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March 26, 2002

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# Financial Management

DoD Management of the  
North Atlantic Treaty Organization  
Security Investment Program  
(D-2002-071)

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Department of Defense  
Office of the Inspector General

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*Quality*

*Integrity*

*Accountability*

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### **Acronyms**

JFAI	Joint Formal Acceptance Inspection
NATO	North Atlantic Treaty Organization
NAU	NATO Accounting Unit
NSIP	NATO Security Investment Program
USACE	U.S. Army Corps of Engineers
USEUCOM	U.S. European Command



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

March 26, 2002

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
COMMANDER IN CHIEF, U.S. EUROPEAN COMMAND  
DEFENSE ADVISOR, U.S. MISSION TO THE NORTH  
ATLANTIC TREATY ORGANIZATION  
NAVAL INSPECTOR GENERAL  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on DoD Management of the North Atlantic Treaty  
Organization Security Investment Program (Report No. D-2002-071)

We are providing this report for your review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Because the Under Secretary of Defense (Comptroller) did not receive the draft report in time to have comments included in this report, we request that the Under Secretary provide comments on Recommendation A.2. by May 27, 2002.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Evelyn R. Klemstine at (703) 604-9172 (DSN 664-9172) (eklemstine@dodig.osd.mil) or Mr. Donney J. Bibb at (703) 604-9613 (DSN 664-9613) (dbibb@dodig.osd.mil). See Appendix E for the report distribution. The audit team members are listed on the inside back cover.

Handwritten signature of Thomas F. Gimble in black ink.

Thomas F. Gimble  
Acting  
Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. D-2002-071

March 26, 2002

Project No. D2001LG-0109

### DoD Management of the North Atlantic Treaty Organization Security Investment Program

#### Executive Summary

**Background.** The North Atlantic Treaty Organization (NATO) Security Investment Program (NSIP) was established in 1950 as the NATO Infrastructure Program. NSIP finances the building of facilities needed to support major NATO commands. NSIP-funded facilities include airfields, communications and information systems, pipelines and storage facilities for fuel, harbors, military headquarters, radar systems, and navigational aids. Since the program's inception, NATO has authorized NSIP projects totaling \$23.5 billion. Generally, NSIP projects are authorized by a unanimous vote by NATO member countries, which share the costs, through the NATO Infrastructure Committee. However, when a member country believes a project requires faster completion than can be realized using NATO procedures, the country may prefinance the project. To be reimbursed under NSIP, the country submits a prefinancing statement for NATO Infrastructure Committee notation. NATO closes out NSIP projects by performing a Joint Formal Acceptance Inspection and an audit of project costs.

The U.S. Mission to NATO provides political and military expertise to the U.S. Ambassador to NATO. Although a Department of State organization, the U.S. Mission to NATO is funded and operated by DoD, the Department of State, the U.S. Information Agency, and the Federal Emergency Management Agency. The Office of the Defense Advisor to the U.S. Mission (Defense Advisor), which reports to the Under Secretary of Defense for Policy, plans, recommends, coordinates, and monitors NSIP. The U.S. Army Europe and Seventh Army is the DoD executive agent for NSIP. Several other DoD Components help manage the U.S. portion of NSIP.

**Objectives.** Our overall audit objective was to evaluate DoD oversight and management of NSIP. Specific objectives were to determine how NSIP requirements were identified, contracted, revalidated, and closed out and to determine whether the DoD executive agent adequately accounted for the DoD portion of NSIP funds. We also reviewed the management control program as it applied to the overall objective.

**Results.** DoD Components needed to improve financial management of recoupments due on prefinanced projects, to report contingent liabilities incurred when NATO authorizes new NSIP projects, and to follow closeout procedures for NSIP projects.

- DoD did not aggressively pursue recoupments from NSIP projects that were prefinanced by the United States. As a result, DoD had not collected at least \$38.6 million and the United States was also losing interest on the uncollected amount. Pursuing those recoupments could result in \$38.6 million of funds being put to better use. In addition, DoD overestimated the amount of recoupments in budgeting documents, which negatively impacted NSIP funding (finding A).

- DoD did not report contingent liabilities for U.S. financial commitments to NSIP projects on DoD financial statements. As a result, the contingent liabilities disclosed on DoD financial statements were understated by about \$396.8 million (finding B).
- The Atlantic Division, Naval Facilities Engineering Command, did not submit timely requests to the Defense Advisor to have NATO perform Joint Formal Acceptance Inspections and audits of U.S.-managed NSIP projects. By delaying the closeout of completed NSIP projects, the United States did not fully discharge its responsibilities to NATO (finding C).

See Appendix A for a discussion of our review of the management control program.

**Summary of Recommendations.** We recommend that the Commander in Chief, U.S. European Command develop procedures for managing NSIP, establish a system to track NSIP projects, and validate recoupments due to the United States. We recommend that the Under Secretary of Defense (Comptroller) include budget guidance on reporting expected recoupments in DoD Regulation 7000.14-R, “DoD Financial Management Regulation.” We recommend that the Defense Advisor establish procedures for reporting U.S. financial commitments to NSIP projects to the Commander, U.S. Army Europe and Seventh Army. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) ensure that U.S. financial commitments to NSIP projects are included on DoD agency-wide financial statements. We recommend that the Commander, Atlantic Division, Naval Facilities Engineering Command enforce procedures for submitting requests for Joint Formal Acceptance Inspections to the Defense Advisor and for submitting annual reports on the status of NSIP projects to the Supreme Allied Commander Atlantic. We also recommend that the Commander, Atlantic Division expand instructions to state when NATO should be requested to audit NSIP projects and require that annual reports submitted to the Supreme Allied Commander Atlantic also be submitted to the Supreme Headquarters Allied Powers Europe and the Defense Advisor and that those reports include the closeout status of all completed projects.

**Management Comments.** The Chief of Staff, U.S. European Command concurred with recommendations to develop procedures for managing NSIP, establish a system to track the status of NSIP projects, and validate recoupments. The Defense Advisor concurred with the recommendation to establish procedures for reporting U.S. financial commitments to NSIP projects. The Assistant Secretary of the Army (Financial Management and Comptroller) concurred with the recommendation to ensure that U.S. financial commitments to NSIP projects are included on the annual DoD agency-wide financial statements. The Assistant Secretary of the Navy (Installations and Environment) concurred with recommendations to enforce procedures for submitting requests for Joint Formal Acceptance Inspections to the Defense Advisor and for submitting annual reports on the status of NSIP projects to the Supreme Allied Commander Atlantic. The Assistant Secretary also concurred with the recommendation to expand instructions concerning NSIP projects.

A discussion of management comments is in the Findings section of the report and the complete text is in the Management Comments section.

**Management Comments Required.** We request that the Under Secretary of Defense (Comptroller) provide comments on this report by May 27, 2002. The Under Secretary did not receive the draft report in time to have comments included in this report.

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## Background

The North Atlantic Treaty Organization (NATO) Security Investment Program (NSIP) was established in 1950 as the NATO Infrastructure Program. NSIP finances the construction and restoration needed to support NATO minimum military requirements. Facilities built and restored with NSIP funds include airfields, communications and information systems, pipelines and storage facilities for fuel, harbors, military headquarters, radar systems, and navigational aids. NATO member countries share the cost of NSIP projects. NATO has authorized NSIP projects totaling \$23.5 billion since program inception.

**Managing NSIP.** At NATO, the NATO Senior Resource Board has overall responsibility for military resources that are commonly funded by NATO member countries and provides guidance on matters dealing with major resource policy. The NATO Infrastructure Committee manages NSIP, including screening and managing the technical and financial aspects of all projects, authorizing host nations to obligate funds for projects, and deciding on procurement methods.

**U.S. Participation in NSIP.** The U.S. Mission to NATO (the U.S. Mission) provides political and military expertise to the U.S. Permanent Representative on the North Atlantic Council, who is the U.S. Ambassador to NATO. Although a Department of State organization, the U.S. Mission is a joint operation that is funded and operated by DoD, the Department of State, the U.S. Information Agency, and the Federal Emergency Management Agency. The Office of the Defense Advisor to the U.S. Mission (the Defense Advisor), which reports to the Under Secretary of Defense for Policy, plans, recommends, coordinates and monitors NSIP at NATO. The Infrastructure, Logistics, and Civil Emergency Planning Division of the U.S. Mission justifies, obligates, disburses, and accounts for U.S. contributions to NSIP.

**DoD Participation in NSIP.** DoD participation in NSIP is based on section 2806, title 10, United States Code, "Contributions for North Atlantic Treaty Organizations Security Investment Program," which authorizes the Secretary of Defense to contribute the U.S. share to NATO programs that acquire and construct military facilities within amounts authorized by law. Several DoD Components participate in NSIP and work with the Defense Advisor.

- The Under Secretary of Defense for Acquisition, Technology, and Logistics determines the annual funding required to meet U.S. commitments to NSIP, prepares and submits annual budget requests, and supports annual funding requirements before Congress.
- The Office of the Under Secretary of Defense (Comptroller) (the Comptroller) establishes fiscal policy and procedures for U.S. participation in NSIP.
- The Office of the Under Secretary of Defense for Policy develops policy for U.S. participation in NSIP, except fiscal policy.

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- The Logistics Directorate, Joint Staff, provides the U.S. Delegation to the NATO Military Committee with advice, information, support, and guidance, approved by the Chairman of the Joint Chiefs of Staff, on NATO infrastructure.
  - The Commander in Chief, U.S. Joint Forces Command and the Commander in Chief, U.S. European Command (USEUCOM) coordinate planning and programming actions that ensure their forces receive the maximum benefit from NSIP. Within their areas of responsibility, they promote a program to recoup funds and maintain complete records on all prefinanced projects until issuance and acceptance of NATO audit reports.
  - The U.S. Army Europe and Seventh Army, NATO Resource Support Branch, is the DoD executive agent for NSIP and develops systems needed to account for U.S. funds used to support NSIP projects.
  - The U.S. Army Corps of Engineers (Europe District) (USACE [Europe District]) and the Atlantic Division, Naval Facilities Engineering Command, are the DoD construction agents for NSIP projects when the United States is the administrator country. Also, USACE (Europe District) is the collection agent for NSIP projects prefinanced by the United States. For the collection activities, USACE (Europe District) reports to USEUCOM.

**NSIP Capability Packages.** In 1993, NATO changed its approval and funding process for NSIP projects. Previously, NATO approved and funded individual projects each year. In 1993, NATO started approving and funding projects as part of capability packages.<sup>1</sup> Capability packages involve a top-down process that is driven by strategic priorities. The top-down process allows NATO to identify the assets needed by its commanders to achieve specific capabilities and the cost of those assets.

**Authorizing NSIP Projects.** Generally, new NSIP projects must be authorized by a unanimous vote by NATO member countries through the NATO Infrastructure Committee. However, when a member country believes a project requires faster completion than can be realized using NATO procedures, the country may prefinance the project. To be eligible for possible future reimbursement under NSIP, the country submits a prefinancing statement, which must be noted by the NATO Infrastructure Committee.

