

Inspector General

United States
Department of Defense



Controls Over Army Working Capital Fund Real Property Assets

Report Documentation Page

Form Approved
OMB No. 0704-0188

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1. REPORT DATE 29 MAY 2009	2. REPORT TYPE	3. DATES COVERED 00-00-2009 to 00-00-2009	
4. TITLE AND SUBTITLE Controls Over Army Working Capital Fund Real Property Assets		5a. CONTRACT NUMBER	
6. AUTHOR(S)		5b. GRANT NUMBER	
		5c. PROGRAM ELEMENT NUMBER	
		5d. PROJECT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Department of Defense Inspector General, 400 Army Navy Drive, Arlington, VA, 22202-4704		5e. TASK NUMBER	
		5f. WORK UNIT NUMBER	
		8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)		10. SPONSOR/MONITOR'S ACRONYM(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited		11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
		13. SUPPLEMENTARY NOTES	
14. ABSTRACT			
15. SUBJECT TERMS			
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified	Same as Report (SAR)
			18. NUMBER OF PAGES 64
			19a. NAME OF RESPONSIBLE PERSON

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Acronyms and Abbreviations

ACSIM	Assistant Chief of Staff for Installation Management
AMC	Army Materiel Command
ASA(FM&C)	Assistant Secretary of the Army (Financial Management and Comptroller)
AWCF	Army Working Capital Fund
DPAS	Defense Property Accountability System
FMR	Financial Management Regulation
GAO	Government Accountability Office
IFS	Integrated Facilities System
IMCOM	Installation Management Command
OMB	Office of Management and Budget
PP&E	Property, Plant, and Equipment
RPAO	Real Property Accountable Officer
SFFAS	Statement of Federal Financial Accounting Standards
UFC	Unified Facilities Criteria
USACE	U.S. Army Corps of Engineers



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

May 29, 2009

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Controls Over Army Working Capital Fund Real Property Assets
(Report No. D-2009-084)

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. We revised Recommendation A.1. to clarify the intent. The comments from the U.S. Army Corps of Engineers were responsive. However, the comments from the Deputy Under Secretary of Defense (Installations and Environment) and the Assistant Secretary of the Army (Financial Management and Comptroller) were only partially responsive and did not fully present intended corrective actions and completion dates for all recommendations. Please see the recommendations table on the back of the Results in Brief for the specific comments required by June 29, 2009.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send management comments in electronic format (Adobe Acrobat file only) to auidbo@dodig.mil. Copies of management comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 329-5868).

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations



Results in Brief: Controls Over Army Working Capital Fund Real Property Assets

What We Did

Our objective was to determine whether the Army Working Capital Fund had controls in place to provide reasonable assurance that it could properly manage real property assets. This report addresses real property acquisition, improvement, disposal controls, and supporting documentation for real property transactions.

What We Found

The Army did not have effective internal controls in place to ensure that Army Working Capital Fund installations managed their real property assets effectively and efficiently, complied with regulations, and accurately reported assets. The Army Working Capital Fund did not have:

- an effective control environment that delineated roles and responsibilities and provided adequate training;
- oversight and monitoring of real property acquisition, improvement, and disposal;
- effective installation-level control activities to classify, value, and report assets correctly; and
- sufficient documentation to support reported real property values.

What We Recommend

We recommend that the Deputy Under Secretary of Defense (Installations and Environment) enforce policy assigning real property accountability responsibility to a single military department at each installation.

We recommend that the Department of the Army:

- Develop an effective control environment over Army Working Capital Fund real property.
- Develop a training program for all personnel involved in real property management.
- Implement the \$20,000 DoD capitalization threshold for all real property placed in service since March 2006.
- Finalize the Real Property Audit Preparation Handbook.
- Develop necessary system changes within the Integrated Facilities System.
- Complete the validation of real property assets and implement the internal controls and business practices necessary to sustain the baseline achieved.
- Implement electronic folder requirements for all real property assets.

Management Comments and Our Responses

The Deputy Under Secretary of Defense (Installations and Environment) and the Assistant Secretary of the Army (Financial Management and Comptroller) agreed with all recommendations, but some comments were only partially responsive. The full text of these comments appears in the Management Comments section of the report. We request additional comments from the Deputy Under Secretary of Defense (Installations and Environment) and the Assistant Secretary of the Army (Financial Management and Comptroller) by June 29, 2009. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Deputy Under Secretary of Defense (Installations and Environment)	A.1.	
Assistant Secretary of the Army (Financial Management and Comptroller)	A.4.a., A.4.b., A.4.d.(2), A.4.d.(4), B.	A.4.c., A.4.d.(1), A.4.d.(3), A.4.e.
U.S. Army Assistant Chief of Staff for Installation Management	A.2.b., A.2.c., A.4.a., A.4.b., A.4.d.(2), A.4.d.(4), B.	A.2.a., A.3., A.4.c., A.4.d.(1), A.4.d.(3), A.4.e., A.5.
U.S. Army Corps of Engineers		A.3.

Please provide comments by June 29, 2009.

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Introduction

Objectives

Our overall audit objective was to determine whether the Army Working Capital Fund (AWCF) had controls in place to provide reasonable assurance that it could properly manage real property assets. This is the second of two reports. The first report addressed Army implementation of the DoD preponderance of use policy, as well as concerns regarding system integration between Army real property accountability and accounting systems. This report addresses controls over the acquisition, improvement, and disposal of real property assets and the availability of source documentation. We also evaluated the managers' internal control program as it related to the audit objectives. See Appendix A for a discussion of the audit's scope and methodology and for prior coverage related to the objectives. Appendix B provides a glossary of terms used throughout the report.

Background

DoD real property assets include land, buildings and structures, improvements to owned or leased real property assets, and real property construction-in-progress. The Army reports real property assets on the AWCF financial statements, as well as on financial statements for the Army General Fund and U.S. Army Corps of Engineers (USACE), Civil Works. The Army reports all of its land assets on the General Fund and USACE financial statements. Table 1 shows the real property acquisition and book values reported on the FY 2007 AWCF financial statements.

Table 1. AWCF Real Property as of September 30, 2007

Asset Class	Acquisition Value (millions)	Book Value (millions)*
Buildings, Structures, and Facilities	\$1,866.7	\$438.7
Leasehold Improvements	96.6	15.0
Construction-in-Progress	43.7	43.7
Total	\$2,007.0	\$497.4

* Book value is acquisition value less accumulated depreciation on the asset.

The book value of AWCF real property decreased from \$497.4 million in FY 2007 to \$482.7 million as of September 30, 2008.

Roles and Responsibilities

USACE is the proponent agency for real estate, and the Assistant Chief of Staff for Installation Management (ACSIM) provides overall policy and program management

concerning Army installation management. In October 2002, the Army implemented the “Transformation of Installation Management” initiative and placed installation management under the Installation Management Agency, an ACSIM field-operating agency. In October 2006, the Installation Management Command (IMCOM), with six regional headquarters offices worldwide, assumed the responsibilities of the Installation Management Agency and the Army’s Community and Family Support Center and Environmental Center. The IMCOM commander also serves as the ACSIM. The U.S. Army Materiel Command (AMC) retained command and control over base operations for its special installations, including the 13 entities¹ reported in the AWCF financial statements. The Assistant Secretary of the Army (Financial Management and Comptroller) (ASA[FM&C]) has responsibility for ensuring the accurate financial reporting of Army assets. The Deputy Under Secretary of Defense (Installations and Environment) is responsible for all DoD real property matters, including issuing guidance and procedures for acquiring DoD real property and for proper inventory reporting.

Real Property Guidance

DoD Financial Management Regulation (FMR), volume 4, “Accounting Policy and Procedures,” chapter 6, “Property, Plant, and Equipment (PP&E),” July 2006,² contains the DoD accounting standards and policy for capitalizing, depreciating, and financial reporting of real property assets. The regulation requires DoD entities to capitalize real property assets that meet the DoD capitalization threshold and any improvements to capital assets that improve the asset’s capability, size, efficiency, or useful life. In March 2006, the Principal Deputy Under Secretary of Defense (Comptroller) lowered the real property capitalization threshold from \$100,000 to \$20,000. The FMR also identifies the source documents required to support real property financial transactions. See Appendix C for additional information on real property documentation requirements.

In 2003, DoD launched an initiative to improve the reliability, accuracy, and timeliness of its real property information and inventory reporting systems. A DoD real property working group, comprised of representatives from the DoD Components and the Deputy Under Secretary of Defense (Installations and Environment), conducted a real property business process reengineering study. As a result, DoD issued three documents that recommend standardized processes, business rules, and data standards for real property. The documents address accounting for construction-in-progress costs, real property acceptance into the DoD inventory, and real property inventory

¹ The 13 entities reported in the AWCF financial statements include 2 activities that are Navy installation tenants. Within this report, we refer to them collectively as AWCF installations.

² Revisions to FMR volume 4, chapter 6, issued in October 2008, incorporated policy in the Office of the Under Secretary of Defense (Comptroller) memorandum of October 16, 2008, titled “Policy Change for Real Property Financial Reporting.” The new policy, effective in FY 2011, is intended to align DoD reporting with Statement of Federal Financial Accounting Standards No. 4, which requires reporting entities to measure and report the full cost of producing their outputs in financial reports. Otherwise, the FMR guidance has not significantly changed for capitalizing, depreciating, documenting, and accounting for real property.

requirements. DoD incorporated the standard data element requirements in the Business Enterprise Architecture. In accordance with the Enterprise Transition Plan, the Army plans to achieve compliance for its systems in 2009.³

Unified Facilities Criteria (UFC) 1-300-08, “Criteria for Transfer and Acceptance of Military Real Property,” June 30, 2004,⁴ establishes a process for consistently and accurately transferring and accepting DoD real property accountability and financial costs. UFC 1-300-08 does the following:

- contains procedures to ensure the posting of newly constructed and transferred facilities and their costs into the real property database;
- tells users how to document acquisitions, improvements, transfers, changes, and disposals using DD Form 1354, “Transfer and Acceptance of Military Real Property;” and
- assigns responsibilities to the facility owners, construction agents, and installation customers.

Review of Internal Controls

We identified material internal control weaknesses for the Army as defined by DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006. We reviewed the roles and responsibilities of accountability and financial management personnel; internal controls over the real property physical inventory process; how installations recorded acquisition, improvement, and disposal transactions; and source documentation compliance and retention. We determined that the Army did not properly segregate duties between real property accountability and financial management responsibilities. The Army also did not maintain controls to ensure that installations conducted proper inventories and recorded real property acquisition, improvement, and disposal transactions accurately and in a timely manner. Furthermore, the Army did not have sufficient internal controls in place to ensure that installations retained required source documentation to support the acquisition cost of real property assets reported in the AWCF financial statements. The recommendations in Findings A and B, when implemented, will improve the Army’s capability to provide appropriate real property accountability and accurate financial reporting. We will provide a copy of the final report to the Army senior official responsible for internal controls.

³ Real property accountability was identified as one of six strategic Defense Business Enterprise Priority areas, as part of the long-term DoD business transformation effort. The Business Enterprise Architecture provides part of the structure for the DoD business transformation, and it incorporates activities, data standards, and business rules and policies at a DoD enterprise level.

⁴ UFC 1-300-08, June 30, 2004, was in effect during this audit. On March 26, 2009, DoD updated the guidance to incorporate the requirements in the Real Property Acceptance Requirements document and the Construction-in-Progress Requirements document. The 2009 update also reflects the applicable data element names and business rules included in the Real Property Information Model, version 3.0.

Management Comments on the Introduction and Our Response

Deputy Under Secretary of Defense (Installations and Environment) Comments

The Deputy Under Secretary of Defense (Installations and Environment) provided comments on the real property guidance referenced in the Introduction. He stated that we did not accurately reflect their progress with implementing inventory requirements. He also stated that DoD was updating the Unified Facilities Criteria guidance. For complete comments, see the Management Comments section.

Our Response

We revised the Introduction to clarify DoD progress with implementing inventory requirements. We also added a footnote to recognize that DoD updated UFC 1-300-08 in March 2009.

Finding A. Effectiveness of Army Real Property Internal Controls

The Army has not implemented an effective internal control structure over its AWCF real property assets. Specifically, the Army did not develop the control environment needed to assist AWCF installations and real property personnel in assessing risk, implementing control activities, and monitoring internal control compliance. As a result, the Army could not ensure Integrated Facilities System (IFS) data reliability, real property asset existence, or the completeness of its inventory records. Army officials responsible for developing and enforcing guidance and managing the real property financial reporting process need to:

- develop an effective AWCF real property control environment;
- establish sufficient controls to ensure that Real Property Accountable Officers (RPAOs) maintain physical control over real property assets;
- provide complete information in response to Office of Management and Budget (OMB) Circular No. A-123, Appendix A;
- develop the necessary changes within IFS and the General Fund Enterprise Business System to ensure effective real property data control; and
- finalize the Real Property Audit Preparation Handbook.

The Deputy Under Secretary of Defense (Installations and Environment) should enforce policy assigning real property accountability responsibility to a single Military Department at each installation.

