
March 25, 2005



Financial Management

Independent Examination of the
Rights to U.S. Army Corps of
Engineers Buildings and Other
Structures
(D-2005-046)

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Acronyms

CEFMS	Corps of Engineers Financial Management System
DoD FMR	Department of Defense Financial Management Regulation
DoD IG	Department of Defense Inspector General
FAS	Financial Accounting Standards
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
PP&E	Property, Plant, and Equipment
SFFAS	Statement of Federal Financial Accounting Standards
USACE	U.S. Army Corps of Engineers



INSPECTOR GENERAL
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March 25, 2005

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on the Independent Examination of the Rights to U.S. Army Corps of Engineers Buildings and Other Structures (Report No. D-2005-046)

We are providing this report for information and use. We performed the examination in response to a request from the U.S. Army Corps of Engineers. This is the second in a series of reports related to management assertions by the U.S. Army Corps of Engineers on Civil Works buildings and other structures. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Carmelo G. Ventimiglia at (317) 510-3855 (DSN 699-3855) or Mr. George C. DeBlois at (317) 510-3852 (DSN 699-3852). See Appendix E for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Patricia A. Marsh
for Paul J. Granetto, CPA
Assistant Inspector General
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Department of Defense Office of Inspector General

Report No. D-2005-046

(Project No. D2004FI-0037.001)

March 25, 2005

Independent Examination of the Rights to U.S. Army Corps of Engineers Buildings and Other Structures

Executive Summary

Who Should Read This Report and Why? U.S. Army Corps of Engineers and Department of Defense personnel responsible for the financial reporting and accountability of buildings and other structures should read this report. The report discusses the accuracy of assertions about the rights to buildings and other structures and the related transactions reported in the FY 2003 U.S. Army Corps of Engineers, Civil Works, Financial Statements.

Background. General Property, Plant, and Equipment was the largest category of assets reported on the U.S. Army Corps of Engineers, Civil Works, Financial Statements for the fiscal years ending September 30, 2004 and 2003. Buildings and other structures comprised \$18.3 billion of the \$30.9 billion reported as General Property, Plant, and Equipment in FY 2003 and \$16.1 billion of the \$28.4 billion reported as General Property, Plant, and Equipment in FY 2004. Buildings and other structures include all buildings, structures, and other facilities affixed to U.S. Army Corps of Engineers land in the continental United States, Alaska, and Hawaii. This is the second in a series of reports related to management assertions by U.S. Army Corps of Engineers on Civil Works buildings and other structures. Assertions are representations by management that are embodied in the financial statements. In Department of Defense Inspector General Report No. D-2005-035, "Independent Examination of the Existence of U.S. Army Corps of Engineers Buildings and Other Structures," February 15, 2005, we determined that the U.S. Army Corps of Engineers misreported the existence of 164 of the 1,211 sampled buildings and other structures, valued at \$594.9 million, as of June 30, 2003. We also determined that the full book value of 157 of the 164 sampled assets was misstated; therefore, we did not test them for other management assertions.

We performed this examination to establish beginning balances for the audit of the Principal U.S. Army Corps of Engineers, Civil Works, Financial Statements for the Fiscal Years Ending September 30, 2004 and 2003.

Results. The U.S. Army Corps of Engineers misreported the rights to 208 of 1,054 buildings and other structures, with a net book value of \$55.5 million, as of June 30, 2003, on its Civil Works Balance Sheet. The misreported buildings and other structures should have been treated as assets under capital lease as required by the accounting standards in the Statement of Federal Financial Accounting Standards No. 6 and the DoD Financial Management Regulation or should have been transferred to other entities based on transfer documentation. As a result, the assertion that the U.S. Army Corps of Engineers had rights to all buildings and other structures reported on its Civil Works Balance Sheet was inaccurate. The inaccuracy resulted in a misstatement of the

FY 2004 Civil Works financial statements and could cause the FY 2005 beginning balances for buildings and other structures accounts to be misstated, if not corrected. The U.S. Army Corps of Engineers should take actions to correct errors identified in this report and review all buildings and other structures currently under lease at the field sites that we did not review to determine whether other leased assets require correction. The U.S. Army Corps of Engineers should also develop policy guidance for classifying and accounting for buildings and other structures under capital lease. (See the Finding section of the report for the detailed recommendations.)

Management Comments. The Commander of the U.S. Army Corps of Engineers concurred with the finding and the recommendations and stated that each district was taking corrective actions as specified in Information Paper No. 10, “Buildings and Other Structures,” July 2004. The information paper required U.S. Army Corps of Engineers district personnel to review all leased buildings and other structures on U.S. Army Corps of Engineers land. The districts were directed to remove from the Corps of Engineers Financial Management System all buildings and other structures that were being leased for 75 percent or more of their economic useful life. The Commander also stated that each district’s internal review office will review the corrective actions taken by district personnel. Furthermore, the U.S. Army Corps of Engineers was in the process of rewriting and updating applicable guidance. (See the Finding section for a discussion of management comments and the Management Comments section of the report for a complete text of the comments.)

Management Actions. During this independent examination, U.S. Army Corps of Engineers personnel corrected 25 of the 208 errors in buildings and other structures accounts. The U.S. Army Corps of Engineers also began to implement the corrective actions in Information Paper No. 10. (See the Finding section for a complete discussion of the management actions.)

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Background

We performed an examination to establish beginning balances for the audit of the Principal U.S. Army Corps of Engineers (USACE), Civil Works, Financial Statements for the Fiscal Years Ending September 30, 2004 and 2003. USACE reports General Property, Plant, and Equipment (PP&E) as an asset line item on the Civil Works Balance Sheet. The net book value represents the difference between the historical acquisition (book) cost and the associated accumulated depreciation of the assets. For FY 2003, the net book value of PP&E was \$30.9 billion. Buildings and other structures¹ comprised \$18.3 billion of the total PP&E. For FY 2004, the net book value of PP&E was \$28.4 billion. Buildings and other structures comprised \$16.1 billion of the total PP&E. As of September 30, 2003, USACE had about 40,000 structures located at about 1,273 field sites in the continental United States, Alaska, and Hawaii.

