



DEPARTMENT OF DEFENSE

AUDIT REPORT

FINANCIAL MANAGEMENT OF ARMED FORCES RETIREMENT HOMES

No. 90-114

September 26, 1990

*Office of the
Inspector General*





INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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MEMORANDUM FOR PRESIDENT, BOARD OF COMMISSIONERS, U.S. SOLDIERS'
AND AIRMENS' HOME
GOVERNOR, U.S. SOLDIERS' AND AIRMEN'S HOME
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)

SUBJECT: Report on the Audit of Financial Management of Armed
Forces Retirement Homes (Report No. 90-114)

This is our report on the Audit of Financial Management of Armed Forces Retirement Homes. The audit was conducted from February to June 1990. Our objective was to evaluate all aspects of financial management of the Armed Forces retirement homes. In addition, we evaluated internal controls over financial management areas. The Armed Forces retirement homes consist of the U.S. Soldiers' and Airmen's Home (USSAH) in Washington, D.C., and the Naval Home in Gulfport, Mississippi. In FY 1989, the operation and maintenance budgets were \$37 million for USSAH and \$5.7 million for the Naval Home. In addition, the Naval Home received approximately \$2.3 million in support from other Naval organizations. Public Law 101-189 required the Inspector General, Department of Defense to inspect each Armed Forces retirement home during FY 1990. Our audit was performed to fulfill this requirement for financial management areas. The Assistant Inspector General for Inspections performed a management review of nonfinancial areas of the retirement homes. The inspection report will be issued separately.

The accounting procedures used by USSAH provided adequate recordkeeping on a cash basis but did not determine actual expenses or the value of USSAH assets. Internal accounting controls over cash resources, payments, collections, payroll, and members' funds were generally effective, and related records were accurate. Reports to the U.S. Treasury of cash transactions were also accurate. Records for a revolving fund used to stock housekeeping supplies were accurately maintained, and physical controls over on-hand supplies were good. However, because of the lack of an adequate accrual-basis accounting system, the financial statements of USSAH, published in the FY 1989 annual report, do not present fairly the financial position of USSAH as of September 30, 1989. The USSAH financial statements are presented in Appendixes A through C. Additional compensation in the form of rent subsidies, utilities, and other services was provided to 19 employees living on the premises. Appendix D is an estimate of the rent subsidies. Income tax, Social Security,

and Medicare reporting and withholding were insufficient for 12 employees. In our opinion, quarterly audits costing \$17,000 per year served a very limited purpose.

The Naval Home did not prepare financial statements, and the accounting system used by the Navy to account for Naval Home appropriated fund operations was not an accrual-basis system and did not provide the data needed for financial statements. Consequently, operating expenses and the value of Naval Home assets were not determined. The Naval Home's accounting records, practices, and procedures were accurate and were generally in accordance with Naval policy. However, we noted several areas in both appropriated and nonappropriated fund operations that required additional management attention. Further details of the audit are provided in the following paragraphs and in Part II of this report.

The USSAH accounting system did not account for revenues and expenses on an accrual basis, and it did not meet the requirements established for agencies of the Federal Government. Consequently, operating expenses and the value of assets were not determined, and USSAH could not produce financial statements that met Government standards. We recommended that USSAH acquire and implement an automated accounting system that meets all requirements for Federal agencies and utilizes current automated technologies. We also recommended that USSAH prepare annual financial statements in accordance with established Federal requirements after the accounting system is implemented (page 5).

USSAH charged employees occupying Government quarters rental rates well below market value and provided them with utilities and lawn maintenance at no cost. In addition, five high-ranking USSAH officials received custodial service at no cost. We estimated the value of subsidies for rent, utilities, and services at \$145,000 annually. We recommended that USSAH rent these quarters at market value, charge occupants for the cost of utilities consumed, and charge the full cost of any services provided (page 9).

USSAH underreported and underwithheld gross income for income taxes (Federal and District of Columbia), Social Security, and Medicare for 12 employees. Consequently, these employees may have underpaid income taxes, Social Security, and Medicare. We recommended that USSAH report as income and make appropriate withholdings for all wages and nonmonetary compensation paid to employees. In addition, we recommended that USSAH notify the Internal Revenue Service and the Social Security Administration of the deficiencies (page 13).

In our opinion, quarterly audits of USSAH cash-basis financial statements were of little value. The \$17,000 spent annually for these audits could be used to obtain more meaningful audits. We recommended that USSAH request legislation to eliminate the legal requirement for quarterly audits. We also recommended that USSAH obtain annual audits of its financial and management operations, including assessments of internal controls, from an external source (page 17).

The Naval Home did not identify and record the cost of new construction for repair and alteration projects that included construction. Consequently, controls over appropriation sources could be circumvented, and a violation of congressional intent could occur. We recommended that the Naval Home establish accounting procedures to identify and record the amount of new construction included in repair projects (page 21).

The Naval Home commingled cash receipts from the dining hall with personal funds of residents and did not reimburse the operation and maintenance appropriation account in a timely manner. Principles of accounting and internal controls prohibit commingling of funds, and operating resources cannot be fully utilized when reimbursements are not prompt. We recommended that the receipts be deposited with a nearby DoD accounting and finance office for prompt reimbursement to the operations and maintenance account (page 23).

The Naval Home had not implemented adequate internal controls over financial services to incapacitated members. Our audit disclosed that no improprieties occurred, but the potential for fraud was unchecked. We recommended that transactions that exceed a fixed amount be approved by an official other than the individual performing the transaction, and that periodic audits of these transactions be conducted (page 25).

Naval Home residents were not sufficiently involved in determining uses of the Residents Fund and the Morale, Welfare, and Recreation (MWR) Fund. The Residents Fund was used to pay for gifts costing \$677 and for party expenses of \$365 for a departing Naval Home official. We recommended that the Fund not be used for employee gifts costing more than \$50. We also recommended that residents be represented in determining how these funds will be spent (page 27).

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. USSAH did not have an adequate accounting system. In addition, USSAH did not establish procedures to obtain current appraisals of the market value of

Government quarters and to adjust rental rates to reflect market value, did not charge occupants for the value of utilities and other services, and had not established controls to ensure that all income subject to income taxes, Social Security, and Medicare was reported and that appropriate withholdings were made from employees' pay. The Naval Home had not established controls to identify and record the costs of new construction included in repair projects, to adequately control financial transactions made on behalf of incapacitated members, to ensure that appropriated and personal funds were separated, and to ensure that nonappropriated funds were spent properly. Recommendations A., B., C., E., F., G., and H., if implemented, will correct these weaknesses. A copy of this report will be provided to the senior official responsible for internal controls at USSAH and the Department of the Navy.

The President of the USSAH Board of Commissioners concurred with Recommendations A., B., C., and D. and indicated that corrective actions would be taken. However, the President's response did not fully address Recommendation B. The President's response is provided in Appendix E. The USSAH Governor concurred with Recommendations A., D., and parts of B. and C., and presented plans for corrective actions. The Governor's response is in Appendix F. The amounts of potential monetary benefits given in our draft report for Recommendation B. (see Appendix H) were based primarily on a preliminary U.S. Army Corps of Engineers appraisal of rental values and utilities. The Corps revised the appraisal figures on August 9, 1990. Therefore, we have changed the dollar amounts in this report to match the revised appraisal. In his response, the Governor outlined his plan to set rates based on the revised Corps appraisal. The Governor did not indicate concurrence with Recommendation B.2. to charge for custodial services provided to top USSAH officials living in Government quarters on the premises. For Recommendation C.3., the Governor did not state that he would notify the Internal Revenue Service, the Social Security Administration, and the District of Columbia of underwithholdings for 12 employees. Therefore, we request that the President, USSAH Board of Commissioners, respond to this final report, stating whether Recommendation B. will be fully implemented and presenting specific plans for proposed actions. In addition, we request that the USSAH Governor respond to this final report, stating whether Recommendation C.3. will be fully implemented and presenting specific plans for proposed actions.

The Assistant Secretary of the Navy (Financial Management) concurred with Recommendations E., F., G., and H., and presented plans for correcting the identified deficiencies. The Assistant Secretary's response is in Appendix G.

DoD Directive 7650.3 requires that all recommendations be resolved within 6 months of the date of the final report. Accordingly, the USSAH Governor's comments must be provided within 60 days of the date of this report.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Byron B. Harbert at (202) 693-0653 (AUTOVON 223-0653) or Mr. Raymond D. Kidd at (202) 694-1682 (AUTOVON 224-1682). A list of audit team members is in Appendix J. Copies of this report are being provided to the activities listed in Appendix K.