Internal Control Standards

OMB Circular No. A-123, “Management’s Responsibility for Internal Control,” December 21, 2004, and Government Accountability Office (GAO) “Standards for Internal Control in the Federal Government,” (GAO/AIMD-00-21.3.1, November 1999), identify standards for achieving proper internal control. The circular provides Federal managers with guidance to ensure that entities establish effective internal control that meets GAO standards.

Management must comply with OMB Circular No. A-123, Appendix A, “Internal Control over Financial Reporting,” requirements when assessing internal control effectiveness over financial reporting.

GAO/AIMD-00-21.3.1 provides the Federal Government with standards for establishing and maintaining internal control. Government organizations should develop an internal control structure that provides reasonable assurance that management can maintain

effective and efficient operations, reliable financial reporting, and compliance with laws and regulations. GAO identifies the following five standards as important for effective internal control:

- control environment,
- risk assessment,
- control activities,
- information and communications, and
- monitoring.

These standards provide the general framework for management to implement efficient internal control policies, procedures, and practices. GAO/AIMD-00-21.3.1 states that a positive control environment should provide the discipline and structure an organization needs to influence the quality of its internal control structure and policies.

Control Environment

Army managers did not establish and maintain an effective control environment for AWCF real property assets. Army managers did not establish the appropriate roles and responsibilities needed to manage real property assets or appropriately delegate these roles to the Army installation personnel responsible for safeguarding and financial reporting of these assets. The division of responsibilities among ACSIM, IMCOM, and AMC resulted in confusion and inconsistent implementation of DoD and Army real property policies. The three Army commands designed and applied control activities differently, did not assign the appropriate installation personnel to perform real property accountability responsibilities, and did not ensure that real property personnel had the needed skills and training to perform real property accountability functions.

Real Property Control Environment

Internal control standards require that organizations achieve the level of competence needed to effectively safeguard, record, and financially report real property assets. Although ACSIM personnel demonstrated a commitment to establishing an effective Army real property management program, they did not ensure that Army installations had achieved and could maintain the appropriate level of consistency, accuracy, and regulatory compliance needed to manage real property assets properly.

ACSIM has worked with the DoD real property community to reengineer DoD real property procedures by standardizing practices, business rules, and data elements. Based on these efforts, DoD issued three requirement documents in 2005 and 2006 that provided detailed guidance on real property acceptance and inventory requirements, assigning unique property identification numbers, and recording construction-in-progress costs. In FY 2007, ACSIM expected all Army installations to implement the requirements and guidance. However, ACSIM did not have the needed management authority to direct AMC to monitor AWCF installations to ensure compliance with the real property requirements.

ACSIM managers also did not have the authority to ensure that AWCF installation commanders appointed the appropriate personnel who could devote the time required to maintain and ensure the accuracy of IFS property records and serve as RPAOs. At three of the five Army installations we visited, installation commanders appointed a Directorate of Public Works division manager as the RPAO. However, the division managers had only limited time to perform real property management responsibilities because they often performed higher-priority management duties. At the other two AWCF installations we visited, one RPAO was a Resource Management supervisor, and the other was a Public Works employee. The Rock Island Arsenal, Illinois, and Tobyhanna Army Depot, Pennsylvania, RPAOs did not have IFS access. Consequently, they could not examine IFS to ensure the accuracy and completeness of real property accountability records. At these installations, a real property specialist was the individual who had IFS access and actually performed the RPAO tasks, including accepting assets and maintaining IFS records and supporting files. ACSIM managers need to work with AMC to ensure that installation commanders appoint RPAOs who can dedicate the time and resources needed to manage real property assets effectively.

IMCOM also did not have the authority to ensure that AWCF installations provided RPAOs and real property specialists with the appropriate developmental training and continuing professional education they needed. The RPAOs and real property specialists we interviewed stated that they had not received sufficient training to fully understand and implement DoD and Army real property regulations or to use IFS correctly. Although ACSIM scheduled annual training through the Installation Management Institute, we determined that neither IMCOM nor AMC required that RPAOs attend this training before their assignment to the position or within one year of assuming their responsibilities. The Army did not schedule enough sessions of the real property and real estate courses at the Installation Management Institute to enable all the RPAOs and realty specialists that needed training to attend. In addition, ACSIM did not require that all personnel involved in real property management participate in a formal training program. ACSIM, in coordination with USACE (the proponent agency for real estate), should develop a training program for all personnel involved in real property management. The training program should include mandatory basic training within the first year of assignment and continuing professional education, through the Installation Management Institute, to maintain overall competence for managing real property.

Responsibility for Managing Army Real Property

The Army took appropriate steps to centralize real property management under IMCOM. However, the Army allowed AMC to retain overall management for 30 installations supporting the AWCF and other specialized programs without establishing a Memorandum of Agreement between the two Army commands that defined each command's roles and responsibilities. IMCOM regions had not maintained consistent and ongoing oversight of the five AMC installations we visited, including their real property inventory records. IMCOM managers acknowledged that they did not regularly visit AWCF installations to spot-check inventory records for accuracy and regulatory compliance. They also stated that they did not oversee the annual physical inventory process unless the AWCF installations specifically asked for assistance. However, RPAOs at the five AWCF installations stated

that they used IMCOM resources to resolve real property issues. They also stated that AMC did not have an active role in managing installation real property assets.

AMC managers confirmed that they were not actively involved in providing AWCF installations with guidance or monitoring compliance with real property reporting requirements. AMC and IMCOM managers have acknowledged that this divided responsibility reduced AWCF real property management effectiveness. They also stated that they needed to define their respective responsibilities more clearly and establish an appropriate AWCF installation reporting procedure. However, they found that their staffing levels were inadequate to provide the level of support that was necessary to maintain effective real property management at all installations. Both AMC and IMCOM reported significant reductions in their resources following the transfer of real property management to IMCOM. In March 2007, ACSIM discussed the development of a memorandum of agreement between the two Army commands that would specifically address authorities and delegate responsibilities. However, as of July 2008, AMC and IMCOM still had not established a memorandum of agreement.

To ensure that an effective control environment exists, it is important that the Army define the roles and responsibilities for each command. The most effective and efficient control environment would require a single Army command to assume full responsibility for managing all real property assets. Assigning IMCOM the responsibility for managing real property assets at the remaining AWCF installations would help achieve this control environment. ACSIM needs to reassess AWCF real property management responsibilities and either transfer the responsibilities to IMCOM or develop a memorandum of agreement between AMC and IMCOM that details each command's roles and responsibilities. The Army should also provide the necessary staffing and training resources needed to effectively implement those roles and responsibilities.

Risk Assessment

Army real property managers did not perform sufficiently detailed risk assessments to identify and analyze risks associated with achieving their real property accountability and financial reporting management objectives. GAO/AIMD-00-21.3.1 states that management should assess internal and external risks, analyze the risks for possible effects, develop a risk management approach, and determine the control activities needed to mitigate the risks. The DoD implementation guidance for OMB Circular A-123, Appendix A, requires that managers assert⁵ whether internal controls over financial reporting provide reasonable assurance that real property assets are properly valued and safeguarded against fraud and abuse.

Army managers did not implement all OMB Circular A-123, Appendix A, requirements for assessing and documenting the real property financial reporting process. The ACSIM FY 2006 Annual Statement of Assurance stated that ACSIM had reasonable assurance that effective internal controls were in place throughout ACSIM and its field agencies. ACSIM

⁵ For a definition of this and other technical terms, see Appendix B.

reported that, based on installation inventory results, it had reasonable assurance that real property controls met the objectives of OMB Circular A-123, Appendix A. ACSIM also acknowledged that DoD had reported its real property infrastructure as a DoD material weakness. Even though the ACSIM FY 2006 Annual Statement of Assurance did not identify real property financial reporting as a material weakness, the Army continued to report a material weakness in General PP&E in the Army FY 2006 Annual Statement of Assurance. The material weakness was first identified in FY 1999 through Army internal reviews and audits. We determined that ACSIM had performed only limited work to document the actual Army real property financial transaction flow and assess internal control effectiveness.

In FY 2008, the Army certified to the Office of the Under Secretary of Defense (Comptroller) that it had evaluated real property financial reporting and completed Deliverables A and B in compliance with OMB Circular No. A-123, Appendix A.⁶ We determined that the real property process narratives and flow charts submitted did not portray the FY 2008 environment for AWCF real property financial reporting and accountability adequately or accurately. For instance, the narratives and flowcharts in Deliverable A:

- did not identify how the data flowed from IFS to the Logistics Modernization Program system at Tobyhanna Army Depot, Pennsylvania;
- inaccurately stated that AWCF installations sent all real property transactions from IFS to the Defense Property Accountability System (Crane Army Ammunition Activity, Indiana, did not follow this practice); and
- erroneously described how installations received AWCF construction-in-progress costs from USACE and recorded general ledger transactions.

In addition, the narratives and flowcharts did not identify controls associated with the physical inventory and disposal processes. Further, Deliverable B did not identify the internal controls needed to mitigate risks for 12 of 24 risk areas. Without fully understanding and documenting the transaction flow for each type of real property asset, the Army could not assess the risks associated with correctly managing its real property assets and establish the needed controls to mitigate the risks. The Army must take steps to implement the requirements of OMB Circular A-123, Appendix A for real property assets, to include updating the process narratives, flowcharts, and risk analysis forms.

⁶ The Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer designated specific areas, such as real property, for compliance with the reporting requirement in OMB Circular No. A-123, Appendix A. As part of Deliverable A, DoD Components are to provide process narratives, flow charts, and organizational charts for these designated areas. Deliverable A also includes DoD Component-level control environment documents, such as ethics training, and the Senior Assessment Team membership and charter. Deliverable B requires a risk analysis form for the designated areas, a Federal Information Security Management Act report (if applicable), and a list of auditor-identified material weaknesses related to financial reporting.

Control Activities

AWCF installations did not establish sufficient control activities to ensure compliance with real property accountability and financial reporting requirements. GAO/AIMD-00-21.3.1 describes control activities as those policies, procedures, techniques, and mechanisms management can use to enforce compliance with laws and regulations.

GAO/AIMD-00-21.3.1 identifies a wide range of control activities that an entity should implement at all levels in either a manual or a computerized environment. Our observations at five AWCF installations revealed that the Army should improve controls to ensure proper:

- physical control over assets,
- recording of transactions and events, and
- segregation of duties.⁷

Physical Control

AWCF installations did not establish sufficient controls to ensure that RPAOs had maintained adequate physical control over real property assets. Inadequate physical inventory procedures prevented the RPAOs from verifying the physical existence of each asset and led to inaccurate real property reporting within IFS and in the financial statements. In addition, by not assigning real property accountability to a single RPAO at each installation, DoD increased the risk that DoD Components would misreport real property assets in their financial statements.

Physical Inventory Requirements

The FMR, volume 4, chapter 6, June 2006, states that DoD Components must conduct periodic and independent real property inventories that verify both the IFS record completeness and the physical existence of each asset. Based on DoD and Army regulatory guidance, the AWCF installations should have inventoried all real property assets at least once every 5 years.⁸ The FMR did not direct the installations to inventory 100 percent of the assets at the same time; therefore, an installation could inventory a portion of its real property assets each year using a schedule that ensured a 100-percent asset inventory at least every 5 years. The FMR also requires DoD Components to reconcile the inventory results with the subsidiary property records and corresponding general ledger accounts as part of the physical inventory process.

In May 2003, ACSIM also issued supplemental guidance to all Army installation commanders directing them to conduct a periodic real property inventory and submit an

⁷ In DoD Inspector General Report No. D-2008-072, "Controls Over Army Real Property Financial Reporting," March 28, 2008, we also identified problems with the subsidiary ledger file supporting Army real property transactions and the reliability of acquisition costs.

⁸ A June 2008 revision to FMR, volume 4, chapter 6, states that DoD Components must perform periodic physical inventories in accordance with DoD Instruction 4165.14, "Real Property Inventory and Forecasting," for real property. DoD Instruction 4165.14 requires a physical inventory of real property not less than every 5 years, and of historic assets every 3 years.

annual memorandum describing inventory results and any significant adjustments. The ACSIM guidance required installations to verify the existence of all assets recorded in IFS and ensure that the RPAO had recorded each acquisition and asset improvement completed during the fiscal year in IFS. The guidance specified 13 IFS data elements that each entity needed to verify for accuracy during the inventory process.

Although the RPAOs at the five AWCF installations we visited were generally aware of the physical inventory requirements, they did not have a good understanding of how to conduct a physical inventory. Two RPAOs did not conduct physical inventories in FY 2007. Instead, they used the data reported on Installation Status Reports to develop their annual memorandum. These reports contained assessments of building conditions that the assigned occupants prepared, but there was insufficient data to verify the accuracy of physical inventory requirements. Two other RPAOs inventoried a percentage of their assets annually, but confirmed that they did not follow DoD and ACSIM guidance during the inventory process to ensure the inventory of all installation assets within 5 years. The fifth RPAO reported that he followed ACSIM guidance for annual physical inventories, but he did not maintain any documentation showing what data he verified, the inventory results, or any corrective actions taken. None of the five RPAOs reconciled the results of their physical inventories to the IFS data and financial records. Because IMCOM regions did not effectively monitor the implementation of inventory procedures, they were unaware that RPAOs were not always performing complete physical inventories, reconciling the results of physical inventories with IFS and financial records, or maintaining sufficient documentation. (See Finding B for additional details regarding problems with maintaining sufficient documentation to support real property transactions.)

