DEFENSE REAL PROPERTY

DOD-Wide Strategy Needed to Address Control Issues and Improve Reliability of Records

What GAO Did This Study

DOD manages one of the federal government’s largest portfolios of real property. This engagement was initiated in connection with the statutory requirement for GAO to audit the U.S. government’s consolidated financial statements. DOD’s uncorrected deficiencies, including those affecting real property, prevent DOD from having auditable financial statements, one of the three major impediments preventing GAO from expressing an opinion on the accrual-based consolidated financial statements of the U.S. government.

This report (1) identifies the real property control issues that independent public accountants reported that may affect the ability of the military services to establish and maintain accurate and complete real property records, (2) examines the extent to which DOD had a strategy to address the control issues, and (3) assesses the extent to which DOD provided guidance for the required E&C verifications during fiscal year 2019 and how each military service implemented the directive. GAO analyzed fiscal year 2019 audit findings, reviewed key DOD documents, and interviewed DOD and military service officials.

What GAO Found

As required by the National Defense Authorization Act for Fiscal Year 2018, the Department of Defense (DOD) for fiscal year 2019 underwent a financial statement audit. In the military services’ full financial statement audit reports for fiscal year 2019, the independent public accountants reported serious control issues related to events that occur during the life cycle of real property, consisting of adding, disposing, reconciling, valuing, and performing physical inventory counts. These control issues affect not only the reliability of financial statement reporting but also the quality of property record data that DOD officials need to make decisions for budget and mission planning, space management, and buying versus leasing options. Further, with DOD having almost half of the government’s buildings, better data could help the federal government identify opportunities to dispose of unneeded buildings and reduce lease costs, thus potentially saving it millions of dollars.

DOD has not yet developed a comprehensive, department-wide strategy—an element of leading practices for enterprise-wide real property management—to address the reported real property issues. Instead, each of the military services is independently developing corrective actions to address control issues, without applying common solutions among the services or department-wide. A department-wide strategy for remediating control issues would better position DOD to develop sustainable, routine processes that help ensure accurate real property records and, ultimately, auditable information for financial reporting for the department. Additionally, a DOD-wide strategy could help the military services more effectively and efficiently address reported control issues, particularly for those categorized as DOD-wide issues.

The Acting Secretary, noting that the services had not accurately accounted for DOD’s buildings and structures, required existence and completeness (E&C) verifications to be performed for all real property for fiscal year 2019. Given the lack of department-wide instructions for how to carry out the requirement, the military services independently developed approaches for performing the E&C verifications. Their approaches differed in both scope (what assets were verified) and methodology (how the assets were verified), including the extent to which instructions were written. Reporting and monitoring of the results by service and department-level management also differed. Without department-wide instructions for performing the fiscal year 2019 E&C verifications, the results were not comparable among the military services. Further, DOD and the military services did not obtain the complete and consistent information needed to create a DOD real property baseline or to help ensure that the department’s real property records are reliable. DOD-wide instructions would help DOD obtain complete and comparable E&C verifications results, which would help DOD achieve an auditable real property baseline and, ultimately, its objective of an unmodified (“clean”) audit opinion.

What GAO Recommends

GAO is recommending that DOD (1) develop and implement an enterprise-wide strategy to remediate real property control issues and (2) issue DOD-wide instructions for the E&C verifications. DOD concurred with GAO’s recommendations.