Robert J. Lieberman
Assistant Inspector General
for Auditing

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

REPORT ON THE AUDIT OF FINANCIAL MANAGEMENT
OF ARMED FORCES RETIREMENT HOMES

TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL MEMORANDUM/EXECUTIVE SUMMARY	i
PART I - INTRODUCTION	1
Background	1
Objectives and Scope	2
Internal Controls	2
Prior Audit Coverage	2
Other Matters of Interest	3
PART II - FINDINGS AND RECOMMENDATIONS	5
A. USSAH Accounting System	5
B. USSAH Additional Compensation	9
C. USSAH Income Tax Deficiencies	13
D. USSAH Quarterly External Audits	17
E. Naval Home Accounting for New Construction	21
F. Naval Home Dining Hall Receipts	23
G. Naval Home Financial Services for Incapacitated Members	25
H. Naval Home Utilization and Management of Nonappropriated Funds	27
APPENDIXES	See next page

LIST OF APPENDIXES

	<u>Page</u>
APPENDIX A - U.S. Soldiers' and Airmen's Home Trust Fund Income	29
APPENDIX B - U.S. Soldiers' and Airmen's Home Statement of Financial Condition, 30 September 1989	31
APPENDIX C - U.S. Soldiers' and Airmen's Home Statement of Sources and Application of Funds, Fiscal Year 1989	33
APPENDIX D - U.S. Soldiers' and Airmen's Home Comparison of Rental Rates to Appraised Values	35
APPENDIX E - President, USSAH Board of Commissioners, Management Response	37
APPENDIX F - Governor, USSAH, Management Response	41
APPENDIX G - Assistant Secretary of the Navy (Financial Management) Management Response	47
APPENDIX H - Summary of Potential Monetary and Other Benefits Resulting from Audit	51
APPENDIX I - Activities Visited or Contacted	53
APPENDIX J - Audit Team Members	55
APPENDIX K - Final Report Distribution	57

Prepared by:
Financial Management Directorate
Project No. OFH-5006

REPORT ON THE AUDIT OF FINANCIAL MANAGEMENT
OF ARMED FORCES RETIREMENT HOMES

PART I - INTRODUCTION

Background

The U.S. Soldiers' and Airmen's Home (USSAH), Washington, D.C., is a retirement home for nearly 2,000 former enlisted and warrant officer personnel of the Army and the Air Force. USSAH is classified as a Federal agency in the nature of a Congressional trust and is operated from a trust fund. USSAH is governed by an independent Board of Commissioners, which consists of the Governor, six Army and Air Force flag officers, and the senior noncommissioned officers of the Army and the Air Force. Revenues are paid to the trust fund by deductions from the pay of active-duty enlisted and warrant officer personnel of the Army and the Air Force, fines and forfeitures of active-duty Army and Air Force personnel, interest on the trust fund, user fees, and donations (see Appendix A). The trust fund is held by the U.S. Treasury and is available to USSAH officials only upon appropriation by Congress. During FY 1989, USSAH had appropriations of \$37.2 million for operation and maintenance and \$14.8 million for capital outlay. The capital outlay appropriation was for long-range plans to renovate and restore dormitories and construct health care facilities. As of September 30, 1989, the trust fund's balance was about \$215 million. Of this amount, \$60 million had been appropriated and \$155 million was not appropriated.

The Naval Home, Gulfport, Mississippi, is a retirement home for 380 former Naval, Marine, and Coast Guard personnel. The Naval Home has a 580-resident capacity, but 200 dormitory rooms were closed for structural repairs at the time of our audit. The Naval Home is operated by the Navy as a separate shore command and is funded from Naval appropriations. During FY 1989, the Naval Home received appropriations of \$5.7 million for operation and maintenance. The Naval Home also received approximately \$2.3 million in support from other Naval organizations. In addition, a \$14 million renovation project for the dormitory building was in progress and was funded by Naval Military Personnel Command appropriations. Public Law 101-189, enacted on November 29, 1989, required the Navy to establish a trust fund for the Naval Home beginning October 1, 1990, using deductions from the pay of active-duty enlisted and warrant officer personnel and a percentage of the fines and forfeitures of Naval and Marine Corps personnel.

Objectives and Scope

Our objective was to evaluate all aspects of financial management of the Armed Forces retirement homes. Specifically, we examined the financial statements for FY 1989 and evaluated financial management operations. We assessed internal controls over accounting and over residents' monies that were in the custody of the homes. This financial audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of accounting records and internal controls as were considered necessary. The audit was made from February to July 1990 and included reviews of records for FY's 1989 and 1990. Appendix I lists the activities visited or contacted.

Internal Controls

We assessed the internal controls applicable to the objectives. The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. USSAH did not have an adequate accounting system. In addition, USSAH did not establish procedures to obtain current appraisals of the market value of Government quarters and to adjust rental rates to reflect market value, and did not charge occupants for utilities and other services. USSAH had not established controls to ensure that all income subject to income taxes, Social Security, and Medicare was reported for 12 employees and that appropriate withholdings were made from the affected employees' pay. The Naval Home had not established controls to identify and record the costs of new construction included in repair projects, to adequately control financial transactions made on behalf of incapacitated members, to ensure that appropriated and personal funds were separated, and to ensure that nonappropriated funds were spent properly. Recommendations A., B., C., E., F., G., and H., if implemented, will correct these weaknesses. A copy of this report will be provided to the senior official responsible for internal controls at USSAH and the Department of the Navy.

Prior Audit Coverage

Ricketts, Ricketts, Nelson and Mudd, a Certified Public Accounting (CPA) firm, performed quarterly audits during FY 1989 and prior years of USSAH's cash accounts and semiannual audits of the Patient Financial Assistance Office at USSAH. In addition, the firm performed audits of USSAH's nonappropriated funds during FY 1988. These audits disclosed no material discrepancies and made no recommendations. The Internal Review office at USSAH was conducting audits of nonappropriated funds during our audit.

There was no previous audit coverage of the Naval Home's appropriated funds. Recent audits of nonappropriated funds had been performed by a CPA firm and the internal review office at the Construction Battalion Center, Gulfport, Mississippi. We determined that recommendations from these reports had been implemented.

Other Matters of Interest

United States Code, title 24, sec. 46b exempted USSAH from certain laws and Federal regulations enacted after July 1, 1935. These laws pertain to the administration, control, procurement, expenditure, accounting, audit, and methods thereof, of funds appropriated from the USSAH trust fund. Consequently, USSAH officials believed they were not required to follow the latest Federal policies for areas such as accounting, procurement, and the privacy of residents and employees. While that interpretation did not cause the problems we found, it could lead to problems in the future.

The legislated operating requirements of the two homes were very different, as were the organization, accounting systems, and methods of mission accomplishment. As a Federal agency, USSAH would have been required to produce financial statements that conformed to Federal requirements if U.S.C., title 24, sec. 46b did not exempt it from doing so. Since the Naval Home is an activity within the Navy, it was not required to produce financial statements. Because the accounting systems used by each home were different, the basis for reporting expenses was different. USSAH reported as expenses the amounts of disbursements for operation and maintenance, while the Naval Home reported as expenses the amounts obligated for operation and maintenance. Neither home's figures reflected actual operating expenses, and the figures were not comparable. Until requirements are established for both homes to implement accounting systems and to produce financial statements that meet Federal requirements, the actual costs of operating them will remain unknown.

USSAH, as a separate Federal agency, received little support from any Government organization. The Naval Home, as an activity within the Department of the Navy, received support from several Naval organizations. For example, many of the Naval Home's accounting functions were accomplished by the Naval Regional Finance Center, Great Lakes, Illinois. Except for small purchases, procurement was handled by the Naval Construction Battalion Center, Gulfport, Mississippi, and by the Naval Supply Center, Charleston, South Carolina. The health care facility was operated by the Pensacola Naval Hospital. A \$14 million renovation of the Naval Home dormitory was funded and managed by the Naval Military Personnel Command. In addition, contractors operated the dining hall and custodial services at the Naval

Home. At USSAH, however, most of these operations were performed by USSAH employees. As a result, ratios of residents to employees may appear much higher at USSAH than at the Naval Home. USSAH had a resident-to-employee ratio of 1.9 to 1, while the ratio at the Naval Home was 4.2 to 1. However, the resident-to-employee ratio at the Naval Home became 1.8 to 1 after adding contractor personnel and support activities who performed Naval Home work.