Existence and Completeness Testing

At the five AWCF installations we visited, we conducted a physical inventory to test the accuracy and completeness of IFS records and to evaluate the effectiveness of real property inventory procedures. As of September 30, 2006, IFS reported 4,908 real property assets with an acquisition value of \$561.1 million. We judgmentally selected 415 of these assets to verify whether each asset physically existed on the installation (“book-to-floor” test) and whether the RPAO had accurately recorded the asset in IFS.

We completed physical inventories at the five AWCF installations between October 2006 and February 2007. To test for IFS record completeness (“floor-to-book” test), we judgmentally selected an additional 72 buildings and structures observed during our physical inventory and determined whether the RPAO had recorded these assets in IFS correctly. We inventoried all property records at Rock Island Arsenal and took a judgmental sample of property records at the other four installations. To determine the accuracy of the IFS records as of September 30, 2006, we reconciled the September 2006 data with the physical inventory results as of the date of our site visit. We took into consideration acquisitions, improvements, and disposals that occurred between September 30, 2006, and the date of our visit to each installation. Table 2 shows our physical inventory results at each installation.

Table 2. Results of AWCF Physical Inventory Testing

Installation	Assets Reviewed for Existence	Existence Errors	Assets Reviewed for Completeness	Completeness Errors
Anniston Army Depot	10	0	12	3
Corpus Christi Army Depot	96	0	31	31
Crane Army Ammunition Activity	7	0	3	1
Rock Island Arsenal	252	1	16	16
Tobyhanna Army Depot	50	9	10	1
Total	415	10	72	52

Our testing confirmed that IMCOM and the AWCF installations did not have adequate control activities in place to ensure physical control over real property assets and the accuracy of IFS records. We determined that 10 of the 415 assets reviewed either no longer existed on the installations or, in the case of linear assets such as utility lines, did not exist in the length recorded in IFS. We also determined that the five RPAOs had not recorded 52 of the additional 72 buildings and structures that we observed during our physical inventories in IFS. The RPAOs had not updated IFS when they placed assets in service, took assets out of service, or made improvements to existing assets. In addition, the five RPAOs did not maintain documentation to support changes they made to IFS records because of physical inventories. Specifically, they did not have documentation to support the source and validity of changes they made to IFS data, such as asset cost, size, and age, or the effective dates of transactions. (See Finding B for further discussion of documentation requirements.)

Multiple Real Property Accountable Officers

AWCF property managers located on military installations operated by another Military Department did not always reconcile their physical inventory results with the host entity’s records to prevent duplicate reporting or the omission of assets from the DoD inventory. At Crane Army Ammunition Activity, Indiana, and Corpus Christi Army Depot, Texas, the Army and Navy had each appointed an RPAO to account for and inventory their respective Military Department’s real property assets. This duplicate effort did not result in accurate records because the Army and Navy did not reconcile their respective inventory records with each other’s. Our review identified the following errors.

- Army operations at Corpus Christi Army Depot predominantly used 22 facilities reported in both Army and Navy accountability systems. Both Military Departments financially reported 1 of the 22 facilities in their accounting systems.
- Both the Army and Navy financially reported 19 facilities, valued at \$2 million, that the Crane Army Ammunition Activity predominantly used.

The Deputy Under Secretary of Defense (Installations and Environment) recognized the need to transition its real property management to a joint basing concept in its 2007 Defense Installations Strategic Plan. As part of this effort, DoD should enforce its policy of having a single RPAO on each installation with responsibility for real property asset accountability. DoD Instruction 4165.14, “Real Property Inventory and Forecasting,” March 31, 2006, requires a single Military Department to be responsible for real property accountability at each DoD installation and the appointment of one RPAO at the installation. Once DoD assigns a single accountable official, tenant organizations will no longer need to perform RPAO functions. However, the host and tenant financial managers must still assist the assigned RPAO to determine which Military Department should financially report each asset and ensure that it is recorded in the appropriate general ledger and financial statements.

Recording Real Property Transactions and Events

The Army did not have proper control activities to help ensure that AWCF installations recorded real property transactions and events completely, accurately, and timely in both the property accountability and financial systems. Throughout FY 2006, IFS did not distinguish between the Army real property asset transactions needed to establish and maintain capitalization records and the transactions needed to maintain accountability. In addition, the Army had not implemented the DoD capitalization threshold or ensured that installations accurately recorded real property financial transactions. Internal control weaknesses resulted in errors classifying, processing, and recording AWCF real property assets.

Establishing IFS Capitalization Records

The Army designed IFS to create capitalization records for all real property transactions entered into the system. However, to provide accurate real property financial reporting, IFS must have the ability to distinguish between the transactions that meet DoD capitalization criteria and require a capitalization record and the ones that require only an accountability record.⁹ Through FY 2006, every new IFS transaction received either a capitalization account type code of “A” (new facility) or “I” (improvement). At four installations, we reviewed 92 judgmentally selected IFS transactions recorded between October 1, 2001, and September 30, 2006, with a capitalization account type code of “A” or “I.” We determined that 42 of the 92 transactions were neither a new asset requiring capitalization nor a capital improvement to an existing real property asset. Because IFS did not provide any other

⁹IFS should have an accountability record for any asset that meets the DoD accountability threshold of \$5,000 or that requires accountability for other management-directed reasons. However, the Army should not have created capitalization records for real property transactions that did not meet the \$20,000 capitalization threshold. They should have been expensed.

transaction type code options, real property specialists used the “A” designation to establish records for all new acquisitions of real property assets, regardless of whether they required capitalization. Real property specialists used the “I” designation to enter all other transactions, including administrative changes such as error corrections and changes to nonfinancial data fields. In FY 2007, ACSIM implemented an IFS change that added an “ADM” transaction for administrative adjustments to existing records. IFS should develop other transaction codes to establish records for real property assets that do not meet the capitalization threshold but require accountability.

Implementation of DoD Capitalization Threshold

Army managers have not implemented the DoD capitalization threshold for all new real property acquisitions and improvements placed in service after March 2006. In March 2006, the Principal Deputy Under Secretary of Defense (Comptroller) lowered the real property capitalization threshold from \$100,000 to \$20,000. However, the Office of the Under Secretary of Defense (Comptroller) allowed the Military Departments until March 31, 2008 to reconcile their real property holdings with reported values and determine whether a different DoD capitalization threshold was more appropriate. Also in March 2006, ACSIM issued guidance instructing all installations to start gathering the necessary supporting documentation for all real property acquisitions and improvements meeting the new DoD capitalization threshold. However, that same month the Deputy Assistant Secretary of the Army (Financial Operations) notified ACSIM that the Army would not lower its capitalization threshold until the Army reconciled real property holdings and expenditures. As a result, ACSIM postponed lowering the capitalization threshold.

Contrary to ACSIM guidance, AWCF installations did not capture sufficient documentation to support the capitalization of real property assets placed in service since March 2006. We found that real property files did not contain sufficient documentation to support the capitalization of four of five real property acquisition and improvement transactions recorded since March 2006. This will make it more difficult for the Army to comply with the DoD policy and establish supportable account balances for Army real property. In Finding B, we discuss the actions that ACSIM should take to address the problems the Army had collecting and maintaining source documents and establishing supportable account balances. Unless the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer grants the Army approval to delay implementation, the ASA(FM&C) should immediately implement the DoD capitalization threshold for all real property assets and capital improvements valued at \$20,000 or more that the Army has placed in service since March 2006.

Real Property Transaction Accuracy

AWCF installations classified, valued, and recorded real property transactions incorrectly. At the five AWCF installations visited, we randomly selected acquisition, improvement, and disposal transactions recorded in IFS from October 1, 2001, through September 30, 2006. We examined IFS records and source documentation supporting the transactions to determine whether the installations recorded the assets accurately. Here are examples of the types of errors we found.

- Tobyhanna Army Depot erroneously expensed the cost of a new security booth and swing-gate system that it should have capitalized as a new asset. Installations must correctly identify real property construction as either a new construction (which results in a capital asset), an improvement to an existing asset, or an expense. Beginning in March 2005, Tobyhanna Army Depot removed a small guard building and gate, cleared the site, and constructed a new, larger security booth and swing-gate system costing \$495,000. The RPAO should have recorded the acquisition of a new asset in IFS. Instead, Tobyhanna Army Depot incorrectly recorded the construction as repair-and-maintenance expenses.
- Corpus Christi Army Depot misclassified the 96 buildings and other structures it occupied as a tenant as leasehold improvements. The Navy had correctly outgranted the buildings and structures to Corpus Christi Army Depot and did not report them on the Navy financial statements. The Host-Tenant Real Estate Agreements between the Army and Navy at Corpus Christi Army Depot did not meet the standards for a lease, as described in Statement of Federal Financial Accounting Standards No. 6, “Accounting for Leases,” November 1976. Therefore, Corpus Christi Army Depot did not have a lease with the Navy and should have reported the buildings and other structures (\$95 million in acquisition cost and \$16 million in book value) as capitalized real property assets on the AWCF financial statements. Instead, Corpus Christi Army Depot erroneously reported the buildings and other structures as leasehold improvements. In addition, Depot personnel depreciated all these assets using a 20-year useful life, including 29 buildings they should have depreciated over 40 years. As a result, Corpus Christi Army Depot had overstated depreciation expenses and understated the book value of these 29 buildings by \$9.9 million in the FY 2007 AWCF Financial Statements.

The following figure shows one of the facilities incorrectly recorded as a leasehold improvement.



Corpus Christi Building Reported as Leasehold Improvement

- Rock Island Arsenal did not adjust IFS records for the partial removal or disposal of real property assets. The RPAO did not reduce the assets’ recorded value and size when they were partially demolished during the construction of a

new asset on the same site. The RPAO and realty specialist stated that they did not know the correct procedure or thought they could not reduce the cost of assets when only a partial removal or disposal had occurred. As a result, the Army overstated the total value of AWCF real property in accountability and financial records by the book value of the disposed assets.

Real Property Transaction Timeliness

Controls were not in place to ensure that AWCF installations recorded real property accountability and financial transactions in a timely manner. UFC 1-300-08 requires the Army to use DD Form 1354 to document real property acquisitions and improvements. The project construction agent should prepare and sign the DD Form 1354 and provide it to the RPAO when a facility is substantially complete and available for use. UFC 1-300-08 also required the preparer to sign the DD Form 1354 within 10 days of the effective date printed on the form and before building occupancy.¹⁰ In addition, the RPAO should sign the form and record an IFS transaction within 10 days of acceptance.

At the five installations we visited, we judgmentally selected 67 IFS transactions that occurred from October 1, 2002, through September 30, 2006, to determine whether the RPAOs accepted the asset and recorded an IFS transaction within 10 days of the date the real property asset was available for use. We found that RPAOs at three of the installations recorded only 36 of 67 IFS acquisition and improvement transactions within 10 days of acceptance. The installation RPAOs recorded the remaining 31 transactions between 2 years before and 3 years after the acceptance date on the DD Form 1354.

For example, the RPAO at Rock Island Arsenal, Illinois, experienced delays of up to 3 years in receiving a signed DD Form 1354 from the construction agent. In addition, construction agents did not routinely provide the effective date needed to establish the placed-in-service date on the DD Form 1354. They also could not provide documentation supporting property disposals or explain delays in completing the disposal documents that caused RPAOs to make IFS updates up to 10 years late. ASA(FM&C) should work with ACSIM to establish controls that ensure that AWCF installations record real property accountability and financial transactions within 10 days of acceptance.

Segregation of Duties

AWCF installations did not segregate duties and responsibilities related to the accountability and financial reporting of real property assets. To reduce the risk of error or fraud, installations should have divided the responsibilities for establishing asset accountability, determining whether real property transactions require capitalization, and placing assets in service among different people. No one individual should control all aspects of any real property transaction or event. At the five AWCF installations we visited, the RPAOs and real property specialists assigned to the Directorate of Public Works had complete control over all aspects of IFS real property transactions. In addition, there

¹⁰The effective date is the earlier of beneficial occupancy date or the date the asset is available for use. The effective date is the date from which depreciation begins.

were no compensating procedural or IFS system controls in place to ensure that another person reviewed and approved transactions initiated by RPAOs and real property specialists. To ensure data accuracy and maintain proper segregation of duties, recording real property assets at AWCF installations should involve a coordinated effort between personnel within the Directorate of Public Works and the Directorate of Resource Management.

Establishing System Controls

AWCF installations did not have adequate controls in place to ensure that only personnel acting within the scope of their authority authorized and executed real property transactions. Effective controls should ensure that Army installations initiate and record only valid IFS transactions. The Army designed IFS with specific security roles that segregated duties among installation personnel, permitting each user to execute only those transactions that fell within that user's level of authority. However, the IFS system administrator at the AWCF installations we visited did not enforce the use of these security roles to manage real property transactions.