Universe. USACE provided the universe of structures contained in the Corps of Engineers Financial Management System (CEFMS) as of June 30, 2003, that supported the amounts reported on the Balance Sheet. From this universe, those structures identifiable as bank stabilization assets were removed based on the recommendations in Department of Defense Inspector General (DoD IG) Report No. D-2004-017, “Reliability of Construction-In-Progress in the U.S. Army Corps of Engineers, Civil Works, Financial Statements,” November 7, 2003. Structures with a zero dollar book value were also removed (because they no longer had an impact on the financial statements) and were tested as part of the completeness assertion. The remaining universe of structures was statistically sampled to test USACE assertions about existence or occurrence, rights and obligations, valuation or allocation, and presentation and disclosure. To test the completeness assertion, we selected structures that were observed at the visited field sites and determined whether they were accurately reported in CEFMS. We also tested a judgmental sample of zero dollar book value transactions to ensure they were reported properly. This report is related to the USACE management assertion about rights to Civil Works structures.

Leases. A lease is an agreement between entities conveying the right to use PP&E assets for a stated period of time (lease term). In a lease, the right to use the tangible asset is transferred from the owner, who is the called the lessor, to another entity called the lessee. Capital leases substantially transfer all the benefits and risks of ownership of the structure to the lessee.

Quit Claim Deeds and Letters of Transfer. A quitclaim deed transfers the owner’s interest to a buyer, but does not guarantee that there are no other claims against the property. Similarly, a letter of transfer grants the transferee ownership interest, but does not guarantee that there are no other claims against the property from third parties.

¹ In this report, the term “structures” includes buildings and other structures unless otherwise specified.

Objective

The objective of this attestation engagement was to verify the buildings and other structures portion of the General PP&E line item and related note disclosure to the FY 2003 Balance Sheet. We performed procedures in compliance with generally accepted government accounting standards, incorporating attestation engagement standards. See Appendix A for a discussion of the scope and methodology, Appendix B for prior coverage related to the objective, and Appendix C for a glossary of terms used throughout the report.

USACE Rights to Buildings and Other Structures

USACE misreported the rights to 208 of 1,054 sampled structures, with a net book value of \$55.5 million as of June 30, 2003 on its Civil Works Balance Sheet. The misreported structures should have been treated as assets under capital lease as required by the accounting standards in the Statement of Federal Financial Accounting Standards (SFFAS) No. 6 and the DoD Financial Management Regulation (DoD FMR) or should have been transferred to other entities based on transfer documentation. USACE had not developed policies and procedures to require district personnel to:

- identify whether structures being leased to other entities should have been classified as capital leases,
- retire structures from CEFMS upon transfer to other government entities, and
- retire structures from CEFMS upon transfer to local governments and private entities through the use of quitclaim deeds.

As a result, the assertion that USACE had rights to all structures reported on its Civil Works Balance Sheet was inaccurate. The inaccuracy resulted in a misstatement of the FY 2004 Civil Works financial statements and could cause the FY 2005 beginning balances for buildings and other structures accounts to be misstated, if not corrected.

Criteria

Generally Accepted Accounting Principles (GAAP). GAAP describes assertions as representations by management that are embodied in financial statement components. The assertions can be either explicit or implicit and can be classified according to the following broad categories: existence or occurrence, completeness, rights and obligations, valuation or allocation, and presentation and disclosure. Assertions about rights address whether the assets are the rights of the entity on a given date.

Statement of Federal Financial Accounting Standards. SFFAS No. 6, "Accounting for Property, Plant, and Equipment," June 1996, contains accounting standards for federally owned General PP&E. According to SFFAS No. 6, a lease should be classified as a capital lease with the associated assets being recorded on the accounting records of the lessee if, at its inception, the lease meets one or more of the following four criteria.

-
- The lease transfers ownership of the property to the lessee by the end of the lease term.
 - The lease contains an option to purchase the leased equipment at a bargain price.
 - The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
 - The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory costs, is equal to or exceeds 90 percent of the leased property.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total economic life of the leased property. When this happens, the lease should be classified as an operating lease with the asset recorded on the accounting records of the lessor.

Financial Accounting Standards (FAS). FAS No. 13, “Accounting for Leases,” November 1976, provides guidance on classifying and accounting for leases. FAS No. 13 states that for leases involving both land and structures that qualify as capital leases, the lessor accounts for the lease as a single unit lease. However, if the fair value of the land is 25 percent or more of the total fair value of the leased property at the inception of the lease, the land and the building are considered separately when classifying them as an operating or capital lease. The land is an operating lease, but the structure is a capital lease.

Department of Defense Financial Management Regulation. DoD FMR, volume 4, “Accounting Policy and Procedures,” chapter 6, “Property, Plant, and Equipment,” August 2000, contains the DoD accounting standards for PP&E. The DoD Component that procures a General PP&E asset, or the DoD Component in possession of a General PP&E asset, usually, but not always, will be the DoD Component that must account for and report the asset. The DoD Component that reports the General PP&E asset must be able to obtain the benefit of and control access to the benefit inherent in the asset. The transaction or event giving a DoD Component the right to, and control over, the benefit of a General PP&E asset must have already occurred.

FY 2003 Financial Statements Assertions

USACE management is responsible for the fair presentation of its Civil Works financial statements and the Required Supplemental Stewardship Information. They are also responsible for establishing and maintaining a system of internal control. The USACE “Management Representation Letter for the Civil Works FY 2003 Financial Statements,” December 3, 2003, asserted that:

- representations were presented fairly in compliance with GAAP;

-
- material transactions were properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements; and
 - related accounts receivable or payable (including sales, purchases, transfers, and leasing arrangements) were properly recorded or disclosed in the financial statements.