PART II - FINDINGS AND RECOMMENDATIONS

A. USSAH Accounting System

FINDING

The accounting system used at the U.S. Soldiers' and Airmen's Home (USSAH) was a cash-basis system that did not account for financial transactions on an accrual basis, did not implement the U.S. Government Standard General Ledger Chart of Accounts, and did not meet the requirements for accounting systems in Federal agencies. USSAH had tried to implement an automated system that would meet Federal requirements but had been unable to obtain funding. The existing system did not determine operating expenses or the value of USSAH real property, equipment, and inventories, and it could not provide the data necessary to produce financial statements. In addition, the system produced data that were not fully useful to managers, and its operation was labor-intensive.

DISCUSSION OF DETAILS

Background. U.S.C., title 31, sec. 3511 states, "The Comptroller General shall prescribe the accounting principles, standards, and requirements that the head of each executive agency shall observe." U.S.C., title 31, sec. 3512 requires the head of each executive agency to establish and maintain systems of accounting and internal controls that provide complete disclosure of the agency's financial activities. Accounting systems and internal controls should also provide adequate financial information for management, effective control of assets, and adequate audit trails, and should serve the needs of budget administration.

The General Accounting Office (GAO) Policies and Procedures Manual, Title 2, provides guidance to Federal agencies to implement U.S.C., title 31, sec. 3511. The GAO manual incorporates generally accepted accounting principles and requires that accounting systems be maintained on an accrual basis using the U.S. Government Standard General Ledger Chart of Accounts. The GAO manual also requires preparation of the following financial statements: "Statement of Financial Position," "Statement of Changes in Financial Position," "Statement of Operations," and "Statement of Reconciliation to Budget Reports." USSAH used the title "Statement of Financial Condition" instead of "Statement of Financial Position," and "Statement of Sources and Application of Funds" instead of "Statement of Changes in Financial Position."

Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems," December 19, 1984, makes additional requirements for Federal accounting systems. Agencies must

establish a single, integrated system, whereby transactions are entered only once and are transferred automatically to accounts and other parts of the system or subsystems; and funds may be expended only for accounting systems that meet the Circular's requirements.

USSAH is exempt from U.S.C., Title 31, sec. 3511; from the GAO Policies and Procedures Manual, Title 2; and from OMB Circular A-127. U.S.C., title 24, sec. 46b exempts USSAH from compliance with certain laws and regulations enacted after July 1, 1935.

System Deficiencies. The accounting system was installed on an obsolete minicomputer that had very little storage capacity and lacked program capabilities for many accounting functions. The system also lacked edit functions needed for good internal accounting controls. Transactions had to be manually entered twice, and operating the system was labor-intensive. Each month's transactions were recorded on magnetic tape and erased from the computer's internal storage because of its limited capacity.

Efforts to Obtain a Better System. USSAH officials had recognized the need for an efficient automated accounting system that would meet Federal accounting requirements. In 1986, USSAH officials obtained a study of their data automation needs from the Air Force 7th Communications Group. A report was sent to USSAH officials in 1987 recommending a specific hardware/software package. In August 1988, USSAH requested a supplemental appropriation of \$458,000, the estimated amount needed to acquire and implement the accounting system. OMB rejected the request. USSAH officials said that their operation and maintenance appropriation did not include any funds that could be used to acquire the system. However, a minicomputer was acquired, and USSAH is currently trying to obtain funds for software and programming. In July 1989, USSAH included \$175,000 for software in its FY 1991 budget request. That budget request did not result in an appropriation. One USSAH official estimated that \$250,000 for software and programming was a more realistic figure. As an interim measure, USSAH was developing programs to install the existing system on the new computer.

Financial Statements. The financial statements in the USSAH Annual Report for FY 1989 do not present fairly the financial position and results of operations in accordance with the GAO Policies and Procedures Manual, Title 2. The Statement of Financial Condition included only cash assets and did not report the value of USSAH assets. The accounting system did not report accounts payable; instead, the total amount of cash assets was erroneously reported as accounts payable. The Statement of Financial Condition (see Appendix A) and the Statement of Sources and Application of Funds (see Appendix B) combined two separate accounting entities: the unappropriated balance of the trust

fund and funds that have been appropriated to USSAH. The Statement of Sources and Application of Funds included revenues to the trust fund unappropriated balance and disbursements made by USSAH (see Appendix C). Revenues to USSAH and disbursements from the unappropriated balance were not included. The Statement of Operations and the Statement of Reconciliation to Budget were not prepared. An accrual-basis accounting system is a prerequisite for the preparation of accurate financial statements.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Governor, United States Soldiers' and Airmen's Home:

1. Request an appropriation from Congress for funds needed to implement an accrual-basis accounting system. The appropriation request should address the need for equipment, systems design and development, software, possible use of consultants, and any additional personnel required to operate the system.

2. Acquire and implement, when funds are received, an accrual-basis accounting system that meets all the standards for Federal accounting systems prescribed in the General Accounting Office Policies and Procedures Manual, Title 2, and in Office of Management and Budget Circular A-127. Consider hiring a consultant with expertise in developing automated accounting systems for the Federal Government.

3. Prepare annual financial statements in accordance with the General Accounting Office Policies and Procedures Manual, Title 2, beginning with the end of the first full fiscal year after implementation of the accounting system.

4. Discontinue preparing financial statements for the annual report when the financial statements do not meet Government standards.

MANAGEMENT COMMENTS

USSAH Board of Commissioners President's Comments

The President, Board of Commissioners, concurred with Recommendations A.1. through A.4. and stated that the recommendations depend on Congressional funding. The President's comments are in Appendix E.

USSAH Governor's Comments

The Governor of USSAH concurred with Recommendations A.1. through A.4. and stated that a request for funds is in the FY 1992 budget request. The Governor also stated that when funds are approved, an appropriate system will be identified and procured and that revised financial statements will be prepared once the new system is available. In the interim, the "Statement of Financial Condition" will be omitted from annual reports. The Governor's comments are in Appendix F.

B. USSAH Additional Compensation

FINDING

Rental rates charged to employees for Government quarters at USSAH were well below market value. In addition, the occupants of these quarters received utilities and lawn maintenance at no cost, and top USSAH officials also received free custodial service. The USSAH Board of Commissioners had accepted a 1978 opinion by the Air Force Judge Advocate General that USSAH was not subject to the laws requiring civilian employees who occupy Government quarters to be charged market value for quarters and any services provided. As a result, USSAH provided housing subsidies to employees occupying quarters on the premises. We estimated the value of the subsidies to be \$54,000 for rent, \$25,000 for utilities, \$2,100 for lawn maintenance, and \$64,000 for custodial service in calendar year (CY) 1990.

DISCUSSION OF DETAILS

Background. Seventeen single-family residences and 4 apartments at USSAH were available for occupancy by employees. Nineteen of the 21 units were occupied at the time of our review. The Governor, three Directors, and three essential employees were required to occupy quarters at USSAH as a condition of employment. The remaining 12 employee occupants were provided quarters upon request. U.S.C., title 5, Sec. 5911 requires that rental rates charged to employees for occupancy of Government quarters be based on the reasonable value to the employee. OMB Circular A-45, which implements the provisions of U.S.C., title 5, sec. 5911, defines "reasonable value to the employee" as rates that are "...equal to those prevailing for comparable private housing located in the same area..." (i.e., market value). OMB Circular A-45 also implements U.S.C., title 5, sec. 5536, and states:

Federal employees whose pay and allowances are fixed by statute or regulation may not receive additional pay and allowances for any service or duty unless specifically authorized by law (5 USC 5536). Consequently, rents and other charges may not be set so as to provide a housing subsidy, serve as an inducement in the recruitment or retention of employees, or encourage occupancy of existing Government housing.

In implementing U.S.C., title 5, sec. 5536, the Circular requires that Federal employees in Government quarters be charged for utilities and for any household services provided.

Air Force Judge Advocate's Opinion. The Judge Advocate General of the Air Force provided a written opinion to the USSAH Board of Commissioners on December 12, 1978, which held that USSAH was a Federal instrumentality, not a Federal agency. As an instrumentality, USSAH was exempt from the provisions of U.S.C., title 5, sec. 5536 and sec. 5911, and could resist any efforts by OMB to enforce Circular A-45.

The Judge Advocate General did not address U.S.C., title 24, sec. 46b. However, this law also exempts USSAH from OMB Circular A-45 because it provides that USSAH is exempt from certain laws and Federal regulations enacted after July 1, 1935.

Rental Rate Determination. In 1979, the Board of Commissioners established the procedures by which rental rates were to be determined. An equivalent military grade was assigned to each set of quarters. The 1979 rates for the military Basic Allowance for Quarters (BAQ) were applied to each housing unit. These rates were then reduced by 25 percent because the quarters did not meet standards for military housing. In subsequent years, the reduced 1979 rates were increased by the percentage of pay increases legislated for civilian employees, without regard to the local market value of comparable housing.

