



September 2020

# DEFENSE REAL PROPERTY

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

# GAO Highlights

Highlights of [GAO-20-615](#), a report to congressional committees

## Why 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 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.

View [GAO-20-615](#). For more information, contact Kristen Kocielek at (202) 512-2989 or [kocielek@gao.gov](mailto:kocielek@gao.gov).

## DEFENSE REAL PROPERTY

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

#### 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.

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## Abbreviations

DOD	Department of Defense
E&C	existence and completeness
FASAB	Federal Accounting Standards Advisory Board
FIAR	Financial Improvement and Audit Remediation
GAAP	generally accepted accounting principles
G-PP&E	general property, plant, and equipment
IPA	independent public accountants
NFR	notice of findings and recommendations
OIG	Office of Inspector General
OSD	Office of the Secretary of Defense
SFFAS	Statement of Federal Financial Accounting Standards

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September 9, 2020

### Congressional Committees

The Department of Defense (DOD) manages one of the largest portfolios of real property within the federal government. In November 2019, DOD reported that at the beginning of fiscal year 2019, its real property portfolio included nearly 573,000 assets (buildings, structures, and linear structures) and nearly 26.3 million acres on over 4,500 sites worldwide.<sup>1</sup> DOD real property includes mission-specific assets, such as runways, training areas, and industrial complexes, as well as facilities and operations that can be found within municipalities or on university campuses, such as hospitals and medical facilities, public safety facilities, housing and dormitories, dining facilities, utility systems, and roadways. As of the end of fiscal year 2019, the combined reported replacement value of DOD's real property portfolio was \$1.3 trillion. As we reported in March 2019, this infrastructure is critical for maintaining military readiness, and the cost to build and maintain it represents a significant financial commitment.<sup>2</sup>

DOD is the only major federal agency that has been unable to receive an audit opinion on its department-wide financial statements. For more than 20 years, we have identified opportunities for DOD to improve the quality of the information that it collects on its real property to make better-informed decisions. In 1997, we added DOD's defense support infrastructure to our High Risk List, in part because of the continuing challenges the department faced in managing its infrastructure, including the need to improve the quality of data in its various property systems. DOD's financial management has been on our High Risk List since 1995 largely because of ineffective processes, systems, and controls; incomplete corrective action plans; and the need for more effective monitoring and reporting. These long-standing issues have prevented DOD from having auditable financial statements, which is one of the three

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<sup>1</sup>Linear structures pass across land and include real property assets such as runways, roads, rail lines, pipelines, fences, pavements, and electrical distribution lines.

<sup>2</sup>GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

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major impediments preventing us from expressing an opinion on the accrual-based consolidated financial statements of the U.S. government.<sup>3</sup>

As required by the National Defense Authorization Act for Fiscal Year 2014 and the National Defense Authorization Act for Fiscal Year 2018,<sup>4</sup> DOD underwent an audit of its consolidated fiscal year 2018 financial statements, which resulted in a disclaimer of opinion.<sup>5</sup> The audit identified 20 material weaknesses in internal control over financial reporting,<sup>6</sup> one of which related to general property, plant, and equipment (G-PP&E), which includes real property. The DOD Office of Inspector General (OIG) issued a disclaimer of opinion on the DOD's fiscal year 2019 financial statements and identified multiple material weaknesses, which included a repeat, but modified, weakness for G-PP&E and a new material weakness specifically related to real property.<sup>7</sup>

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<sup>3</sup>The other two impediments are the federal government's inability to adequately account for intragovernmental activity and balances between federal entities and weaknesses in the federal government's process for preparing the consolidated financial statements.

<sup>4</sup>Section 1003 of the National Defense Authorization Act for Fiscal Year 2014 mandated an audit of DOD's fiscal year 2018 financial statements and that the audit results be submitted to Congress by March 31, 2019. Pub. L. No. 113-66, div. A, tit. X, § 1003(a), 127 Stat. 672, 842 (Dec. 26, 2013). The National Defense Authorization Act for Fiscal Year 2018 repealed section 1003 and enacted a new requirement for DOD annual financial statement audits applying to fiscal year 2018 and all future fiscal years. Pub. L. No. 115-91, div. A, tit. X, § 1002(b)(2), 131 Stat. 1283, 1538 (Dec. 12, 2017). Pursuant to the National Defense Authorization Act for Fiscal Year 2019, this new requirement for annual financial statement audits is now codified at 10 U.S.C. § 240a. Pub. L. No. 115-232, div. A, tit. X, § 1002(a)(1)(A), 132 Stat. 1636, 1945 (Aug. 13, 2018).

<sup>5</sup>A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. Accordingly, the auditor does not express an opinion on the financial statements.

<sup>6</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

<sup>7</sup>For fiscal year 2018, the DOD OIG reported that DOD could not record its G-PP&E at cost, establish or support ownership, or determine the value of its assets. For fiscal year 2019, the DOD OIG reported that DOD could not accurately value its G-PP&E in accordance with generally accepted accounting principles.

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Based on the results of the fiscal year 2018 financial statement audit, the Acting Secretary of Defense, in a February 5, 2019, memorandum, announced the DOD fiscal year 2019 financial statement audit priorities, one of which was real property.<sup>8</sup> In this memorandum, the Acting Secretary directed DOD, including the military services, to conduct a 100 percent existence and completeness (E&C) verification of its real property assets during fiscal year 2019 to ensure that (1) every asset recorded in DOD's real property system physically existed on an installation (referred to as an existence or book-to-floor verification) and (2) all real property assets located on an installation were recorded in the real property system (referred to as a completeness or floor-to-book verification).

We initiated this engagement in connection with the statutory requirement for GAO to audit the U.S. government's consolidated financial statements, which cover all accounts and associated activities of executive branch agencies, including DOD.<sup>9</sup> This report (1) identifies the real property control issues reported in military service financial statement audit reports that may affect the ability of the services to establish, maintain, and report accurate and complete real property information; (2) examines the extent to which DOD had a department-wide strategy to address the real property control issues; and (3) assesses the extent to which DOD provided instructions for performing the required E&C verifications for real property during fiscal year 2019 and how each of the military services performed the verifications.

To address our first objective, we identified the military service real property findings that the independent public accountants (IPA) reported for fiscal year 2019. We categorized these findings based on the five types of events that occur during the life cycle of real property to determine the commonly reported issues: (1) adding assets, (2) disposing assets, (3) reconciling real property records, (4) valuing assets, and (5) performing physical inventory counts.

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<sup>8</sup>Department of Defense, Secretary of Defense, *Fiscal Year 2019 Financial Statement Audit Priorities* (Washington, D.C: Feb. 5, 2019). Other priorities related to inventory and operating materials and supplies, government property in the possession of contractors, information technology, corrective action plans, and a plan to sustain.

<sup>9</sup>The Secretary of the Treasury, in coordination with the Director of Office of Management and Budget, is required to annually prepare and submit audited financial statements for the U.S. government to the President and Congress. GAO is required to audit these statements. 31 U.S.C. § 331(e).

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To address the second objective, we interviewed officials to obtain an understanding of any DOD department-wide strategy to address the real property control issues from the IPA fiscal year 2019 financial statement audit reports.<sup>10</sup> We also reviewed key DOD documents relating to the department's financial management plans and strategies to address the real property control issues, such as the June 2019 Financial Improvement and Audit Remediation (FIAR) Report,<sup>11</sup> *Department of Defense Financial Management Strategy FY2016-2020*, *Department of Defense Financial Management Functional Strategy for Fiscal Years 2019-2023*, and the DOD OIG reports on understanding the results of the fiscal years 2018 and 2019 DOD financial statement audits.<sup>12</sup> We reviewed leading practices for real property management, including comparable private sector practices that the Defense Business Board reported, to understand how other organizations applied an enterprise-wide strategy for real property.<sup>13</sup> The Defense Business Board was established by the Secretary of Defense to provide the Secretary and Deputy Secretary of Defense with independent advice and recommendations on how to apply certain best practices from the private sector's corporate management to overall management of DOD.

For the third objective, we interviewed knowledgeable DOD officials at the headquarters and field levels regarding the military services' efforts to carry out the 100 percent real property E&C verification requirement. We also reviewed instructions and training materials that the military services issued relating to how the 100 percent E&C verifications were to be performed. In reviewing the military services' efforts, we considered how the federal internal control standards for control activities apply to the

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<sup>10</sup>While the DOD OIG is responsible for auditing DOD's department-wide financial statements (31 U.S.C. § 3521), the audits of DOD component financial statements, such as those of the military services' general funds and working capital funds, are performed by IPA firms. 10 U.S.C. § 240d.