Within IFS, each defined user role gave the user "Read Only," "Read/Write," or "Write Only" access to assigned IFS screens. However, if the IFS system administrator failed to assign a security role to an employee, IFS would set a default role allowing "Read/Write" access to all screens. At the five AWCF installations we visited, 89 of 191 IFS users did not have defined security roles. As a result, they had the ability to add, change, and delete data. In addition, installation system administrators did not regularly review the list of authorized IFS users and identify which users' access should be modified or revoked. Failing to establish and monitor security roles allowed the AWCF installations to circumvent the IFS system controls designed to ensure proper execution of transactions and segregation of duties. As a result, individuals had access to IFS transactions outside the scope of their responsibilities. ACSIM should modify IFS controls to require that installation system administrators assign a security role to each IFS user and ensure that any default or locally developed roles only provide "Read Only" access to IFS.

Segregating Duties

At the five AWCF installations we visited, real property personnel recorded and changed IFS data without another individual providing direct review and approval in IFS. We found that ACSIM had not implemented an available IFS system functionality that required a second person to review and approve IFS transactions before they became effective. RPAOs or real property specialists also recorded all IFS financial data, such as the cost, classification, and useful life of real property assets, and decided which acquisition and improvement transactions met the capitalization criteria. With the exception of Crane Army Ammunition Activity, where the RPAO was a resource management employee, resource managers responsible for recording AWCF transactions did not have IFS access to verify the accuracy of the financial data entered. Resource managers reviewed changes to real property asset records only after a Defense Property Accountability System (DPAS) interface updated the accounting systems. Because resource management personnel did not directly update the IFS financial data and none of the five installation resource managers

reconciled IFS real property data with information in DPAS and the accounting systems, they could not determine whether missing and incorrect real property data existed in the accounting systems.

Accounting systems should be able to update financial data reliably in the accountability records. The Army needs to design appropriate system integration that permits the accounting system to update financial data in the accountability records. Until then, the Army must maintain the proper segregation of duties between real property personnel and resource management personnel. Only real property personnel should be able to create and update IFS property accountability data, and only financial management personnel should be able to create and update IFS financial data. In addition, because the AWCF and USACE accounting systems did not send accurate and reliable construction cost information directly to IFS, resource managers need to ensure that they accurately record financial data in IFS, including information about the capitalization and depreciation of real property assets. When real property personnel make incorrect capitalization decisions or do not record the correct financial data, IFS passes incorrect data to the AWCF accounting systems, causing inaccurate financial statement information.

Control Monitoring

Army management did not adequately evaluate the effectiveness of internal controls over real property at AWCF installations. Although AMC issued annual guidelines for completing the evaluations to support its annual statement of assurance, the evaluations completed by AWCF installations did not effectively cover all aspects of real property accountability and financial reporting. At the five AWCF installations we visited, administrators of the Managers' Internal Control Program ensured that installation managers completed the internal control checklists. The AMC guidance required installations to complete specific real property checklists required in DoD and Army regulations that specified the minimum control steps that installations should test. In addition, AMC encouraged installations to supplement the checklists with locally developed tests. However, we determined that only one installation had supplemented its evaluations with additional tests. In addition, the five AWCF installations did not evaluate the same functions consistently. For example, Tobyhanna Army Depot developed a checklist for testing the real property disposal process, but Anniston Army Depot had not evaluated the disposal process.

Overall, the required internal control checklists did not adequately cover all real property processes, including the acquisition, improvement, leasing, outgranting, and disposal of real property assets. Either AMC or IMCOM should have supplemented the required checklists with other standardized internal control testing, such as the checklist in the Supplement Policy to Army Pamphlet 405-45, Appendix A, "Management Control Policy – Installation Real Property Management." That checklist addressed internal control over the acquisition, improvement, and disposal of real property assets, as well as the physical inventory process and property accountability maintenance. The AWCF installations were unaware of this checklist, and neither IMCOM nor AMC had required its use.

In addition, the managers at the five AWCF installations did not incorporate sufficient monitoring activities, such as supervisory comparisons and reconciliations, as part of their regular duties. Internal control monitoring should assess the quality of performance over time, using both ongoing monitoring activities, such as regular self-assessments, and separate internal control evaluations performed by internal and external audit organizations. The RPAOs did not perform adequate supervisory reviews of realty specialist activities to ensure that all transactions were complete and accurate. The RPAOs reviewed and signed completed DD Forms 1354 when adding, changing, or deleting assets but did not verify that realty specialists recorded the DD Form 1354 data in IFS correctly.

The RPAOs and other installation managers also did not regularly review the standard IFS system reports designed to identify input errors, unauthorized transactions, out-of-balance situations, or missing records. These reports provided information on such things as variances between IFS and DPAS records and IFS data that had been changed during a given time period. In addition, although resource managers reviewed reports of variances between the accounting systems and DPAS, no one compared the data recorded in IFS with data in the accounting systems

Neither IMCOM nor AMC had other procedures in place to monitor installation compliance with Army and DoD real property regulations. If they had, they would have identified that installations were still not performing complete physical inventories and reconciling the results, receiving and maintaining complete source document files, completing their internal control evaluations, and recording transactions accurately. Our discussions with personnel at the five AWCF installations and at two IMCOM regions identified that the IMCOM regions were not performing periodic staff assistance and evaluation visits to monitor real property management and provide RPAOs with updated guidance and training. Instead, IMCOM regional personnel supported the installations primarily through telephone discussions. IMCOM and AMC management attributed the lack of periodic staff assistance and evaluation visits to insufficient funding and staffing. The Army needs to develop a comprehensive Army-wide monitoring program, with necessary staffing resources, that ensures that Army installations comply with real property laws and regulations and effectively manage real property assets.

Management Actions

In FY 2008, ACSIM began taking steps to improve controls over the Army real property assets in order to comply with the Chief Financial Officers Act of 1990. During FY 2008, ACSIM drafted a Real Property Audit Preparation Handbook that identified the need for each Army installation to complete a one-time, 100-percent inventory of all real property assets. ACSIM designed the handbook to assist Army installations with ensuring that IFS contains accurate information on real property assets, determining the availability of documentation supporting transactions associated with the assets, and identifying the type of documentation installations should maintain in asset folders. In November 2007, ACSIM began performing installation reviews to assist Army real property personnel in implementing the handbook guidance. By September 2009, ACSIM plans to complete its reviews of all Army installations, including the AWCF installations.

In June 2008, ACSIM provided us with a draft copy of the handbook, dated May 2008, to review. We concluded that that the handbook was a good start to addressing the long-standing problems with real property accountability and financial reporting. However, we identified several areas in which ACSIM should improve the guidance in the handbook. For example, direct, full-time involvement of installation resource management personnel is needed to reconcile physical inventory results between IFS and the accounting system properly, but the handbook does not require this. The handbook also does not provide the detailed Army-wide control steps and testing measures that installations must implement to comply with OMB Circular A-123, Appendix A. In addition, the handbook does not require Army installations to implement the future DoD control environment that is part of the long-term Defense Business Transformation effort.

ACSIM should work with IMCOM and AMC to ensure that Army installations consistently implement the procedures in the handbook and effectively measure the actions taken for addressing the internal control weaknesses identified in this report. It is important that the Army ensure that installations record assets correctly in both the accountability system and in financial records. In implementing the handbook guidance, the Army needs to take into account efforts already underway within the DoD Business Enterprise Architecture to record assets using the Real Property Unique Identifier and capture the information needed to quickly and accurately change from the preponderance-of-use policy to an imputed costing methodology for assigning costs to real property users.¹¹ Successful implementation of this handbook will require close cooperation between ACSIM and ASA(FM&C) to ensure that installation personnel receive the needed guidance, training, and oversight.

ACSIM has also made several IFS system changes designed to capture the data needed to comply with data requirements outlined in documents issued by the Deputy Under Secretary of Defense (Installations and Environment). The documents identified new DoD real property inventory requirements and real property acceptance requirements. The IFS changes will allow the Army to establish a Real Property Unique Identifier for each real property asset and allow for more accurate financial reporting and accountability.

Conclusion

The Army did not have effective internal controls in place and operating to provide reasonable assurance that AWCF installations managed their real property assets effectively and efficiently, complied with DoD and Army policies and regulations, and accurately reported assets in the financial statements. Weaknesses in the real property control environment and in the risk assessment and monitoring processes contributed to weaknesses in the control activities implemented at the installation level. For example, IMCOM and AMC did not clearly define their respective areas of authority and delegate

¹¹ See Finding A in DoD Inspector General Report No. D-2008-072, "Controls Over Army Real Property Financial Reporting," March 28, 2008, for additional details on what DoD needs to do to replace the preponderance-of-use policy with a costing methodology for assigning costs to the real property users.

responsibility accordingly throughout their organizations for managing real property assets. As a result, IMCOM and AMC had insufficient oversight and monitoring of control activities at the installation level.

The long-standing material internal control weaknesses that we identify in this report resulted in inaccurate real property accountability and financial system records. Despite some efforts to address these weaknesses, the Army and AWCF installations have not taken appropriate actions to fully implement DoD real property management requirements. The installation reviews that the Army plans to perform using the guidance in the Real Property Audit Preparation Handbook should address the specific internal control weaknesses we identified in this report. In addition, the Army needs to appoint and train the appropriate personnel on the proper procedures for administering and managing real property, make needed system changes, and assess and report the risks associated with managing and reporting real property. The Deputy Under Secretary of Defense (Installations and Environment) should enforce policy in DoD Instruction 4165.14, which requires the assignment of real property accountability responsibilities at each DoD installation to a single Military Department and the appointment of one RPAO at each installation.

Management Comments on the Finding and Our Response

Deputy Under Secretary of Defense (Installations and Environment) Comments

The Deputy Under Secretary of Defense (Installations and Environment) provided comments on the finding conclusion, stating that it did not include specific reference to policy and did not specify that his office is not responsible for appointing RPAOs. For complete comments, see the Management Comments section.

Our Response

Based on the comments received, we have revised the report to include the applicable DoD policy and to clarify who was responsible for appointing RPAOs.

Recommendations, Management Comments, and Our Response

Revised Recommendation. Based on comments from the Deputy Under Secretary of Defense (Installations and Environment), we revised Recommendation A.1. in the final report to include specific reference to the applicable DoD policy.

A.1. We recommend that the Deputy Under Secretary of Defense (Installations and Environment) enforce the policy contained in DoD Instruction 4165.14 for the Military Departments to assign real property accountability responsibilities at each DoD installation to a single Military Department and appoint a single Real Property Accountable Officer for each installation.

Deputy Under Secretary of Defense (Installations and Environment) Comments

The Deputy Under Secretary of Defense (Installations and Environment) agreed with the intent of the recommendation. He stated that he requested a briefing from the Services on the status of implementing the policy in DoD Instruction 4165.14. He also requested that we revise the recommendation to specify DoD Instruction 4165.14 and clarify who is responsible for appointing the RPAOs.

Our Response

The comments from the Deputy Under Secretary of Defense (Installations and Environment) are partially responsive. We revised the recommendation to identify the applicable DoD policy. However, the Deputy Under Secretary of Defense did not clearly identify the actions his office would take to provide assurance that the Military Departments have met the requirement for each DoD installation to have only a single Military Department responsible for performing the real property accountability functions and that the assigned Military Department has appointed a single real property officer to accomplish this function. We request that the Deputy Under Secretary of Defense provide additional comments in response to the final report.

A.2. We recommend that the U.S. Army Assistant Chief of Staff for Installation Management take steps to develop an effective control environment over Army Working Capital Fund real property. These steps should include working with the U.S. Army Installation Management Command and U.S. Army Materiel Command to:

a. Assess management responsibilities for administering the real property programs at Army Working Capital Fund installations. Either transfer full responsibility for real property management to the Installation Management

Command or develop a memorandum of agreement between the Army commands that defines each command's roles and responsibilities for managing the real property program at these installations.

b. Evaluate the requirements for the appointment and organizational placement of installation Real Property Accountable Officers, appoint individuals whose primary responsibilities are to administer real property, and provide the needed resources to support these requirements.

c. Develop an effective monitoring program for real property management that will ensure compliance with laws and regulations and provide periodic evaluations of how effectively Army Working Capital Fund installations manage real property.

Assistant Secretary of the Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations), providing comments for the offices of the ASA(FM&C) and the ACSIM, agreed with the recommendation. The Deputy Assistant Secretary stated that the Army is conducting a mission analysis regarding reassigning installation support functions at the AMC installations to the IMCOM. He expects the final decision in FY 2009. He also stated that the Army is conducting a survey to evaluate how it has implemented Army policy on appointing RPAOs. In addition, the Deputy Assistant Secretary stated that the Army performs quarterly quality assurance and quality control reviews of real property data and sends the results to the accountable Army components for evaluation and correction. The Army takes into consideration the review results when evaluating training and policy guidance.

Our Response

Management comments on Recommendation A.2.a. are responsive. However, the Army was not fully responsive to the intent of Recommendations A.2.b. and A.2.c. After ensuring that it has appointed the appropriate individuals as RPAOs, the Army must ensure that it gives each installation the resources needed to support its real property management requirements. For example, developing an effective control environment includes requiring installation personnel to have the proper skills and duty assignments to perform the function. To accomplish this, the Army must ensure the assignment of sufficient personnel at each installation to manage effectively the installations' real property assets. We request that ACSIM provide additional comments on Recommendation A.2.b. in response to the final report. We request that the comments include the Army's completed or planned actions for ensuring that installations appoint RPAOs at the correct level of the organization whose primary responsibilities are real property management, and for providing installations the resources they need.