**Administering NSIP Projects.** For each NSIP project, one NATO member country or a NATO agency performs the administrative functions for all member countries. Usually, the administrator country is the country on whose land the NSIP project is being built, also called the host nation. However, the host nation may allow another country to administer an NSIP project. That requires that the two countries execute a memorandum of agreement. Administering NSIP projects includes designing and preparing specifications, obtaining bids, awarding contracts, monitoring contractor performance,

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<sup>1</sup>The North Atlantic Council approves capability packages except when France does not participate in the funding. In those cases, the Defense Planning Committee approves them.

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requesting NATO to perform a Joint Formal Acceptance Inspection (JFAI) of an NSIP project, and completing an audit with the NATO International Board of Auditors. The United States is the administrator country for NSIP projects in Iceland and several NSIP projects at Aviano Air Base, Italy. The Atlantic Division, Naval Facilities Engineering Command, is the DoD construction agent for those NSIP projects. During our audit fieldwork, April 2001 through December 2001, USACE (Europe District) was not a construction agent for any NSIP projects.

**Reimbursing NSIP Project Costs.** Three methods are used to reimburse the administrator country for eligible NSIP costs. For authorized projects, all NATO member countries provide partial funding up front to the administrator country for the planning and design of the project and for the anticipated payments to the construction contractor for the first year. Afterward, NATO member countries reimburse the administrator country for additional contract costs. Those payments, based on a pay sheet calculated and provided by NATO, are made each quarter. For prefinanced projects, the administrator country initially finances the project and is later reimbursed by the other member countries for eligible costs. Procedures to collect funds from the other member countries differ depending on whether the administrator country is the host nation or user nation. When the host nation is the administrator country, it recoups eligible costs by requesting reimbursement directly from the NATO Infrastructure Committee. When the user nation is the administrator country, it bills the host nation for reimbursement. The host nation then requests payment from the NATO Infrastructure Committee. After the host nation is paid, it forwards the payment to the administrator country.

**Funding NSIP Costs.** Each year NATO establishes a contribution ceiling for NSIP. The U.S. share of the contribution ceiling, generally about 25 percent, is funded through direct appropriations in the annual DoD Appropriations Acts for military construction. For FY 1999, FY 2000, and FY 2001, appropriated funds were \$154 million, \$172 million, and \$172 million, respectively. In addition, National Defense Authorization Acts allow DoD to use funds recouped from prefinanced projects, which originated from military construction money, to fund NSIP. In preparing NSIP budgets, DoD reduces its budget request by the amount it expects to recoup that year from prefinanced projects.

## Objectives

The overall audit objective was to evaluate DoD oversight and management of NSIP. Specific objectives were to determine how NSIP requirements were identified, contracted, revalidated, and closed out and to determine whether the DoD executive agent adequately accounted for the DoD portion of NSIP funds. We also reviewed the management control program as it applied to the audit objective. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program. See Appendix B for a discussion of adjustments that the Comptroller makes to NSIP appropriations because of fluctuations in foreign currency exchange rates.

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## A. Accounting for and Recouping Funds From Prefinanced Projects

USEUCOM did not aggressively pursue recoupments from NSIP projects that were prefinanced by the United States as required by DoD guidance. In addition, when preparing budgeting documents, DoD overestimated expected recoupments from prefinanced projects. Recoupments were not aggressively pursued because USEUCOM did not have adequate guidance and controls over the recoupment process. Also, recoupments were not adequately addressed in budget submissions because DoD did not issue adequate guidance for preparing NSIP budget submissions. As a result, DoD had not validated and collected at least \$38.6 million of recoupments and the United States was also losing interest on the uncollected amount. In addition, overestimating expected recoupments negatively impacted NSIP funding.

### Management Control Guidance

**Office of Management and Budget Guidance.** Office of Management and Budget Circular No. A-123, “Management Accountability and Control,” June 21, 1995, provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. It states that management controls, including the organization, policies, and procedures, are tools to help program and financial managers achieve results and safeguard the integrity of their programs. The circular requires managers to incorporate basic management controls in strategies, plans, guidance, and procedures that govern their programs and operations. It states that the controls shall be consistent with specific standards, including a standard for recording and documentation, which were drawn from the “Standards for Internal Control in the Federal Government,” issued by the General Accounting Office. The recording and documentation standard states that transactions should be promptly recorded and properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports.

**General Accounting Office Guidance.** “Standards for Internal Control in the Federal Government,” November 1999, provides the overall framework for establishing and maintaining internal control. It states that internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. Also, the standards state that the documentation should appear in management directives, administrative policies, or operating manuals. In addition, the standards state that all documentation and records should be properly managed and maintained.

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## Requirements for Recouping Funds From Prefinanced Projects

**DoD Guidance.** DoD Directive 2010.5, “Participation in the NATO Infrastructure Program,” June 24, 1992, requires all commands to aggressively pursue recoupment of funds from NSIP projects prefinanced by the United States. The directive requires USEUCOM to promote an aggressive program to recoup funds. USEUCOM is required to submit the quarterly “NATO Infrastructure Prefinancing and Recoupment Status Report.” The U.S. Mission is required to coordinate the exchange of information between NATO organizations and U.S. agencies. In addition, the directive requires all commands to maintain complete records on all prefinanced projects until issuance and acceptance of a NATO audit report.

**Army Guidance.** U.S. Army Europe and Seventh Army Regulation 415-22, “Construction, NATO Infrastructure Program,” February 20, 1976, requires USACE (Europe District) to maintain accounting records for accounts receivable transactions. Those accounting records should include a general ledger, subsidiary ledgers, and supporting documents. The regulation also states that a valid accounts receivable occurs when NATO approves specific projects prefinanced by the United States and grants authorization to commit funds. In addition, the regulation states that records and files kept by USACE (Europe District) should reflect billing actions and recoupments collected. Specifically, those records and files should represent a complete history of the prefinanced project and include all actions taken involving NATO host nations, USEUCOM components, and USACE (Europe District).

## Recouping Funds and Estimating Recoupment Amounts

USEUCOM did not aggressively pursue recoupments from NSIP projects that were prefinanced by the United States, as required by DoD guidance. In addition, when preparing budgeting documents, DoD overestimated expected recoupments from prefinanced projects.

**Pursuing Recoupments.** USEUCOM did not aggressively pursue recoupments from NSIP projects prefinanced by the United States. Specifically, USEUCOM did not take the actions needed to validate \$115.6 million of recoupments or request that USACE (Europe District) take actions needed to collect those recoupments from NATO host nations. The \$115.6 million of recoupments, listed on a USACE (Europe District) schedule of outstanding recoupments, included \$8 million from 21 projects prefinanced by the Army, \$11.6 million from 7 projects prefinanced by the Navy, and \$96 million from 56 projects prefinanced by the Air Force. Some of the available documentation for those projects dated back to the 1970s. For example, the most recent information received for an Air Force project in Ramstein, Germany, was September 1973—28 years ago. Data from the USACE (Europe District) schedule of outstanding recoupments is in Appendix C.

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**Management Actions Taken.** During the audit, USEUCOM initiated a review of NSIP projects on the USACE (Europe District) schedule of outstanding recoupments. According to USEUCOM officials, they identified that \$76.7 million on the USACE (Europe District) schedule of recoupments were not eligible for recoupment and about \$300,000 had already been collected on one project. The \$76.7 million identified by USEUCOM was funding associated with projects that USEUCOM officials stated were not eligible for recoupment because the projects received direct funding from NATO; were not executed by the United States; or were not supported by either the Supreme Headquarters Allied Powers Europe or the NATO Infrastructure Committee. As of December 2001, USEUCOM was continuing its review of projects on the schedule of outstanding recoupments to determine whether the United States should pursue recoupments on the \$38.6 million associated with them. We did not validate the results of the USEUCOM review.

**Estimating Recoupments.** When preparing budgeting documents, DoD overestimated expected recoupments from prefinanced projects. DoD estimates were based on average recoupments from prior years instead of actual expected collections. For FY 1999 through FY 2001, the Comptroller reduced the NSIP budget request by \$11 million each year. The summary for the FY 2002 NSIP budget decision detailed how DoD determined the estimated recoupment. For that budget, the Comptroller rejected the USEUCOM estimate that it would recoup \$3 million during FY 2002, stating that USEUCOM did not provide support for the estimate. The Comptroller then averaged recoupments collected during FY 1998 through FY 2000. Using an average, however, did not take into account the variability of recoupments. For example, between FY 1997 and FY 2001, DoD accounting reports show that USEUCOM recouped between \$585,000 and \$26.4 million each year, a spread of \$25.8 million. Furthermore, recoupments have decreased recently—in FY 2000 and FY 2001, USEUCOM only recouped about \$6.1 million and \$3.3 million, respectively. Differences between budgeted and actual recoupments are important to NSIP because the Comptroller reduces the budget request for NSIP by the estimated recoupments, as the National Defense Authorization Acts allow DoD to reuse funds recouped from prefinanced NSIP projects.

## **Controls Over Recoupments and Budgeting**

DoD did not have adequate management controls over recoupments or the budget process for NSIP. Specifically, recoupments were not aggressively pursued because USEUCOM did not have adequate guidance or controls over the recoupment process. In addition, recoupments were not adequately addressed in budget submissions because DoD did not issue adequate guidance for preparing NSIP budget submissions.

**USEUCOM Controls.** USEUCOM did not aggressively pursue recoupments because it did not have adequate guidance and controls over the recoupment process. USEUCOM officials characterized USEUCOM management responsibilities for NSIP as “starting to drift around 1994 or 1995.” Specifically, USEUCOM rescinded its Directive 60-4, “NATO Common Funded Infrastructure Responsibilities,” January 24, 1990; discontinued use of

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its prefinancing and recoupment system; and stopped preparing and forwarding the quarterly status report for prefinancing and recoupment to DoD officials.

**Rescinding USEUCOM Directive 60-4.** USEUCOM rescinded its Directive 60-4 in 1996. That directive provided guidance to USEUCOM components on the NSIP program. It included requirements for reviewing the status of prefinanced projects, updating and validating information in the NATO Infrastructure Prefinancing and Recoupment System, and preparing the quarterly “NATO Infrastructure Prefinancing and Recoupment Status Report.” That report was submitted to the Assistant Secretary of Defense (Production and Logistics),<sup>2</sup> the Assistant Secretary of Defense (International Security Policy), and the Assistant Secretaries of the Military Departments responsible for financial management. According to the current NSIP program manager at USEUCOM, that directive was not usable because it was prepared before NATO started using capability packages. Although his predecessor started to revise the directive, the NSIP program manager stated the following.

During the re-write, SHAPE and SACLANT<sup>3</sup> began a review of NATO Directive (85-1)—thus logically delaying the completion of the EUCOM directive dealing with NSIP. Now that the Bi-Strategic Command (Bi-SC) Directive 85-1, “NATO Security Investment Programme Management in Allied Command Atlantic and Allied Command Europe,” has been issued [as a draft], now is a good time to complete the process.