Sampling Methodology

We performed a statistical sample of 1,211 property identification codes at 43 project sites to determine the accuracy of the financial data reported on the structures portion of the General PP&E line item on the FY 2003 USACE, Civil Works, Financial Statements. Distinct property identification codes represented each structure. We had previously determined that USACE misreported the existence of 164 of the 1,211 sampled structures, as of June 30, 2003. We did not test 157 of the 164 existence failures for the rights assertion because the full book value of these sampled items was misstated. Based on physical observation, discussions with USACE personnel, and available documentation, we conducted tests on the remaining 1,054 structures to determine whether, as of June 30, 2003, USACE or another entity owned or had rights to the structures.

USACE Rights to Structures

Of the 1,054 structures sampled, 208 structures with a book cost of \$73.9 million and a net book value of \$55.5 million as of June 30, 2003, failed the rights assertion. A structure failed the rights assertion if USACE either entered the structure into a capital lease or transferred the rights to the structure to another entity. The following table shows the number and book value of property identification codes that failed rights testing. The table also identifies the reason for the failures.

Rights Test Failures as of June 30, 2003		
<u>Reason for Failure</u>	<u>Number of Errors</u>	<u>Book Value (millions)</u>
Capital Leases With State or Local Government Entities	188	\$47.6
Capital Leases With Private Entities	7	.3
Transfers to Other Government Entities	<u>13</u>	<u>7.6</u>
Total	208	\$55.5

Appendix D contains a complete listing of property identification codes that failed the rights testing. We calculated the dollar amount of misstatements in book cost and book value as of June 30, 2003. These amounts will be used in the subsequent report on the valuation of structures to project the potential misstatement on the financial statements as of June 30, 2003, and the impact on the FY 2004 ending balances.

Capital Leases

USACE incorrectly reported 195 property identification codes as structures that qualified as capital leases in accordance with SFFAS No. 6. These structures had a net book value of \$47.9 million as of June 30, 2003. At 10 of 18 districts visited, USACE entered into leases with government and private entities for periods from 25 to 50 years without reviewing the structures included in the lease to determine whether they qualified for treatment as a capital lease. In addition, USACE personnel had inaccurately assigned useful lives of up to 100 years to the 195 structures, which was in violation of DoD FMR, volume 4, chapter 6. The DoD FMR required that buildings be assigned useful lives of 40 years and other structures be assigned useful lives of 20 years.

According to SFFAS No. 6, the leases affecting the 195 structures should have been classified as capital leases. The lease periods did not start within the last 25 percent of the total estimate economic life of the structures, and the structures were leased for 75 percent or more of their remaining economic life. Therefore, the structures attached to the land qualify as a capital lease. However, the land would qualify as an operating lease because land has an infinite useful life. Structures under capital lease substantially transfer the benefits, risks, and obligations of ownership when the lease is signed. USACE, the lessor, erroneously continued to record the book value of the structures in its accounting records, causing a misstatement in the General PP&E balance. Instead, the structures should have been recorded in the lessee's accounting records.

Capital Leases With State and Local Government Entities. Government entities were the lessee for 188 of the 195 sample structures. The leases, valued at \$47.6 million, required the lessees to invest their own capital to operate and maintain the structures. USACE constructed the structures with the intent that USACE would turn over the maintenance and administration duties to the state or local government. The following are examples of capital leases to government entities.

- A recreational area at Ray Roberts Lake, Fort Worth, Texas, was leased to the cities of Dallas and Denton, Texas, in April 1990 for a period of 50 years. The recreational area was subsequently sub-leased by the cities to the Texas Parks and Wildlife Department. The lease states that the original inventory of structures and all additions become part of the lease. Twenty-nine sample structures at the recreational area were subsequently built and placed in service between January 1991 and November 1997. To comply with the DoD FMR, the structures should have been assigned useful lives of 20 or 40 years. Because the lease exceeded 75 percent of the structures' economic useful lives, the structures qualify as capital leases, and the rights should have passed to the cities. USACE should not have reported the

structures as part of the General PP&E line on the USACE Balance Sheet.

- Seventy-six structures at Richard B. Russell Lake, Savannah, Georgia, were constructed under a cost share agreement with the states of Georgia and South Carolina. In 1982, USACE signed a 50-year lease with Georgia and South Carolina for the facilities and began constructing the structures. The structures were subsequently placed in service between January 1985 and February 1996. The useful lives of these structures are 20 and 40 years, according to the DoD FMR. Therefore, the structures qualified as capital leases, and the lessee had the rights to the structures.

USACE must identify and properly classify structures under capital lease with government entities. For assets under capital leases, USACE is required to record a receivable for the future lease payments on its Balance Sheet and remove the asset from the General PP&E account. However, many of the leases to government entities did not require lease payments. To avoid the complicated process of classifying and accounting for the leased structures, USACE should consider developing alternative procedures to account for these structures. Because the government entity assumes operation and maintenance responsibilities during the lease period, one viable alternate would be for USACE to either transfer or donate the associated structures to the government entity for the period of the lease. To be in accordance with FAS No. 13, USACE should treat the affected land as an operating lease.

Capital Leases With Private Entities. Private entities were the lessees for 7 of the 195 sample structures. The leases, valued at \$0.3 million, each required a rental payment for the duration of the lease. USACE should have recorded a receivable for the future lease payments and removed the structures from the General PP&E accounts. Any difference between the receivable and the structure's carrying amount should be recorded as unearned revenue and amortized over the life of the lease. The lessees should have recorded the structures on their Balance Sheet. For example, two marinas at Harry S. Truman Lake, Kansas City, Missouri, were leased to private entities. A comfort station was located at one of the leased marinas, which was leased on October 20, 2002, for 25 years. A well house was located at the other leased marina, which was leased on March 1, 2001, for 25 years. The comfort station and well house both had a placed-in-service date of January 1986 and should have had useful lives of 40 years. Consequently, the structures were leased for more than 75 percent of their remaining useful lives. USACE should have treated the leases affecting these structures as capital leases and recorded the required quarterly lease payments from the lessees as receivables.

Transfers to Other Government Entities

Three USACE districts incorrectly reported 13 structures in CEFMS that were transferred to other government entities using quitclaim deeds or letters of transfer. The quitclaim deeds and letters of transfer both transferred USACE interest in the property to the other government entities. The 13 structures had a net book value of \$7.6 million as of June 30, 2003. At the time of the transfers, USACE should have removed the structures from its asset accounts along with

any associated accumulated depreciation because it no longer had rights to these structures. The following are structures that had been transferred.