ACSIM personnel have been performing quarterly quality reviews of IFS data based on problem areas brought to ACSIM's attention. These actions are commendable and help to detect existing IFS data anomalies and assess problems that are common among

installations. However, the Army needs to implement additional monitoring measures to address the control weaknesses in the finding. The intent of Recommendation A.2.c. is for the Army to develop additional monitoring processes at all levels of the organization. This would include internal reviews by installation managers, as well as external monitoring by the installations' higher-level commands. Monitoring should include using IMCOM regional offices to conduct periodic comparisons of the data recorded in the systems against the documentation maintained by the RPAO for compliance with Army real property policy. We request that ACSIM provide additional comments on Recommendation A.2.c. in response to the final report.

A.3. We recommend that the U.S. Army Assistant Chief of Staff for Installation Management, in conjunction with the U.S. Army Corps of Engineers, develop a training program for all personnel involved in real property management that includes mandatory basic training within the first year of assignment and a track for continuing professional education through the Installation Management Institute.

Assistant Secretary of the Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations) provided comments for the offices of the ASA(FM&C) and ACSIM. The Deputy Assistant Secretary agreed with the recommendation, stating that ACSIM and USACE are conducting a survey of all RPAOs in order to determine the current level of training and future training requirements. He also stated that within the next 2 years, USACE, in conjunction with ACSIM and other Army components, will develop and implement a training plan for all real property personnel.

U.S. Army Corps of Engineers Comments

The Acting Chief, Audit Executive, Headquarters Internal Review Office provided comments for the Commander, USACE. The Acting Chief agreed and stated that USACE will work with ACSIM to develop or enhance a training program for all involved in real property management. The estimated completion date is September 30, 2009.

Our Response

The management comments are responsive, and no additional comments are required.

A.4. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller), in conjunction with the U.S. Army Assistant Chief of Staff for Installation Management:

a. Implement the \$20,000 DoD capitalization threshold for all real property placed in service since March 2006.

b. Update process narratives and flowcharts submitted to comply with Office of Management and Budget Circular No. A-123, Appendix A, to portray the

transaction flows of real property acquisition, improvement, and deletion transactions accurately and show how the Army reports real property assets to the appropriate DoD Component financial statements. Also, update risk analysis forms and establish internal controls designed to mitigate all 24 of the risks that Army has identified as being associated with managing real property assets.

c. Implement within the Integrated Facilities System the security roles needed to maintain proper segregation of duties between accountability and financial management functions and to ensure that no single individual controls all aspects of real property transactions.

d. Finalize the Real Property Audit Preparation Handbook and ensure that it:

(1) identifies the Army-wide steps and testing measures that installations must take to implement the requirements of Office of Management and Budget Circular No. A-123, Appendix A;

(2) incorporates control procedures that implement the DoD Business Enterprise Architecture, including the use of Real Property Unique Identifier Codes and imputed costing procedures;

(3) requires the Real Property Accountable Officers and Resource Management to update information in property accountability and accounting systems based on the results of the 100-percent physical inventories of Army real property assets that are to take place at Army installations; and

(4) requires the Real Property Accountable Officers and Resource Management to verify property accountability and financial records are complete.

e. Correct errors in the recording and reporting of real property assets that we discuss in this audit, as part of the Army installation reviews.

Assistant Secretary of the Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations) provided comments for the offices of the ASA(FM&C) and ACSIM. The Deputy Assistant Secretary agreed with Recommendations A.4.a. through A.4.e. Specifically, he stated the following.

a. The Army implemented the \$20,000 capitalization threshold on October 1, 2008.

b. The Army is using Office of Secretary of Defense Services-developed process models as place holders for the Army real property flow charts. Work groups are evaluating the process models to identify where the Army deviates from them. The work

groups will compare the Army models to the business process in the General Fund Enterprise Business System and update the risk analysis forms and internal controls accordingly.

c. The Army is assessing the feasibility of modifying security roles as recommended, taking into consideration its plans to implement the General Fund Enterprise Business System. The Army expects to make the recommended changes to security roles by the end of FY 2010.

d. The Army was waiting for DoD Office of Inspector General comments before completing the Army Real Property Audit Preparation Handbook. The Army will consider all A.4.d. recommendations.

(1) The Army will update the Handbook to include testing measures for compliance with OMB Circular No. A-123, Appendix A.

(2) The Army has implemented Real Property Unique Identification functionality in all legacy source systems, as well as in the DoD Business Enterprise Architecture.

(3) The Army is continuing its 100-percent inventory validation process.

(4) Installation commanders provide two certification letters during the inventory validation process. They provide a certification letter when the installation resolves discrepancies found during the inventory validation assistance visit and another when the installation completes all property documentation files.

e. The Army will correct the errors in recording and reporting real property assets identified in this audit report during its audit preparation and review efforts.

Our Response

The Deputy Assistant Secretary's comments are partially responsive. The Deputy Assistant Secretary's comments on Recommendation A.4.a. did not state whether the Army capitalized all real property acquisition and improvement transactions that occurred from March 2006 through September 2008 using the \$20,000 capitalization threshold. If it did not apply the lower threshold retroactively to March 2006, the Army will not comply with DoD policy. In addition, real property will continue to be understated in the Army's financial statements.

The Deputy Assistant Secretary's comments to Recommendation A.4.b. are partially responsive. He outlines planned actions to evaluate the Army's current real property processes against a model, identify areas to improve the submission, and update the risk analysis forms and internal controls. However, the Army's annual OMB Circular No. A-123, Appendix A submission must report process narratives and flowcharts of the current real property process in place during the reporting period and identify what controls exist to mitigate the identified risks. As the Army implements the new General

Fund Enterprise Business System capabilities, we would expect to see the changes described by the Deputy Assistant Secretary reflected in future Army submissions. It is not clear from management's comments how the Army plans to comply with OMB Circular No. A-123 reporting requirements before FY 2012.

The Deputy Assistant Secretary's comments on Recommendation A.4.c. are responsive and meet the intent of the recommendation.

The Deputy Assistant Secretary's comments on Recommendation A.4.d. are partially responsive. The Deputy Assistant Secretary did not address all parts of Recommendation A.4.d.(2). In addition to incorporating procedures implementing the DoD Business Enterprise Architecture and the Real Property Unique Identifier, the recommendation also identified imputed costing procedures as a necessary part of the Real Property Audit Preparation Handbook. The ASA(FM&C) needs to address how the Army will ensure that the handbook includes the procedures that installation personnel must perform to correctly value real property assets, allocate their costs to the correct entity (based on imputed costing accounting standards), and maintain accurate financial records. The Deputy Assistant Secretary's comments also did not fully respond to Recommendation A.4.d.(4). The recommendation calls for the installation RPAOs and Resource Management personnel to verify that both the property accountability records (in IFS) and the financial records (in Standard Industrial Fund System or Logistics Modernization Program system) are complete and accurate. As we discussed in the finding, installation real property personnel did not reconcile the property accountability and financial records. Although the handbook requires installation commanders to issue two certification letters, it does not include this important step in its procedures. Installations must reconcile accountability and financial records in order to identify all discrepancies and provide a sound basis for installation commanders to certify reliably that their real property records are complete and accurate.

The Deputy Assistant Secretary's comments on Recommendation A.4.e. are responsive and meet the intent of the recommendation.

We request that the Assistant Secretary of the Army (Financial Management and Comptroller) provide additional comments to Recommendations A.4.a., A.4.b., and A.4.d. in response to the final report.

A.5. We recommend that the U.S. Army Assistant Chief of Staff for Installation Management develop the necessary system changes within the Integrated Facilities System to:

a. Create new transaction type codes for recording transactions that do not meet the capitalization threshold but must be recorded for real property accountability purposes and to make administrative changes to existing records. Capitalization records within the system should reflect only those acquisitions and improvements to real property that meet the DoD capitalization criteria.

b. Require system administrators to assign user roles to all current and future users. The system security coordinator should restrict the capabilities and access permission for each user role and ensure that any default or locally developed roles allow only “Read Only” access.

c. Ensure that financial data can only be updated by system integration with an accounting system or through assignment of a user role, allowing only resource management personnel the authority to establish and update real property information in the Integrated Facilities System (such as acquisition cost, useful life, and placed-in-service date).

Assistant Secretary of the Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations), providing comments for the offices of the ASA(FM&C) and ACSIM, agreed with the recommendation. The Deputy Assistant Secretary stated that:

a. The Army will implement new transaction codes after vetting the changes through DoD, because they affect the Business Enterprise Architecture. The Army has implemented other data elements to help ensure that transactions are recorded correctly.

b. The Army will implement a role-assignment process and modify its security roles to make “Read Only” the default. Expected completion is the end of FY 2010. The Army will assess the feasibility of modifying IFS security roles in light of the General Fund Enterprise Business System deployment.

c. In conjunction with modifying the security role function, the Army will create roles in the General Fund Enterprise Business System for processing real property financial data.

Our Response

The management comments are responsive, and no additional comments are required.

Finding B. Compliance With Real Property Source Documentation Requirements

The Army has not enforced FMR requirements for AWCF installations to obtain and retain the source documentation necessary to support financial transactions affecting real property assets. As a result, the Army has made limited progress in establishing auditable account balances for AWCF real property assets. However, the Army's recent development and initial implementation of its Real Property Audit Preparation Handbook provide a viable framework for addressing long-standing documentation issues. The ASA(FM&C), in conjunction with ACSIM, should:

- finalize plans for performing validations of real property assets at Army Working Capital Fund installations,
- develop a plan detailing the actions that the quality review team will take to ensure that Army installations establish the internal controls and sustainable business practices necessary to sustain the baseline achieved, and
- coordinate with the Business Transformation Agency to develop and implement electronic folder requirements for all real property assets.

Real Property Documentation Requirements

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant, and Equipment," June 1996, provides accounting standards for federally owned General PP&E. SFFAS No. 6 requires entities to record all costs incurred to bring an asset to a form and location suitable for its intended use. The FMR, volume 4, chapter 6, implements SFFAS No. 6 and requires that DoD Components retain the source documents needed to support all financial transactions affecting their investment in real property. The FMR also identifies the minimum documentation and retention requirements for real property transactions. The source documents should permit entities to validate information recorded in the financial and accountability systems, such as acquisition cost, placed-in-service date, and disposal actions. The FMR further requires real property managers to obtain and maintain source documents, either hard copy or an electronic version, in a readily available location for the useful life of a real property asset and for 10 years after its disposal date.¹² See Appendix C for additional details on minimum documentation requirements for real property.

In June 2006, the Army requested approval from the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer to use three proposed methods—plant

¹² The FMR does not define "readily available." The DoD Real Property Acceptance Requirements and Unified Facilities Criteria 1-300-08 require that the construction agent provide real property supporting documentation, at the time the organization accepts the asset into the DoD real property inventory.

replacement value, engineering cost estimates, and comparable assets with auditable source documents—to estimate the value of its real property assets when source documents no longer existed. On October 2, 2006, the Acting Deputy Chief Financial Officer agreed that the Army’s proposed methods provided a sound and defensible approach for providing auditable data compliant with appropriate accounting standards.¹³ However, he stated that the Army must first establish the internal controls and sustainable business practices necessary to ensure the sustainment of any baseline achieved using this methodology.

UFC 1-300-08 serves as a detailed reference for when and how to use DD Form 1354 for acquisition, improvement, and transfer transactions, as well as for changes to existing real property records. UFC 1-300-08 provides standards for completing and accepting DD Form 1354, including the required source documents needed to support the transactions.

Army Real Property Source Documentation Records

The Army has not maintained adequate source documentation to support the value of AWCF real property assets reported on its financial statements as of September 30, 2007 (\$2 billion in acquisition value and \$497 million in net book value). In 1998, the Army determined that it had not retained the documentation needed to support the real property account balances recorded in its financial systems. Since then, the Army has attempted to implement procedures for developing a sustainable business process to retain the source documentation needed to support the acquisition cost of Army real property assets reported in its AWCF and Army General Fund financial statements. However, the Army has made only limited progress in establishing auditable account balances in the past 10 years.

In its FY 2007 Annual Statement of Assurance, the Army reported its inability to provide the source documentation needed to support the acquisition value of its General PP&E as a material weakness and acknowledged that the absence of source documentation prevented it from having reliable financial statements. The Army also reported that information on the acquisition dates and cost of AWCF General PP&E was not always available and sometimes recorded incorrectly. The Army’s development and initial implementation of its Real Property Audit Preparation Handbook provides a viable framework for addressing these long-standing documentation issues. The Army estimates that in FY 2010 it will be able to assert that it has corrected its material internal weaknesses and established sustainable business practices for recording and reporting General PP&E, including AWCF real property assets. However, the Army needs to define its plans for completing reviews at AWCF installations and the actions the quality review teams will take to ensure that Army installations establish appropriate internal

¹³ Effective with periods ending after September 30, 1997, SFFAS No. 6 required that entities provide an estimate of the historical cost of existing General PP&E when they have not maintained the necessary source documents. The entity could base the estimate on either the cost of similar assets at the time of acquisition or the current cost of similar assets discounted for inflation.

controls and sustainable business practices. In addition, the Army needs to work with the Business Transformation Agency to develop a reliable electronic retrieval process for maintaining real property documentation.