**Maintaining the Prefinancing and Recoupment System.** Although USEUCOM Directive 60-4 required USEUCOM to maintain the NATO Infrastructure Prefinancing and Recoupment System, USEUCOM discontinued that system. USEUCOM officials estimated that the system was discontinued in 1995 and stated the reasons may have been because the military officer assigned to NSIP was reassigned to the Bosnian efforts and the system, which was maintained on a classified system, was difficult to access. The NATO Infrastructure Prefinancing and Recoupment System was not replaced with another system. Without a system and procedures to track recoupments, USEUCOM staff working on NSIP were unable to recoup funds from older prefinanced projects because they were unfamiliar with the details. Instead, USEUCOM only attempted to recoup funds on NSIP projects that had current information.

**Reporting Status of Prefinanced Projects.** USEUCOM Directive 60-4 required USEUCOM to submit the quarterly NATO Infrastructure Prefinancing and Recoupment Status Report to the Assistant Secretary of Defense (Production and Logistics), the Assistant Secretary of Defense (International Security Policy), and the Assistant Secretaries of the Military Departments responsible for financial management. However, USEUCOM stopped preparing that report

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<sup>2</sup>The Assistant Secretary of Defense (Production and Logistics) was renamed the Deputy Under Secretary of Defense (Logistics) in 1994.

<sup>3</sup>SHAPE is Supreme Headquarters Allied Powers Europe. SACLANT is Supreme Allied Commander Atlantic.

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in 1994. USEUCOM officials were unable to explain why the report was discontinued. Also, specific information provided by the report is unknown because a copy of the report was not available.

**Budget Controls.** Recoupments were not adequately addressed in budget submissions because DoD did not issue adequate guidance for preparing NSIP budget submissions. DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 2B, “Military Construction/Family Housing Appropriations,” chapter 6, “Budget Estimates Submission,” Section 060304, “North Atlantic Treaty Organization (NATO) Security Investment Program,” June 2000, provides instructions for preparing and submitting budget estimates for NSIP. For NSIP, that regulation required the submission of an NSIP-1 exhibit, which lists requirements at the project level for both construction and procurement requirements. The regulation, however, did not provide instructions for estimating recoupments. Instead, the Comptroller requested information from USEUCOM verbally. Without a requirement in the regulation for providing details of expected recoupments, USEUCOM had no ongoing requirement to develop procedures that would provide reliable forecasts of expected recoupments.

## Impact on the United States and NSIP

Because USEUCOM and its components did not aggressively pursue recoupments, DoD had not collected at least \$38.6 million and the United States was also losing interest on the uncollected amount. In addition, overestimating expected recoupments negatively impacted NSIP funding.

**Impact on the United States.** DoD could potentially recoup \$38.6 million by implementing corrective actions to validate and collect recoupments, which would return the funds to the NSIP appropriation, appropriation account symbol 97X084. Recoupments listed by USACE (Europe District) totaling \$38.6 million would have accrued interest<sup>4</sup> totaling \$11.2 million from January 1996 through August 2001. For each day those recoupments remain outstanding, the United States loses \$6,350 of additional interest.

**Impact on NSIP Funding.** Overestimating expected recoupments negatively impacted NSIP funding because the Comptroller reduced the budget request for NSIP by the estimated recoupments, as the National Defense Authorization Acts allow DoD to reuse funds recouped from prefinanced NSIP projects. In comments to the FY 2002 program budget decision for NSIP, the Director of Plans and Policy at USEUCOM stated that the U.S. representative to the Infrastructure Committee would be forced to place a hold on funding projects that benefit the United States because the NSIP account has been underfunded. In addition, the Director stated that because actual recoupments were less than estimated recoupments, there was a negative impact on overall NSIP funding.

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<sup>4</sup>Interest was calculated using the simple interest method and applying interest rates established by the Department of Treasury for overdue accounts receivable.

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Furthermore, the Director stated that the Comptroller's proposed estimates would underfund NSIP and place a moratorium on authorizing and starting new projects.

## **Recommendations and Management Comments**

**A.1. We recommend that the Commander in Chief, U.S. European Command:**

**a. Develop written procedures for managing the North Atlantic Treaty Organization Security Investment Program, including preparing budget submissions.**

**b. Establish a system to track the status of North Atlantic Treaty Organization Security Investment Program projects.**

**c. Validate the recoupments due to the United States.**

**Management Comments.** The Chief of Staff, U.S. European Command concurred, stating that the command will develop a directive to outline roles and responsibilities related to NSIP by May 31, 2002, develop a database to track NSIP projects by March 5, 2002, and compile a list of all prefinanced projects by September 30, 2002.

**A.2. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, volume 2B, chapter 6, "Budget Estimate Submissions," June 2000, to include guidance on budget reporting requirements for estimated recoupments of prefinanced North Atlantic Treaty Organization Security Investment Program projects.**

**Management Comments Required.** We request that the Under Secretary of Defense (Comptroller) provide comments on this report.

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## B. DoD Liabilities for NSIP Projects

DoD did not report contingent liabilities for U.S. financial commitments to NSIP projects on DoD financial statements. That occurred because Defense Advisor officials were not aware of the Chief Financial Officers Act and DoD policy that require such reporting. In addition, those officials did not establish procedures to report NSIP financial liabilities to DoD. As a result, the contingent liabilities disclosed on DoD financial statements were understated by about \$396.8 million.

### U.S. Government and NATO Guidance

**Chief Financial Officers Act.** The Chief Financial Officers Act of 1990 (the Act), Public Law 101-576, requires Federal agencies to improve systems of accounting, financial management, and internal controls to ensure the issuance of reliable financial information. In addition, the Act requires the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and Congress in the financing, management, and evaluation of Federal programs. The Act also requires that each financial statement reflect:

. . . (1) the overall financial position of the revolving funds, trust funds, offices, bureaus, and activities covered by the statement, including assets and liabilities thereof; (2) results of operations of those revolving funds, trust funds, offices, bureaus, and activities; (3) cash flows or changes in financial position of those revolving funds, trust funds, offices, bureaus, and activities; and (4) a reconciliation to budget reports of the executive agency for those revolving funds, trust funds, offices, bureaus, and activities.

**DoD Guidance.** DoD Regulation 7000.14-R, volume 4, chapter 8, “Financial Control of Liabilities,” January 1995, sets forth the policy to be followed in accounting for liabilities. It states that a liability is an amount owed by DoD for items received, services received, expenses incurred, assets acquired, construction performed, and cash advances received but as yet unearned. It states that a contingent liability occurs when a condition, situation, or set of circumstances exists that may confirm the loss or impairment of an asset or the incurrence of a liability. Chapter 8 requires that estimated losses be recorded in DoD financial systems and reported on financial statements if an asset has probably been impaired or a liability has probably been incurred as of the date of the financial statements.

Volume 6B, chapter 10, “Notes to the Financial Statements,” October 1999, provides instructions for the preparation and presentation of notes to the principal statements, including format and content. It states that contingent liabilities are disclosed in the notes to the financial statements when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will occur.

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Volume 6B, chapter 2, “General Instructions for the Financial Statements,” October 2000, identifies officials responsible for the content and submission of audited DoD financial statements. For DoD funds provided to the Army, the regulation requires that the Assistant Secretary of the Army (Financial Management and Comptroller) provide financial data to the Defense Finance and Accounting Service, which prepares the DoD agency-wide financial statements.

**NATO Guidance.** The working draft of the Bilateral Strategic Command Directive 85-1, “NATO Security Investment Programme Management in Allied Command Atlantic and Allied Command Europe,” December 10, 2000, covers all aspects of NSIP. The directive states that the NATO Infrastructure Committee authorizes all NSIP projects and authorizes the administrator country to commit NATO funds.

The NATO Infrastructure Manual, part I, “Policy and Procedures,” NATO document AC/4-M/206 (revised), August 1991, states that for projects where the full amount of funds are not needed within the first year, the NATO Infrastructure Committee will note the total cost, but will include only a sufficient funding level to cover the first year’s requirement. The purpose is to avoid tying up funds for longer than necessary, thus permitting more projects to be started and completed sooner. The NATO Infrastructure Committee guarantees to host nations that NATO will provide funds for the total project or pay reasonable termination costs should a decision be taken to terminate the design or construction.

## **Recording and Reporting Financial Commitments**

DoD did not report contingent liabilities for U.S. financial commitments to NSIP projects on DoD financial statements. Those contingent liabilities were incurred when NATO member countries voted to authorize new NSIP projects. Instead of recording and tracking outstanding U.S. financial commitments to NSIP projects, Defense Advisor officials relied on the NATO International Staff to document all of the financial liabilities for NSIP projects on NATO financial statements. The U.S. share of the liability was not reported or disclosed by Defense Advisor officials to the DoD executive agent, the Commander, U.S. Army Europe and Seventh Army, who prepares and submits data to support financial statements to the Assistant Secretary of the Army (Financial Management and Comptroller). On the FY 2000 “Department of Defense Agency-wide Audited Financial Statements,” February 15, 2001, the Defense Finance and Accounting Service reported \$810.4 billion in non-Federal liabilities, but did not report or disclose contingent liabilities for U.S. financial commitments to NSIP. According to volume 6B of DoD Regulation 7000.14-R, the Defense Advisor is responsible for recording and reporting NSIP liabilities.

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## **Procedures for Reporting Financial Commitments**

DoD did not report contingent liabilities because Defense Advisor officials were not aware of the Chief Financial Officers Act and DoD policy that require such reporting. Funding NSIP projects is not like funding U.S. military construction projects. For U.S. military construction projects, DoD obligates funds for the amount of each project's contracted cost. For NSIP projects, however, DoD obligates only the U.S. share of funding authorized by the NATO Infrastructure Committee and not the U.S. share of total project costs. Because the NATO Infrastructure Committee guarantees funding to cover the authorized scope (total cost) of NSIP projects, the difference between the authorized scope and authorized funding for the U.S. share of NSIP projects is a contingent liability for DoD.

Because Defense Advisor officials were not aware of requirements for reporting contingent liabilities for NSIP projects, they did not establish procedures for reporting financial commitments to NSIP projects as liabilities. Such procedures should include the Defense Advisor either informing the DoD executive agent of each new financial commitment or of the total U.S. commitment after receiving total NSIP commitments from NATO. Recording each new financial commitment would also require that the DoD executive agent liquidate the liabilities in the accounting records as host nations recover their costs. Recording the liability for the U.S. share of NSIP financial commitments would require Defense Advisor officials to apply the U.S. share to total NSIP commitments as of September 30 of each year.

## **Liability Reporting at the Federal Aviation Administration**

In June 2001, the Federal Accounting Standards Advisory Board responded to a request from the Federal Aviation Administration for guidance on reporting liabilities associated with financial commitments made to airport authorities before the Federal Aviation Administration executed grant agreements. That situation was similar to DoD commitments to NSIP projects. Both commitments involved a contingent liability and the presence of a track record for subsequent funding. Unlike DoD, however, the Federal Aviation Administration was not able to reasonably estimate the amount of its financial commitment. Therefore, the Federal Accounting Standards Advisory Board concluded that the Federal Aviation Administration should disclose only the liability in the notes to its financial statements to alert the readers to the contingent liability and give some indication of magnitude. Because DoD can reasonably estimate its NSIP commitment, DoD should report that commitment on its financial statements. The letter to the Federal Aviation Administration is in Appendix D.