<sup>11</sup>Department of Defense, Office of the Under Secretary of Defense (Comptroller), *Financial Improvement and Audit Remediation (FIAR) Report* (Washington, D.C.: June 2019).

<sup>12</sup>Department of Defense, Office of Inspector General, *Understanding the Results of the Audit of the DoD FY 2018 Financial Statements* (Alexandria, Va.: Jan. 8, 2019), and *Understanding the Results of the Audit of DoD FY 2019 Financial Statements* (Alexandria, Va.: Jan. 28, 2020).

<sup>13</sup>Defense Business Board, *Best Practices for Real Property Management*, DBBFY16-02 (Washington, D.C.: Apr. 21, 2016).

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E&C verifications.<sup>14</sup> As described below, we selected one installation from each military service for a site visit to gain an understanding of how the individual military service guidance was being implemented. We chose each installation to reflect the broad and diverse types of real property assets to be verified as well as the opportunity to observe the instructions being carried out and the documentation being prepared to support the services' E&C verifications. The results of these visits are not generalizable to other military installations.

For the Air Force, we selected Joint Base San Antonio-Lackland; for the Army, Fort Bliss; for the Navy, Joint Base Anacostia-Bolling; and for the Marine Corps, Camp Lejeune. We selected Joint Base San Antonio-Lackland, one of the three primary locations of Joint Base San Antonio, because within the confines of the joint base are broad and diverse types of real property, and we could observe the 100 percent real property E&C verifications while the Air Force was performing them. Joint Base San Antonio is also the largest joint base in the nation with units that focus on mission areas such as training, flying, medical practices, cybersecurity, and intelligence. Military housing is one of the many types of real property assets on Joint Base San Antonio property. We selected Fort Bliss for the Army because of its diverse real property assets, including 1.2 million acres of desert outfitted with mock villages and cities for training. We selected Joint Base Anacostia-Bolling, located in Washington, D.C., because it provides support to military service members, civilian employees, and their families; mission and tenant units, including ceremonial units; Joint Service commands; and other DOD and federal agencies. We chose Camp Lejeune because this base, with its satellite camps, housing, training areas, and the New River Air Station, has the largest concentration of Marines and sailors in the world.

We conducted this performance audit from March 2019 to September 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>14</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

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## Background

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### Types and Importance of Real Property

DOD's real property includes land, buildings, structures, and linear structures.<sup>15</sup> DOD defines land as a portion of the earth's surface that can be distinguished by boundaries, for example, the land inside a fence or other perimeter delineation of a base or installation. Land also includes land rights, which are interests and privileges that DOD or one of its components holds in land that is owned by others, such as easements and water rights. Buildings are facilities with floors enclosed by exterior walls and roofing. Structures include towers, storage tanks, wharfs, and piers. Linear structures pass across land and include real property assets such as runways, roads, rail lines, pipelines, fences, pavements, and electrical distribution lines. The military services manage a substantial portion of DOD's land, buildings, structures, and linear structures. Each of the military services and DOD's Washington Headquarters Services maintains its own data systems that collect and store information about real property assets.<sup>16</sup>

DOD real property is extremely diverse and critical to DOD operations and supporting the warfighter. Military bases make up the largest share of DOD's real property. In supporting the warfighter, DOD operates hundreds of military bases and similar installations that host military units and support their daily operations, providing services such as housing, utilities, and grounds maintenance similar to those that would be found in a town or city. These bases and installations are an important part of the military support infrastructure that prepares combat and noncombat units to fulfill their missions. Military service base real property includes not only buildings but also communication lines, perimeter fencing, parking areas, parade fields, golf courses, retaining walls, sidewalks, transformers, memorials and monuments, and playgrounds. The range of diverse, unique, and often complex real property assets presents distinctive challenges to the military services in accountability and reporting requirements. For example, as of August 2019, the Air Force had over 940 category codes for real property, which relate to the function

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<sup>15</sup>Real property also includes construction-in-progress, assets under capital lease, and leasehold improvements.

<sup>16</sup>The Washington Headquarters Services, among other things, operates and maintains the Pentagon Reservation and designated facilities in the National Capital Region.

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of a facility, affecting the reported value and, in turn, the estimated cost of maintaining each asset.

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## Information from DOD Real Property Systems Needed for Management and Financial Reporting

At the installation level, DOD instructions direct real property officials to record transactions to document new acquisitions, changes to existing facilities, and disposals and to collect information on the real property at each installation, such as physical characteristics, space usage, and condition.<sup>17</sup> Officials are to enter this information into the military service real property systems. Military service headquarters officials use this information to oversee and manage real property needs across their installations. For example, according to DOD officials, these data inform how they use property to support their missions and how they budget for required sustainment, restoration, or construction of real property. In addition, they use this information to account for and report real property assets included in the military service financial statements and also in the DOD consolidated financial statements.

DOD built its Financial Improvement and Audit Readiness effort around certain business processes to ensure that every segment of its business environment triggering financial transactions, referred to as end-to-end processes, is addressed and made auditable. One of DOD's end-to-end life cycle processes relates to real property and is called Acquire-to-Retire, which includes the transactions that arise from acquiring, maintaining, and disposing of real property.<sup>18</sup> DOD's end-to-end processes are the step-by-step activities performed that may trigger the recording of transactions for adding assets, conducting physical inventories of assets being maintained, and disposing of assets. When assets are acquired from purchases, transfers, or by construction, new property records are to be created within the real property system to add these assets. The military services are to perform physical inventory counts during the life of real property assets to ensure that the information about the assets, including condition, in the real property system is accurate.<sup>19</sup> Real property assets are disposed of through sales, transfers,

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<sup>17</sup>Department of Defense, *Real Property Inventory (RPI) and Forecasting*, DOD Instruction 4165.14 (Washington, D.C.: Jan. 17, 2014) (incorporating Change 2, Aug. 31, 2018), and Department of Defense, *Real Property Management*, DOD Instruction 4165.70 (Washington, D.C.: Apr. 6, 2005) (incorporating Change 1, Aug. 31, 2018).

<sup>18</sup>DOD has developed six end-to-end processes: (1) Budget-to-Report, (2) Hire-to-Retire, (3) Order-to-Cash, (4) Procure-to-Pay, (5) Acquire-to-Retire, and (6) Plan-to-Stock. DOD also used the Acquire-to-Retire end-to-end process for purchasing and payment management.

<sup>19</sup>Department of Defense, *Real Property Inventory (RPI) and Forecasting*.

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or demolitions. After the disposals of real property, the information about the real property asset is to be removed from the real property system. One key reason for ensuring that disposed assets are removed from the real property system is to ensure that sustainment and maintenance funds are not budgeted for a disposed asset.

We considered the end-to-end process for real property assets to also include events such as reconciliations and valuation that are critical to financial statement reporting. Reconciliations between the real property system information and the financial reporting systems are performed to help ensure that the information reported in the financial statements and related notes is accurate. Corrections are needed when the information in the real property system differs from the data in the financial reporting system. Valuation refers to real property assets being included in the financial statements and related notes at appropriate amounts.

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## Internal Control over Recording and Reporting Real Property

Internal control is a process performed by an entity's oversight body, management, and other personnel intended to provide reasonable assurance that the objectives of an entity will be achieved. These objectives can be broadly classified into one or more of three categories: (1) effectiveness and efficiency of operations, (2) reliability of reporting for internal and external use, and (3) compliance with applicable laws and regulations. DOD has established objectives related to real property. These objectives include (1) achieving asset accountability, (2) providing useful data for local real property management, (3) delivering reliable and timely information to upper management, and (4) establishing and enforcing real property standards department-wide to help with data integration.<sup>20</sup> According to federal internal control standards, management should design and implement control activities to achieve objectives, as shown in figure 1.<sup>21</sup>

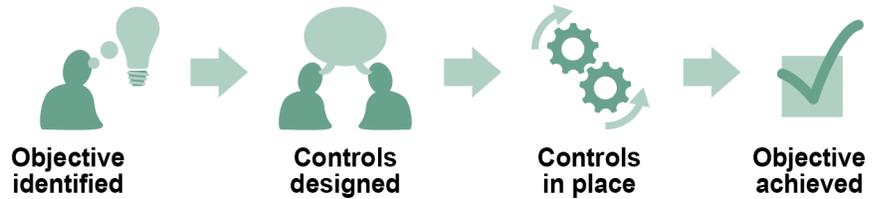
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<sup>20</sup>Department of Defense, Deputy Under Secretary of Defense, Installations & Environment Business Transformation Directorate, *Real Property Inventory Requirements* (Washington, D.C.: January 2005).