Sustainable Business Practice

Our review of selected financial transactions affecting real property assets that occurred from October 1, 2002, through September 30, 2006, at four AWCF installations showed that the Army had not established the controls needed to achieve sustainable business practices for supporting real property transactions. We judgmentally selected 140 acquisition, improvement, and disposal transactions to determine whether the installations had retained the required source documentation in real property files as required by FMR, volume 4, chapter 6. Because of established documentation retention requirements, we expected that the RPAOs would have the required information on file or readily available to support any real property transactions occurring in that time frame.¹⁴ If the documentation was available, we then tested whether the source documents supported selected IFS information (acquisition or improvement cost, asset type, placed-in-service date and/or disposal date, and useful life). We determined that for 112 of the 140 transactions we reviewed (80 percent¹⁵), RPAOs did not retain the minimum source documentation within the installation real property files to support the IFS transaction data. The installation real property files usually contained only a DD Form 1354 related to the acquisition, improvement, or disposal transactions, but not the additional source documentation necessary to support the transactions. Table 3 summarizes our analysis of documentation files by installation for the 140 transactions.

Table 3. Availability of Supporting Documentation

Installation	Type of Transaction	Number of Files Reviewed	Number of Files Not Supported	Percentage Not Supported
Anniston Army Depot	Acquisition	10	9	90
	Improvement	10	9	90
	Disposal	3	3	100
Rock Island Arsenal	Acquisition	8	4	50
	Improvement	25	24	96
	Disposal	20	15	75
Tobyhanna Army Depot	Acquisition	12	11	92
	Improvement	25	18	72
	Disposal	25	17	68
Corpus Christi Army Depot	Acquisition	1	1	100
	Improvement	1	1	100

¹⁴ National Archives and Records Administration requires the retention of procurement and payment documents for 6 years and 3 months after the final payment on a contract. Therefore, we anticipated that any asset placed in service since October 1, 2002, would still have documentation readily available for our review until at least January 1, 2009.

¹⁵ Judgment sample percentage does not generalize to universe.

Supporting Documentation

UFC 1-300-08 states that when assets under construction become available for use and are transferred to the RPAO, the construction agent should provide a DD Form 1354 itemizing each asset transferred and all pertinent source documents supporting the total cost and other data recorded on the DD Form 1354. USACE constructs the majority of the AWCF assets. For each constructed asset, USACE records the cost data into a construction-in-progress account in the Corps of Engineers Financial Management System and is to either provide the supporting documentation to the RPAO or maintain the documentation in its files. As we reported in DoD Inspector General Report No. D-2008-072, "Controls Over Army Real Property Financial Reporting," March 28, 2008, system integration issues prevented any direct transfer of source data and documentation between the Corps of Engineers Financial Management System and the AWCF accountability and financial systems. Consequently, AWCF installations relied on USACE district offices to either provide or maintain all the contractual, financial, and other source documents to support the acquisition or improvement of real property. However, USACE district offices were neither consistent in the amount of supporting documentation they forwarded to AWCF installations nor able to readily provide the supporting documentation.

Support for Acquisitions and Improvements

Of the 92 transactions that IFS classified as an acquisition or improvement, documentation for 77 transactions did not contain sufficient support for the acquisition or improvement costs and dates recorded in IFS. Most installation RPAOs did not have any source documentation other than the DD Form 1354. The RPAOs told us that USACE or another organization had the other source documentation. However, the RPAOs were not able to obtain the missing documentation. For instance, the USACE Huntsville District, Alabama, provided construction-in-progress cost reports to RPAOs to substantiate the total costs recorded on the DD Form 1354 but did not provide any of the final invoices or other documents supporting those costs or the asset completion dates. The USACE Rock Island District, Illinois, did not provide the Rock Island Garrison RPAO with any financial or contractual documents that supported the DD Form 1354s. The USACE districts we contacted often were not able to retrieve source documents to validate the acquisition or improvement costs of the assets or the key dates recorded in IFS.

Property managers had very little or no documentation to support changes to the placed-in-service dates and the acquisition or improvement costs recorded when they updated IFS records for real property assets found during routine physical inventories. Real property files did not contain the documents we expected to find to support the IFS transaction data. For instance, at Tobyhanna Army Depot the RPAO added seven assets to IFS following physical inventories in 2002 and 2004. The RPAO had no documentation on file to show the basis for the placed-in-service dates or estimated acquisition costs recorded in IFS. At three of the four AWCF installations we tested, the RPAOs and real property specialists stated that they were not aware of documentation requirements for assets they found on site. The FMR requires that when a property

manager finds an asset on site for which it does not have original source documentation, the property manager should estimate the asset value using approved estimation methods and maintain documentation supporting the estimated value.

Support for Disposals

At the three AWCF installations, we examined disposal documentation and determined that the RPAOs could not demonstrate that they had correctly documented the request for disposal for 35 of 48 real property assets from October 1, 2001, through September 30, 2006. The RPAOs did not retain a completed DA Form 337, "Request for Approval of Disposal of Building and Improvement," that showed the date they determined each asset to be excess and the date the installation commander granted approval to initiate disposal. The RPAOs also did not always document the date and manner of final disposal. In addition, the real property files did not contain contract information or other evidence that the demolition had actually occurred, and there was inadequate documentation to support the IFS disposal dates. When the RPAOs could not locate an asset during the physical inventory process, they recorded an IFS disposal transaction in order to remove the asset from their records. However, the property files usually contained no supporting documentation other than a DD Form 1354 signed by the RPAO.

Other Documentation Issues

IFS real property records contained multiple assets of similar construction with generic descriptions that prevented property managers and other individuals from quickly identifying or locating an asset. The real property files at the five AWCF installations we visited generally did not contain sufficient information to distinguish one asset from another or to pinpoint the exact location of each asset. For instance, two of the five AWCF installations we visited contained hundreds of nearly identical ammunition storage magazines that were distinguishable in the property listings only by their facility number. However, the facility number alone was not sufficient to locate the asset. At those two installations, we found that the storage magazines were widely dispersed and property managers had difficulty locating a specific one when requested. Similarly, when we asked to see a specific parking lot, playground, or baseball field from one installation's inventory report, the property manager sometimes had difficulty identifying the specific structure. The lack of a reference document or photograph in the real property file made it difficult for the RPAO to pinpoint the exact location of each asset or identify distinguishing characteristics. Anniston Army Depot had photographs on file for some of its buildings, which the property office found beneficial when identifying those assets. Installations could have also used additional tools such as global positioning satellite technology or photographs to assist property managers in identifying and pinpointing the exact location of every asset.

Real Property Audit Preparation Handbook

The Army's Real Property Audit Preparation Handbook addresses many of the previously identified problems in supporting financial transactions affecting real property assets. The handbook instructs Army installation personnel on how to confirm the existence of real property assets, verify the completeness of real property databases, and develop standardized source document files. The handbook establishes the guidelines for

implementing sustainable business practices at Army installations, which should eventually allow the Army to assert that the real property account balance is ready for audit. However, the Army needs to detail its plans for completing reviews at AWCF installations and the actions quality review teams will take to ensure that Army installations establish appropriate internal controls and sustainable business practices. In addition, the Army needs to work with the Business Transformation Agency to develop a reliable electronic retrieval process for maintaining real property documentation.

The Real Property Validation Process

The handbook requires that Army installations conduct a one-time physical inventory in order to reconcile what is physically located at the installation with the IFS inventory database. Once this inventory is complete, the handbook then requires the installation to identify what source documentation exists for each individual asset, obtain missing documents or follow alternate estimation procedures, and establish a folder for each asset that contains all relevant source documents. The handbook also addresses incorporating global positioning satellite data or photographs into the files to enable the RPAOs and other interested parties to identify and pinpoint the exact location of every asset. Review teams comprised of representatives of the Offices of the ASA(FM&C), ACSIM, and the Deputy Chief of Staff for Logistics (Army G-4) will provide guidance and initial training to installation personnel and perform interim reviews of project execution data and supporting documentation. The handbook also directs that installation personnel accurately describe and document acquisition, improvement, and disposal transactions in the database after the initial validation.

Uniform Date for Beginning Account Balances

The Army's handbook does not establish a uniform date beyond which all installations must comply with the source documentation requirements contained in the FMR, volume 4, chapter 6. Instead, the handbook addresses achieving supportable account balances and sustainable business practices at individual Army installations after the RPAO completes a physical inventory of all real property assets. The installation also has to ensure that every asset in the inventory has a folder containing historical source documents or other acceptable forms of supporting documentation. This methodology would have been unconventional, but workable, if the Army had first established sustainable business practices at installations. However, the Army had not identified or sufficiently detailed all the business practices needed to develop auditable real property account balances or its plans for completing reviews at AWCF installations. The Army also had not ensured that each installation established and would maintain appropriate internal controls and sustainable business practices.

Once all Army installations achieve supportable account balances and sustainable business practices, the Army will be in a position to assert as to its readiness for an audit of the real property account balances reported on its Army General Fund and AWCF financial statements. The Army should consider the ability of its installations to comply with supporting documentation retention requirements and sustain beginning account balances, once established, before it asserts that its real property account balance is audit-ready. As of August 31, 2008, the Army had completed validations of real property

assets at seven Army General Fund installations, and validations at an additional seven installations were 50-percent complete. The Army started validating real property assets at the first AWCF installation in December 2008, and plans to complete all of the AWCF installations by the end of FY 2009. To meet its aggressive plan for completing all real property validations by September 30, 2009, Army managers will need to ensure that they commit the necessary resources. Until the Army completes reviews at all AWCF installations, it will not have reliable beginning account balances for real property assets or internal controls and sustainable business practices for adhering to the minimum documentation and retention requirements for real property transactions.

Obtaining a Sustainable Business Practices

The handbook does not identify or sufficiently detail all the business processes needed to develop auditable account balances for real property assets. As explained in Finding A, we identified internal control deficiencies in several areas, including classification and financial reporting of assets, segregation of duties, and implementation of the capitalization threshold. The handbook does not adequately address which entity or installation should financially report each asset and how the Army will ensure that it reports each asset on the correct financial statement. The handbook should also identify what control activities the installations will implement and how they should monitor and test them. In addition, the business processes in the handbook are not specific about which entity or installation will maintain source documentation and how and where they will maintain it.

The Army must address each of these concerns about the handbook. In addition, although the handbook requires that Army installation personnel reconcile the results of physical inventories with the IFS databases, it does not require that the results be reconciled with financial records. Once the Army establishes effective business practices at the installations, installation personnel will need to sustain those practices. The Army must also establish business practices that are consistent throughout the Army, and not unique to individual installations.

Quality Reviews

The handbook states that once the installation commander provides ASA(FM&C) with a certification memorandum stating that audit preparation activities are complete, representatives from ASA(FM&C) and ACSIM, along with U.S. Army Audit Agency, will perform a quality review at the installation. The purpose of the review is to ensure that the installation has accurately documented and reported assets in the real property database and supported them with sufficient source documentation. However, the handbook does not explain the actions the quality review team will take to ensure that the Army installation has established appropriate internal controls and business practices necessary to sustain the baseline achieved using this methodology. The ASA(FM&C) and ACSIM should develop a plan outlining the actions a team should take to ensure that Army installations establish appropriate internal controls and business practices necessary to sustain a baseline. The quality review teams should give special attention to installations that implement the procedures in the handbook without the benefit of on-site

project assistance teams. Once the Army establishes and tests its internal controls and business practices, the practices should become part of the requirements for compliance with OMB Circular No. A-123, Appendix A.

Filing Source Documents

The handbook requires installation personnel to maintain source documents supporting the acquisition, improvement, and disposal of real property assets in file folders; however, opportunities exist to file source documents electronically so that they can be readily available for review and audit purposes. A significant portion of the real property asset supporting documentation has been in electronic format since at least 2002.

Technological improvements, such as the Electronic Document Access and Defense Finance and Accounting Service Electronic Data Management systems, have made the storage and retrieval of source documents practical and efficient. Army installations should retrieve source documents from the electronic storage systems and maintain an electronic folder for each real property asset. Army installation personnel could scan any remaining hard-copy documents and provide them to the RPAO to add to the electronic folder. This would allow RPAOs to assemble and manage source documents in a single, central, real property file for the life of the asset, plus 10 years. As we stated, RPAOs were not centrally controlling and retaining source documents. Instead, they retained little more than the DD Form 1354, leaving the remaining documentation in the custody of the organizations that originated them.

In addition, the RPAO did not reference hard-copy documents and electronic records held outside the control of the Army installation to the associated real property asset, and the outside activity did not always retain documentation for the life of each asset. As part of its handbook effort, the Army should take proactive measures to develop a reliable electronic storage and retrieval process for maintaining real property documentation. The Army should coordinate with the Business Transformation Agency and determine how to use the requirements outlined in the DoD Real Property Acceptance Requirements document to retain source data electronically. The Army should develop integrated and retrievable electronic folders using the asset's Real Property Unique Identifier and include global positioning satellite coordinates or photographs that identify the asset.