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## **Understatement of Liabilities on DoD Financial Statements**

Contingent liabilities reported on DoD financial statements were understated by about \$396.8 million. As of December 31, 2000, the North Atlantic Council had approved \$23.5 billion of NSIP projects and the NATO Infrastructure Committee had authorized funds for implementation of NSIP projects totaling \$21.9 billion. The difference, \$1.6 billion, is the NATO commitment to NSIP projects. Because the United States finances an average of 24.7 percent of NSIP projects, the U.S. commitment totaled about \$396.8 million. Properly reporting financial information alerts readers of DoD financial statements to the magnitude of NSIP contingent liabilities.

## **Recommendations and Management Comments**

**B.1. We recommend that the Defense Advisor to the U.S. Mission to the North Atlantic Treaty Organization establish procedures for reporting U.S. financial commitments to North Atlantic Treaty Organization Security Investment Program projects to the Commander, U.S. Army Europe and Seventh Army so that those commitments will be reported on annual DoD agency-wide financial statements.**

**Management Comments.** The Defense Advisor concurred, stating that procedures have been established to report financial liabilities for each NSIP project authorized by the NATO Infrastructure Committee to the Deputy Chief of Staff (Resource Management), U.S. Army Europe and Seventh Army. The Defense Advisor stated that the new procedures went into effect as of the January 8, 2002, meeting of the NATO Infrastructure Committee.

**B.2. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) ensure that U.S. financial commitments to North Atlantic Treaty Organization Security Investment Program projects are included on the annual DoD agency-wide financial statements.**

**Management Comments.** The Assistant Secretary of the Army (Financial Management and Comptroller) concurred, stating that he will specifically request the financial commitments to NSIP projects from the U.S. Army Europe and Seventh Army beginning with the FY 2002 data call for contingent liabilities.

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## C. Closeout of NSIP Projects

The Atlantic Division, Naval Facilities Engineering Command, did not submit timely requests to the Defense Advisor to have NATO perform JFAIs and audits of U.S.-managed NSIP projects. That condition occurred because the NATO Program Office, Atlantic Division, did not establish the closeout of NSIP projects as a priority because it did not have the necessary staff resources. Also, the Atlantic Division did not require the NATO Program Office to prepare and submit an annual report to the Defense Advisor and the Supreme Headquarters Allied Powers Europe on the status of NSIP projects. By delaying the closeout of completed NSIP projects, the United States did not fully discharge its responsibilities to NATO.

### Project Closeout Policies and Procedures

**Atlantic Division Project Closeout Policies.** Atlantic Division, Naval Facilities Engineering Command, Instruction 4000.2A, “Atlantic Division, Naval Facilities Engineering Command Role and Responsibilities in Participating in the North Atlantic Treaty Organization Infrastructure Program,” August 12, 1986, states that within 6 months of the contract completion date<sup>5</sup> for each NSIP project, the Atlantic Division should request that NATO staff perform a JFAI. The instruction also requires the Atlantic Division to submit an annual report to the Supreme Allied Commander Atlantic, listing all projects expected to be completed and ready for a JFAI in the next calendar year.<sup>6</sup> Although the instruction does not specify that the NATO Program Office is to request an audit, it does list all of the project documents that the office must provide to the NATO International Board of Auditors and states that an audit is normally performed within 2 years of project completion.

**NATO Project Closeout Policies.** Chapter 10, “Acceptance of Projects,” in the “NATO Infrastructure Manual,” August 1991, states that administrator countries are required to request JFAIs within 6 months of the contract completion date of a project. The instruction states that the formal acceptance of a project constitutes a formal agreement that the NSIP project is physically complete and militarily and technically acceptable and that the administrator country responsibilities have been fully discharged. In addition, chapter 10 states that uncorrected deficiencies identified by the JFAI may prevent formal acceptance of a project or forfeiture of NATO funding needed to correct any deficiencies.

**Closeout Procedures.** Closing out NSIP projects requires NATO to perform a JFAI and an audit of project costs. JFAIs, requested by the administrator country, are a combined inspection of NSIP projects that establish an inventory

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<sup>5</sup>The instruction refers to contract completion dates as beneficial occupancy dates. The assistant NATO coordinator, NATO Program Office, stated that NSIP-funded facilities are usually occupied on the contract completion date.

<sup>6</sup>Specifically, that annual report should also be submitted directly to the Defense Advisor.

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of facilities and their as-built condition. Generally, during JFAIs, NATO staff, with assistance from host nation or administrator country staff, compares the completed project against what NATO agreed to fund. Afterward, the administrator country requests the NATO International Board of Auditors to audit project costs. After NATO and the administrator country resolve any audit issues, NATO issues a certificate of final financial acceptance that closes the project. Until then, NATO and the administrator country have not finalized their financial commitments to each other. Although DoD does not control when NATO performs JFAIs and audits, it does have control over when it requests NATO to perform those reviews.

Within DoD, the NATO Program Office, a component of the Capital Improvements Division, Atlantic Division, Naval Facilities Engineering Command, maintains a NATO Infrastructure Status Report for its own use. That report includes project status information, including the contract award and contract completion dates.

## **Requesting JFAIs and Audits**

The Atlantic Division did not submit timely requests to the Defense Advisor to have NATO perform JFAIs and audits of U.S.-managed NSIP projects. The NATO Infrastructure Status Report, dated June 20, 2001, lists 66 NSIP projects in the continental United States, Iceland, and Italy that were still open although the contract had been completed. That report shows that 42 (65.2 percent) of the 66 completed projects had been completed for at least 2 years but had not been closed out. Those 42 projects included 12 projects that were completed between 5 and 13 years ago.

**Requesting JFAIs.** The NATO Infrastructure Status Report did not document JFAI request dates, and officials in the NATO Program Office were not able to provide documentation showing that they had requested NATO to perform a JFAI for the 42 projects that had been completed for at least 2 years but had not been closed out. Although unable to provide documentation, officials in the NATO Program Office stated that a JFAI had been performed recently for 2 of the 12 projects.

**Requesting Audits.** The NATO Infrastructure Status Report noted that 18 of the 42 projects were ready for a NATO audit. However, because the report does not document audit request dates, we could not determine how many audit requests had been submitted. None of the 18 projects was within the 2-year guideline for audit completion: the average elapsed time since contract completion was 8 years and the longest elapsed time since contract completion was 13 years.

## **Complying With NSIP Project Closeout Policies**

The NATO Program Office was not complying with Atlantic Division requirements for requesting JFAIs within 6 months of contract completion

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because the NATO Program Office had not established the closeout of NSIP projects as a priority, and the Atlantic Division did not require its NATO Program Office to report on the status of NSIP projects.

**Priority of Project Closeouts.** Officials in the NATO Program Office stated that closeout of NSIP projects was a low priority because it did not have the necessary staff resources. The officials stated that their emphasis was on managing new and ongoing projects. In particular, emphasis on new projects was important because the NATO Program Office designs new projects and construction cannot begin until the design has been completed. They also stated that the NATO Program Office had not been adequately staffed for several years. The program manager and assistant NATO coordinator have been primarily responsible for project closeouts. A staff shortage existed from 1997 through 2000 because the assistant NATO coordinator left for an assignment with the NATO international staff in Brussels, Belgium, and was not replaced in the NATO Program Office. Then, shortly after the assistant NATO coordinator returned to duty in the NATO Program Office, the program manager left. The program manager's position was not filled until July 2001. Without adequate staff for about 4 years, the NATO Program Office concentrated on higher priority work and allowed lower priority work, such as closing out NSIP projects, to slip.

**Reporting on NSIP Project Closeouts.** The Atlantic Division did not require the NATO Program Office to prepare and submit an annual report to the Defense Advisor in accordance with Atlantic Division, Naval Facilities Engineering Command, Instruction 4000.2A. The instruction requires the NATO Program Office to provide information about projects expected to be completed and ready for a JFAI in the next calendar year. However, the Atlantic Division instruction did not require the NATO Program Office to provide the status of all of the completed projects or to include contract completion dates and request dates for JFAIs and audits.

Because the NATO Program Office was not required to report on NSIP project closeouts, it did not have adequate metrics for tracking project closeouts. Specifically, although the internal NATO Infrastructure Status Report included contract award and contract completion dates and the Atlantic Division's master listing of NATO audits included audit completion dates, those documents did not contain sufficient data to readily determine whether the NATO Program Office requested JFAIs and audits on time. The Defense Advisor needs planned project completion dates, JFAI request dates, JFAI completion dates, and audit request dates to ensure that JFAIs and audits are requested on time. That information would provide the Defense Advisor with the status of NSIP projects and would identify workload for the next calendar year, project delays, and other areas of concern.

## **Discharging Responsibilities**

The United States has not fully discharged its responsibilities to NATO for NSIP projects until NATO completes a JFAI, performs an audit of project costs, and issues a certificate of final financial acceptance. Until then, the United States is

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accountable for all NSIP funds authorized and expended. According to officials in the NATO Program Office, delays in the steps needed to close out NSIP projects increase the risk that DoD Components lose supporting documents. Also, personnel who are knowledgeable about the projects may no longer be available. The officials in the NATO Program Office also stated that delays increase the possibility that the configuration of NSIP-funded facilities may change. For example, NSIP-funded equipment may be replaced or moved to a different location. When project costs are not fully supported, the U.S. Government may be held responsible for the unsupported costs. Therefore, it is important for the United States to promptly close out NSIP projects by ensuring that JFAIs and NATO audits are requested on time.

## **Recommendations and Management Comments**

**C. We recommend that the Commander, Atlantic Division, Naval Facilities Engineering Command:**

**1. Enforce the procedures of Atlantic Division, Naval Facilities Engineering Command, Instruction 4000.2A, “Atlantic Division, Naval Facilities Engineering Command Role and Responsibilities in Participating in the North Atlantic Treaty Organization Infrastructure Program,” August 12, 1986, on submitting:**

**a. Requests for Joint Formal Acceptance Inspections.**

**b. Annual reports to the Supreme Allied Commander Atlantic, listing all projects that are expected to be completed and ready for a Joint Formal Acceptance Inspection in the following calendar year.**

**Management Comments.** The Assistant Secretary of the Navy (Installations and Environment) concurred. For Recommendation C.1.a., the Assistant Secretary stated that since July 2000 the NATO Program Office has been submitting requests for JFAIs as soon as projects were completed and as-built drawings became available. For Recommendation C.1.b., the Assistant Secretary stated that the NATO Program Office will submit annual reports to the Supreme Allied Commander Atlantic.