Current Rental Rates. At the time of our audit, rental charges of occupied units ranged from a low of \$202 to a high of \$447 per month. These rates included all utilities and lawn maintenance. The U.S. Army Corps of Engineers (the Corps) made an appraisal of the fair market value of the quarters on August 9, 1990. The Corps appraised the monthly rental values at \$311 to \$878 per month.

The appraised amounts exceeded the rates charged by about \$4,500 per month, or \$54,000 per year. Appendix D compares appraised rates to the amount charged for each housing unit. Although neither USSAH nor its Board of Commissioners are bound by applicable laws and Federal guidelines, compliance with the Federal policy of charging market value for rental of quarters, utilities, and other services would make the most efficient use of available resources.

Utilities, Lawn Maintenance, and Custodial Service. At the time of our review, employees who occupied quarters at USSAH were not charged for utilities, lawn maintenance, or custodial services. The total annual value of the services provided was estimated at \$91,000 and was calculated as follows.

Utilities. USSAH facilities use natural gas, fuel oil, and electricity. USSAH pays consolidated utility bills, since it does not meter the cost of utilities for individual facilities. The Corps of Engineers, in its August 9, 1990, appraisal, estimated the annual cost of utilities at \$25,000.

Lawn Maintenance. USSAH officials estimated the annual cost of lawn maintenance at \$2,100. Their estimate included costs for labor, equipment, and gardening supplies.

Custodial Services. This service is provided only for quarters occupied by the Governor, two directors, and two other officials. To compute the cost of custodial service, we determined the current annual wage rates and employer benefit contributions, which totaled approximately \$64,000.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Board of Commissioners, U.S. Soldiers' and Airmen's Home:

1. Set rental rates for residential quarters based on appraisals of their market value compared to rental rates for similar housing in Washington, D.C. Procedures used to determine rental rates should adhere to the provisions of Office of Management and Budget Circular A-45.

2. Require the U.S. Soldiers' and Airmen's Home to charge occupants of quarters for all utilities and any services provided.

MANAGEMENT COMMENTS

USSAH Board of Commissioners President's Comments

The President, Board of Commissioners, concurred, stating that a housing survey had been completed, proposed rates had been agreed on, and utilities will be included in rental rates. However, the President's response did not address Recommendation B.2., which called for charging for services provided. The President's comments are in Appendix E.

USSAH Governor's Comments

The USSAH Governor concurred with the recommendation to charge market value rental rates, and cited proposed rates of \$311 to \$878 per month for the quarters that were occupied at the time of our audit. The Governor also concurred with the recommendation to charge quarters occupants for utilities and lawn maintenance. The Governor did not indicate concurrence with the recommendation to charge quarters occupants for custodial services provided, but

he stated that a determination would be made regarding this charge. The Governor's comments are presented in Appendix F.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

We do not consider the President, Board of Commissioners, or the USSAH Governor's comments to be fully responsive to the recommendations, because they did not present a plan to charge for or discontinue custodial services to certain quarters occupants. We believe the Recommendation is still warranted, for reasons discussed in Part II of the report. In addition, the management responses did not include plans for periodic adjustments of rates. OMB Circular A-45 requires that rates be periodically adjusted and gives criteria for these adjustments. Consequently, we request that the President, Board of Commissioners, in response to this report, give specific actions that will be taken to charge for services and to adjust rates in the future.

C. USSAH Income Tax Deficiencies

FINDING

USSAH underreported gross income for Federal and District of Columbia income taxes and underwithheld income tax, Social Security, and Medicare for 12 employees. USSAH did not include the amount charged for rental of Government quarters in gross income reported to the Internal Revenue Service (IRS), the District of Columbia, and the Social Security Administration. In addition, USSAH did not report as income the value of rent subsidies, utilities, and lawn maintenance provided to occupants of quarters. Improper reporting occurred because procedures were not established to report these values for 12 employees living in Government quarters who were not entitled to income tax exclusions. As a result, USSAH underpaid its contributions to Social Security and Medicare for 10 employees; underwithheld the employees' contributions to Social Security and Medicare; and may have caused 12 employees to unknowingly underpay their Federal and District of Columbia income taxes. The amount of wages underreported in CY 1989 was \$31,491 for the 12 employees. The estimated cost of utilities and lawn maintenance provided to the 12 employees was \$13,800 in FY 1989. The amount of rent subsidies was undeterminable because an appraisal of rental values was not made in FY 1989.

DISCUSSION OF DETAILS

Background. Federal tax laws state that an employee who is required by his or her employer to live on the employer's premises may exclude from gross income the value of housing and any related services, provided the following conditions are present:

- The quarters are located on the business premises of the employer,
- The quarters are furnished for the convenience of the employer, and
- Residence in the quarters is a condition of employment.

Unless all of the above conditions are present, the value of the housing is not excludable from income taxes. Tax laws also require that individuals pay taxes on the value of any nonmonetary compensation, such as goods and services.

Payroll Procedures. The payroll system applied the income tax exclusion to the pay computations of all 19 employees living in quarters at USSAH. Position descriptions for seven high-level officials required quarters occupancy as a condition of

employment. However, 12 employees who lived at USSAH were not required to do so. For these employees, the amount of rent paid was subtracted from their gross incomes to arrive at gross income amounts reported to the IRS and the District of Columbia. In addition, the reduced gross income amounts were used to determine employee deductions and employer contributions for Social Security and Medicare. The amount of rent excluded in CY 1989 was \$31,491 for the 12 employees.

Additional Compensation. USSAH did not identify and report to employees, the IRS, and the District of Columbia the values of rent subsidies, utilities, and lawn maintenance provided to the 12 employees who lived at USSAH at their own request. We could not estimate the value of rent subsidies for CY 1989, because USSAH had not obtained a 1989 appraisal of rental values of quarters on the premises. We estimated the value of utilities at \$13,500 and lawn maintenance at \$300 for the 12 employees.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Governor, U.S. Soldiers' and Airmen's Home:

1. Immediately correct the payroll system to include all wages when reporting income and withholding income tax, Social Security, and Medicare for employees who are not required to live in quarters at the U.S. Soldiers' and Airmen's Home.

2. Establish procedures to assess and report to the Internal Revenue Service and to the District of Columbia the value of rent subsidies, utilities, and any related housing services provided to employees who are not required to live in quarters on the premises. If Recommendations B.1. and B.2. are fully implemented, this recommendation does not apply.

3. Report the payroll deficiencies to the Internal Revenue Service, the District of Columbia, and the Social Security Administration and obtain their assistance in determining whether retroactive corrections are necessary.

MANAGEMENT COMMENTS

USSAH Board of Commissioners President's Comments

The President, Board of Commissioners, concurred with Recommendations C.1., C.2., and C.3. and stated that individuals living in quarters who are not required to occupy them will have taxes determined on their gross income, and where appropriate, the Internal Revenue Service will be notified. The President's comments are in Appendix E.

USSAH Governor's Comments

The Governor of USSAH concurred with Recommendations C.1. and C.3. and stated that the appropriate deductions from gross pay will be made and that identified deficiencies will be referred to legal authorities to determine individual liabilities for retroactive collection and procedures for corrective actions. The Governor stated that Recommendation C.2. was no longer applicable. The Governor's comments are in Appendix F.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

We do not consider the Governor's comments to be fully responsive. The Governor did not identify what legal authorities the deficiencies would be referred to and did not indicate concurrence with our recommendation to notify the Internal Revenue Service, the Social Security Administration, and the District of Columbia. This action is necessary for the reasons discussed in Part II of the report.

D. USSAH Quarterly External Audits

FINDING

Quarterly audits of USSAH's cash-basis financial statements that were conducted by a local certified public accounting (CPA) firm were, in our opinion, of little value to USSAH officials. The quarterly audit reports, along with the cash-basis statements, were provided to the Board of Commissioners at an annual cost of \$17,000. Because the scope of the quarterly audits was limited and provided little assurance of financial well-being, the funds could have been better spent to obtain audits that would assess financial and management operations and related internal controls.

DISCUSSION OF DETAILS

Background. U.S.C., title 24, sec. 41 requires that the Board of Commissioners examine the Treasurer's accounts quarterly. USSAH met this requirement by hiring the CPA firm of Ricketts, Ricketts, Nelson, and Mudd to perform quarterly audits of its cash-basis financial statements. The CPA's audit reports were provided to the Board of Commissioners, and not to anyone outside of USSAH.