Conclusion

The Army is working toward implementing sustainable business practices and internal controls at Army installations to address long-standing problems with obtaining real property transaction supporting documentation and retaining it in a readily available location for the required retention period. During FY 2009, the Army plans to institute handbook guidance to establish real property controls and practices at all Army installations, including its 13 AWCF installations. The Real Property Audit Preparation Handbook addresses many of the previously identified problems in supporting financial transactions affecting real property assets. The handbook instructs Army installation personnel on how to confirm the existence of real property assets, verify the completeness of real property databases, and develop standardized source document files. However, the Army needs to define its plans for completing reviews at AWCF installations and the actions the quality review teams will take to ensure that Army

installations establish appropriate internal controls and sustainable business practices. In addition, the Army should work with the Business Transformation Agency to develop a reliable electronic storage and retrieval process for maintaining real property documentation. The ability of installation personnel to sustain effective business practices for AWCF real property assets will be essential to producing accurate, reliable, and timely information in support of the installation and for the auditability of the General PP&E line item.

Recommendations, Management Comments, and Our Response

B. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller), in conjunction with the U.S. Army Assistant Chief of Staff for Installation Management:

1. Finalize plans for performing validations of real property assets at Army Working Capital Fund installations.

Assistant Secretary of the Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations), providing comments for the offices of the ASA(FM&C) and ACSIM, agreed with the recommendation. The Deputy Assistant Secretary stated that the offices will develop the plan to validate that all installations complete the requirements of the Army Real Property Audit Preparation Handbook and track corrective actions related to the validations.

Our Response

The management comments are responsive, and no additional comments are required.

2. Develop a plan detailing the actions that the quality review team will take to ensure that Army installations establish the internal controls and business practices necessary to sustain the baselines achieved.

Assistant Secretary of the Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations) provided comments for the offices of the ASA(FM&C) and ACSIM. The Deputy Assistant Secretary agreed with the recommendation, stating that the plan will include specific review team actions for verifying that installations have correctly completed the physical inventory, established the supporting documentation files, and financially recorded transactions for the changes made.

Our Response

The management comments are partially responsive. The comments address the intent of Recommendation B.2.; however, the Army must develop steps within the handbook to ensure that after an installation has completed the initial inventory and established the documentation files that the installation has implemented a sustainable business process for maintaining the real property financial reporting and accountability baseline. We request that the Assistant Secretary of the Army (Financial Management and Comptroller) reconsider his response to Recommendation B.2. and provide his plans for ensuring that each installation has implemented sustainable business processes for correctly reporting all future real property transactions.

3. Coordinate with the Business Transformation Agency to develop and implement electronic folder requirements for all real property assets. Each folder should be integrated and retrievable by Real Property Unique Identifier and include global positioning satellite coordinates or photographic evidence to identify the asset.

Assistant Secretary of the Army Comments

The Deputy Assistant Secretary of the Army (Financial Operations) provided comments for the offices of the ASA(FM&C) and ACSIM. The Deputy Assistant Secretary agreed with the recommendation, stating that the Army supports using electronic folders and will participate in any efforts the Business Transformation Agency may conduct to implement electronic data storage. He also stated that we should raise the issue to the Office of Secretary of Defense to ensure that it gets the high-level attention it deserves.

Our Response

The Deputy Assistant Secretary's comments are partially responsive. The Deputy Assistant Secretary agreed that electronic folders are the best way forward for financial reporting documentation. However, the Army did not indicate that it would take proactive steps to initiate action with the Business Transformation Agency to develop and implement folder requirements for Army real property assets. The Army has the knowledge to outline the folder requirements, and the expertise to work with the Business Transformation Agency to develop and implement these requirements. By working with the Business Transformation Agency, the Army will help ensure that the need for electronic folders for real property assets receives the attention it deserves. We request that the Assistant Secretary of the Army (Financial Management and Comptroller) reconsider his response to Recommendation B.3. and initiate action to request the assistance of the Business Transformation Agency to develop and implement electronic folder requirements for Army real property assets.

Appendix A. Scope and Methodology

We conducted this performance audit from August 2006 through February 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We determined whether the controls over AWCF real property assets were in place and provided reasonable assurance that the AWCF organizations had proper asset management. We interviewed ACSIM real property and IFS system personnel to gain an understanding of the real property process and IFS access and privileges requirements. We also interviewed IMCOM and AMC facility management personnel to determine their policies and procedures for managing real property. We reviewed accounting standards and DoD guidance related to real property and compared it to policies and procedures practiced at AWCF installations. We visited 5 of 13 AWCF installations between October 2006 and February 2007 to review how real property personnel recorded real property acquisition, improvement, and disposal transactions. We also examined the installations' real property files to determine whether real property personnel retained required source documentation to support all real property transactions. We visited the following AWCF installations during the dates specified below.

Rock Island Arsenal	October 16-27, 2006
Tobyhanna Army Depot	December 11-15, 2006
Anniston Army Depot	February 12-15, 2007
Corpus Christi Army Depot	February 12-16, 2007
Crane Army Ammunition Activity	February 21-22, 2007

We obtained the September 30, 2006, database files from IFS and imported them into the Audit Command Language software. Using Audit Command Language software, we judgmentally selected real property assets at the five AWCF installations and traced the real property transactions made from October 1, 2001, through September 30, 2006, from IFS to the supporting documentation contained in the real property folders maintained for each asset to determine whether the Army had recorded the real property data accurately, with the required supporting source documents. When source documentation was not available at the installation, we requested a copy from the office that originated the document to determine its availability.

We also judgmentally selected assets at the five AWCF installations and performed existence and completeness testing to determine whether assets recorded in IFS

physically existed at the installations and assets physically located at the installations were recorded accurately in IFS. We interviewed real property accountability, financial reporting, and installation systems personnel to determine their roles and responsibilities relating to real property. We obtained a report directly from IFS to determine whether the access and privileges granted in IFS provided adequate segregation of duties at each installation between the real property accountability and financial reporting personnel, based on their roles and responsibilities.

Use of Computer-Processed Data

The Data Mining Directorate, Office of the Deputy Inspector General for Auditing, conducted limited tests of reliability on data from IFS. The Data Mining Directorate compared the files to the record layouts, compared file totals from ACSIM to the file totals after importing them into the ACL software, and reviewed the data for valid entries. We also relied on additional evidence to validate data integrity. We compared the IFS data for the selected real property assets with physical documentation used to establish the records. We identified discrepancies in the data when we compared the files. We discussed these discrepancies and the related system control weaknesses in Findings A and B. We determined that the data were sufficiently reliable for us to use in conjunction with physical documentation to test controls over AWCF real property assets.

Use of Technical Assistance

A Data Mining Directorate Senior Auditor and Information Technology Specialist imported the original files from IFS, DPAS, and the Defense Finance and Accounting Service Corporate Database and Defense Finance and Accounting Service Corporate Warehouse into the ACL software and conducted limited tests of reliability on the computer-processed data.

Prior Coverage

During the last 5 years, GAO, DoD Inspector General (IG), and the U.S. Army Audit Agency have issued five reports discussing the Army real property process. 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-05-848T, "Further Actions Needed to Address Long-standing and Complex Problems," June 22, 2005

DoD IG

DoD IG Report No. D-2008-072, "Controls Over the Army Real Property Financial Reporting," March 28, 2008

DoD IG Report No. D-2006-072, "Internal Controls Related to Department of Defense Real Property," April 6, 2006

Army

U.S. Army Audit Agency Report No. A-2006-0064-FFM, "Defense Property Accountability System Material Weakness Closeout," September 28, 2006

U.S. Army Audit Agency Report No. A-2006-0066-FFM, "Integrated Facilities System Requirements Validation," March 8, 2006

Appendix B. Glossary of Terms

Accountability System. The accountability system maintains the real property inventory information for Army buildings, structures, land, and utilities. The accountability system serves as the basic source of acquisition and improvement information, such as a real property asset's category, status, cost, area, capacity, condition, and use.

Accumulated Depreciation. The amount of depreciation expense added over a period, calculated from the date the asset is available for use.

Acquisition Value. All amounts incurred to bring the asset to a form and location suitable for its intended use. Examples include amounts paid to vendors, transportation charges, and handling and storage costs.

Assert. Management makes a statement or positive expression of its position or opinion. Office of Management and Budget Circular No. A-123, Appendix A, requires agency's management to include an assurance statement on the internal controls over financial reporting in its annual Performance and Accountability Report. Management is required to state a direct conclusion about whether the agency's internal controls over financial reporting are effective.

Capital Improvement. The costs to improve a real property asset are capitalized when they meet the DoD capitalization threshold and the improvement increases the asset's capability, size, efficiency, or useful life.

Construction-in-Progress. Construction-in-progress is the accumulation of costs of construction for or by the sponsoring entity since project inception. It includes labor, materials, and overhead costs associated with project design, site preparation, and actual construction.

Directorate of Public Works. The directorate responsible for operations and maintenance of facilities at Army installations, including minor construction. It is responsible for real property management and planning.

Directorate of Resource Management. The directorate responsible for financial and work force information at Army installations. It ensures that available resources are planned, programmed, and optimally executed; prepares and disseminates funding policy for all appropriations and funds; provides appropriation and revolving fund accounting and reporting support; and manages and oversees development of standard automated budget, financial, and manpower systems.

Financial Management System. The financial management system provides full general ledger control over financial transactions and resource balances.

Internal Control. An integral component of an organization's management that provides reasonable assurance of effective and efficient operations; reliable financial reporting; and compliance with applicable laws and regulations. The Government Accountability Office identifies the following five standards for internal control.

- **Control Environment.** The organizational structure and culture created by management and employees to sustain organizational support for internal control.
- **Control Activities.** The policies, procedures, and mechanisms in place to help ensure that agencies meet their objectives. Examples include segregation of duties, physical control over assets, proper authorization, and appropriate documentation and access to that documentation.
- **Information and Communications.** Information communicated to relevant personnel at all levels within an organization. The information should be relevant, reliable, and timely. An agency should also communicate with outside organizations.
- **Monitoring.** Monitoring assesses the effectiveness of internal control over time. It should occur during the normal course of operations. Periodic reviews, reconciliations, or comparisons of data should be a part of personnel's regularly assigned duties. In addition, management should include periodic assessments as part of its continuous monitoring of internal control.
- **Risk Assessment.** The identification and analysis of relative risks associated with achieving an objective. Management should identify internal and external risks that may prevent the organization from meeting its objectives.

Outgrant. An outgrant is a legal document that grants the right to use Army-controlled real property by setting the terms of non-Army use of Army-owned property. Outgrants include leases, licenses, easements, and permits.

Leasehold Improvement. An improvement to a leased asset that increases its value.

Preponderant User Policy. As of FY 2006, DoD Financial Management Regulation (FMR), volume 4, chapter 6, required the preponderant user of a real property asset to report the total value of the asset and associated costs on its financial statements. When there was more than one user, the user that had the greater percentage of usage normally would be the preponderant user. The FMR applied the policy differently depending on whether the preponderant user was a General Fund or Working Capital Fund entity. In October 2008, DoD revised the FMR to specify the use of a new policy requiring reporting entities that fund real property assets to report the assets and depreciation expense on their financial statements. The policy also requires entities to record the imputed costs of unreimbursed goods and services on their financial statement when they

do not reimburse the provider for the facilities they occupy. However, DoD states that it will not be able to implement the new policy until FY 2011. Therefore, the preponderant user policy was not canceled by the October 2008 version of the FMR.

Real Property Accountable Officer. The individual appointed by the installation commander to account for all real property on an installation.

Real Property Specialist. Individuals trained in the management of real property and who perform the daily installation management functions.

Appendix C. Real Property Documentation Requirements

FMR, volume 4, chapter 6, requires DoD Components to maintain source documents to support financial transaction entries in accounting system general ledger accounts and in supporting subsidiary property accountability records and systems. The source documents must support all transactions affecting the DoD Component's investment in General PP&E. The FMR also requires DoD Components to retain the documents in a readily available location to permit the validation of information pertaining to the asset, such as the purchase cost, purchase date, and cost of improvements. According to the FMR and U.S. National Archives and Records Administration guidance, real property managers are to maintain source documentation for 10 years after the asset's disposal.

The FMR, volume 4, chapter 6, identifies the following source documents that DoD Components are required to maintain.

For acquisitions and capital improvements:

- final bid document
- signed acceptance document by the Government
- contract or other legal instrument (such as a lease)
- contract modifications or change orders
- invoices to support the amount accumulated in the Construction-in-Progress account
- indirect costs incurred internally by the gaining activity
- DD Form 1391, "FY__ Military Construction Project Data" and work orders (to include the design cost during the planning phase)
- appraisal results or evidence of fair market value for donated assets
- transfer document for transferred assets
- DD Form 250, "Material Inspection and Receiving Report"
- DD Form 1354, "Interim and Final Transfer and Acceptance of Military Real Property"
- collection voucher

For disposals, including transfers to other organizations:

- declaration-of-excess document
- approval documentation
- original acquisition document
- legal instrument to indicate legal obligation to dispose of an asset
- document showing the disposal start date
- receipt documentation
- transfer document for transferred assets

Department of the Army Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

APR 3 2009

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE, 400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA
22202-4704

SUBJECT: Controls Over Army Working Capital Fund Real Property Assets, dated
February 11, 2009 (Project No. D2006-D000FI-0249.001).