- Seven structures at Oahe Lake, Fort Pierre, South Dakota, and four structures at Sharp Lake, Fort Thompson, South Dakota, were transferred to the state of South Dakota using quitclaim deeds and letters of transfer. The quitclaim deed transferred USACE interests in the particular parcel of land to South Dakota when it was signed on January 26, 2002. By accepting the quitclaim deed, South Dakota assumed all the rights, title, and interests associated with the land. Accordingly, all structures on the land were transferred through use of the quitclaim deed.
- USACE entered into a contract with Titus County, Texas, at Cooper Dam, Sulphur Springs, Texas, on September 11, 1995. The contract made it necessary for a county road, property identification code CO-32059, along with other facilities to be relocated because of the White Oak Creek Mitigation Area. Upon completion of the relocation, all facilities affected, including the roads, became the responsibility of Titus County. In 1997, an easement transferred the roads within Cooper Lake to the County of Titus. Although the rights to the road no longer resided with USACE, the structure was not removed from CEFMS.
- Property identification code MORIVR-37015 represented levees that were located along the Missouri River and constructed for the local drainage districts during the 1950s and 1960s. Once the local drainage district (or county equivalent) certified that the necessary land was acquired, USACE designed and built the levees. Once constructed, the local drainage districts were required to operate and maintain them. Therefore, USACE did not acquire the land and did not own the levees.

USACE Corrective Actions

During the course of our review, USACE initiated actions to address the problems that we identified. In July 2004, USACE issued Information Paper No. 10, “Buildings and Other Structures.” USACE required district personnel to review all leases and remove any structure from CEFMS that is under a lease period that exceeds 75 percent of the structure’s economic useful life. As of September 27, 2004, the Savannah District, Savannah, Georgia, and the Omaha District, Omaha, Nebraska, retired 25 of the 208 sample items identified to be in error from CEFMS. Ten of the items, with a book value of \$45,231.80, were corrected prior to September 30, 2003. These corrective actions represent positive steps toward achieving an accurate structure balance in CEFMS.

Summary

USACE assertions that it had rights to the structures reported in CEFMS during FY 2003 were inaccurate. The inaccuracies resulted in a misstatement of the FY 2004 Civil Works financial statements and could cause the FY 2005 beginning balances for buildings and other structures accounts to be misstated, if not corrected. Recording structures in CEFMS that are under a capital lease or have been transferred to other entities does not fairly present USACE financial position in accordance with GAAP. The problems with the 208 sampled structures resulted in the net book value of the buildings and other structures accounts being overstated by about \$55.5 million as of June 30, 2003. Similar rights problems may affect property identification codes at projects that were not sampled, resulting in a greater misstatement. Therefore, USACE must correct the 208 identified errors and perform a review of its other leased and transferred structures for similar types of rights errors. USACE must continue to review and update policies and procedures to prevent future errors. Once updated policies are implemented, USACE must provide and document training of district personnel and ensure that all districts consistently implement the new policies and procedures to maintain accurate structure balances in CEFMS.

Recommendations and Management Comments

We recommend that the Chief of Engineers, U.S. Army Corps of Engineers:

1. Take the following immediate actions to resolve the 208 rights errors identified in Appendix D.

a. For buildings and other structures under a capital lease, either establish an appropriate receivable and unearned revenue accounts in the accounting records then retire the asset from the General Property, Plant, and Equipment account or develop alternative procedures (donation or transfer) for accounting for these assets during their lease period.

b. For buildings and other structures transferred to other entities, remove the assets from their asset accounts along with any associated accumulated depreciation.

Management Comments. The Commander of USACE concurred and stated that the rights issues identified in the report will be corrected.

2. Direct and document compliance with Information Paper No. 10 to perform a one-time review of all property identification codes currently under lease. Specifically, ensure that structures that meet one of the four Statements of Federal Financial Accounting Standards No. 6 requirements are reclassified as capital leases and are properly reported in the Corps of Engineers Financial Management System.

Management Comments. The Commander of USACE concurred and stated that each district is taking corrective actions outlined in Information Paper

No. 10. Also, each internal review office is performing reviews to document that corrective actions are being completed.

3. Update Engineer Circular 405-1-2, "Project Inventory, Management, Accountability and Documentation," or other U.S. Army Corps of Engineers guidance to include procedures for determining whether buildings and other structures qualify as capital lease upon inception of a lease and provide the proper accounting procedures to be followed by district personnel. Once final policies are implemented, provide training to district personnel and ensure that the policies are implemented consistently by all U.S. Army Corps of Engineers districts.

Management Comments. The Commander of USACE concurred and stated that USACE is in the process of rewriting Engineer Regulation 37-2-10, "Financial Administration - Accounting and Reporting - Civil Works Activities," dated October 31, 2000, to include guidance set forth in Information Paper No. 10. He also stated that USACE will update Engineer Circular 405-1-2, as appropriate. The completion date for these actions is September 30, 2005.

Appendix A. Scope and Methodology

We selected a statistical sample from a universe of 32,571 structures, valued at \$16.7 billion, reported as buildings and other structures on the third quarter FY 2003 Balance Sheet. Each structure was identified using a distinct property identification code. We used the sample to evaluate management assertions for existence or occurrence, rights and obligations, valuation or allocation, and presentation and disclosure. In this report, we address rights issues identified in testing the sampled structures. Projections related to any misstatement of the buildings and other structures accounts will be addressed in a future report.