<sup>21</sup>[GAO-14-704G](#).

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**Figure 1: Achieving Objectives through Internal Control**



Source: GAO. | GAO-20-615

Note: See GAO, Standards for Internal Control in the Federal Government, [GAO-14-704G](#) (Washington, D.C.: September 2014).

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## Reporting of Internal Control Issues

Financial statement auditors, such as the military service IPAs,<sup>22</sup> issue specific reports that accompany the audit opinion, including on an entity's internal control over financial reporting. The reports on internal control describe any material weaknesses<sup>23</sup> or significant deficiencies that affect financial reporting.<sup>24</sup> Material weaknesses are more serious than significant deficiencies.

DOD underwent full financial statement audits for fiscal years 2018 and 2019. The DOD OIG performed the DOD agency-wide consolidated financial statement audits and issued disclaimers of opinion for both years, citing 20 material weaknesses for fiscal year 2018 and 25 material weaknesses for fiscal year 2019.<sup>25</sup> One of the 20 areas of material

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<sup>22</sup>Pursuant to the authority provided by 31 U.S.C. § 3515(c), the Office of Management and Budget requires certain DOD components to issue annual audited financial statements that are separate from those of the department or that are presented separately in the department's audited consolidated financial statements. Office of Management and Budget, "Components of Executive Departments and Agencies Required to Prepare Financial Statements," app. B of *Audit Requirements for Federal Financial Statements*, OMB Bulletin No. 19-03 (Aug. 27, 2019), accessed July 16, 2020, <https://www.whitehouse.gov/omb/information-for-agencies/bulletins/#2020>.

<sup>23</sup>A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

<sup>24</sup>A significant deficiency is less severe than a material weakness, but important enough to bring to management's attention.

<sup>25</sup>A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. Accordingly, the auditor does not express an opinion on the financial statements.

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weaknesses identified for fiscal year 2018 was G-PP&E, which includes real property. The DOD OIG reported that DOD, among other things, could not record acquired or constructed G-PP&E in accordance with federal accounting standards. Two of the 25 material weaknesses the DOD OIG reported for fiscal year 2019 related to real property. One was for G-PP&E and a newly identified material weakness was specifically for real property. According to the DOD OIG, DOD did not have the processes in place to ensure that all of its real property assets were reported on its financial statements.

IPAs audited the fiscal year 2018 and 2019 financial statements for the military services and issued disclaimers of opinion on the financial statements for each of the military services. During these audits, the IPAs communicated control issues to the military services through notices of findings and recommendations, some of which related specifically to real property. According to DOD's June 2019 FIAR Report, the military services are to develop corrective action plans to address the control issues.

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## DOD's Fiscal Year 2019 Financial Statement Priorities

Based on the results of the fiscal year 2018 financial statement audits, DOD established financial statement audit priorities with actions to be completed during fiscal year 2019.<sup>26</sup> The first financial statement audit priority was real property. Specifically, the Acting Secretary, stating that DOD had not accurately accounted for its buildings and structures, directed that each organization accountable for real property, including the military services, count its real property assets and reconcile 100 percent of the physical assets to its real property system records. According to the February 5, 2019, memorandum, these reconciliations were to cover testing for existence (assets in the real property system records could be verified, or book-to-floor verifications) and testing for completeness (assets observed could be found in the real property system records, or floor-to-book verifications).

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<sup>26</sup>Department of Defense, Secretary of Defense, *Fiscal Year 2019 Financial Statement Audit Priorities*.

## Serious Internal Control Issues Were Reported for Fiscal Year 2019 That Affected the Reliability of Real Property Records

The IPAs, in the military services fiscal year 2019 financial statement audit reports, identified material weaknesses and significant deficiencies related to the events that occur during the real property life cycle, consisting of adding, disposing, reconciling, valuing, and performing physical inventory counts of these assets. As shown in figure 2, the IPA for each military service reported control issues related to various events that occur during the real property life cycle. These control issues affect not only the reliability of financial statement reporting but also affect the quality of property record data 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 to reduce lease costs, thus potentially saving millions of dollars.<sup>27</sup>

**Figure 2: Military Service Real Property Material Weaknesses and Significant Deficiencies Reported by Independent Public Accountants for Fiscal Year 2019 by Life Cycle Event**

	Real property life cycle events				
	Adding assets	Disposing assets	Reconciliation of assets	Valuation of assets	Physical inventory count of assets
Air Force	●	●	●	●	●
Army	●	×	●	●	●
Marine Corps	●	×	×	●	×
Navy	●	●	●	●	●

● Independent public accountants reported material weaknesses or significant deficiencies affecting the real property life cycle transaction

× Independent public accountants did not report material weaknesses or significant deficiencies affecting the real property life cycle transaction

Source: GAO analysis of military service fiscal year 2019 financial statement audit reports. | GAO-20-615

### Adding Assets

The military services add assets to their real property portfolios through acquisitions, including purchases, transfers, and construction. As assets are added, property records are to be created in the real property systems. Based on the IPAs' reports for fiscal year 2019, we determined

<sup>27</sup>From a federal government perspective, the General Services Administration and the Office of Management and Budget both provide real property management support to agencies. The Office of Management and Budget establishes federal policies and chairs the Federal Real Property Council. The General Services Administration provides space for federal tenants and collects data on real property.

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that all four military services—Air Force, Army, Marine Corps, and Navy—did not have sufficient processes that ensured that all new real property additions were timely recorded in their real property systems. For example, while the Air Force has policies and procedures to help ensure that personnel responsible for recording new real property assets in the real property system do so on a timely basis, the IPAs nonetheless found that not all assets they physically observed when performing their tests were recorded in the system. Therefore, real property assets had not been recorded in the real property systems when the assets were initially acquired. One reason some new assets had not been recorded was due to Air Force system issues related to obtaining real property unique identifiers—a unique number DOD assigns to every real property asset and a key data element required to establish a new property record. The Air Force was experiencing these issues because it was migrating to a new real property system.<sup>28</sup> The system being replaced did not conform to DOD’s Real Property Information Model, presenting challenges to obtaining the real property unique identifier from the DOD system that assigns the numbers. Although the Air Force developed a procedure to work around this problem, the IPA found that the real property officers were not consistently implementing this procedure. As a result, a number of real property assets were not being timely recorded.

Some real property assets result from military construction. Such construction projects are classified as either specified military construction or unspecified minor military construction based on approved cost. Unspecified minor military construction projects are not generally funded with military construction appropriations and do not require

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<sup>28</sup>The Air Force was using the Automated Civil Engineering System-Real Property, but was transitioning to a new data system known as NexGen IT/TRIRIGA.

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congressional approval, though some require congressional notification.<sup>29</sup> According to the Marine Corps' IPA, because the Marine Corps did not have effective internal controls in place, operations and maintenance funds spent for unspecified minor military construction asset acquisitions over \$250,000, but less than \$1 million, were not properly recorded as capital expenditures nor were the assets properly added to the real property system when completed.<sup>30</sup> For the Navy, the IPA reported that the Navy did not consistently implement its controls over adding assets in its property system. For example, according to the IPA, controls are not in place to record construction-in-progress assets completely and accurately, as some unspecified minor military construction projects are not recorded in the real property system. In addition, Army management, according to the IPA, did not have a process to accumulate and monitor costs associated with construction-in-process for unspecified minor military construction projects.

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## Disposing Assets

During fiscal year 2019, according to IPAs, two military services—Air Force and Navy—had control issues affecting real property records for assets that had been or were slated to be demolished. For the Air Force, the IPA noted assets that it observed as having been physically demolished were still recorded in the property records. In addition, the IPA reported that the Air Force had instances where the property record for a real property asset slated for demolition but still physically intact had

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<sup>29</sup>Specified military construction projects are those with an approved cost of more than \$6 million or any project regardless of cost approved as a specific line item in the military construction budget request. Unspecified minor military construction projects are those with a cost equal to or less than \$6 million that have not been included in the budget request as a specific line item. Other than family housing facilities, unspecified minor military construction projects are not financed from military construction appropriations; instead, they must be financed from unspecified minor construction appropriations; operations and maintenance; research development, test, and evaluation; working capital fund resources; or other resources as appropriate. All specified construction projects require congressional approval. For those unspecified minor military construction projects costing from more than \$2 million to \$6 million, the service secretary concerned must notify Congress of the decision to undertake the project, the justification for the project, and the estimated cost. Projects costing from more than \$750,000 to \$2 million must be approved by the service secretary only. See 10 U.S.C. § 2805; Department of Defense, Financial Management Regulation, *Budget Execution-Availability and Use of Budgetary Resources*, vol. 3, ch.17, § 1703, DoD 7000.14-R (Washington, D.C.: June 2019), accessed July 18, 2020, <https://comptroller.defense.gov/fmr.aspx>.