The quarterly CPA audits provided opinions on the fairness of the quarterly cash-basis statements. The CPA firm examined all cash accounts, performed a limited review of internal controls over cash operations, and tested cash transactions. The quarterly audit report for the period ended September 30, 1989, and all reports for recent years have stated the same conclusion:

The accompanying financial statements recognize revenue when received, and expenses when paid. Accordingly, the financial statements are not intended to present the financial position of the Home in conformance with generally accepted accounting principles.

In our opinion, the accompanying statements present fairly the cash and fund balances arising from cash transactions, of the Secretary-Treasurer, United States Soldier's and Airmen's Home at September 30, 1989 and the cash receipts, and cash disbursements for the three months then ended, on the basis of accounting described above.

The CPA reports showed that financial statements did not present USSAH's financial position, did not conform to generally accepted accounting principles, and presented the cash position fairly with no material discrepancies.

Army IG Report. An Army Inspector General (IG) report on USSAH for FY 1989 concluded that the quarterly reports were of limited value, because the audit work did not assess internal controls over USSAH resources or operations. The report recommended that USSAH obtain from the Air Force Audit Agency, at no cost to USSAH, audit coverage of management controls and operations.

Our Assessment. In our opinion, the quarterly CPA audits met the requirements of U.S.C., title 24, sec. 41. However, the quarterly audits served a very limited purpose: attesting to the fairness of the cash-basis statements. The audits did not provide any assurance of the financial well-being of USSAH, nor did they assess the adequacy of internal controls to prevent fraud, waste, and mismanagement. Consequently, we believe that U.S.C., title 24, sec. 41 should be repealed, and that the quarterly audits should be replaced with periodic audits of financial and management operations and related internal controls.

We disagree with the Army IG's recommendation that audits should be obtained at no cost from the Air Force Audit Agency. In our opinion, Air Force appropriations should not be used to audit USSAH. An Air Force review, resulting from the Army IG recommendation, concluded that the Air Force audit agency was unable to accept this tasking, whether or not reimbursable. The Air Force recommended an annual audit from a commercial source, and three internal audits when USSAH staff can be increased.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Board of Commissioners, U.S. Soldiers' and Airmen's Home:

1. Request legislation to repeal the requirement of United States Code, title 24, sec. 41 that the Board examine and audit the Treasurer's accounts each quarter.

2. Upon repeal of United States Code, title 24, sec. 41, terminate the quarterly audits and require the Governor of the U.S. Soldiers' and Airmen's Home to obtain periodic external audits of financial and management operations and related internal controls.

MANAGEMENT COMMENTS

USSAH Board of Commissioners President's Comments

The President, Board of Commissioners, concurred with Recommendations D.1. and D.2. and stated that legislation was currently pending before Congress and that when U.S.C., title 24,

sec. 41 is repealed, external audits will be obtained from a certified public accounting firm. The President's comments are in Appendix E.

USSAH Governor's Comments

The Governor of USSAH concurred and stated that, depending on the outcome of pending legislation, USSAH will competitively obtain an outside source for annual audits. The Governor's comments are in Appendix F.

E. Naval Home Accounting for New Construction

FINDING

The Naval Home did not identify and record the cost of new construction for projects where construction was combined with repairs and alterations. Accounting procedures were not established to separate the costs of repair and alteration from new construction. Consequently, controls over appropriation sources could be circumvented, and a violation of congressional intent could occur.

DISCUSSION OF DETAILS

Background. Government accounting principles require that new construction be capitalized, rather than expensed, and that the cost of the construction be recorded in the asset accounts. The Navy Comptroller Manual requires that when construction and repair are undertaken simultaneously, the construction should be treated as a separate project. The Navy Comptroller Manual, Volume 3, Section 7082, also provides that if the nature of the work prevents separation of costs and the estimated costs exceed \$100,000, the entire project should be funded with construction funds. In addition, U.S.C., title 10, sec. 2805 requires congressional approval for construction projects exceeding \$500,000.

Procedures Not Established. The Naval Home had not established procedures to separate the costs of repair and alteration from new construction. The Naval Home had spent \$325,000 from the operations and maintenance appropriation for a project that included new construction costing \$180,000. We found no instances where the \$500,000 congressional threshold was exceeded, but internal controls did not exist to prevent such a violation.

RECOMMENDATION FOR CORRECTIVE ACTION

We recommend that the Governor of the Naval Home establish accounting procedures to identify and record the costs of new construction included in repair projects.

MANAGEMENT COMMENTS

The Assistant Secretary of the Navy (Financial Management) concurred and stated that effective August 8, 1990, the Naval Home's procedure was amended to include the cost of repair and construction as separate items and to show the authorization for funds assigned to those specific categories. Navy comments are in Appendix G.

F. Naval Home Dining Hall Receipts

FINDING

Cash receipts of the Naval Home dining hall were commingled with personal funds of residents deposited in the Custodial Fund, and receipts from the sale of meals were not used to reimburse the operation and maintenance appropriation in a timely manner. The receipts were commingled with personal accounts because the Naval Home did not have an accounting and finance office on the premises. Reimbursements were not timely because of the relatively small amounts involved and the lack of management oversight. Consequently, about \$10,000 of dining hall receipts had accumulated in the residents' Custodial Fund over a 2-year period.

DISCUSSION OF DETAILS

Background. Employees of the Naval Home and guests of residents may obtain meals in the dining hall, which provides meals to residents. Employees and guests pay in cash a prescribed amount for each meal consumed. Naval Home accounting personnel make daily deposits of cash receipts to the Custodial Fund. The Custodial Fund is a banking service established as a convenience for residents. Residents may deposit any amount in the Custodial Fund and make withdrawals at any time. The Naval Home maintains individual accounts for each depositor, and invests the Custodial Fund in demand deposits and certificates of deposit in local commercial and savings banks that are Federally insured. Interest on investments of the Custodial Fund is deposited to the Residents Fund, which is used for morale, welfare, and recreation purposes for all residents.

Generally accepted accounting principles prohibit the commingling of funds. Cash receipts from any activity within DoD may be deposited with any DoD accounting and finance office for reimbursement to the appropriate account. The Navy Comptroller Manual, Volume 4, Section 2410, requires that the operation and maintenance account be reimbursed with cash receipts from operations, and that when the amounts are less than \$1,000, deposits need not be made more than once a week.

Naval Home Practice. The Naval Home made daily deposits of cash receipts to the Custodial Fund because there was no Naval accounting and finance office on the premises. Officials considered the use of the Custodial Fund as a temporary repository for the receipts to be the most practical alternative, although an accounting and finance office was located a few miles away at Keesler Air Force Base, Mississippi. The Naval Home kept accurate records of the receipts, and no problems resulted. However, accounting and internal control principles prohibit the commingling of funds from different sources.

The Naval Home did not reimburse the operation and maintenance account in a timely manner. Deposits for 2 years, totaling about \$10,000, had accumulated at the time of our audit. Naval Home officials did not periodically transfer the funds from the Custodial Fund to the operations and maintenance account, and because of the small amounts of the daily receipts, the accumulation went unnoticed.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Governor, Naval Home:

1. Establish procedures to transport cash receipts from the dining hall to a nearby DoD accounting and finance office for reimbursement to the operation and maintenance account. Procedures and frequency of such deposits should be in accordance with the amounts and periods specified in the Navy Comptroller Manual.

2. Establish internal controls to prevent commingling of monies from separate funds or accounts.

MANAGEMENT COMMENTS

The Navy concurred with Recommendation F.1. and stated that on August 8, 1990, the Naval Home implemented procedures to deposit dining hall receipts with the disbursing officer at the Personnel Support Detachment, Naval Construction Battalion Center, Gulfport, Mississippi. These procedures require the deposits to be made weekly or as often as the receipts exceed \$1,000. The Navy also concurred with Recommendation F.2. and stated that, effective August 8, 1990, internal controls would be maintained by requiring the Budget Officer to inspect deposit slips in addition to the existing monthly review of dining hall receipts. The Navy's comments are in Appendix G.

G. Naval Home Financial Services for Incapacitated Members

FINDING

The Naval Home did not have adequate internal controls over financial services it provided to incapacitated residents. Naval Home officials had not recognized the need for controls over the actions of an official who performed financial transactions on behalf of incapacitated residents. As a result, the potential for fraud was unchecked.

DISCUSSION OF DETAILS

Background. Residents who are incapacitated because of physical or mental conditions need to conduct transactions such as paying bills and obtaining small amounts of cash for incidentals. A Naval Home official with the title of Resident Advocate had access to the residents' personal accounts in the Custodial Fund. The Resident Advocate withdrew funds from personal accounts, made payments on behalf of residents, and dispensed cash to residents, as appropriate.