We obtained from USACE the 39,852 individual property identification codes¹ that comprised the trial balance totals for general ledger account codes 1730 (buildings) and 1740 (other structures) as of June 30, 2003. We determined that the property identification codes represented the amount reported in the trial balance as of June 30, 2003. We removed 357 identified revetment structures, valued at \$1.3 billion, from our universe based on recommendations contained in DoD IG Report No. D-2004-017, "Reliability of Construction-in-Progress in U.S. Army Corps of Engineers, Civil Works, Financial Statements," November 7, 2003, that these items be expensed. We also removed 6,924 structures with zero reported book values from the universe because they did not have an impact on the financial statements. We reviewed a two-stage, probability-proportional-to-size sample of USACE properties, which at the second stage involved 1,211 of the 32,571 property identification codes. The probability-proportional-to-size sampling technique used the dollar value of the asset as a selection criterion, with higher probability for selecting the higher dollar value projects.

In DoD IG Report No. D-2005-035, "Independent Examination of the Existence of U.S. Army Corps of Engineers Buildings and Other Structures," February 15, 2005, we determined that USACE misreported the existence of 164 of the 1,211 sampled buildings and other structures valued at \$594.9 million, as of June 30, 2003. We did not test 157 of the 164 existence failures because the full book value of these sampled items was misstated. As a result, we tested only 1,054 structures for the rights assertion. The 1,054 sample items were located at 43 field sites within 18 USACE districts. We performed this examination from October 2003 through October 2004, in accordance with generally accepted government accounting standards, incorporating attestation engagement standards.

From October 2003 to April 2004, we visited 43 field sites located in 18 USACE districts. We developed procedures to test the USACE management assertion about rights to Civil Works structures. We compared what was recorded in CEFMS to physical observation and available documentation to determine whether, as of June 30, 2003, USACE or another entity owned or had rights to structures.

¹ USACE excluded assets that would later be removed to comply with the increased capitalization threshold.

Use of Computer-Processed Data. Although we relied on computer-processed data from CEFMS, we did not evaluate the adequacy of the systems' general and application controls. Previous audits have identified general and application control weaknesses and questioned the reliability of the CEFMS data. We were able to reconcile the USACE trial balances as of June 30, 2003 and September 30, 2003 for the buildings and other structures accounts within CEFMS by property identification code for the corresponding periods. We evaluated data reliability related to the sample items we reviewed by comparing information recorded in CEFMS with source documentation and physical observations in USACE district and field offices.

Use of Technical Assistance. We obtained assistance from the Operations Research Branch, Quantitative Methods Division in the DoD IG in determining a statistical sampling plan. We will report the calculation of statistical projections in a subsequent report.

Government Accountability Office (GAO) High-Risk Area. GAO has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management and Federal Real Property high-risk areas.

Appendix B. Prior Coverage

During the last 5 years, GAO and the DoD IG have issued several reports discussing the reporting of General PP&E on the USACE, Civil Works, financial statements. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

GAO

GAO Report No. GAO-03-42, "Financial Management: Survey of Capitalization Threshold and Other Policies for Property, Plant, and Equipment," October 15, 2002

GAO Report No. GAO-02-589, "Information Security: Corps of Engineers Making Improvements, But Weaknesses Continue," June 10, 2002

GAO-01-89 Letter Report, "Financial Management: Significant Weaknesses in Corps of Engineers' Computer Controls," October 11, 2000

DoD IG

DoD IG Report No. D-2005-035, "Independent Examination of the Existence of U.S. Army Corps of Engineers Buildings and Other Structures," February 15, 2005

DoD IG Report No. D-2004-063, "Controls Over U.S. Army Corps of Engineers Buildings and Other Structures," March 26, 2004

DoD IG Report No. D-2004-032, "Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, Fiscal Year 2003 Principal Financial Statements," December 3, 2003

DoD IG Report No. D-2004-017, "Reliability of Construction-in-Progress in the U.S. Army Corps of Engineers, Civil Works, Financial Statements," November 7, 2003

DoD IG Report No. D-2003-043, "Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, Fiscal Year 2002 Principal Financial Statements," January 1, 2003

Appendix C. Glossary

Accumulated Depreciation. The amount of depreciation expense that has been added over a period of time and calculated from the placed-in-service date of the asset.

Acquisition (Book) Cost. The original purchase, construction, or development cost, net of (less) any purchase discounts. The cost of an asset shall include all costs incurred to bring the asset to a form and location suitable for its intended use. It includes amounts paid to the prior owner or vendor, additional expenditures to place the asset in service (such as legal and recording fees, supervision and administration, engineer and design, interest during construction, labor, and transportation cost), or the fair market value of property acquired by transfer, trade-in, found on works, or donation.

Book Value. The book (acquisition) cost less accumulated depreciation charged on the asset.

Economic Life. The estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

Lease. A contract by which one conveys real estate, equipment, or facilities for a specified term and for a specified rent.

Lease Term. The fixed non-cancelable term of the lease plus all periods, if any, representing renewals or extensions of the lease that can reasonably be expected to be taken.

Placed-in-Service Date. The date that an asset is physically complete and available for use. Assets are recognized when the title passes to the acquiring entity or when the asset is delivered to the entity or to an agent of the entity. It defines the start of the capitalization and depreciation expense process.

Property Identification Code. A number that links the Real Estate Management Information System database with CEFMS. The property identification code is system generated by the Real Estate Management Information System when information about a new asset is entered.

Property Phase. A stage in an asset's life cycle. An asset can be transferred from construction in progress to placed in service (S), retirement (R), to disposal (D) over the course of the asset's life.

Quitclaim Deed. A deed that transfers the owner's interest to a buyer, but does not guarantee that there are no other claims against the property.

Useful Life. The estimated time period for an asset to provide its intended service. The concept recognizes the deterioration of items as they age.

Appendix D. Rights and Obligations Discrepancies

Observations conducted at 43 field sites identified 208 structures that failed rights testing. The following three tables identify the property identification codes and the amount of misstatement for structures that were under capital leases or were transferred to another entity, as of June 30, 2003.

Table D-1 identifies the 188 property identification codes that failed rights testing because they were under a capital lease with state or local government entities.