<sup>30</sup>In fiscal year 2018, the threshold amount requiring congressional notification for unspecified minor military construction projects was increased from \$1 million to \$2 million. National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, § 2802, 131 Stat. 1283, 1845-46 (Dec. 12, 2017), *codified at* 10 U.S.C. § 2805.

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already been removed from the property system, even though the proper documentation had not been received. The Navy's IPA found that the Navy had not adequately documented all of the controls in its real property process, including those relating to recording disposals in the real property system. The IPA reported that it was critical for the Navy to implement controls over the recording of transactions that occur during the real property life cycle, including disposals, to maintain ongoing accuracy of its real property system beyond the improvements that the Navy achieved as a result of its fiscal year 2019 efforts.

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## Reconciliations of Assets

According to *Standards for Internal Control in the Federal Government*, transaction control activities are actions that management may build directly into operational processes to help the entity achieve its objectives and address related risks.<sup>31</sup> A reconciliation is a type of transaction control activity that consists of comparing two or more sets of records, researching and resolving any differences, and recording adjustments if necessary. Reconciliations are to be performed routinely so that any problems are detected and corrected promptly and differences are not allowed to age, thereby becoming increasingly difficult to research. For example, DOD organizations with jurisdiction over real property are to reconcile the information in the real property systems with their financial statements (or to their trial balances if financial statements are not required) on a quarterly basis.<sup>32</sup> These reconciliations are performed to help ensure that all of the capital assets in the real property systems have been accurately accumulated for financial statement reporting.

For fiscal year 2019, the IPAs reported that three military services—Air Force, Army, and Navy—were unable to reconcile the information in their real property systems to the financial reporting systems. The IPA for the Air Force reported that the reconciliations of the information in the financial reporting systems to the property systems used to maintain information for mission-critical assets, including real property, were not completed timely and were incomplete. Specifically, the IPA cited untimely completion of reconciliations or failure to reconcile all of the mission-critical assets in the logistical systems as reasons why the auditor could not re-perform these reconciliations as part of the audit procedures. Moreover, the IPA reported that deficiencies in the

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<sup>31</sup>GAO-14-704G.

<sup>32</sup>Department of Defense, Financial Management Regulation, *Real Property*, vol. 4, ch. 24, DoD 7000.14-R (Washington, D.C.: October 2019), accessed July 18, 2020, <https://comptroller.defense.gov/fmr.aspx>.

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reconciliations could allow the lack of recording acquisitions or disposals of real property to not be detected and corrected promptly. The IPA for the Army noted that the Army did not properly assign reconciliation responsibilities or fully research and resolve reconciliation differences between the real property system and the financial reporting system. For the Navy, the IPA stated that current controls for reconciliations are inadequate to ensure that all costs from the construction-in-progress account are transferred and properly recorded in the real property system when buildings are placed in service.

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## Valuation of Assets

According to IPAs, none of the military services, for fiscal year 2019, had adequate processes to help ensure the valuation of real property in accordance with generally accepted accounting principles (GAAP). These standards require that acquired or constructed G-PP&E assets, including real property, be recorded and reported at cost,<sup>33</sup> as defined in Statement of Federal Financial Accounting Standards (SFFAS) No. 6.<sup>34</sup> The Federal Accounting Standards Advisory Board (FASAB) recognized that existing systems some federal agencies use, including DOD, could not provide the information needed to prepare financial statements in accordance with GAAP without using alternative valuation methods. FASAB subsequently issued SFFAS No. 50,<sup>35</sup> which allows reporting entities to apply alternative valuation methods in establishing and recording opening balances of G-PP&E.<sup>36</sup> DOD plans to use plant replacement value as an alternative method, which represents an estimate of the replacement cost in current year dollars to design and construct a facility to replace an

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<sup>33</sup>Cost is defined in SFFAS No. 6 as all costs incurred to bring the asset to a form and location suitable for its intended use. Costs include amounts paid to vendors, transportation and storage costs, and production costs for those assets produced or constructed.

<sup>34</sup>Federal Accounting Standards Advisory Board, *Accounting for Property, Plant, and Equipment*, Statement of Federal Financial Accounting Standards 6 (Washington, D.C.: Nov. 30, 1995).

<sup>35</sup>Statement of Federal Financial Accounting Standards No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS No. 6, SFFAS No. 10, SFFAS No. 23, and Rescinding SFFAS No. 35*, effective for periods beginning after September 30, 2016, with earlier implementation encouraged.

<sup>36</sup>Opening balances, as defined in SFFAS No. 50, are those account balances existing at the beginning of the reporting period. The opening balances are based on the closing balances of the prior period, which reflect the effects of transactions and events of prior periods.

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existing facility at the same location. DOD already uses plant replacement value for decision-making and management purposes.

SFFAS No. 50 permits reporting entities to apply an alternative method only once per financial statement line item after the period during which the existing systems could not provide the information needed for preparing financial statements in accordance with GAAP. After opening balances are established using an alternative valuation method, federal accounting standards require cost, as defined in SFFAS No. 6, to be used in valuing G-PP&E acquired or constructed. As of September 30, 2019, none of the four military services had made the one time assertion that its opening balances are reported in accordance with SFFAS No. 50 and that the service was ready to prospectively record newly acquired or constructed assets at cost.

The IPA for the Air Force reported that while the Air Force had attempted to apply its alternative method to establish opening balances of its real property assets, it acknowledged significant errors during the process. For example, for one real property asset, the unit of measurement in the real property system was recorded in square feet rather than a quantity of one, and when valuation was calculated, the erroneous unit of measurement resulted in a reported value of \$5.4 billion when it should have been \$950,000. In addition, the IPA reported that the Air Force did not have sufficient procedures to ensure that the costs for newly acquired assets are determined in accordance with SFFAS No. 6, a requirement of accounting standards after opening balances are determined and reported using an acceptable estimation model.

The IPA for the Army reported that the Army did not provide to the auditor the proper documentation to support its G-PP&E valuation at historical cost in its financial statements and notes. In addition, the Army is in the process of developing its alternative method for establishing opening balances and therefore has not yet made its one time assertion to value its real property in accordance with GAAP.

The IPA for the Marine Corps found that its G-PP&E valuation as of September 30, 2019, did not conform with federal accounting standards because, in some cases, the Marine Corps could not prove the value of current year additions and deletions to real property assets in accordance with SFFAS No. 6. The Marine Corps' valuation of G-PP&E opening balances using the alternative method, in accordance with SFFAS No. 50, is ongoing until the Marine Corps' controls are in place to adequately

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account for its G-PP&E, including real property, based on cost in accordance with SFFAS No. 6.

The IPA for the Navy reported that the lack of controls over construction-in-progress costs preclude the Navy's full implementation of SFFAS No. 50. In addition, the IPA reported that the Navy needs to revise its end-to-end process documentation to include all key controls over the life of real property, including, among other things, valuation.

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## Physical Inventory Count of Assets

According to fiscal year 2019 financial statement audit reports, IPAs for three military services—Army, Air Force, and Navy—reported control issues related to performing physical inventory counts. For example, the IPA reported that the Army had not designed its real property physical inventory count procedures to include floor-to-book procedures that would reasonably assure that the records were complete. DOD's instructions for physical inventory counts do not specifically include floor-to-book procedures to verify that observed assets are properly recorded in real property systems. Instead, DOD's instructions direct officials to conduct a review of each real property asset system record (book-to-floor), including a physical inventory count of each real property asset every 5 years for nonhistoric assets or every 3 years for historic assets.<sup>37</sup> While DOD instructions for periodic physical inventory counts do not include floor-to-book procedures, DOD's Financial Management Regulation real property chapter, dated October 2019, states that entries to record financial transactions in real property systems must enable periodic, independent verification of the accuracy of the real property system through periodic physical counts to verify real property existence (book-to-floor) and completeness (floor-to-book).<sup>38</sup> In addition, according to the IPA, the Army did not design or implement controls or consistently demonstrate controls over the physical observation of real property assets.