**2. Expand Atlantic Division, Naval Facilities Engineering Command, Instruction 4000.2A to state:**

**a. How soon after the completion of a Joint Formal Acceptance Inspection the North Atlantic Treaty Organization Program Office should request an audit by the North Atlantic Treaty Organization.**

**b. That the annual report to the Supreme Allied Commander Atlantic should be submitted to the Supreme Headquarters Allied Powers Europe and the Defense Advisor to the U.S. Mission to the North Atlantic Treaty Organization and that the report include the closeout status of all**

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**completed projects. Closeout status data should include the contract completion date and request dates for Joint Formal Acceptance Inspections and audits.**

**Management Comments.** The Assistant Secretary of the Navy (Installations and Environment) concurred. For Recommendation C.2.a., the Assistant Secretary stated that Atlantic Division, Naval Facilities Engineering Command, Instruction 4000.2A will be amended to require that requests for audits of projects be prepared after receiving final acceptance documents from NATO. For projects where the Atlantic Division, Naval Facilities Engineering Command, is not the design and construction agency, the instruction will also require that the Atlantic Division provide advice and assistance to the responsible agency. For Recommendation C.2.b., the Assistant Secretary stated that Atlantic Division, Naval Facilities Engineering Command, Instruction 4000.2A will be amended to include the Supreme Headquarters Allied Powers Europe in the distribution list for the “Semi Annual Infrastructure Progress Report” and that audit request dates will be added to the report, if feasible. The Assistant Secretary noted that the U.S. Mission to NATO already receives that report. The estimated completion date for amending the instruction is June 28, 2002.

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## Appendix A. Audit Process

### Scope

We evaluated DoD oversight and management of NSIP. To understand DoD participation, we reviewed 10 U.S.C. 2806, “Contributions for North Atlantic Treaty Organizations Security Investment Program.” We reviewed DoD directives and regulations, memorandums of understanding and agreement, Military Construction Appropriation Acts for FY 1999 through FY 2001, program budget decisions for NSIP, and the FY 2002 Military Construction Program Amended Budget for NSIP dated July 2001. We also reviewed Office of Management and Budget circulars; National Institute of Science and Technology standards; NATO, USEUCOM, and U.S. Army Europe and Seventh Army guidance; and the Chief Financial Officers Act of 1990. In addition, we reviewed a USACE (Europe District) schedule of outstanding recoupments. To identify closeout policies for NSIP projects, we reviewed Atlantic Division, Naval Facilities Engineering Command, Instruction 4000.2A, August 12, 1986. Also, we reviewed the NATO Program Office, Atlantic Division, Infrastructure Status Report, dated June 20, 2001, and the Atlantic Division’s master listing of NATO audits dated April 9, 2001, for compliance with project closeout policies. In addition, we reviewed NATO Infrastructure Committee memorandums and decision sheets and NATO financial statements for FY 1999 and FY 2000. The documents we reviewed were dated from September 1955 through October 2001.

We interviewed officials from the offices of the Under Secretary of Defense for Acquisition, Technology, and Logistics; Under Secretary of Defense (Comptroller); Under Secretary of Defense for Policy; and Joint Staff. We visited the U.S. Mission at NATO headquarters in Brussels, Belgium; the U.S. Army Europe and Seventh Army in Mons, Belgium; the U.S. European Command in Vahingen, Germany; and the U.S. Joint Forces Command in Norfolk, Virginia, to determine whether DoD Components implemented the DoD portion of NSIP according to DoD policies and procedures. We also visited the Atlantic Division, Naval Facilities Engineering Command, in Norfolk, Virginia, and its Engineering Field Activity at Aviano Air Base, Italy, to review NSIP contract records for compliance with project closeout policies and procedures. To determine the methods used to recoup U.S. funds from prefinanced projects, we visited USACE (Europe District) in Wiesbaden, Germany. In addition, we visited the Defense Finance and Accounting Service, Europe, in Kaiserslautern, Germany, to review the financial support it provides for NSIP.

**Limitations to Audit Scope.** The review of records related to recoupments was limited because documents were damaged or destroyed in a fire at USACE (Europe District) in March 1998. Also, USACE (Europe Division) lost other recoupment data when the personal computer that stored the information malfunctioned.

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**High-Risk Area.** The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Financial Management high-risk area.

## Methodology

We evaluated the effectiveness of DoD oversight and management of NSIP. Specifically, we identified requirements established by the Office of Management and Budget, the General Accounting Office, DoD, and NATO international staff for NSIP and performed the following actions.

- We examined the methodology used by USACE (Europe District) to account for the recoupment of funds from NSIP projects prefinanced by the United States.
- We evaluated Defense Advisor procedures for making NSIP commitments and reporting contingent liabilities.
- We reviewed NATO policies for closing out NSIP projects and examined the methods used by the Atlantic Division, Naval Facilities Engineering Command, to close out NSIP projects and monitor project data.
- We identified procedures used by the Comptroller to establish the foreign currency exchange rate for NATO programs and adjust the budget authority provided to the U.S. Mission for NSIP.

**Use of Computer-Processed Data.** We did not rely on computer-processed data to conduct the audit.

**Audit Type, Dates, and Standards.** We performed this financial-related audit from April through December 2001 in accordance with generally accepted government auditing standards.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

## Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of USEUCOM and USACE (Europe District) management controls

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over prefinancing and recoupments of NSIP projects and over the reporting of contingent liabilities to the Assistant Secretary of the Army (Financial Management and Comptroller). Specifically, we reviewed USEUCOM procedures for recouping funds from NSIP projects prefinanced by the United States and for reporting the status of prefinanced projects. At USACE (Europe District), we reviewed management controls over recording recoupments in accounting records with supporting documentation. At the U.S. Mission to NATO, we reviewed Defense Advisor management controls for recording U.S. Government commitments to NATO. At the Atlantic Division, Naval Facilities Engineering Command, we reviewed the management control program for project closeouts.

**Adequacy of Management Controls.** We identified material management control weaknesses at USEUCOM as defined by DoD Instruction 5010.40. USEUCOM management controls did not ensure that recoupments were aggressively pursued. Recommendation A.1., if implemented, will correct the identified weaknesses and could result in potential monetary benefits of \$38.6 million (see finding A). A copy of the report will be provided to the senior official responsible for management controls at USEUCOM.

## **Prior Coverage**

No prior audit coverage has been conducted on NSIP during the last 5 years.

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## Appendix B. Comptroller Adjustments to NSIP Appropriations

Defense Advisor officials expressed concern that the Comptroller was not making all appropriated NSIP funds available for use. We reviewed FY 2001 program budget decisions for NSIP made by the Comptroller and the FY 2001 appropriation for NSIP. The Comptroller did not make all FY 2001 NSIP funds available to the Defense Advisor during that fiscal year because of fluctuations in foreign currency exchange rates. FY 2001 funds that were not made available during that fiscal year were to be made available during FY 2002. The Comptroller adjustments for the foreign currency fluctuations were appropriate.

**NATO Common Currency.** In January 1996, the NATO Senior Resource Board established a common currency unit, the NATO Accounting Unit (NAU), for NATO member countries to use for conducting NATO business transactions. The NAU is based on a constant rate of 139.66 Belgian francs per NAU. Although DoD uses the NAU exchange rate, which is updated each quarter, to record disbursements for NSIP projects, DoD uses an exchange rate established before each fiscal year to obligate funds for NSIP projects. For each disbursement, differences between the obligation and disbursement exchange rates affect the foreign currency fluctuation account. When the obligation exchange rate is higher than the disbursement exchange rate, DoD transfers the excess funds into the foreign currency fluctuation account. When the obligation exchange rate is lower than the disbursement exchange rate, funds from the foreign currency fluctuation account help pay the disbursement.

**Requirement for DoD to Reduce Appropriation.** Congress reduced amounts in the DoD Appropriations Act, FY 2001, Public Law 106-259, by \$856.9 million for Operation and Maintenance, Military Personnel, and Defense health programs because of favorable foreign currency fluctuations. That appropriation required DoD to decrease the budgeted amounts for overseas programs, including NSIP, because the public law did not list specific programs to be affected.

**Reducing Appropriations by Adjusting Exchange Rates.** To reduce the appropriation for Operation and Maintenance, Military Personnel, and Defense health programs, the Comptroller adjusted the budgeted foreign currency exchange rates for FY 2001. For new NATO obligations, the foreign currency exchange rate budgeted for NAUs was reduced from \$3.64 to \$2.81 per NAU.

**Applying the Adjusted Exchange Rates to NSIP.** For its FY 2001 budget, DoD requested \$190 million to fund NSIP commitments. At the budgeted exchange rate of \$3.64 per NAU, DoD could purchase 52.2 million NAUs. Congress, however, appropriated only \$172 million for NSIP. That appropriation allowed DoD to purchase only 47.3 million NAUs at \$3.64 per NAU. In Program Budget Decision No. 313, "NATO Security Investment Program," November 20, 2000, the Comptroller reduced NSIP funds available during FY 2001 from \$172 million to \$132.6 million by applying an exchange

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rate of \$2.81 per NAU. However, that still allowed DoD to purchase 47.2 million NAUs, and the Defense Advisor was able to operate NSIP at the funding level appropriated by Congress. In addition, Program Budget Decision No. 313 called for DoD to reduce its FY 2002 budget request for NSIP by \$39.3 million, the amount that the Comptroller had reduced NSIP funds for FY 2001.

In Program Budget Decision No. 741, “Major Budget Issues – Army and Defense-Wide,” January 12, 2001, the Deputy Secretary of Defense increased NSIP FY 2001 funds by \$13.9 million for the purchase of an additional 4.9 million NAUs. That decision allowed DoD to purchase a total of 52.2 million NAUs during FY 2001 and to support NSIP at the level of the FY 2001 NSIP budget request. After Program Budget Decision No. 741, DoD still had \$25.4 million of FY 2001 NSIP funds that could be used to reduce the NSIP FY 2002 budget request.

## Appendix C. Outstanding Recoupments

As of August 2001, USACE (Europe District) listed outstanding recoupments of \$115.6 million. The outstanding recoupments included \$8 million from 21 projects prefinanced by the Army, \$11.6 million from 7 projects prefinanced by the Navy, and \$96 million from 56 projects prefinanced by the Air Force. The following tables show the outstanding recoupments by the date the most recent information was received by USACE (Europe District), project title, project location, and estimated amount recoupable.