Table D-1. Capital Leases With Government Entities					
District	Property Identification Code	Lease Term (Years)	Useful Life (Years)	Misstated Book Cost	Misstated Book Value
Fort Worth	CO-38914	25	20	\$ 422,000.43	\$ 391,405.37
	CO-38939	25	20	235,305.34	218,637.86
	CO-38944	25	20	82,947.97	71,196.98
	CO-38952	25	20	71,194.49	66,151.54
	CO-38956	25	20	44,883.48	41,704.26
	CO-38996	25	20	151,478.90	139,613.07
	CO-39035	25	20	2,420,177.99	2,248,748.72
	CO-39058	25	20	82,961.08	77,084.71
	RR-26267	50	20	47,904.90	44,161.02
	RR-27271	50	20	43,863.27	40,435.26
	RR-27273	50	40	125,779.79	106,049.64
	RR-27280	50	40	112,791.27	95,098.51
	RR-27290	50	20	152,980.04	141,024.33
	RR-27294	50	20	116,555.98	107,446.94
	RR-29045	50	20	25,237.67	17,236.48
	RR-29046	50	20	1,981,267.94	1,826,428.02
	RR-29048	50	20	100,258.89	92,423.42
	RR-29051	50	20	100,258.89	92,423.42
	RR-29053	50	20	601,553.40	554,540.85
	RR-29054	50	20	100,258.89	92,423.42
	RR-29060	50	20	540,652.86	498,399.78
	RR-29070	50	20	1,357,633.51	1,231,847.65
	RR-29074	50	20	8,372,237.13	7,718,536.84
	RR-29080	50	20	112,791.27	103,976.43

Table D-1. Capital Leases With Government Entities (cont'd)					
District	Property Identification Code	Lease Term (Years)	Useful Life (Years)	Misstated Book Cost	Misstated Book Value
Fort Worth	RR-29081	50	20	150,388.16	138,635.22
	RR-29090	50	20	231,120.55	211,382.62
	RR-29093	50	40	231,120.57	211,382.62
	RR-29099	50	40	125,779.79	104,215.90
	RR-29113	50	40	125,779.79	104,215.90
	RR-37154	50	20	233,770.76	223,831.19
	RR-37155	50	20	27,858.56	25,483.04
	RR-40496	50	20	58,837.54	58,355.68
	RR-40498	50	20	34,610.32	34,326.91
	RR-40507	50	20	27,879.31	26,661.25
	RR-40512	50	20	86,005.26	85,300.92
	RR-40514	50	20	27,879.31	26,643.25
	RR-40518	50	20	143,943.54	142,764.72
	BSAYBC-23814	30	20	167,140.05	118,667.69
	BSAYBC-23815	30	20	395,719.48	280,956.76
Huntington	BSAYBC-23818	30	20	46,889.39	29,069.39
	BSAYBC-23908	30	20	25,248.13	13,253.52
	BSAYBC-3460	30	20	148,083.29	119,946.07
Kansas City	KNOPLS-28136	50	40	26,557.09	6,465.60
	KNOPLS-28153	50	40	59,015.75	18,677.67
	KNOPLS-29927	50	20	78,893.39	33,066.00
	KNOPLS-38924	50	40	41,788.13	41,161.30
	LNGVW-28411	50	40	57,148.95	39,236.39
	LNGVW-28421	50	40	69,764.61	45,804.56
	LNGVW-28423	50	20	35,137.78	10,991.14
	LNGVW-28455	50	40	42,675.03	13,348.91
	LNGVW-28461	50	20	35,595.67	11,134.44
	LNGVW-28465	50	20	57,148.95	22,451.22
	LNGVW-28466	50	20	57,148.95	25,882.14
	LNGVW-28468	50	40	64,516.57	46,875.72
	LNGVW-28470	50	40	57,148.95	25,882.14
	LNGVW-28472	50	20	82,207.21	37,230.81
	LNGVW-29930	50	20	237,970.30	197,113.12
	LNGVW-30783	50	20	35,508.42	11,107.11
	LNGVW-30785	50	40	35,508.42	11,107.11
	LNGVW-30787	50	20	467,493.72	387,229.38
	LNGVW-30823	50	20	545,409.20	451,767.40
	LNGVW-30889	50	20	44,639.16	36,975.00
	LNGVW-30890	50	20	133,917.47	110,925.13
	LNGVW-30899	50	20	892,783.17	739,500.72
	LNGVW-30901	50	20	178,556.63	147,900.25
	LNGVW-30902	50	20	89,278.32	73,949.96
	SMTHVL-28289	50	40	166,441.84	143,690.88
	SMTHVL-28299	50	40	133,153.48	96,745.18

Table D-1. Capital Leases With Government Entities (cont'd)					
District	Property Identification Code	Lease Term (Years)	Useful Life (Years)	Misstated Book Cost	Misstated Book Value
Kansas City	SMTHVL-28320	50	40	49,932.55	43,107.25
	SMTHVL-28347	50	40	316,239.50	229,769.67
	SMTHVL-28349	50	40	166,441.84	143,690.88
	SMTHVL-28351	50	40	166,441.84	143,690.88
	SMTHVL-28353	50	40	166,441.84	143,690.88
	SMTHVL-30968	50	40	166,441.84	143,690.88
	SMTHVL-30972	50	40	349,860.77	254,197.80
	SMTHVL-30980	50	20	43,690.98	19,787.21
	SMTHVL-30983	50	20	43,690.98	19,787.21
	SMTHVL-30985	50	20	43,690.98	19,787.21
	SMTHVL-30987	50	20	388,275.54	335,202.28
	SMTHVL-30990	50	20	479,352.52	413,830.06
	SMTHVL-30991	50	20	143,805.76	124,148.95
	SMTHVL-31001	50	20	549,258.10	142,254.17
	SMTHVL-31002	50	20	2,087,180.76	1,801,884.80
	SMTHVL-31003	50	20	384,480.67	331,926.27
	SMTHVL-31004	50	20	549,258.10	474,180.27
	SMTHVL-31007	50	20	169,770.68	146,564.87
	ARLD13-43035	25	20	110,000.00	98,449.80
	ARLD13-43041	25	20	41,600.00	37,231.90
Nashville	JPP-14477	50	20	15,660.18	13,762.30
Omaha	OAHE-22104	50	20	52,422.79	27,258.79
Portland	BONNE-11939	50	40	11,000.00	10,474.07
	LOSTC-7210	25	20	15,360.00	8,132.43
Savannah	RBR-15714	50	20	128,340.22	102,594.40
	RBR-15729	50	20	347,869.55	314,942.94
	RBR-15957	50	20	12,158.54	11,007.67
	RBR-15966	50	40	221,642.80	197,434.23
	RBR-15968	50	40	13,509.51	6,555.45
	RBR-15969	50	40	13,509.51	6,555.45
	RBR-15971	50	20	220,676.54	99,250.63
	RBR-15978	50	40	320,850.54	290,481.23
	RBR-15989	50	20	925,625.00	839,382.70
	RBR-15991	50	20	105,703.57	95,139.16
	RBR-15993	50	20	105,703.56	95,139.15
	RBR-15995	50	20	84,434.37	76,442.45
	RBR-16000	50	20	979,438.53	886,732.73
	RBR-16059	50	20	8,443.43	4,097.25
	RBR-16067	50	20	1,051,332.12	951,821.44
	RBR-16068	50	20	1,979,327.08	1,791,979.97
	RBR-16069	50	20	128,340.22	102,594.40
	RBR-16071	50	20	338,318.71	305,944.43
	RBR-16228	50	20	296,195.72	267,877.35
	RBR-16246	50	20	193,861.28	175,327.01
	RBR-16603	50	20	574,153.62	519,260.62