The IPA for the Air Force found that the Air Force's procedures for performing physical inventory counts did not address the risk of completeness (floor-to-book procedures) because the real property officers rely on the information in the real property system, which only addresses existence. Moreover, the IPA reported that errors in the Geographic Information System maps impeded the real property officers'

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<sup>37</sup>DOD Instruction 4165.14, *Real Property Inventory (RPI) and Forecasting* (Aug. 31, 2018).

<sup>38</sup>Department of Defense, Financial Management Regulation, *Real Property*.

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ability to complete timely and accurate physical inventories because these maps support the inventory process.

The Navy's IPA stated that the Navy had not adequately documented all the controls in its real property process, including physical inventory counts (asset evaluations). The IPA for the Navy concluded that the lack of adequately documented policies and procedures has led to inconsistencies in how asset evaluations were conducted across the Navy.

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## DOD Lacks a Department-Wide Strategy for Addressing Real Property Issues

DOD has not yet developed a comprehensive, department-wide strategy—an element of leading practices for enterprise-wide real property management—to address the real property issues that contribute to an audit disclaimer on DOD's and the services' annual financial statements. Others, including the DOD OIG, have called for DOD to manage real property on a department-wide basis. Each of the military services is independently developing corrective actions to address its control issues reported by the IPAs in notices of findings and recommendations (NFR) without applying common solutions among the services or department-wide. While the individual service corrective actions may address some of these real property control issues, a department-wide strategy may be a more effective way to resolve control issues that are determined to be department-wide by developing solutions that could be implemented by more than one military service. Specifically, 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 IPAs communicated specific real property issues identified during the financial statement audits to the military services by formally documenting these issues in NFRs. As reported in DOD's June 2019 FIAR Report, each military service and DOD component receiving a notice of finding and recommendation develops a corrective action plan, which lays out how the component or service will remediate the audit finding by addressing its root causes, and establishes milestone dates and

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responsibilities.<sup>39</sup> The report noted that the department is prioritizing corrective actions by first addressing those that align with the National Defense Strategy and providing what it believes to be the greatest potential value to DOD operations—real property being the first of those directed by the DOD Acting Secretary. However, in the report DOD further stated that some efforts would require department-wide remediation.

The FIAR Report noted DOD's focus on addressing the fiscal year 2019 financial statement audit priorities, one of which was real property. We identified an example in which a military service was developing its own corrective action plan for a reported real property issue that could also be applied to the other services with that same control issue. Specifically, as previously reported, we noted a control issue at the Navy affecting the proper recording of assets acquired through construction, particularly when non-military construction funding was used for the project and when the real property accountable officers, responsible for maintaining real property records, were not involved in the project's authorization or funding.<sup>40</sup> We also noted instances in which the Navy's assets were not being properly recorded or removed from the service's property records because in many of these cases the real property accountable officers were not aware that the assets had been acquired or demolished. The Navy has determined the root cause of this issue and is currently developing remediation actions, which include improvements to information system interfaces and other procedures to help ensure that these transactions are properly and timely recorded in its property records.

IPAs for the Army and Marine Corps also reported control deficiencies related to the proper recording of assets when non-military construction funding was used. Leveraging the Navy's remediation efforts that include improvements to both process and systems controls, while tailoring the specific remediation actions to other service and component information systems as appropriate, may be an efficient way for DOD to remediate reported real property control issues, thereby improving the reliability of department-wide real property information.

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<sup>39</sup>Department of Defense, *Financial Improvement and Audit Remediation (FIAR) Report* (Washington, D.C.: June 2019).

<sup>40</sup>GAO, *DOD Financial Management: The Navy Needs to Improve Internal Control over Its Buildings*, [GAO-18-289](#) (Washington, D.C.: May 10, 2018).

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Others have observed and reported on DOD's lack of a department-wide strategy or approach for managing real property department-wide. For example, the Defense Business Board, in its report on best practices for real property management, stated that in the private sector, most leading corporations have integrated management of their real estate holdings into an overall corporate strategy.<sup>41</sup> From its review of DOD real property management, the board noted that DOD lacked (1) enterprise-level governance, including guidance, oversight, and reporting, and (2) centralized and integrated data on which to manage its owned and leased real property. The board reported confusion in roles and responsibilities for real property among the Office of the Secretary of Defense (OSD), the military services, commands, and bases. In addition, the board noted that there is no framework for the OSD and the military services to share best practices.

In the absence of this enterprise-level governance, the Defense Business Board noted that real property decisions were made by the services, and these decisions were largely influenced by the culture of the individual military services. The board also found that the separate real property systems that the military services maintain limit their ability to perform data mining of the information to identify successes and problem areas. The board concluded that real property is a significant resource and improving its management can improve accountability and potentially provide additional savings to sustain critical infrastructure and support DOD mission requirements.

According to the Office of the Under Secretary of Defense (Comptroller), as stated in *the Department of Defense Financial Management Strategy FY2016-2020*, the ultimate objective of DOD is to receive an unmodified ("clean") audit opinion. To achieve this objective, one of the performance measures in the strategy relates to DOD's ability to establish an auditable baseline for real property. The DOD OIG has stated that it is not likely that DOD will be able to resolve any of the DOD-wide material weaknesses without seeking to develop sustainable solutions in strategic priority areas, such as real property.<sup>42</sup> The DOD OIG also reported that in addition to DOD and component leadership providing oversight and monitoring to ensure progress on developing sustained solutions, this

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<sup>41</sup>Defense Business Board, *Best Practices for Real Property Management*.

<sup>42</sup>Department of Defense, Office of Inspector General, *Understanding the Results of the Audit of DoD FY 2019 Financial Statements*.

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leadership must identify and implement department-wide corrective actions that will benefit all of DOD.

Receiving thousands of NFRs as a result of the fiscal year 2018 financial statement audits, DOD officials recognized that the NFRs first needed to be categorized and prioritized before remediation could take place. In addition, DOD officials recognized that remediation efforts, sometimes requiring cross-component solutions, could take years to be fully implemented. DOD officials further acknowledged that a department-wide outlook would benefit remediation efforts across the department.

As demonstrated by the real property control issues that the IPAs reported, the military services, working individually over time, have been unsuccessful in providing the department with auditable real property information—ultimately contributing to audit disclaimers on the services' and DOD's consolidated annual financial statements. A department-wide real property strategy will enable DOD to identify those common control issues and then develop solutions that are not limited to an individual military service. In addition, a department-wide strategy could help in resolving other control issues that are contributing to DOD's inability to obtain an unmodified ("clean") audit opinion.

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## DOD Lacks Department-Wide Instructions for Verifying Real Property

The Acting Secretary, noting that the services had not accurately accounted for their buildings and structures, required E&C verifications to be performed of all real property for fiscal year 2019.<sup>43</sup> The military services, given the lack of department-wide instructions, independently developed their own approaches for performing the required E&C verifications. As a result, there were inconsistent approaches implemented among the services that affected both the scope (what assets were verified) and the methodology (how assets were verified). These approaches also differed in the extent of written instructions. The reporting and monitoring of the results, by service and department-level management, also differed. Further, DOD and the military services did not obtain the complete and consistent information needed to create a DOD real property baseline or to reasonably assure that the department's real property records are reliable. DOD-wide instructions would help DOD obtain comparable E&C verifications results, which would help DOD achieve an auditable real property baseline and, ultimately, its objective of

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<sup>43</sup>Department of Defense, Secretary of Defense, *Fiscal Year 2019 Financial Statement Audit Priorities*.

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an unmodified (“clean”) audit opinion.<sup>44</sup> Moreover, the E&C efforts for fiscal year 2020 as planned, performed, or both differ among the services.