Missing Controls. Controls were not adequate to ensure that the Resident Advocate did not misuse personal funds. Our audit disclosed that no improprieties had occurred, and that all transactions were in the residents' best interests. However, continued lack of effective controls could result in financial losses to residents.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Governor of the Naval Home:

1. Establish procedures to require approval by an official other than the Resident Advocate for transactions that exceed a fixed amount. The amount should be determined by the Governor.
2. Arrange for periodic audits of financial transactions made by the Resident Advocate. The audits should be performed at least annually, but could be more frequent if resources permit.

MANAGEMENT COMMENTS

The Navy concurred with Recommendation G.1. and stated that all transactions after August 8, 1990, that exceed \$100 must be authorized by the Resident Affairs Officer or the Executive Officer of the Naval Home. The Navy also concurred with Recommendation G.2. and stated that beginning September 1, 1990, internal reviews of transactions for incapacitated members will be made monthly and external reviews will be made annually. The Navy's comments are in Appendix G.

H. Naval Home Utilization and Management of Nonappropriated Funds

FINDING

Naval Home residents were not sufficiently involved in determining the uses of the Residents Fund and the Morale, Welfare, and Recreation (MWR) Fund. Members did not receive financial statements showing earnings and expenditures of the two funds. A residents' Advisory Board had been established for the MWR Fund, but it was not active. Residents had no participatory role in the Residents Fund. Consequently, the Residents and MWR Funds may not always have been used in the residents' best interests. In one instance, the Residents Fund was used for gifts costing \$677 and party expenses of \$365 for a departing official.

DISCUSSION OF DETAILS

Background. The Residents Fund is derived from interest on investments from the Custodial Fund. The Custodial Fund consists of deposits of residents' personal funds. Interest on the deposits is transferred to the Residents Fund and is used for morale, welfare, and recreation expenditures for all residents. At the time of our review, the Residents Fund had accumulated approximately \$1 million. The MWR Fund is a nonappropriated fund derived from revenues from snack bar, lounge, vending, and bingo operations. The Naval Military Personnel Command also gives the MWR Fund a grant that is derived from Naval Exchange profits. The MWR Fund pays the expenses of MWR activities and supports hobby shops and other recreational activities at the Naval Home.

Gift Expenditures. In October 1988, the Residents Fund was used for gifts costing \$677 and party expenses of \$365 for a retiring Naval Home official. In April 1989, the Naval Home issued an internal regulation that allowed gifts costing \$50 to be presented to retiring employees. Although the regulation implied that gifts were to be limited to \$50, a specific limit was not set.

Resident Representation. We questioned the propriety of using the Residents Fund for expensive gifts to employees. We also questioned the lack of resident representation in determining specific uses of both the Residents Fund and the MWR Fund. The Naval Home had established a Residents Council to give residents a means of communicating their needs, ideas, and wishes to the Governor. However, the Residents Council had no knowledge of or responsibilities for financial transactions using funds derived from residents' personal savings. The Naval Home had also established an Advisory Board for the MWR Fund. The Advisory Board was to approve expenditures for property and equipment that exceeded \$1,000 per item or \$5,000 per order. Our

review disclosed that no transactions exceeding these amounts occurred and that the Advisory Board was not meeting on a quarterly basis as required by Naval Home regulations. In our opinion, residents should be informed when the Naval Home receives income from their deposits and should be told how this income is used.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Governor of the Naval Home:

1. Publish guidance setting a \$50 limit on gifts to nonresidents when these gifts are paid for by the Residents Fund.
2. Establish procedures to provide for resident representation in decisions pertaining to expenditures and operations of the Residents Fund and the Morale, Welfare, and Recreation Fund.
3. Periodically inform residents of the income from the Residents Fund and the Morale, Welfare, and Recreation Fund and how this income is used.

MANAGEMENT COMMENTS

The Navy concurred with Recommendation H.1. and stated that the Naval Home issued a policy on June 1, 1990, limiting gifts to departing personnel to \$25. The Navy concurred with Recommendation H.2. and stated that the operation of the Residents Council will be changed to require recommended short- and long-range spending suggestions to be submitted to the Governor by the Residents Council. The Governor will provide a financial summary to the residents at each Captain's Call and at each meeting of the Residents Council. The Navy also concurred with Recommendation H.3. Effective August 8, 1990, the Governor of the Naval Home will provide the Residents Council and the residents with a monthly report of expenditures from the Residents Fund. The Navy's comments are in Appendix G.

TRUST FUND INCOME

1. Income for the USSAH permanent fund, a trust fund held and disbursed by the Treasurer of the United States on behalf of the Home, is derived exclusively from the following sources as prescribed by law:

a. A deduction, currently 50 cents, from the monthly pay of each enlisted member and warrant officer of the Regular Army and Regular Air Force on active duty.

b. Fines and forfeitures imposed upon these personnel by sentence of courts-martial and imposition of nonjudicial punishment under Article 15 of the Uniform Code of Military Justice.

c. Interest on the trust fund balance in the U. S. Treasury.

d. The monthly User Fee required by law of each member, as a percent of gross income received from the Army, Air Force, Veterans Administration, or certain Civil Service annuities. The User Fee rate is 25 percent of such income, the statutory limit.

e. Estates, bequests, and other receipts accruing to the trust fund.

2. Income for the USSAH Permanent Fund for FY 89:

Source	U. S. Army	U. S. Air Force	Total	
Fines and Forfeitures	15,518,488	4,144,587	19,663,075	(40%)
Interest on Fund			17,295,407	(35%)
Withheld Pay	4,157,652	2,839,987	6,997,639	(14%)
User Fee			4,646,712	(9%)
Estates and Receipts			<u>201,222</u>	(1%)
Totals	19,676,140	6,984,574	48,804,055	
Less Adjustment - Prior Years Interest (4,982,644)			43,821,391	

NOTE: Reproduced from USSAH Annual Report, FY 1989

U.S. SOLDIERS' AND AIRMEN'S HOME

STATEMENT OF FINANCIAL CONDITION
30 September 1989 (\$000)

ASSETS	AMOUNTS
Unexpended Funds appropriated by Congress:	
Operations and Maintenance	\$ 4,333
Capital Outlay	55,740
Total available assets	60,073
Unappropriated balance	154,749
Total Assets	214,822
LIABILITIES	
Accounts Payable	60,073
Total Liabilities	60,073
HOME EQUITY	154,749
Total Liabilities and Home Equity	\$214,822

NOTE: This financial statement is confined to showing only those assets and liabilities of the Home related to cash operations.

Reproduced from USSAH Annual Report, FY 1989

**STATEMENT OF SOURCES
AND APPLICATION OF FUNDS
Fiscal Year 1989 (\$000)**

SOURCES	AMOUNTS
Fines and Forfeitures	\$19,663
Interest	17,295
Withheld pay	6,998
User fee	4,647
Other	201
Interest - Prior Years Adjustment	<4,983>
Total Income	\$43,821
APPLICATIONS	
Outlays:	
M Accounts	\$ 7
FY 87 Operations & Maintenance	9
FY 88 Operations & Maintenance	3,495
FY 89 Operations & Maintenance	33,487
Capital Outlay	2,178
Total Outlays	\$39,176
NET DIFFERENCE	\$ 4,645

NOTE: Reproduced from USSAH Annual Report, FY 1989

U.S. SOLDIERS' AND AIRMEN'S HOME
COMPARISON OF RENTAL RATES TO APPRAISED VALUES

<u>Quarters Number</u>	<u>Rental Rate Per Month</u>	<u>Appraised Rate* Per Month</u>	<u>Monthly Difference</u>	<u>Annual Difference</u>
1	\$ 447	\$ 878	\$ 431	\$ 5,172
2	390	810	420	5,040
3	354	810	456	5,472
4	314	675	361	4,332
5	354	675	321	3,852
6	354	810	456	5,472
9	202	315	113	1,356
21	202	420	218	2,616
41	255	383	128	1,536
45	284	510	226	2,712
47	255	510	255	3,060
62	202	315	113	1,356
63	202	420	218	2,616
89	202	315	113	1,356
90	202	420	218	2,616
King-1	202	311	109	1,308
King-2	202	311	109	1,308
King-3	202	311	109	1,308
King-4	202	311	109	1,308
Totals	<u>\$5,027</u>	<u>\$9,510</u>	<u>\$4,483</u>	<u>\$53,796</u>

*Source: U.S. Army Corps of Engineers appraisal, August 9, 1990.



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON DC 20330-5060

30 August 1990

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of Financial Management of
Armed Forces Retirement Homes (Project No. OFH-5006)

Attached are our comments for inclusion in subject report.
Please contact Lt Col David Van Winkle at 695-4212 if further
assistance is required regarding this report.