Table D-1. Capital Leases With Government Entities (cont'd)					
District	Property Identification Code	Lease Term (Years)	Useful Life (Years)	Misstated Book Cost	Misstated Book Value
Savannah	RBR-16706	50	20	290,454.19	262,684.79
	RBR-16719	50	20	574,153.62	519,260.62
	RBR-16889	50	20	45,047.41	41,022.82
	RBR-16892	50	20	169,763.71	153,533.05
	RBR-16893	50	40	285,131.44	259,657.70
	RBR-16894	50	40	285,131.44	259,657.70
	RBR-16895	50	40	285,131.44	259,657.70
	RBR-16898	50	20	184,066.91	166,468.93
	RBR-16904	50	20	64,305.21	40,390.25
	RBR-16954	50	40	13,509.51	6,075.96
	RBR-17025	50	20	391,775.41	354,319.16
	RBR-17072	50	20	194,823.83	176,197.42
	RBR-17080	50	20	135,770.44	122,790.05
	RBR-17103	50	40	1,144,369.16	889,835.19
	RBR-17110	50	40	151,981.83	121,493.45
	RBR-17118	50	20	13,509.51	6,555.45
	RBR-17121	50	20	566,113.97	510,587.09
	RBR-17127	50	20	96,225.16	74,285.65
	RBR-17130	50	20	84,195.01	74,704.13
	RBR-17192	50	40	202,642.45	183,651.08
	RBR-17250	50	20	316,679.50	286,402.66
	RBR-17251	50	40	13,509.51	6,075.96
	RBR-17283	50	20	304,369.15	275,513.79
	RBR-17300	50	40	373,544.34	337,831.14
	RBR-17345	50	20	116,745.71	95,794.64
	RBR-17346	50	20	345,350.02	314,206.58
	RBR-17347	50	20	35,462.42	32,264.27
	RBR-17349	50	20	948,332.92	862,813.16
	RBR-17351	50	20	99,632.54	90,647.88
	RBR-17353	50	40	330,813.83	300,981.35
	RBR-17356	50	40	13,509.51	6,075.96
	RBR-17405	50	20	406,855.40	367,957.21
	RBR-17409	50	40	50,660.62	30,911.65
	RBR-17410	50	20	102,705.95	93,444.15
	RBR-17414	50	20	83,198.24	50,765.13
	RBR-17415	50	20	237,071.41	215,692.68
	RBR-17418	50	20	38,184.60	23,299.07
	RBR-17420	50	20	1,326,835.26	1,207,182.41
	RBR-18147	50	20	314,433.55	284,371.62
	RBR-18287	50	20	267,248.44	256,606.80
	RBR-18392	50	20	574,153.62	519,260.62
	RBR-18498	50	40	13,509.51	6,075.96
	RBR-18547	50	20	130,436.58	117,965.96
	RBR-18896	50	40	13,509.51	6,075.96

Table D-1. Capital Leases With Government Entities (cont'd)					
District	Property Identification Code	Lease Term (Years)	Useful Life (Years)	Misstated Book Cost	Misstated Book Value
Savannah	RBR-18898	50	40	13,509.51	6,075.96
	RBR-18910	50	20	667,801.47	603,955.12
	RBR-18958	50	20	39,836.12	24,306.81
	RBR-18955	50	40	13,509.51	8,243.08
	RBR-18959	50	20	13,374.40	12,168.25
	RBR-19301	50	20	8,443.43	4,097.25
	RBR-20755	50	20	31,013.08	28,147.73
	RBR-20764	50	20	130,082.72	118,063.92
	RBR-20766	50	20	7,862.14	7,135.92
	RBR-20767	50	20	52,890.78	48,004.12
	RBR-22108	50	20	28,589.61	25,948.10
Wilmington	FAL-15891	50	40	100,000.00	78,634.60
	FAL-15917	50	40	92,000.00	46,919.59
	FAL-15979	50	20	95,000.00	74,703.04
	FAL-15983	50	20	95,000.00	74,703.04
	FAL-16654	50	20	40,000.00	26,237.87
	FAL-17727	50	40	50,000.00	25,035.31
	FAL-18752	50	40	75,500.00	48,341.18
	FAL-18822	50	20	120,000.00	76,833.66
	FAL-18827	50	40	50,000.00	32,014.01
	FAL-18887	50	40	80,000.00	51,222.54
	FAL-18892	50	20	147,733.50	122,455.36
	FAL-18936	50	20	870,156.00	735,281.12
	FAL-18948	50	40	120,000.00	88,807.24
	FAL-19042	50	40	1,099,640.82	824,726.79
	FAL-19045	50	40	35,000.00	26,600.68
	FAL-19049	50	40	899,779.00	656,835.58
	FAL-19331	50	20	404,708.95	309,310.32
	FAL-20341	50	20	45,000.00	34,649.84
	FAL-20344	50	40	75,000.00	62,249.76
	FAL-24163	50	20	40,172.39	32,492.32
Total Leased to Government Entities	188			\$55,152,626.20	\$47,610,612.85

Table D-2 identifies the seven property identification codes that failed the rights testing because they were under a capital lease to a private entity.