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### Types and Dollar Value Threshold of Assets Verified Differed among the Services

Because DOD did not issue department-wide instructions for performing the 100 percent E&C verifications for fiscal year 2019, assets verified— notably the types and dollar value threshold of real property assets— differed among the military services. Regarding the types of real property assets included in the verifications (as shown in fig. 3), while all of the services included buildings, the Air Force and Army did not include all of their structures. In discussions with officials from OSD, the Air Force negotiated, based on resource limitations, to focus its E&C verification efforts on buildings and some structures to the extent possible. According to the Army’s instructions, structures measured in acres, such as training ranges and parade fields, were not included in the verifications. Further, while the Navy and Marine Corps included linear structures in their verifications, the Air Force and Army did not. As part of linear structures, both the Navy and the Marine Corps included above-ground and below-ground utilities. Because of issues identified in the verifications, the Navy’s IPA reported G-PP&E utility assets as a material weakness and the Marine Corps’ IPA reported a material weakness for the G-PP&E line item. We also found that the Navy, which used calculated acreage from the Geographic Information System to substantiate the information in its real property system, was the only service to have included land in its verifications. According to Marine Corps officials, land was not part of the E&C verifications, but the Marine Corps did include land areas that are recorded as structures, such as maneuver areas, landfills, parade fields, and troop training areas.

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<sup>44</sup>According to the Office of the Under Secretary of Defense (Comptroller), as stated in the *DOD Financial Management Strategy Fiscal Years 2016–2020*, DOD’s ultimate objective is to receive an unmodified audit opinion. One of the performance measures in the *DOD Financial Management Strategy Fiscal Years 2016–2020* relates to DOD’s ability to establish an auditable baseline for real property.

**Figure 3: Types of Real Property Assets Included in the Military Services' Fiscal Year 2019 Existence and Completeness (E&C) Verifications**

	Building	Structures	Linear structures	Land
Air Force	●	●	●	●
Army	●	●	●	●
Marine Corps	●	●	● <sup>a</sup>	●
Navy	●	●	● <sup>b</sup>	●

- The military service included this type of real property asset
- The military service included some but not all of this type of real property asset
- The military service did not include this type of real property asset

Source: Military service documentation related to the E&C verifications. | GAO-20-615

<sup>a</sup>The Marine Corps' independent public accountant (IPA), unable to rely upon the service's results, reported a material weakness for the general property, plant, and equipment (G-PP&E) line item.

<sup>b</sup>The Navy's IPA, unable to rely upon the service's results, reported G-PP&E utility assets as a material weakness.

In addition to excluding certain types of real property assets in the verifications, some of the military services also excluded certain assets based on the recorded value of the asset. For example, the Army and the Marine Corps applied dollar value thresholds to exclude some real property assets during the verifications. The Army's headquarters Installation Management Command provided its installations lists of assets to be verified based on the assets recorded in the real property systems with values that exceeded \$250,000, DOD's capitalization threshold—a policy for which real property assets with values exceeding the threshold are accumulated and reported in the financial statements.<sup>45</sup> On the other hand, the Marine Corps instructed its bases to exclude all types of real property assets under \$15,000, the dollar amount upon which the Department of the Navy defined accountable real property, which requires all real property assets in excess of that amount to be

<sup>45</sup>In general accounting concepts, the capitalization threshold is the dollar amount that determines whether the cost of an asset is expensed to the operations or recorded as an asset of a reporting entity in its financial statements. Asset acquisition costs that are below the threshold are to be expensed. Asset acquisition costs that are greater than the threshold are to be capitalized and depreciated over the asset's useful life.

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recorded and tracked in the real property system.<sup>46</sup> While the Navy had intended to exclude assets with dollar values below \$15,000, these assets were included in the verifications and then designated in the real property system to be excluded from future verifications. However, for the E&C verifications, the Navy did include assets under \$15,000. The Air Force did not apply a dollar value threshold in identifying the real property assets to be included and attempted to verify every observed and recorded building and structure.

Based on the exclusions of certain types of real property assets and the application of dollar value thresholds, none of the military services completed a 100 percent verification of real property assets or fully developed an E&C baseline, as envisioned by the Acting Secretary's directive. While the military services did not fully implement the directive, they made progress toward improving real property records. For example, according to the IPA for the Navy, as a result of the Navy's effort, the error rates identified during the IPA's testing decreased to less than one-half of 1 percent for existence and completeness of buildings and structures. The IPA, as a result, changed its classification of control issues affecting real property from a material weakness for fiscal year 2018 to a significant deficiency for fiscal year 2019.

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### Extent of Asset Verification Instructions, and Reporting and Monitoring of Results, Differed among the Military Services for Fiscal Year 2019

Absent a DOD-wide instruction on how to perform the E&C verifications for fiscal year 2019, the military services independently developed instructions. As a result, the services' verification instructions differed in (1) the extent to which each service developed instructions for the verifications, (2) the manner by which instructions were to be performed, and (3) the degree to which service and department-level management monitored results of the E&C verifications.

For example, the Air Force Civil Engineer Center/Real Property Management developed instructions and a team training document that provided a repeatable process for conducting verifications to be carried out at all Air Force installations. Considering DOD's FIAR standards, the Air Force Civil Engineer Center/Real Property Management used current audit processes in conjunction with Air Force instructions to develop a method for installations to complete a full 100 percent E&C verification of buildings and structures within a week-long site visit. At each site, the

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<sup>46</sup>In a November 2018 memorandum, the Department of the Navy defined accountable property as all government-owned real property having an acquisition cost of \$15,000 or more. See Department of the Navy, *Real Property Accounting Interim Guidance: Accountability Threshold and Prefabricated Structures* (Washington, D.C.: Nov. 16, 2018).

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instructions called for establishing an E&C Command and Control Center, which included the installation's real property specialists and the Air Force Civil Engineer Center/Real Property Management action officers. The Air Force Civil Engineer Center/Real Property Management action officers would perform site visits to direct and monitor installations' progress in carrying out these verifications. The team training document described the Acting Secretary's directive for real property, defined the terms existence and completeness, and listed the specific questions to be answered by the field teams when observing real property assets.

The Army developed an operations order that described the methodology for determining the real property assets to be included in the fiscal year 2019 E&C verifications, along with the mission, purpose, and key tasks for the verifications. However, the Army did not develop specific training documents tailored to the verifications.<sup>47</sup> The Navy developed comprehensive instructions, as well as training documents, that specified how the E&C verifications were to be completed. The Navy's instructions covered preparation activities, which included developing the maps and the Excel spreadsheets for recording the observed assets. Moreover, the instructions included the real property system data elements to be verified and a standard format for reporting the results. The Marine Corps, part of the Department of the Navy, used the Navy's instructions to perform its verifications and did not develop its own training documents. The Marine Corps did a beta test at Camp Lejeune to determine the resources needed to perform the verifications.

Additionally, because the written instructions differed among the military services, the work performed also differed. The E&C verification instructions that each of the military service used differed in the way that (1) assets were to be selected for verification through physical observation, (2) physical attributes and characteristics of the assets were to be verified, and (3) the results of the verifications were to be reported. For example, based on instructions, the Navy, Marine Corps, and Air Force physically observed the population of all assets selected for verification. Conversely, the Army relied on prior inspections and physical inventory counts and therefore determined that large numbers of its

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<sup>47</sup>The Army issued an updated *Real Property Management Handbook* in June 2019. While this handbook defines the terms existence and completeness, it does not specifically address procedures for the fiscal year 2019 E&C verifications. See U.S. Army, *Real Property Management Handbook* (Washington, D.C.: June 14, 2019).

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assets did not need to be physically observed as a part of the E&C verifications.

Additionally, based on our site visits, some of the services used teams of individuals with certain expertise to perform the verifications and deployed other tools to help the services ensure more accurate verifications. For example, based on our observations, the Navy, Marine Corps, and Air Force each gridded maps of the installations into smaller segments and provided teams with maps of the segments to help verify that the real property assets observed on-site were in the real property systems and all real property assets in the system still existed on the base. During our site visits to the Navy's Joint Base Anacostia-Bolling and the Air Force's Joint Base San Antonio-Lackland, we found that the use of segmented maps helped verify completeness of real property records. The field teams used the maps to help detect real property assets that were not on the listings generated from the systems. The gridded maps—breaking large and complex installations into small geographically proximate segments—allowed the inspection teams to visibly observe every asset inside the boundaries and compare it to what, if anything, that was correspondingly recorded in the system for the asset. This created an effective tool and process to help ensure that the property records were complete. In addition, the Air Force used an application on the team members' cell phones to capture a photo image and other key details, such as longitude and latitude, when observing an asset to help maintain accurate documentation and to reconcile anomalies that occurred.