THOMAS J. HICKEY
Lieutenant General, USAF
President, Board of Commissioners
U.S. Soldiers' and Airmens' Home

1 Atch
Comments

COMMENTS FROM PRESIDENT, BOARD OF COMMISSIONERS
U.S. SOLDIERS' AND AIRMEN'S HOME

a. **FINDING:** Accounting System--did not account for financial transactions on an accrual basis, did not implement US Government Standard General Ledger Chart of Accounts, and did not meet the requirements for accounting systems in Federal agencies.

RECOMMENDATIONS: Request appropriation from Congress for funds needed to implement an accrual-basis accounting system (computer system); prepare annual financial statements IAW GAO manual.

RESPONSE: Concur in all recommendations. The recommendations are dependent on Congressional funding, however, and report findings and recommendations may help in getting the financial support.

b. **FINDING:** Additional Compensation--rental rates charged for government quarters were well below market value with no-cost maintenance. Resulting in housing subsidies being provided to employees occupying USSAH housing.

RECOMMENDATIONS: Set rental rates based on appraisal of their market value and require USSAH to charge occupants for utilities and services provided.

RESPONSE: Concur. A housing survey was completed and proposed rates agreed upon. Utilities will be included...

c. **FINDING:** Income Tax Deficiencies--underreported gross income for Federal and District of Columbia income taxes and underwithheld income tax, Social Security and Medicare for 12 employees.

RECOMMENDATIONS: Immediately correct the payroll system to include all wages with reporting income and withholding income tax, Social Security, and Medicare for employees who are not required to live in quarters at the USSAH; establish procedures to assess and report to IRS the value of rent subsidies, utilities and any housing services; report the payroll deficiencies to the IRS, DC and the Social Security Administration.

RESPONSE: Concur. A directive is being prepared to specify who is required to live on the grounds. All others will have tax determined on gross income. Where appropriate, IRS will be notified.

d. **FINDING:** Quarterly audits of USSAH's cash-basis financial statements were conducted by a local CPA firm were of little value to USSAH officials.

RECOMMENDATIONS: Repeal legislation requiring that the Board examine and audit the Treasurer's accounts each quarter; require periodic external audits of financial and management operations and related internal controls.

RESPONSE: Concur. Dependent on outcome of pending legislation, we expect to go competitively to an outside source for annual audit.

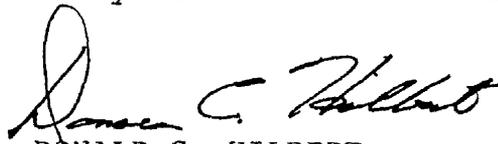
OFFICE OF THE GOVERNOR
UNITED STATES SOLDIERS' & AIRMEN'S HOME
WASHINGTON, D.C. 20317

7 September 1990

MEMORANDUM FOR INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of Financial Management of
Armed Forces Retirement Homes (Project No. OFH-5006)

1. Comments, findings and recommendations concerning the United States Soldiers' and Airmen's Home's position of the Draft Report on the audit of financial management of Armed Forces Retirement Homes are provided as requested.
2. Several recommendations are dependent on enactment of legislation and favorable budget consideration. Dates of completion are beyond the capability of the Home to determine.



DONALD C. HILBERT
Major General, USA, Retired
Governor

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as stated

A. USSAH Accounting Systems

The Home has long been aware of the inadequacy of the present accounting systems and it has been documented in previous Department of Army annual inspection reports, by the Surveys and Investigations Staff, House Appropriations Committee, during assistance visits by the Air Force Audit Agency and the Air Force Comptroller. Requests for funds to establish a new accounting system were contained in annual budget requests, but to date have not been approved.

1. Recommendation: Request an appropriation from Congress for funds needed to implement an accrual-basis accounting system. Concur. A request for funds is in the FY 92 budget.
2. Recommendation: Organize and implement an accrual-basis accounting system that complies with GAO's Policies and Procedures Manual and OMB's Circular A-127. Concur. Upon approval of funds, an appropriate system will be identified and procured.
3. Recommendation: Prepare annual financial statements in accordance with GAO standards after implementation of the accounting system. Concur. Revised financial statements will be prepared once the new accounting system is available.
4. Recommendation: Discontinue preparing financial statements for the annual report since they do not meet Government standards. Concur. The "Statement of Financial Condition" will be omitted from annual reports.

B. USSAH Additional Compensation

1. The audit report correctly identifies that according to the Air Force interpretation of the existing law, the Home is not subject to the laws requiring civilian employees who occupy Government quarters to be charged market value for quarters and any services provided. Quarters rates were established based on a 1978 survey and other factors, and certain services were authorized on a non-reimbursable basis, by the Board of Commissioners. However, the Home recognizes that rates have not been reviewed, though they have been increased to recognize COLA increases. An appraisal was conducted. Results differ substantially from the preliminary appraisal referenced in the report. Rental rates range from \$90 to \$878, not the \$375 to \$1755 cited in the report.

2. The Home cannot refute the costs estimated in the report for utilities or custodial services as they are estimates and subject to the assumptions of the auditors. Utilities are not metered. Use of square footage does not take into consideration entire floors of the home which are not used by the occupants. Custodial service was provided to insure upkeep of the quarters, beyond the capability of the occupants and not merely as a personal service. The annual cost for lawn maintenance for the eight sets of quarters receiving lawn maintenance was computed IAW AR 210-50, AR 210-13 and Grounds Maintenance Estimating Guidelines, 1990 and was determined to be approximately \$1760 rather than the \$10,000 cited in the report.

3. Recommendations

a. Set rental rates for residential quarters based on appraisals of their market value compared to rental rates for similar housing in Washington, D.C. Concur. Rental rates for residential quarters based on the appraisal conducted, will be forwarded to the Board of Commissioners for approval. Effective date for new rates will be 1 November 1990.

b. Require the U.S. Soldiers' and Airmen's Home to charge occupants of quarters for all utilities and any services provided. Concur in part. Utility costs for residential quarters, based on consumption factors provided in the appraisal will be determined and charged to occupants. Lawn maintenance costs will be charged to occupants. A determination will be made as to personal services provided to occupants. Completion 1 November 1990.

C. USSAH Income Tax Deficiencies

Residential quarters available on the grounds have been made available to employees dependent on position to which assigned, critical artisan skills, or services essential to the Home. Appropriate documentation was not prepared to insure conditions were met for residents as outlined in the audit report. Consequently, all residents erroneously were treated the same. However, not all residents are provided lawn service.

1. Recommendation: Immediately correct the payroll system to include all wages when reporting income and withholding income tax, Social Security, and Medicare for employees who are not required to live in quarters at the U.S. Soldiers' and Airmen's Home. Concur. A directive is being prepared to outline requirements for residence on the grounds and positions to be authorized. Persons living on the grounds not covered by the directive will have deductions determined on gross pay. Completion 1 November 1990.
2. Recommendation: No longer applicable.
3. Recommendation: Report the payment deficiencies to the Internal Revenue Service, the District of Columbia, and the Social Security Administration and obtain their assistance in determining whether retroactive corrections are necessary. Concur. Identified deficiencies will be referred to appropriate legal authorities to determine individual liabilities for retroactive collection and procedures for proper corrective actions. Completion 31 December 1990.

D. USSAH Quarterly External Audits

Quarterly audits were conducted to comply with the provisions of U.S.C., title 24, sec. 41. Until legislation is enacted to repeal provisions of sec. 41, the Home is obligated to comply.

1. Recommendation: Request legislation to repeal the requirement of United States Code, title 24, sec. 41 that the Board examine and audit the Treasurer's accounts each quarter. Concur; however, legislation currently pending before Congress is expected to repeal this provision.

2. Recommendation: Upon repeal of United States Code, title 24, sec. 41, terminate the quarterly audits and require the Governor of the U.S. Soldiers' and Airmen's Home to obtain periodic external audits of financial and management operations and related internal controls. Concur. Upon repeal of existing legislation, appropriate periodic, external audit service will be obtained from a certified public accounting firm.



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT)
WASHINGTON, DC 20350-1100

SEP 10 1990

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL
FOR AUDITING

Subj: DRAFT REPORT ON THE AUDIT OF FINANCIAL MANAGEMENT OF ARMED FORCES
RETIREMENT HOMES (PROJECT NO. OFH-5006)

Ref: (a) DODIG Memorandum of 31 July 1990

Encl: (1) Department of the Navy comments

In response to your memorandum, reference (a), we have reviewed the subject report and concur in general with the findings and recommendations.

