (Form 1354) prepared by the project managers responsible for the work. The Form 1354 is used to transfer ownership of real property from the project manager to the installation. For major construction projects, the Form 1354 is prepared by the Corps of Engineers. For minor construction projects, the Form 1354 is prepared by the installation's Directorate of Engineering and Housing (DEH). The DEH uses the Form 1354 as the source for updating installation real property records in IFS for both major and minor construction projects. On a quarterly basis, the DEH submits real property cost information to the installation's Finance and Accounting Office to update the Standard Finance System which is used for financial reporting.

It is important that real property data in IFS be kept up-to-date not only to support financial reporting, but also for budget formulation. Army regulations require Army installations to use square footage information as a basis for their annual submissions of real property data to cognizant major commands. These submissions are used to specify installation budget requirements for operating and maintaining buildings, including family housing units. Reliable square footage information on buildings also represents an important consideration in future base closure decisions.

IFS RECORDS WERE
INCOMPLETE AND INACCURATE

We found that the real property cost and square footage records at the Army installations we visited were incomplete and inaccurate. Specifically, the installation DEHs either did not enter or incorrectly entered into IFS some costs and related square footage information for both major and minor construction projects. We found the following examples of incomplete or inaccurate real property information in IFS.

- At three installations--Forts Benning, Sam Houston, and Meade--real property cost information was not entered into IFS because Form 1354s were not prepared for real property transactions totaling about \$1.4 million.
- At six installations--Forts Belvoir, Benning, Devens, Richardson, Sam Houston, and Meade--Form 1354s had not always been processed for completed minor construction projects.
- At Fort Meade, cost and square footage capacity of buildings reported on the IFS were erroneously doubled for 183 of the 944 family housing units on the base.
- At Fort Shafter, the IFS balance was overstated by \$10 million because of an error in entering costs.

Suggested Actions

We suggest that you instruct the Directors, Engineering and Housing, at installations to:

- review IFS cost data to ensure that facilities' balances are supported by a Form 1354 and to make any necessary changes to correct IFS;
- review IFS facilities' square footage data to determine variances with the square footage reported on the Form 1354 and other property records and, as needed, correct the IFS records; and
- ensure compliance with established procedures for updating IFS.

GENERAL LEDGER WAS INACCURATE
AND UNRELIABLE

We also found that the discrepancies between amounts reported by IFS and balances reported on the installations' general ledgers were not reconciled. As of September 30, 1990,⁴ the Army reported a general ledger real property balance of \$24 billion, while IFS reported a balance of \$27 billion, a difference of \$3 billion.

⁴Because the Army was unable to obtain balances from IFS for September 30, 1991, we used balances reported for September 30, 1990.

On a quarterly basis, each installation Directorate of Engineering and Housing is required to summarize the detailed records in IFS and submit a memorandum to the installations' Finance and Accounting Offices. This memorandum is required as a basis for the appropriate entries to update the installations' general ledger real property accounts.

Army regulations 37-1, 710-2, 420-17, 135-5, and 735-20 require (1) annual reconciliations identifying any differences between the general ledger and IFS, (2) any differences between the two systems to be researched and substantiated by reviewing documentation in both systems that supports any transactions in question, and (3) adjusting appropriate account balances in either or both systems.

We found the real property records as of March 31, 1991, did not agree with the general ledger at 9 of the 10 locations we visited. The general ledger was approximately \$461 million less than IFS records at six installations and about \$403 million more at three installations. Table 1 shows the balances at the 10 locations we visited as of March 31, 1991.

Table 1: Comparison of IFS and General Ledger Balances at 10 Installations as of March 31, 1991

<u>Location</u>	<u>IFS</u>	<u>General ledger</u>	<u>Difference</u>
------(Dollars in millions)-----			
Belvoir	\$621.0	\$426.0	\$195.0
Benning	564.3	561.8	2.5
Devens	302.3	266.5	35.8
Eustis	280.3	285.0	(4.7)
Sam Houston	246.1	234.1	12.0
Leavenworth	155.7	157.2	(1.5)
Meade	483.7	880.4	(396.7)
Richardson	862.2	711.6	150.6
Shafter	825.8	760.8	65.0
Irwin ^a			

^aFort Irwin does not use IFS. Instead, it maintains detailed real property records on its own automated system. As of March 31, 1991, Fort Irwin's real property general ledger balance differed by about \$41,000 from the real property balance shown in its automated system.

Installation Directorate of Engineering and Housing officials we talked to at two installations could not readily explain the differences between IFS and general ledger balances. However, they acknowledged that the differences had existed for a number of years.

Army Actions

As a result of our identification of the discrepancies between IFS and the general ledgers, the Defense Finance and Accounting Service issued a memorandum in July 1991 requesting installations to reconcile the \$3 billion difference between IFS and the general ledger. As of September 30, 1991, 5 of the 10 installations had not attempted a reconciliation, 1 arbitrarily increased its general ledger to agree with IFS, 2 completed their reconciliation, and 2 were still in process.

Suggested Actions

When we met with responsible personnel at each of the installations we visited, we suggested that the installation

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Chiefs, Finance and Accounting, and Directors, Engineering and Housing, jointly (1) expedite completion of reconciliation of the \$3 billion difference between IFS and the general ledger as requested by the Defense Finance and Accounting Service in July 1991 and (2) conduct required annual reconciliations of the general ledger and IFS balances.

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We would appreciate receiving your comments on these matters and a description of corrective actions within 30 days. We appreciate the cooperation and assistance provided by Army officials and staff during our audit work. If you have any questions or require assistance in addressing these matters, please contact Mr. Terry Carnahan, Senior Assistant Director, at (202) 275-7095.



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Director, Defense Financial Audits

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