1. We concur with the findings and recommendations in the subject report and provide supporting data in the attached joint reply prepared by my office and the office of the Assistant Chief of Staff, Installation Management.

2. Since you began your audit, the Army has made significant progress in managing and financially reporting its real property assets. As recognized in your report, we have developed an Army-wide plan to improve data quality and ensure auditable source documentation exists for real property assets. In addition, we continue to progress toward implementing the General Fund Enterprise Business System (GFEBS) real property assets management module. We continue to work with the many stakeholders involved in the process and will track progress toward completing actions in the Army's financial improvement plan.

3. My point of contact for this effort is [REDACTED]

Attachment


John J. Argodale
Deputy Assistant Secretary of the Army
(Financial Operations)

Attachment
Joint OACSIM and OASA(FMC) Reply to Audit Report
Controls Over Army Working Capital Fund Real Property Assets, dated February 11, 2009 (Project No. D2006-D000FI-0249.001).

Recommendation A.2:

a. **Concur.** The Army is currently conducting a thorough mission analysis regarding the reassignment of Army Materiel Command (AMC) installations to Installation Management Command (IMCOM) to ensure that installation support functions to include real property accountability and management is aligned with organizational core competencies. Final decision is expected by the end of FY 09.

b. **Concur.** IAW DoD Instruction 4165.14, paragraph 4.2.3, Army policy is that a qualified Real Property Accountable Officer (RPAO) be appointed in writing for every installation and virtual installation. The individual assigned to this position must be an employee of the United States Government and may not be assigned to a contractor. We are currently conducting a survey and evaluating the implementation of this policy.

c. **Concur.** The Army performs regular reviews of data via quarterly quality assurance and quality control (QA/QC) reports on all Army components' real property. The results of these reports are sent to the Accountable component within the Army, i.e., IMCOM, AMC, Army National Guard, etc., for evaluation and data correction if necessary. The results of these reports can influence training and policy guidance.

Recommendation A.3:

Concur. The USACE and OACSIM are in the process of surveying all Army Real Property Accountable Officers (RPAOs) (with expected survey completion 30 April 2009) for the purpose of determining 1) current level of training, and 2) future training requirements needed to meet minimum standards for accomplishing RPAO duties.

Within the next 2 years, USACE, the proponent for the 1170 Realty professional series, in conjunction with OACSIM and other Army components with 1170 series personnel will develop and implement a training plan for all Realty Specialists and RPAOs that includes a core curriculum of required courses followed by professional development and continuing education optional courses.

Recommendation A.4:

a. **Concur.** The Army implemented the \$20,000 real property capitalization threshold 1 Oct 08.

b. **Concur.** The Army is currently using OSD Services-developed process models as place holders for the requisite flow charts for the Real Property business arena. The Army is currently conducting work group sessions to "walk through" these process models to identify and address Army-specific deviations. The work groups may identify opportunities for Lean Six Sigma projects. The resulting Army business models then have to be compared to the business processes in the General Fund Enterprise Business System (GFEBs), which is being developed using a commercial off-the-shelf product, and adjusted accordingly. Risk analysis forms and internal controls will be updated as well. Full Operating Capability (FOC) for GFEBs is currently scheduled for September 2011.

c. **Concur.** The Army is reviewing security roles and business processes in the Integrated Facilities System (IFS) to assess the feasibility of modifying IFS as recommended in light of pending GFEBs deployment. Identified changes to security roles in IFS are expected to be implemented by end of FY10.

d. **Concur.** The Army Real Property Audit Preparation Handbook was designed to be a living document of consolidated, standardized instruction with no plan for it to ever be "final." As discussed with DoDIG auditors, the current "draft" version would remain draft until DoDIG review and comments were provided. All of the auditors' recommendations will be considered:

Attachment
Joint OACSIM and OASA(FMC) Reply to Audit Report
Controls Over Army Working Capital Fund Real Property Assets, dated February 11, 2009 (Project No. D2006-D000FI-0249.001).

(1) IAW Recommendation A.4. b., the handbook will be updated to include testing measures for compliance with OMB, A-123, Appendix A to include sampled verification of asset documentation for existing items as well as new items constructed since the prior year's reviews. As process flows are finalized so will the risk analyses and test plans. All these actions will be tracked in the Army's Financial Improvement Plan (FIP).

(2) We have implemented Real Property Site and Asset Unique Identifier (RPUID) functionality in all legacy source systems as well as the current version of DoD Business Enterprise Architecture.

(3) We are continuing our 100% inventory validation effort for all Army real property assets.

(4) Commanders provide two certification letters. The first when the installation has resolved discrepancies found during the Inventory Validation Assistance Visit and the second will be when all files are complete for all assets.

e. **Concur.** Errors in recording and reporting of real property assets specified in this audit report will be fixed as part of the Army's audit preparation and review efforts.

Recommendation A.5:

a. **Concur.** Army will implement new transaction codes for asset events other than Capital Improvements. However, because this impacts DoD Business Enterprise Architecture (BEA), these changes must also be vetted through DoD RPIM Change Process. The BEA added and the Army implemented other data elements, such as Capital Improvement Reason Code, to help ensure transactions are identified and reflected accurately.

b. **Concur.** The Army will modify its security roles functionality in IFS to make the default read-only and implement a role assignment process. Army will assess the feasibility of modifying changes to IFS security roles as recommended in light of pending GFEBS deployment. Read-only default is expected to be implemented by end of FY10.

c. **Concur.** In accordance with A.5.b. above, roles will be created in GFEBS for the processing of financial data related to real property transactions.

Recommendation B:

1. **Concur.** The Real Property handbook will be executed at all Army sites to include AWCF sites. OACSIM and OASA(FM&C) staff will develop the plan for validating that installations have completed the handbook's steps by 4th QTR 2009. Once the installations provide notification of completion, the plan will include steps that the validation teams will take to verify completion, and a scorecard of overall Army progress. We will track corrective actions relating to the validations and any re-work in the Army's Financial Improvement Plan (FIP).

2. **Concur.** In accordance with Recommendations A.4.d.(1) and B.1, the plan will be updated to include specific steps the review will take to validate that installations have correctly executed the handbook. The review team's plan will be developed by 4th QTR 2009. If Leadership requests it, we will request the Army Audit Agency (AAA) and the DoDIG review the draft plan (in 3rd QTR FY 2009) before we finalize it or begin validation work at any location. At a minimum, the review plan will include a sample review of supporting documentation for old and new assets; an analysis of improvement efforts completed to determine if they have been properly classified as capital improvements or maintenance, and whether financial reporting for demolished assets has ceased.

Attachment

Joint OACSIM and OASA(FMC) Reply to Audit Report
Controls Over Army Working Capital Fund Real Property Assets, dated February 11, 2009 (Project No.
D2006-D000FI-0249.001).

3. **Concur.** We agree that electronic folders are the best way forward for financial reporting documentation and will participate in any efforts the DoD Business Transformation Agency (BTA) conducts to implement electronic data storage. This should be an issue the DoDIG raises to OSD to ensure that it gets high level attention as it will benefit the Department as a whole.

Deputy Under Secretary of Defense (Installations and Environment) Comments



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

MAR 11 2009

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE BUSINESS
OPERATIONS, OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS

YB
3/12/09

SUBJECT: Comments on Draft Report "Controls Over Army Real Property Financial Reporting," Project No. D2006-D000FI-0249.001, February 11, 2009

As requested, I am providing responses to the general content and recommendations contained in the subject report.

Recommendation: We recommend that the Deputy Under Secretary of Defense for Installations and Environment enforce policy assigning real property accountability responsibilities at each DoD installation to a single Military Department and appointment of a single Real Property Accountable Officer for each installation.

Response: Concur: I agree with the intent of recommendation A.1 and as such I have requested that the Services brief me on the status of implementation of the policy. A copy of that request is attached.

Specific comments are also attached. Please contact [REDACTED]

Wayne Army
Deputy Under Secretary of Defense
(Installations and Environment)

Attachments:
As stated



DoDIG Draft Report Dated February 11, 2009
DoDIG Project No. D2006-D000FI-0249.001

“CONTROLS OVER ARMY REAL PROPERTY FINANCIAL REPORTING”

**SPECIFIC COMMENTS
ON THE DRAFT REPORT**

1) Page 3, paragraph 1 (continued from page 2): "DoD plans to implement standard data element requirements in the Business Enterprise Architecture in 2009."

Comment: This sentence does not accurately describe schedule or progress to date. Revise sentence to read, "DoD incorporated the results of the business process reengineering study into the Business Enterprise Architecture. In accordance with the Enterprise Transition Plan, the Military Departments plan to achieve compliance with the Real Property Inventory Requirements by the end of FY 2009."

Revised

2) Page 3, paragraph 2: "Unified Facilities Criteria 1-300-08, 'Criteria for Transfer and Acceptance of Military Real Property,' June 30, 2004..."

Comment: An updated version of the Unified Facilities Criteria (UFC) 1-300-08 is in final coordination. The UFC is due for release in March 2009 in order to meet the Enterprise Transition Plan milestone date of March 31, 2009. Please contact Sharyn Horowitz, 703-604-6735, sharyn.horowitz.ctr@osd.mil, to confirm most recent version of UFC 1-300-08 prior to publishing final report.

Revised to identify that guidance was updated on March 26, 2009

3) Page 21, paragraph 1: "The Deputy Under Secretary of Defense (Installations and Environment) should assign real property accountability responsibilities at each DoD installation to a single Military Department and ensure the appointment of a single RPAO at each installation."

Comment: This sentence does not include specific reference to policy and does not clearly specify that the Deputy Under Secretary of Defense for Installations and Environment is not responsible for appointing Real Property Accountable Officers. Revise sentence to read, "We recommend that the Deputy Under Secretary for Defense for Installations and Environment enforce policy in DoD Instruction 4165.14 which requires that real property accountability responsibilities at each DoD installations are assigned to a single Military Department, and that a single Real Property Accountable Officer is appointed for each installation."

Revised

4) Page 21, Recommendation A.1, "We recommend that the Deputy Under Secretary of Defense for Installations and Environment enforce policy assigning real property

Page 22

accountability responsibilities at each DoD installation to a single Military Department and appointment of a single Real Property Accountable Officer for each installation,”

Comment: This recommendation does not include specific reference to policy and does not clearly specify that the Deputy Under Secretary of Defense for Installations and Environment is not responsible for appointing Real Property Accountable Officers. Revise Recommendation A.1 to read, “We recommend that the Deputy Under Secretary for Defense for Installations and Environment enforce policy in DoD Instruction 4165.14 which requires that real property accountability responsibilities at each DoD installations are assigned to a single Military Department, and that a single Real Property Accountable Officer is appointed for each installation.”

Revised



ACQUISITION
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

FEB 19 2009

MEMORANDUM FOR ARMY ASSISTANT CHIEF OF STAFF (INSTALLATIONS
MANAGEMENT)
DEPUTY CHIEF OF NAVAL OPERATIONS (ASHORE
READINESS)
AIR FORCE CIVIL ENGINEER

SUBJECT: DoD Inspector General (DoDIG) Report Entitled "Financial Management:
Internal Controls Related to Department of Defense Real Property," (Report
D2006-072)

Between November 2004 and August 2005, the referenced audit was conducted to determine if adequate internal controls were in place to ensure accurate accounting of real property within the Department of Defense. As a result of this audit, DoDIG found that weaknesses in the internal control environment and control activities were still contributing to inaccurate real property inventories and impacting financial transactions. While most controls were at least partially implemented at the headquarters level, the report noted that inadequate staffing and insufficient training at the installation level were contributing to weaknesses in internal controls at the installations level.

Through implementation of the Real Property Inventory Requirements, our community has made great strides in improving the Department's management of our physical infrastructure. I request that each Military Department prepare a short informational briefing to be presented at the Installations and Environment Domain Governance Board meeting scheduled for March 19, 2009, addressing:

- Staffing of real property offices with adequate number of skilled personnel
- Provision of training and cross-training for real property functions
- Assignment of Real Property Accountable Officers in accordance with DoD Instruction 4165.14



Wayne Army
Deputy Under Secretary of Defense
(Installations and Environment)



U.S. Army Corps of Engineers Comments

Final Report
Reference



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

CEIR (36-2b)

23 March 2009


MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR
GENERAL

SUBJECT: DODIG Draft Report – Project No. D2006-D000FI-0249.001 – Controls Over Army
Working Capital Fund Real Property Assets

1. Thank you for the opportunity to review the subject draft report and provide comments. HQ, USACE agrees with recommendation A.3, page 22. USACE as proponent for real-estate will work with ACSIM in developing and or enhancing training program for all involved in real property management. The target implementation date is 30 September 2009.

2. Question should be referred to [REDACTED]

FOR THE COMMANDER:


DONNA F. JOHNSON
Acting Chief, Audit Executive
HQ Internal Review Office

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Inspector General Department of Defense