Corrective actions and revised management controls are now either in place or are being implemented. Detailed Department of the Navy comments are provided in enclosure (1).

Robert C. McCormack
ROBERT C. McCORMACK

Copy to:
NAVINGEN
NAVCOMPT(NCB-53)



Department of the Navy Comments
on
OAIG(A) Draft Report of July 31, 1990
on
Audit of Financial Management of
Armed Forces Retirement Homes
Project No. OFH-5006

FINDING E: USNH Accounting for New Construction. The U.S. Naval Home did not identify and record the cost of new construction for projects where construction was combined with repairs and alterations.

Recommendation E.1: We recommend that the Governor of the U.S. Naval Home establish procedures to identify and record the costs of the new construction included in repair projects.

Department of the Navy Position: Concur. The Naval Home is provided with the specific costs of construction and repairs. Effective 8 August 1990, the Naval Home procedure for a request for funds authorization has been amended to include the cost of repair and construction as separate items and has been amended to show the authorization for funds as assigned to those specific categories. The impression that information was not provided is incorrect. Recommend that the word "accounting" precede the word "procedures" where used in this finding.

FINDING F: USNH Dining Hall Receipts. Cash receipts of the USNH dining hall were commingled with personal funds of USNH residents deposited in the Custodial Fund, and receipts from the sale of meals were not used to reimburse the operation and maintenance appropriation in a timely manner. The receipts were commingled with personal accounts because the USNH did not have an accounting and finance office on the premise.

Recommendation F.1: Establish procedures to transport cash receipts from the dining hall to a nearby DOD accounting and finance office for reimbursement to the operation and maintenance account.

Department of the Navy Position: Concur. Effective 8 August 1990, the Naval Home has implemented procedures to deposit dining hall receipts with the Disbursing Officer at the Personnel Support Detachment, Naval Construction Battalion Center, Gulfport, MS. The deposit is to be made once weekly or as often as the receipts exceed \$1,000.00.

Recommendation F.2: Establish internal controls to prevent commingling of monies from separate funds or accounts.

Department of the Navy Position. Concur. Effective 8 August 1990, the internal control will be maintained by a requirement for inspection of the deposit forms by the Budget Officer in addition to the existing monthly review of dining hall receipts.

FINDING G: USNH Financial Services for Incapacitated Members. USNH did not have adequate internal controls over financial services it provided to incapacitated residents. USNH officials had not recognized the need for controls over the actions of an official who performed financial transactions on behalf of incapacitated residents. As a result, the potential for fraud was unchecked.

Recommendation G.1: Establish procedures to require approval by an official other than the Resident Advocate for transactions that exceed a fixed amount. The amount should be determined by the Governor.

Department of the Navy Position. Concur. Effective 8 August 1990, all purchases/financial transactions exceeding \$100.00 must be authorized by the Resident Affairs Officer or the Executive Officer of the Naval Home.

Recommendation G.2: Provide written authority to the Resident Advocate, clearly defining the duties to be performed on behalf of incapacitated residents.

Department of the Navy Position. Concur. Written authority signed by the Governor, Naval Home dated June 1988, has been provided to the Resident Advocate clearly defining the duties to be performed on behalf of incapacitated residents for the purpose of purchasing health and comfort items. The Resident Advocate position will become bonded at \$10,000 effective 1 September 1990.

Recommendation G.3: Arrange for periodic audits of financial transactions made by the Resident Advocate. The audits should be performed at least annually, but could be more frequent if resources permit.

Department of the Navy Position. Concur. Effective 1 September 1990, internal reviews of financial transactions made by the Resident Advocate will be conducted under the Naval Home Command Evaluation Program on a monthly basis with external review on an annual basis.

FINDING H: USNH Utilization and Management of Nonappropriated Funds. USNH residents were not sufficiently involved in determining the uses of the Residents Fund and the Morale, Welfare, and Recreation (MWR) Fund. Members did not receive financial statements showing earnings and expenditures of the two funds. A residents Advisory Board had been established for the MWR Fund, but it was not active. Residents had no participatory role in the Residents Fund. Consequently, the Residents and MWR

Funds may not have always been used in the resident's best interests.

Recommendation H.1: Publish guidance setting a \$50.00 limit on gifts to nonresidents when these gifts are paid for by the residents.

Department of the Navy Position. Concur. NAVALHOMEINST 1800.1 of 10 April 1989, limits gifts given to departing personnel to under \$50.00. Revision 1A to the instruction, effective 01 June 1990, reduced the ceiling on gifts to \$25.00.

Recommendation H.2: Establish procedures to provide for resident representation in decisions pertaining to expenditures and operations of the Residents fund and the Morale, Welfare, and Recreation Fund.

Department of the Navy Position: Concur. Effective 30 September 1990, NAVALHOMEINST 5420.1D governing the operation of the Residents Council will be changed to require recommended short and long range spending suggestions to be submitted to the Governor by the Resident's Council. The Governor will provide a financial summary to the residents at each Captain's Call and at each meeting of the Residents Council.

Recommendation 3: Periodically inform residents of the income from the Residents Fund and the Morale, Welfare, and Recreation Fund and how this income is used.

Department of the Navy Position: Concur. Effective 8 August 1990, a report of income and expenditures is prepared on a monthly basis for the Governor. Each month the Recreation Administrative Coordinator will provide the Governor with a detailed list of purchases through the Residents Fund. The Governor will provide the Resident Council and the residents, through Captain's Call, with a monthly report on expenditures from the Residents Fund.

**SUMMARY OF POTENTIAL MONETARY AND OTHER
BENEFITS RESULTING FROM AUDIT**

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefits</u>	
A.1.	An appropriation of funds to develop an accrual-basis accounting system could be obtained; compliance with Federal accounting policies.	Nonmonetary.	
A.2.	Better management of USSAH resources could be achieved from implementation of an accrual-basis accounting system; improved economy and efficiency.	Nonmonetary.	
A.3.	Accurate financial statements would report the financial position and results of operations of USSAH to the Board of Commissioners, Congress, and other interested parties; compliance with Federal policies.	Nonmonetary.	
A.4.	The reporting of misleading financial information would be discontinued; program results.	Nonmonetary.	
B.1.	Additional revenues to the USSAH operation and maintenance account could be used for other purposes; compliance with U.S.C., title 5, sec. 5911.	\$866,784 of funds put to better use.	
		<u>Annual</u>	<u>6-Year Total</u>
	Rents	\$ 53,796	\$322,776
	Utilities	24,960	149,760
	Lawn Maintenance	2,093	12,558
	Custodial Services	63,615	381,690
		<u>\$144,464</u>	<u>\$866,784</u>
C.1.	Corrected withholding and reporting of employees' income to the IRS, the District of Columbia, and the Social Security Administration; compliance with tax and Social Security laws.	Undeterminable; increased revenues to the IRS, the District of Columbia, and the Social Security Administration.	

**SUMMARY OF POTENTIAL MONETARY AND OTHER
BENEFITS RESULTING FROM AUDIT**
(continued)

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefits</u>
C.2.	Reporting of nonmonetary compensation to the IRS and the District of Columbia; compliance with tax laws for reporting employee compensation.	Undeterminable; increased revenues to the IRS and the District of Columbia.
C.3.	USSAH could determine whether retroactive corrections are needed, and if so, how to make them; correction of past noncompliance with tax reporting laws.	Undeterminable; increased revenues to the IRS and the District of Columbia.
D.1.	USSAH could make better use of funds spent for external audits; program results.	Nonmonetary.
D.2.	USSAH could obtain assessment of operations and related internal controls; program results.	Nonmonetary.
E.	Naval Home would be in compliance with Navy policies for construction accounting.	Nonmonetary.
F.1.	Naval Home could reimburse the operations and maintenance account in a timely manner; program results.	Undeterminable.
F.2.	Improvement of internal controls over funds managed.	Nonmonetary.
G.1.	Needed internal control for safeguarding residents' personal funds.	Nonmonetary.
G.2.	Needed internal control for safeguarding residents' personal funds.	Nonmonetary.
H.1.	Needed internal control for the Residents Fund.	Nonmonetary.
H.2.	Needed internal control for the Residents Fund.	Nonmonetary.
H.3.	Residents would be informed of financial matters in which they have a personal interest; program results.	Nonmonetary.

ACTIVITIES VISITED OR CONTACTED

Department of the Navy

Naval Home, Gulfport, MS
Naval Regional Finance Center, Great Lakes, IL
Naval Hospital, Pensacola, FL

Other Federal Agencies

U.S. Soldiers' and Airmen's Home, Washington, DC
Office of Management and Budget, Washington, DC

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Congressional Committees:

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Senate Committee on Armed Services
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