Using a different methodology, the Army identified those real property assets for which E&C verifications would be done by relying on past existence inspections and physical inventory counts. The Army, which has the largest real property portfolio in DOD, negotiated its methodology, including reliance on prior work, with officials from OSD to ultimately reduce the number of assets to be observed directly as a part of the E&C verification effort. For example, the Army relied on prior existence inspections designed to check the accuracy of nine data elements used for determining plant replacement value, performed from 2016 through 2018. However, given that some of these assets were inspected over 3 years ago, it is possible that some of these assets have been demolished or are no longer functional. Relying on existence inspections performed some time ago can potentially negatively affect the reliability of real property records. The Army also relied on physical site visits to barracks and military housing that were performed as a result of a February 2019 Army Inspector General report and on the results of its fiscal year 2019

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routine physical inventory counts that had been performed during fiscal year 2019.

As an example, at the Fort Bliss Army base, the methodology of relying on prior inspections, physical site visits, and periodic physical inventory counts resulted in verifications being performed for only a very small number of its assets. Specifically, while Fort Bliss had approximately 12,500 real property assets, most were excluded from physical observation and verification for the E&C process because of the Army's decisions related to the types and dollar value thresholds of assets to verify, exempt assets (such as privately owned assets or assets owned by state or local governments) excluded from the E&C process, and reliance on other prior observations, resulting in only 58 real property assets being verified by a single observer.

Additionally, while the Air Force, Navy, and Marine Corps systematically observed assets within each mapped segment to perform the floor-to-book completeness assessment, the Army generally relied on the accuracy of its Installation Geospatial Information and System tool with limited observations during physical counts to perform its completeness assessment. For example, based on our Fort Bliss site visit, Army's determinations about the completeness of real property records were primarily made based on the geospatial tool, which had images dating back to 2017, with limited to no verification of the physical assets. Using the older geospatial images introduced a risk that buildings and structures may have been erected, changed, or demolished since the time the images were captured that could be missed, affecting the accuracy of the information in the real property systems. While the required periodic physical inventory counts might eventually detect the error, detection might not have occurred during fiscal year 2019 when the E&C verifications and corrections to the real property system were to have been completed.

A key part of the E&C verification instructions the military services followed was verifying the physical characteristics and attributes (data elements) of each observed asset. A minimum number of data elements of an asset's physical characteristics is required to ascertain that the correct asset was observed and traced to and from the property records and the geospatial information systems. These elements included a description of the asset (such as an asset category code) and its physical location (such as a street address or other numbering convention). In some cases, the services verified other real property attributes, such as an asset's operational status or the code designating the military service

responsible for the financial reporting of the asset, to help develop accurate information for financial reporting purposes. For example, real property assets with a nonfunctional operational status code, considered to be impaired assets, are not to be included in the military services' financial statements and related notes. Figure 4 shows some of the key data elements each of the services included in its methodology and guidance on which were to have been verified. If there is no check mark, the element was not required to be verified.

**Figure 4: Required Data Elements to Be Verified by the Military Services during the Fiscal Year 2019 Real Property Existence and Completeness (E&C) Verifications**

Data elements	Air Force	Army	Navy	Marine Corps
<b>Description:</b> Category code or predominant current use code is correct	✓	✓	✓	✓
<b>Physical location:</b> Street address, facility number, or other identifier is correct	✓	✓		
<b>Other data elements:</b>				
Real property asset operational status code		✓	✓	✓
Real property financial reporting organization code		✓		
Preponderant user of real property asset			✓	✓
Geospatial information on map aligned to property records	✓	✓	✓	✓

✓ Military service procedures required this data element to be verified

Source: Military service procedure documents for the fiscal year 2019 E&C verifications. | GAO-20-615

Additionally, we found that reporting the results of the verifications was similar for the Navy and the Air Force, as both services used standard reports, but was different for the Army and the Marine Corps. The Navy's standard report included information on the time period that the E&C verifications were performed and the number of errors identified. According to the report, all of the corrections to be made to the Navy real property system had been verified by the real property accountable officer and recorded in the real property system. The Navy report was to be signed by the installation commanding officer. The Air Force standard report, referred to as an assertion memorandum and to be signed by the base civil engineer and the installation commander, included a section describing changes to the real property system that still needed to be made. According to Air Force officials, this section was necessary

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because of the issue of obtaining real property unique identifiers for assets that were added to the real property system that the Air Force was in the process of replacing but some of its bases were still using.

The Army did not develop a standard report but required its installation commanders to sign and submit a statement that the E&C verifications had been completed to be added to the commander's annual certification. The Marine Corps also did not develop a standard document for reporting the results but instead had the real property accountable official certify the results on the spreadsheets used for the E&C verifications.

Further, because DOD did not perform department-wide monitoring of the fiscal year 2019 E&C verifications, DOD could not determine the extent to which a 100 percent reconciliation of real property assets to the real property systems, as stated in the Acting Secretary's memorandum, had been achieved. According to federal internal control standards, management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.<sup>48</sup> While each military service performed some monitoring of its E&C verifications to help ensure that the 100 percent E&C verifications were conducted, anomalies were detected, and errors were corrected in the real property systems, the extent of monitoring activities varied among the services. For example, in fiscal year 2020 the Air Force was taking the additional step of verifying that the fiscal year 2019 E&C verification results as reported had been reconciled with the real property systems, and all needed corrections made. Air Force officials were taking this additional step because of delays in obtaining real property unique identifiers for those assets identified during the verifications as not recorded in the real property records. This additional step was necessary because, for example, at Joint Base San Antonio-Lackland the action officer left to work at another installation before all of the corrections could be made in the real property system.

For the Army, the extent of monitoring was to help ensure that the verifications were completed on time and the results of the verifications reported to headquarters management by September 30, 2019. The E&C verification reports were due by the fifth of the month and included the results as of the end of the previous month. Army garrisons were directed to report to the directorates, and the directorates reported the results to the Army's Installation Management Command. The staff office of this

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<sup>48</sup>[GAO-14-704G](#).

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command compiled the results, which were ultimately reported to the office of the Assistant Secretary of the Army (Financial Management & Comptroller). The Navy used biweekly reports that measured the progress of the real property assets validated with what was planned and reported these results to the regional commanders, then to the Commander, Navy Installations Command, by September 30, 2019. These biweekly reports also reported the number of existence discrepancies, completeness discrepancies, and data errors. Navy installation E&C results were consolidated at the regional level and monitored by regional real property officers. Monitoring for the Marine Corps at the regional and headquarters levels was generally related to ensuring that all installations completed the E&C verification by September 30, 2019. The Marine Corps did not separately track information for real property assets related to instances of assets found to be demolished but still recorded in the real property system from other disposals of assets that occurred during fiscal year 2019. As a result, Marine Corps management could not determine and report the number of demolished real property assets—detected through the E&C verifications—that were still recorded in the real property system.

Federal internal control standards call for management to design control activities to achieve objectives and respond to risks.<sup>49</sup> Such controls could include instructions for carrying out and monitoring activities, such as the E&C verifications. Without department-wide instructions that specify the methodologies for performing the verifications, DOD did not obtain complete and comparable information needed to create a DOD real property baseline, one of DOD's performance measures in its strategy.

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### Military Service Methodologies for the Fiscal Year 2020 E&C Verifications Also Differed

The military services, with the exception of the Army, have plans to or have performed E&C verifications during fiscal year 2020; however, their methodologies differed. For example, the Air Force planned to verify all structures, including those that were included in the fiscal year 2019 E&C verifications. Linear structures, which have not yet been included in the E&C verifications, were planned to be part of the fiscal year 2021 verifications. In addition, the Air Force is directing that these verifications be performed annually.<sup>50</sup> The Navy's fiscal year 2020 verification effort, which according to a Navy official has been completed, consisted of

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<sup>49</sup>GAO-14-704G.

<sup>50</sup>United States Air Force, *Civil Engineering: Real Property Accountability*, Air Force Instruction 32-9005 (Washington, D.C.: Feb. 4, 2020).

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performing verifications for 100 percent of utility assets (e.g., plant and related linear assets), and one-third of its nonutility assets, in conjunction with implementing controls to ensure that real property additions and deletions are properly recorded.<sup>51</sup> The Navy, for fiscal year 2021, plans to perform verifications on an additional one-third of its nonutility real property assets, with the final third of its nonutility assets included in the fiscal year 2022 verifications. The Marine Corps is following the Navy's approach with regard to utility and nonutility assets. The Army said that it does not plan to perform E&C verifications in fiscal year 2020 but instead plans to accelerate performance of the required physical inventory counts for all of its real property assets by the end of fiscal year 2021.<sup>52</sup> In January 2019, the Vice Chief of Staff directed that the Army embark on an accelerated effort to complete physical inventories of all of its real property assets by the end of fiscal year 2021 to support an audit opinion in fiscal year 2022.