<u>Date of Latest Document</u>	<u>Project Title</u>	<u>Project Location</u>	<u>Estimated Amount Recoupable</u>
October 1978	Patriot Neuheilenbach IRS	Balesfeld, Germany	\$ 28,000
January 1982	LRSP WADS	Hanua, Germany	115,000
April 1982	LRSP WADS	Sennelager, Germany	602,000
July 1983	LRSP WADS	Barme, Germany	225,000
July 1983	LRSP WADS	Leeder, Germany	261,000
July 1983	LRSP WADS	Phillipsburg, Germany	602,000
July 1983	LRSP WADS	Reitscheid, Germany	5,000
June 1984	Grease Ramps	Doernwasserlos, Germany	26,000
July 1984	Upgrade Technical Supply Building	Codogne, Italy	528,000
July 1984	Upgrade M & A Building	Bettembourg, Luxembourg	158,000
July 1984	Upgrade Technical Supply Building	Cakmakli, Turkey	35,000
July 1984	Upgrade M & A Building	Corlu, Turkey	60,000
July 1984	Upgrade M & A Building	Erzurum, Turkey	65,000
July 1984	Upgrade M & A Building	Ismi, Turkey	70,000
July 1984	Upgrade M & A Building	Ortakoy, Turkey	65,000
July 1984	Restore TRU/APRS Warehouse	Livorno, Italy	2,107,251
October 1985	Restore M & A Building	Kriegsfeld, Germany	250,000
January 1986	Hawk Ready Building	Grafenwoehr, Germany	267,000
March 1986	Maintain Building	Lemberg, Germany	122,000
September 1990	Restore Water Supply	Werl, Germany	235,000
December 1995	Repair Runway	Tuzla, Bosnia	<u>2,125,000</u>
<b>Total</b>			<b>\$7,951,251</b>

Source: USACE (Europe District)

**Table C-2. Outstanding Navy Recoupments**

<u>Date of Latest Document</u>	<u>Project Title</u>	<u>Project Location</u>	<u>Estimated Amount Recoupable</u>
July 1995	Restore Hanger	Souda Bay, Italy	\$ 15,000
September 1996	Runway Overlay	Rota, Spain	957,000
June 1997	Tactical Support Center	Sigonella, Italy	0
June 1997	Technical Evaluation of Runway	Sigonella, Italy	79,000
June 1997	Refueling System	Sigonella, Italy	6,475,000
October 1997	Replace Parking Apron	Sigonella, Italy	1,992,768
October 1997	Runway Repair	Sigonella, Italy	<u>2,078,085</u>
<b>Total</b>			<b>\$11,596,853</b>

Source: USACE (Europe District)

<b>Table C-3. Outstanding Air Force Recoupments</b>			
<u>Date of Latest Document</u>	<u>Project Title</u>	<u>Project Location</u>	<u>Estimated Amount Recoupable</u>
September 1973	Additional RECT Facilities	Ramstein, Germany	\$ 1,420,000
November 1980	Restore T/T PADS Lights	Aviano, Italy	343,000
March 1983	Replace Switchboard	Decimannu, Italy	7,000
December 1983	Restore Aircraft PKG APR	Rhein Main, Germany	1,531,000
February 1984	Restore MOD Shelters Drain	Ramstein, Germany	316,000
March 1985	Restore Base Roads	Aviano, Italy	161,000
February 1986	MOD Munitions Storage	Incirlik, Turkey	8,750,000
March 1986	Restore Engine Test ST	Aviano, Italy	79,000
April 1986	Restore Aprons Taxittract	Ramstein, Germany	457,000
May 1987	Extend Vehicle POO Hardstand	Decimannu, Italy	46,000
June 1988	POMSS Medical Storage Facility	Incirlik, Turkey	1,076,000
June 1988	Medical Warehouse	Bentwater, United Kingdom	1,026,000
September 1988	Threshold Lights	Hahn, Germany	308,000
March 1989	Restore Airfield Pavement	Ramstein, Germany	1,611,000
April 1989	Widen Taxiway	Ramstein, Germany	134,000
April 1989	POMSS Medical Storage Facility	Spangdahlem, Germany	1,200,000
May 1989	Internal RAD ZULU Loop	Aviano, Italy	8,000
May 1989	Medical Warehouse	Boscombe Dow, United Kingdom	720,000
May 1989	Restore Water System	Mildenhall, United Kingdom	748,800
June 1990	Repair Airfield Lighting	Incirlik, Turkey	360,000
October 1990	GLCM GAMA Shelters BERM RPR	Comisco, Italy	144,000
January 1991	Engine Test Stand	Alconbury, United Kingdom	94,000
May 1991	Engine Test Apron	Bentwater, United Kingdom	288,000
June 1991	Replace M & I Aprons	Aviano, Italy	334,000
July 1991	Medical Warehouse	Karup, Denmark	1,005,000
October 1991	A/C Hydrant Fuel System	Decimannu, Italy	2,266,000
June 1992	Repair Hanger Door	Spangdahlem, Germany	475,000
January 1993	Construct RFTF	Alconbury, United Kingdom	287,000
April 1993	Restore PAD DOR Drives	Aviano, Italy	531,000
May 1993	Hydrant Refueling System	Aviano, Italy	1,380,000
June 1993	Air Freight Terminals	Aviano, Italy	307,000
April 1994	Ammunition Facility M & I	Aviano, Italy	99,000
May 1995	MOD INTRANS APRON B/933	Aviano, Italy	194,000
June 1997	Fuel Cell Maintenance Facility	Aviano, Italy	490,000
June 1997	Upgrade Water DIST/FLTLN Pipe	Aviano, Italy	223,000
June 1997	Restore Hanger	Aviano, Italy	12,000
June 1997	Youth Center Addition	Aviano, Italy	980,000

<b>Table C-3. Outstanding Air Force Recoupments (cont'd)</b>			
<u>Date of Latest Document</u>	<u>Project Title</u>	<u>Project Location</u>	<u>Estimated Amount Recoupable</u>
July 1997	Replace Fuel Farm	Sigonella, Italy	\$ 5,990,902
April 1988	Sound Suppression	Bitburg, Germany	210,000
July 1998	Replace R/W Ends	Spangdahlem, Germany	2,313,090
January 1999	Repair Fire Station	Sigonella, Italy	1,956,343
April 1999	Construct Chemical Storage Facility	Fairford, United Kingdom	431
N/A*	Restore Maintenance Hanger	Mildenhall, United Kingdom	2,000,000
N/A	Addition to Munitions Facility	Lakenheath, United Kingdom	958,464
N/A	Provide Lighting Protection	Welford, United Kingdom	4,155,840
N/A	Restore Taxiway Apron	Fairford, United Kingdom	2,744,352
N/A	Restore A/C Washrack	Lakenheath, United Kingdom	275,161
N/A	Restore Communication Facility	Mildenhall, United Kingdom	4,182,048
N/A	Provide Consolidated Squadron	Mildenhall, United Kingdom	15,039,648
N/A	Maintenance Workshop	Mildenhall, United Kingdom	10,561,824
N/A	Construct Air Reconnaissance Facility	Mildenhall, United Kingdom	4,013,568
N/A	Provide South JFSI	Mildenhall, United Kingdom	7,967,232
N/A	Hydrant Refueling Phase 1	Moron, Spain	N/A
N/A	Hydrant Refueling Phase 2	Moron, Spain	N/A
N/A	Repair Tank Fill Stand	Moron, Spain	1,907,276
N/A	Construct Main Gate Facility	Incirlik, Turkey	<u>2,325,024</u>
<b>Total</b>			<b>\$96,012,003</b>

\*Not available.

Source: USACE (Europe District)

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## **Appendix D. Letter Addressing Liability Reporting**

As discussed in finding B, the Federal Accounting Standards Advisory Board formed a task force to research liability reporting issues and Federal Financial Accounting Standards in response to a request from the Federal Aviation Administration. The Federal Aviation Administration asked for guidance on reporting liabilities associated with financial commitments made to airport authorities prior to execution of grant agreements. The Federal Accounting Standards Advisory Board concluded that if the future outflow of the Federal resources is probable and measurable, the financial commitment should be recorded on financial statements as a contingent liability. However, because the Federal Aviation Administration could not reasonably estimate the amount of its financial commitment, it should disclose only the contingent liability in the notes to financial statements to notify the readers of the magnitude of the contingent liability. Because the Defense Advisor can obtain information from NATO to reasonably estimate its financial commitment for NSIP projects, DoD should report that commitment as a contingent liability on its DoD agency-wide financial statements. The June 11, 2001, letter from the Federal Accounting Standards Advisory Board follows.



Federal Accounting Standards Advisory Board

June 11, 2001

Mr. Patrick J. Heidenthal, Acting Director  
Office of Financial Management  
U.S. Department of Transportation  
Federal Aviation Administration  
800 Independence Avenue, S.W.  
Washington, D.C. 20591

Dear Mr. Heidenthal:

In response to your February 25, 2000 and May 1, 2000 letters requesting guidance on the appropriate recording of transactions for the Federal Aviation Administration (FAA) grants, the Accounting and Auditing Policy Committee (AAPC) set up a Task Force that researched the issues and Federal Financial Accounting Standards. The Task Force has concluded that additional guidance on this matter is not warranted at this time.

Statement of Federal Financial Accounting Standards (SFFAS) No. 5 provides guidance on liabilities resulting from grant agreements. Under its provisions, transactions resulting from the government's entering into grant agreements are classified as non-exchange transactions (SFFAS No. 5, paragraph 25).

What complicates the situation is that, prior to grant execution, the FAA enters into letters of intent with airport authorities (sponsors). The letters of intent document the agreement between the Federal Government to fund a portion of the costs of airport improvements and schedule the amounts of the funding that, subject to enactment of appropriations, will be provided. Under these agreements, sponsors can and do begin construction. However, they are not permitted to submit billings to the FAA until budget authority has been established and the grant agreement executed. The letters of intent have been used in a manner and to the extent that their track record for funding (all have been funded) appears to trigger the logic of paragraph 33 of SFFAS No. 5 which defines probable.

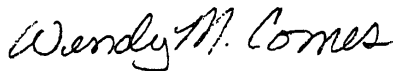
Paragraph 33 also indicates that liabilities may exist prior to the provision of budgetary resources. While some may argue that the letter of intent is not legally binding, SFFAS No. 5 indicates that FASAB intended to establish a logical difference between accounting liabilities and legal liabilities. Paragraph 129 in the Statement's Basis for Conclusions (Appendix A) indicates that "Obligations become legally enforceable claims against the Federal Government in different ways and at different points within transaction cycles that relate to various programs. Paragraph 132 of the Appendix goes on to state, "In the case of federal liabilities, some future outflows of resources are so likely that they should be recognized as accounting liabilities in general purpose financial reports before all the other events necessary to create a legally enforceable claim against the government exists."

Finally, paragraphs 38 through 42 of the Statement set forth the criteria for contingent liability recognition and/or disclosure. Paragraph 38 of SFFAS No. 5 establishes that a contingent liability should be recognized when among its other criteria, the future outflow or sacrifice of resources is measurable.

The FAA and the Department of Transportation (DOT) Office of Inspector General staff stated on several occasions that the amount of the liability could not be reasonably estimated. The Task Force concluded that according to the standards, if the outflow of the resource is probable but not measurable then the liability should be disclosed (SFFAS No. 5, paragraphs 40-42). It is our understanding the disclosures added to the FAA and the DOT-consolidated financial statements are the result of decisions by management and its auditors. The disclosures alert the readers of the financial statements to FAA's contingent liability and give some indication of its magnitude.

Based on the above review of SFFAS No. 5, we did not find that further guidance was needed. We welcome future communications with FAA on other matters that we may be of assistance.