Table D-2. Capital Leases With Private Entities					
District	Property Identification Code	Lease Term (Years)	Useful Life (Years)	Misstated Book Cost	Misstated Book Value
Fort Worth	CN-29518	50	25	\$ 32,760.65	\$ 21,785.84
Kansas City	HST-29743	25	40	55,605.60	36,137.70
	HST-29751	25	40	61,795.81	40,160.58
Nashville	JPP-14540	25	20	11,000.00	8,891.15
	JPP-14541	25	20	47,000.00	42,842.59
	JPP-14543	25	20	34,000.00	30,994.14
Pittsburgh	YOUGH-12824	40	40	95,024.90	80,170.04
Total Leased to Private Entities	7			\$337,186.96	\$260,982.04

Table D-3 identifies the 13 property identification codes that failed the rights testing because they were transferred to another entity.

Table D-3. Transferred Structures				
District	Property Identification Code	Method of Transfer	Misstated Book Cost	Misstated Book Value
Kansas City	MORIVR-37015	Constructed for Another Entity	\$18,196,374.61	\$7,368,715.51
Fort Worth	CO-32059	Letter of Transfer	201,378.77	187,785.66
Omaha	SHARP-20509	Letter of Transfer	2,519.53	1,800.87
	SHARP-49789	Letter of Transfer	5,000.00	3,032.97
	OAHE-21803	Quitclaim	9,629.46	2,497.84
	OAHE-21809	Quitclaim	5,538.87	3,315.93
	OAHE-21949	Quitclaim	8,859.10	5,303.66
	OAHE-21952	Quitclaim	4,059.78	3,490.23
	OAHE-22011	Quitclaim	20,029.28	13,169.18
	OAHE-22073	Quitclaim	9,629.46	3,087.29
	OAHE-22177	Quitclaim	9,629.46	3,087.29
	SHARP-20525	Quitclaim	2,519.53	1,800.87
	SHARP-20676	Quitclaim	5,358.86	4,645.67
Total Transferred Structures	13		\$18,480,526.71	\$7,601,732.97

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Assistant Secretary of the Army (Civil Works)
Commander, U.S. Army Corps of Engineers
Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Subcommittee on Energy and Water Development, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Committee on Energy and Natural Resources
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Subcommittee on Energy and Water Development, Committee on Appropriations
House Committee on Armed Services
House Committee on Energy and Natural Resources
House Committee on Government Reform
House Committee on Resources
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

U.S. Army Corps of Engineers Comments



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
441 G ST. NW
WASHINGTON, D.C. 20314-1000

CEIR (36-2b)

13 January 2005

MEMORANDUM FOR Director, Defense Financial Auditing Service, Inspector General
Department of Defense. 400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Report on the Independent Examination of the Rights to U.S. Army Corps of
Engineers Buildings and Other Structures.
(Project No. D2004FI-0037.001)

I. The USACE response to each Department of Defense Inspector General (DoDIG) report
recommendations follows:

**Finding – We recommend that the Chief of Engineers, U.S. Army Corps of
Engineers:**

1. **RECOMMENDATION.** Take the following immediate actions to resolve the 208 right
errors identified in Appendix D.
 - a. For buildings and other structures under a capital lease, either establish an appropriate
receivable and unearned revenue accounts in the accounting records then retire the
asset from the General Property, Plant, and Equipment account or develop alternative
procedures (donation or transfer) for accounting for these assets during their lease
period.
 - b. For buildings and other structures transferred to other entities, remove the assets from
their asset accounts along with any associated accumulated depreciation.

Concur:

The Corps of Engineers will correct each of the 208 rights errors identified in Appendix D.
The completion date for this action is 28 February 2005.

2. **RECOMMENDATION.** Direct and document compliance with Information Paper "Issue
No 10," to perform a one-time review of all property identification codes currently under
lease. Specifically, ensure that structures that meet one of the four Statements of Federal
Financial Accounting Standards No. 6 requirements are reclassified as capital leases and are
properly reported in the Corps of Engineers Financial Management System.

Concur:

The Corps of Engineers has directed each District to take the corrective actions identified in
the Information Paper Issue No. 10. In addition, each Internal Review Office is performing
reviews to ensure all actions are being completed and documented. The completion date for
this action is 28 February 2005.

3. **RECOMMENDATION.** Update Engineer Circular 405-1-2, "Project Inventory
Management, Accountability and Documentation" or other U.S. Army Corps of Engineer
guidance to include procedures for determining whether buildings and other structures
qualify as capital lease upon inception of a lease and provide the proper accounting
procedures to be followed by district personnel. Once final policies are implemented,

CEIR (36-2b)

13 January 2005

SUBJECT: Report on the Independent Examination of the Rights to U.S. Army Corps of Engineers Buildings and Other Structures.
(Project No. D2004FI-0037.001)

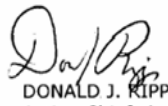
provide training to district personnel and ensure that the policies are implemented consistently by all U.S. Army Corps of Engineer Districts.

Concur:

The Corps of Engineers is in the process of re-writing our Finance and Account Regulation ER 37-2-10 which will include an update to the Asset Chapter to include guidance set forth in Information Paper Issue No. 10. In addition, the Corps will also update Engineer Circular 405-1-2 as appropriate. The completion date for this action is 30 September 2005.

II. The POC for this response is Mr. Bill Holtzman (202) 761-1938 or Mr. Imtiaz Badar (202) 761-1987.

FOR THE COMMANDER:



DONALD J. KIPP
Acting Chief, Audit Executive
U.S. Army Corps of Engineers

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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