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## Conclusions

Serious control issues that are common among the military services preclude DOD from having accurate and complete real property records and therefore reliable and auditable real property information. Each of the military services has been developing corrective actions to address its control issues. 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. Further, E&C verification results will not be comparable and may not be complete without department-wide instructions as to how these verifications are to be performed. DOD-wide instructions would help DOD to 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.

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<sup>51</sup>The eight locations deemed to be high risk verified 100 percent of both utility and nonutility assets.

<sup>52</sup>According to DOD Instruction 4165.14, DOD directs that each facility be physically inventoried on a cycle—every 5 years for nonhistoric facilities and every 3 years for historic facilities.

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## Recommendations for Executive Action

We are making the following two recommendations to DOD:

The Under Secretary of Defense (Comptroller) should, in collaboration with the Under Secretary of Defense (Acquisition and Sustainment), develop and implement a DOD-wide strategy to remediate real property asset control issues. (Recommendation 1).

The Under Secretary of Defense (Comptroller) should, in collaboration with the Under Secretary of Defense (Acquisition and Sustainment), develop department-wide instructions for performing the E&C verifications. (Recommendation 2).

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## Agency Comments

We provided a draft of this report to DOD for comment. In its comments, reproduced in appendix I, DOD concurred with our two recommendations. With regard to our recommendation that DOD develop and implement a DOD-wide strategy to remediate real property asset control issues, DOD officials stated that the Offices of the Under Secretary of Defense for Acquisition and Sustainment and the Under Secretary of Defense (Comptroller) are committed to placing increased leadership emphasis on real property asset controls to ensure mission readiness, audit readiness, testing for existence and completeness, and maintaining internal controls. In its response, DOD gave examples of new systems, processes, and controls being developed which department officials think should enhance the completeness and accuracy of real property data. We view improved internal controls over the events occurring during the real property life cycle as critically important and commend DOD for its efforts. However, we also continue to strongly believe that efficiencies can be achieved by developing a DOD-wide strategy to remediate common control issues while leveraging the efforts of each of the military services' action plans.

With regard to our second recommendation, DOD officials stated that they are committed to placing increased leadership emphasis on real property asset policies and instructions to ensure, among other things, that consistent and repeatable E&C verifications are performed. DOD officials noted that these E&C verifications are achieved through periodic inventory procedures which are already required. However, we continue to believe that to the extent DOD or the military services require additional E&C verifications such as the Acting Secretary's directive for fiscal year 2019, DOD-wide instructions would assist DOD in obtaining complete and comparable E&C verification results, which would the department achieve an auditable real property baseline and, ultimately, its objective of an unmodified ("clean") audit opinion.

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We are sending copies of this report to the Secretary of Defense; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; the Deputy Chief Financial Officer; the Under Secretary of Defense (Acquisition and Sustainment); the offices of the Assistant Secretaries of the Air Force, Army, and Navy (Financial Management & Comptroller); the Marine Corps Installation Command; the Director of the Office of Management and Budget; and appropriate congressional committees. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2989 or [kociolekk@gao.gov](mailto:kociolekk@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix II.



Kristen A. Kociolek  
Director, Financial Management  
and Assurance

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# Appendix I: Comments from the Department of Defense



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

COMPTROLLER

August 25, 2020

Ms. Kristen Kociolek  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Kociolek:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report, GAO-20-615, "DEFENSE REAL PROPERTY: DoD-wide Strategy Needed to Address Control Issues and Improve Reliability of Records," dated July 28, 2020 (GAO Code 103387).

The Department appreciates the opportunity to comment on the draft report. Should you need further information, my point of contact for this matter is Mr. Robert Smith. Please reach him at 703-695-3526 or robert.k.smith4.civ@mail.mil.

Sincerely,

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25241  
Date: 2020.08.25 18:36:01 -04'00'

Mark E. Easton  
Deputy Chief Financial Officer

Enclosure:  
As stated

cc:  
Deputy Assistant Secretary of Defense (Infrastructure)  
Army Deputy Chief of Staff, G-9 (Installations)  
Deputy Assistant Secretary of the Navy (Installations, Energy, and Facilities)  
Deputy Assistant Secretary of the Air Force (Installations, Environment and Energy)  
Deputy Assistant Secretaries of the Military Departments (Financial Operations)

GAO DRAFT REPORT DATED JULY 28, 2020  
GAO-20-615 (GAO CODE 103387)

“DEFENSE REAL PROPERTY: DOD-WIDE STRATEGY NEEDED TO ADDRESS  
CONTROL ISSUES AND IMPROVE RELIABILITY OF RECORDS”

DEPARTMENT OF DEFENSE RESPONSES  
TO GAO RECOMMENDATIONS

**RECOMMENDATION 1:** The Under Secretary of Defense (Comptroller) should, in collaboration with the Under Secretary of Defense (Acquisition and Sustainment), develop and implement, a DoD-wide strategy to remediate real property asset control issues.

**DoD RESPONSE:** Concur. The Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD(A&S)) and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) are committed to placing increased leadership emphasis on real property asset controls to ensure mission readiness, audit readiness, testing for existence and completeness, and maintaining internal controls. To enhance the completeness and accuracy of real property data, we have the following controls already in place.

- The Data Analytics and Integration Support (DAIS) platform will be used this year to capture end-of-year inventory data, which DoD Instruction (DoDI) 4165.14 requires the Services to provide. Once the DAIS data warehouse has been fully vetted and refreshed after this year’s data collection, DoD will begin using it as the consolidated real property authoritative inventory for review and management. Stringent business rules are part of the acceptance process to enter data into DAIS, requiring that all data submitted is compliant with the Real Property Information Model, which provides quality assurance and standardization to the data collection.
- DAIS data will be used to create an annual dataset (known as Real Property Assets Database) to feed all mandatory annual real property reports; the Facilities Sustainment Model, used as the model for quantifying sustainment costs for DoD assets; the Federal Real Property Profile (FRPP), required of all federal agencies; and a myriad of other required reports. DAIS is a real-time system, collecting data as it is input from the Services’ Accountable Property Systems of Record, so it can be used for ad hoc reporting not limited to a once-a-year data collection.
- Independent validation and verification (IV&V) is performed on every DAIS transaction and additional checks are performed within various tools that extract data from DAIS for other purposes. For example, the tool that extracts the data to populate the FRPP performs additional IV&V checks as part of its automated processing.

Enclosure

**RECOMMENDATION 2:** The Under Secretary of Defense (Comptroller) should, in collaboration with the Under Secretary of Defense (Acquisition and Sustainment), develop department-wide instructions for performing the existence and completeness verifications.

**DoD RESPONSE:** Concur. OUSD(A&S) and OUSD(C) are committed to placing increased leadership emphasis on real property asset policies and instructions to ensure consistent and repeatable existence and completeness verifications and are committed to enhancing the adherence to the following policies which are already in place.

- DoDI 4165.14, “Real Property Inventory (RPI) and Forecasting,” establishes mandatory physical inventories. It requires a review of each real property asset record, including a physical inventory of each real property asset, every five years. Real property assets designated as historic must be reviewed and physically inventoried every three years.
- DoD Directive 4165.06, “Real Property,” requires the Secretaries of the Military Departments to implement policies and programs to acquire, manage, and dispose of real property.
- DoDI 5000.64, “Accountability and Management of DoD Equipment and Other Accountable Property,” requires physical inventories and location surveys to continuously improve accountable property record accuracy.

Collaboration between DoD organizations provides a foundation for achieving real property efficiencies through policy, standardized data, systems and processes.

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# Appendix II: GAO Contact and Staff Acknowledgments

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## GAO Contact

Kristen A. Kociolek at (202) 512-2989 or [kociolekk@gao.gov](mailto:kociolekk@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, the following individuals made key contributions to this report: Paul Kinney (Assistant Director), Marcia Carlsen, Anthony Clark, Dennis Clarke, Patrick Frey, Brad Johnson, Michael Kany, Jason Kelly, Anne Rhodes-Kline, Lauren Fassler, Patricia Powell, and Sandra Silzer.

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Chuck Young, Managing Director, [youngc1@gao.gov](mailto:youngc1@gao.gov), (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

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## Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, [spel@gao.gov](mailto:spel@gao.gov), (202) 512-4707 U.S. Government Accountability Office, 441 G Street NW, Room 7814, Washington, DC 20548