Sincerely,



Wendy M. Comes  
Executive Director, FASAB  
Chairperson, AAPC

CC: John L. Meche, Deputy Assistant Inspector General  
Financial & Information Technology Audits  
U.S. Department of Transportation

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441 G Street NW, Mailstop 6K17V, Washington, DC 20548 ♦ (202) 512-7350 ♦ fax 202 512-7366

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## **Appendix E. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Deputy Under Secretary of Defense (Installations and Environment)  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Under Secretary of Defense for Policy  
Assistant Secretary of Defense (International Security Affairs)  
Defense Advisor, U.S. Mission to NATO

### **Department of the Army**

Commander, U.S. Army Europe and Seventh Army  
Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army  
Commander and Chief of Engineers, U.S. Army Corps of Engineers  
Commander, U.S. Army Corps of Engineers, Europe District

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy  
Commander, Naval Facilities Engineering Command  
Commander, Naval Facilities Engineering Command, Atlantic Division

### **Department of the Air Force**

Commander, U.S. Air Forces in Europe  
Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Unified Commands**

Commander in Chief, U.S. European Command  
Commander in Chief, U.S. Joint Forces Command

### **Non-Defense Federal Organizations**

Office of Management and Budget  
Department of State

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

# U.S. European Command Comments



ECCS

HEADQUARTERS  
UNITED STATES EUROPEAN COMMAND  
Office of the Chief of Staff  
UNIT 30400  
APO AE 09131

MEMORANDUM FOR Director, Readiness and Logistics Support Directorate, Inspector General, Department of Defense, 400 Army Navy Drive, Arlington, Virginia 22202-4704

SUBJECT: USEUCOM Comments on the DOD IG Draft Audit Report of the NATO Security Investment Program

1. Reference: Memorandum, DOD IG Director, Readiness and Logistics Support Directorate, 21 DEC 01, subject: Audit Report on DOD Management of the North Atlantic Treaty Organization Security Investment Program (Project No. D2001LG-0109).

2. Thank you for the opportunity to review and comment on your NATO Security Investment Program (NSIP) draft report.

3. I concur with Finding "A" indicating that EUCOM has not adequately pursued recoupments from prefinanced projects. Below are comments regarding the recommendations for EUCOM included in the Draft Report.

a. **RECOMMENDATION:** Develop written procedures for managing NSIP.

COMMENT: EUCOM J4 Engineers are developing a EUCOM Directive to outline the roles and responsibilities for the NSIP, including prefinancing, recoupment, and budgeting procedures. The estimated completion date for the publication of the directive is 31 May 02.

b. **RECOMMENDATION:** Establish a system to track the status of NSIP projects.

COMMENT: EUCOM J4 Engineers have developed a database to track NSIP projects. EUCOM J4 Engineers will review all projects with the US Mission to NATO, the EUCOM Components, and the Corps of Engineers Europe District on a quarterly basis. The first quarterly review is scheduled for 05 Mar 02.

c. **RECOMMENDATION:** Validate the recoupments due to the United States.

COMMENT: EUCOM J4 Engineers are compiling a list of all prefinanced projects. EUCOM will track each prefinanced project, including the likelihood of NATO Infrastructure Committee authorization, actions required to obtain NATO authorization, and an estimated date the recoupment is expected. The list of "Outstanding Recoupments" included in the Draft Report is not a definitive list since many of the projects are ineligible for recoupment (not executed by the US, not authorized by NATO, awaiting project completion and acceptance, or already recouped). Over half of the projects on the list (43 of 84) are ineligible for recoupment (see Enclosure 1). The most recent projects (from 1996) were tracked and easy to validate. For the older projects, due to the lack of available records, it will be more difficult to confirm if the projects are ineligible or that US funds were expended *and* NATO authorization granted so that recoupment can occur. Due to the amount of information requiring research, the review is expected to be completed by 30 Sep 02.

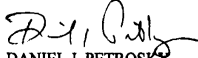
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ECCS  
SUBJECT: USEUCOM Comments on the DOD IG Draft Audit Report of the NATO  
Security Investment Program

4. The actions noted above will greatly improve the tracking and management of the NSIP process. EUCOM J4 Engineers have taken on the role to be the central point of contact for all NSIP related issues to ensure recoupment of funds. The EUCOM point of contact on the NSIP and the Draft IG report is Lt Col Duane Padrick, DSN 430-5326.

FOR THE COMMANDER IN CHIEF:

Encl  
Projects Not Eligible for Recoupment

  
DANIEL J. PETROSKY  
Lieutenant General, USA  
Chief of Staff

CF:  
Defense Advisor, US Mission to NATO  
Naval Inspector General  
Auditor General, Department of the Army

### DOD IG Report Outstanding Recoupments - Projects Confirmed

Title	Location	Prefinanced \$	PFS and DS	Project #	Comments
<b>USAFE</b>					
Provide Apron for Engine Testing (Engine Not Installed)	Alconbury	\$94,000		2AF50510M	Unable to Recoup - IC Confirmation.
Construct RFTF Road	Alconbury	\$287,000		2AF70563M	Unable to Recoup - IC Confirmation.
Modify Intransit Aprons B/933	Aviano	\$194,000	69/95	3AF40649M	No recoupment forseen - Not included in CP 3A0011
Hydrant Refuelling System	Aviano	\$1,380,000		3AF40981	Not currently eligible for NSIP funding.
Provide Youth Activity Center	Aviano	\$980,000		3AF50261	N(99)012 "The original national 'work around' solution and will be cancelled and not be part of the NATO funded project." Replaced by direct funded project 3AF5033.
Provide Fuel Cell Maintenance Workshop	Aviano	\$490,000		3AF50280	NSIP Direct Funded.
Passenger/Air Freight Terminals and Mobility Control	Aviano	\$307,000		3AF50324	NATO Direct Funded.
Restore Water Storage and Distribution System, F&G	Aviano	\$223,000	69/95	(95)14 3AF50329	NSIP Direct Funded.
Engine Test Apron	Bentwaters	\$288,000	129/88	1568 2AF50473	IC Confirmation (97)30 and (2001)23
Second Echelon Medical Logistic Storage	Bentwaters	\$1,026,000		1516 2RS50161	Awaiting Audit Results. JFAI amount \$765,000. CEW Tracking.
Sound Suppression	Bitburg	\$210,000	66/88	1558 66/88	NATO Eligibility Denied.
Second Echelon Medical Logistic Storage	Boscombe Down	\$720,000	64/89	1603 2RS50171	Awaiting Audit Results. JFAI amount \$510,000. CEW Tracking.
A/C Hydrant Fuel System	Decimannu	\$2,266,000		3AF40150	NATO Minimum Military Requirement. FY00 project. No recoupment forseen - No CP.
Restore Northeast Taxiway and Hardstands	Fairford	\$2,744,352	83/99	(99)25 1AF00816	
Restore Ammunition Magazine - RAF Welford	Fairford	\$4,155,840	51/98	(98)23 2AF14024	For Lighting Protection only: CP Addendum approved 11/01. TCCE to be developed. CEW Tracking (estimated cost \$420,000).
Provide Chemical Storage Facility	Fairford	\$431	47/99	(99)16 2AF50638M	No recoupment forseen - Not included in a CP.

Thursday, February 21, 2002

### DOD IG Report Outstanding Recoupments - Projects Confirmed

Title	Location	PFS and DS	Project #	Comments
Construct Main Gate Facility	Incirlik	\$2,325,024 40/99	(99)14 40/99	No recoupment foreseen. No CP. Beyond MMR.
Addition to Munitions Facility	Lakenheath	\$958,464 163/95	(95)28 163/95	No recoupment foreseen. No CP. CEW Tracking.
Restore Aircraft Washrack	Lakenheath	\$275,161 28/94	(94)07 2AF50592M	Recouped \$326,094. COFFA recd 16 Oct 01.
Provide Consolidated Operations Facility	Mildenhall	\$15,039,64 2/99	(99)06 1AF00807	Unable to recoup - no CP. CEW Tracking.
Construct Air Reconnaissance Facility	Mildenhall	\$4,013,568 50/99	(99)17 2AF14004	Unable to recoup - No CP. CEW Tracking.
Provide Southwest JFSI & Hydrants	Mildenhall	\$7,967,232 82/99	(99)25 2AF14005	Unable to Recoup. No CP. CEW Tracking.
Provide SOG Maintenance Workshops	Mildenhall	\$10,561,82 52/99	(99)17 2AF14013	Unable to recoup - No CP. CEW Tracking.
Restoration of Aircraft Maintenance Hangar 715	Mildenhall	\$2,000,000 013/00	(2000) 2AF14015	Unable to recoup - No CP. CEW Tracking.
Restoration of the Communications Building 591	Mildenhall	\$4,182,048 51/99	(99)17 2AF14035	NSIP Direct Funded.
Restore Water Distribution	Mildenhall	\$748,800 65/89	1599 2AF50333	Awaiting JFAI and Audit results. Estimated \$748,800. CEW Tracking.
Repair Tank Fill Stand	Moron	\$1,907,276	00	Unable to Recoup - No CP. CEW Tracking.
Replace Hydrant Refuelling System	Moron	14/98	(98)07 14/98	Unable to Recoup - No CP. CEW Tracking.
Restore Airfield Pavement	Ramstein	\$1,611,000 25/89	1593 2AF00750	Recouped May 90.
Replace JFSI (Fuel Farm)	Sigonella	\$5,990,902 18/99	(99)37 18/99	No recoupment Foreseen. No CP.
Repair Fire Station	Sigonella	\$1,956,343	99	Unable to Recoup. No CP.
Restore Runway	Spangdahle	\$2,313,090 74/97	(97)22 2AF00741	Direct Funded Project.
Repair Hangar Door	Spangdahle	\$475,000 89/92	1715 89/92	Recouped Dec 92.
USAFE Subtotal		\$77,691,003	33 Projects	

### DOD IG Report Outstanding Recoupments - Projects Confirmed

Title	Location	Prefinanced \$	PFS and DS	Project #	Comments
<b>USAREUR</b>					
Restore M&A Building	Kriegsfeld	\$250,000		2AS0047M	Already Recouped.
Restore TRU/ARPS	Livorno	\$2,107,251	1690	3AS40011	IC Confirmation.
Provide Maintenance and Repair Works of the Airstrip and Support	Tuzla	\$2,125,000		5VA30034	NATO Direct Funded
	<b>USAREUR Subtotal</b>	<b>\$4,482,251</b>		<b>3 Projects</b>	
<b>USNAVEUR</b>					
Runway Overlay	Rota	\$957,000	122/96	(96)22 122/96	Unable to Recoup. No CP.
Replace Parking Apron	Sigonella	\$1,992,768		3AF40207	Unable to Recoup. No CP.
Construct Tactical Support Center	Sigonella	\$0	151/93	1771 3AF40397	Unable to Recoup. No CP.
Rapid Runway Repair Wave	Sigonella	\$2,078,085		3RS40231	Unable to recoup No CP.
Improve Hydrant Refuelling System	Sigonella	\$6,475,000	70/97	(97)22 70/97	Unable to Recoup. No CP.
Technical Evaluation of Runway	Sigonella	\$79,000		(97)20 97	Unable to Recoup. No CP.
Restore Hangar Doors	Souda Bay	\$15,000	89/95	(95)19 3AF10433M	Unable to Recoup. No CP.
	<b>USNAVEUR Subtotal</b>	<b>\$11,596,853</b>		<b>7 Projects</b>	
	<b>EUCOM Total</b>	<b>\$93,770,107</b>		<b>43 Projects</b>	

# Department of the Army Comments



REPLY TO  
ATTENTION OF

DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY  
FINANCIAL MANAGEMENT AND COMPTROLLER  
109 ARMY PENTAGON  
WASHINGTON DC 20316-0109

March 12, 2002

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL,  
OFFICE OF THE ASSISTANT INSPECTOR  
GENERAL FOR AUDITING, (ATTN: THE  
READINESS AND LOGISTICS SUPPORT  
DIRECTORATE), 400 ARMY NAVY DRIVE (ROOM  
801), ARLINGTON, VA 22202-4704

SUBJECT: Draft Audit Report, DoD Management of the North Atlantic Treaty  
Organization Security Investment Program, Project No.  
D2001LG-0109

At the attachment is our response to the above subject audit. We concur with the recommendation as stated. For the FY 2002 Contingent Liability Data Call we will specifically request, from the USAREUR Deputy Chief of Staff for Resource Management, the U.S. financial commitments for the North Atlantic Treaty Organization Security Investment Program projects to be reported as contingent liabilities on the financial statements.

Point of contact for this action is Peter Langevin who can be reached at (703) 693-2688 or email: [langepb@hqda.army.mil](mailto:langepb@hqda.army.mil).

A handwritten signature in black ink that reads "William M. Landrum III".

William M. Landrum III  
Colonel, Finance Corps  
Acting Deputy Assistant Secretary of  
the Army (Financial Operations)

Attachment

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**DoD Management of the North Atlantic Treaty Organization  
Security Investment Program**

**Project No. D2001LG-0109**

**December 21, 2001**

**Recommendations**

B.2. We recommend that the *Assistant Secretary of the Army (Financial Management and Comptroller)* ensure that U.S. financial commitments for the North Atlantic Treaty Organization Security Investment Program projects are included in the Annual DoD Agency-wide financial statements.

**Assistant Secretary for the Army (Financial Management and Comptroller) ASA (FM&C): Concur.** Currently, ASA (FM&C) executes a contingent liability data call each year throughout the Army. Beginning with the fiscal year 2002 data call, we will include a specific request from USAREUR and Seventh Army for the U.S. financial commitments for the North Atlantic Treaty Organization Security Investment Program projects. This will ensure these amounts will be identified and reported each year in the financial statements.

# Department of the Navy Comments



DEPARTMENT OF THE NAVY  
THE ASSISTANT SECRETARY OF THE NAVY  
(INSTALLATIONS AND ENVIRONMENT)  
1000 NAVY PENTAGON  
WASHINGTON, D.C. 20380-1000

15 February 2002

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DRAFT AUDIT REPORT ON DOD MANAGEMENT OF THE NORTH  
ATLANTIC TREATY ORGANIZATION SECURITY INVESTMENT  
PROGRAM (NSIP) (PROJECT NO. D2001LG-0109)

Ref: (a) DODIG Draft of a Proposed Audit Report (Project No. D2001LG-01109)  
dated 21 Dec 01

Encl: (1) Department of the Navy Comments on Recommendations

Thank you for the opportunity to provide comments on the draft report. The Department of the Navy's comments on the recommendations in reference (a) are provided in enclosure (1).

The objectives in reference (a) were to determine how NSIP requirements were identified, contracted, revalidated, and closed out; and to determine whether the Department of Defense (DoD) executive agent adequately accounted for the (DoD) portion of NSIP funds.

The draft audit recommendations were that DoD needed to improve management of financial recoupments and to follow closeout procedures for NSIP projects. The Department of Navy concurs and is implementing procedures to comply.

A handwritten signature in black ink, appearing to read "HT Johnson".

H. T. Johnson

Copy to:  
CNO (N09B23)  
CNO (N44)  
NAVAUDSVC

Department of the Navy  
Comments on Recommendations  
DRAFT PROPOSED AUDIT REPORT, "DOD MANAGEMENT OF THE NORTH  
ATLANTIC TREATY ORGANIZATIONS SECURITY INVESTMENT PROGRAM"  
(Project NO. D2001LG-0109) of December 21, 2001

RECOMMENDATION C1. We recommend that the Commander, Atlantic Division, Naval Facilities Engineering Command:

1. Enforce the procedures of Atlantic Division, Naval Facilities Engineering Command, Instruction 4000.2A, "Atlantic Division, Naval Facilities Engineering Command Role and Responsibilities in Participating in the North Atlantic Treaty Organization Infrastructure Program," August 12, 1986 on submitting:
  - a. Requests for Joint Acceptance Inspections.
  - b. Annual reports to the Supreme Allied Commander, Atlantic, listing all projects that are expected to be completed and ready for a Joint Formal Acceptance Inspection in the following calendar year.

RESPONSE:

- 1.a. Concur: Beginning July 2000, the NATO Program Office has been submitting requests for Joint Formal Acceptance Inspections as soon as projects have been completed and as-built documentation has become available.
- 1.b. Concur: The NATO Program Office will comply.

ACTION CONSIDERED COMPLETE

RECOMMENDATION C2. We recommend that the Commander, Atlantic Division, Naval Facilities Engineering Command:

2. Expand Atlantic Division, Naval Facilities Engineering Command Instruction 4000.2A to state:
  - a. How soon after the completion of a Joint Formal Acceptance Inspection the North Atlantic Treaty Organization Program Office should request an audit by the North Atlantic Treaty Organization.
  - b. That the annual report to the Supreme Allied Commander, Atlantic Command, should be submitted to the Supreme Headquarters Allied Powers Europe and the Defense Advisor to the U.S. Mission to the North Atlantic Treaty Organization and that the report include the closeout status of all completed projects. Closeout status data should include the contract completion date and request dates for Joint Formal Acceptance Inspections and audits.

**RESPONSE:**

2.a. Concur: Atlantic Division, Naval Facilities Engineering Command, Instruction 4000.2A will be amended as indicated below.

- (i) Projects for which the Atlantic Division, Naval Facilities Engineering Command is the design and construction agency: the NATO Program Office shall request the audit of projects after the FA document has been accepted by the Infrastructure Committee and received by the NATO Program Office.
- (ii) Projects for which the Atlantic Division, Naval Facilities Engineering Command is not the design and construction agency: The NATO Program Office shall advise and assist the agency responsible for the execution of the projects and shall formally request for the agency the audit of project(s) after the FA document has been accepted by the Infrastructure Committee and received by the NATO Program Office.

2.b. Concur: Atlantic Division, Naval Facilities Engineering Command, Instruction 4000.2A will be amended as indicated below.

- (iii) The NATO Program Office shall include in the distribution list of the Semi Annual Infrastructure Progress Report (SAIPR) Supreme Headquarters Allied Powers Europe (SHAPE).

Note: Currently, the NATO Program Office releases twice a year the Semi Annual Infrastructure Progress Report (SAIPR) to the Supreme Allied Commander, Atlantic (SACLANT), U.S. Mission to NATO and other Commands (NATO & U.S.). This report provides complete information on the status of active projects to include contract completion date and request dates for Joint Formal Acceptance Inspections. The report has not been formatted to include information such as the date the audit was requested. The program that produces this report uses RBASE as the platform. If feasible, the program will be modified to incorporate this additional piece of information.

Estimated Completion Date: 28 June 2002

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# U.S. Mission to NATO Comments



UNITED STATES MISSION  
TO THE  
NORTH ATLANTIC TREATY ORGANIZATION  
(USNATO)  
PSC 81 APO AE 09724

NATO UNCLASSIFIED

10 January 2002

Memorandum for Mr. Shelton R. Young  
Director, Readiness and Logistics  
Support Directorate  
Inspector General, Department of Defense

Subject: Audit Report on DOD Management of the North  
Atlantic Treaty Organization Security Investment  
Program (Project No. D2001LG-0109)

Thank you for the opportunity to review and comment on  
your draft report on the NATO Security Investment Program  
(NSIP).

I concur with your finding B relative to my office not  
reporting contingent liabilities for U.S. financial  
commitments to the NSIP. As your draft report indicates,  
my staff were not aware of the Chief Financial Officers  
Act and DOD policy that require such reporting. I have  
now established procedures to report NSIP financial  
liabilities for each project authorized by the NATO  
Infrastructure Committee to the Headquarters, U.S. Army  
Europe, Deputy Chief of Staff Resource Management (HQs  
USAREUR DCSRM), NATO Resource Support Branch (AEAGF-ND) at  
SHAPE, Belgium, in the same manner that U.S. obligations  
to the NSIP are reported. This reporting commenced with  
the first meeting of the Infrastructure Committee in 2002,  
that of January 8. Furthermore, I have informed the  
USAREUR DCSRM of your recommendation that the financial  
commitments be reported in annual DOD Agency-wide  
financial statements.

I neither concur nor nonconcur on your other findings  
which address issues primarily the responsibility of other  
Defense organizations.

Thank you for your offer of a formal briefing on the  
results of the audit. I do not feel this is necessary, as  
our respective staffs have worked closely and harmoniously  
on the audit and appear to have no significant differences  
of opinion.

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As enclosure, I am providing minor corrections or clarifications that you may wish to incorporate in your final report.



Evan G. Galbraith  
Secretary of Defense  
Representative, Europe, and  
Defense Advisor, US Mission

Enclosure:  
a/s

Cy to (w/o enclosure):  
Commander in Chief, USEUCOM  
Naval Inspector General  
Auditor General, Department of the Army

Suggested Corrections or Clarifications

Page 1, first paragraph, fourth line: Delete "and maintained", as facilities maintenance has never been eligible for NSIP funding. Construction, restoration, modernization, and, under certain circumstances, leasing of facilities can be eligible.

Deleted

Page 1, first paragraph, penultimate line: Change "NATO approval" to "Infrastructure Committee notation". Prefinancing statements are not approved, but only noted, which does not constitute agreement that the work is eligible or will ever be funded by the NSIP. However, it does preserve the right of the host nation to seek NSIP reimbursement should the work be (come) eligible, be proposed for funding by a NATO Strategic command, and have sufficient priority to merit receipt of limited available funding.

Revised

Page 11, second paragraph of "NATO Guidance," last sentence: Add "or that NATO will pay reasonable termination costs should a decision be taken to terminate the design or construction." Numerous projects have been cancelled due to changing military requirements, and NATO has paid the host nations termination costs.

Revised

Page 16, second paragraph, lines 13 and 14: Change to read, "took a job with a NATO Agency." The Atlantic Division NATO Program Manager assumed a position with the NATO Air Command and Control System Management Agency (NACMA).

Revised

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