

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

PENTAGON RESERVATION MAINTENANCE
REVOLVING FUND FINANCIAL STATEMENTS
FOR FY 1993

Report No. 94-156

June 30, 1994

Department of Defense

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Acronyms

GSA	General Services Administration
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget
WHS	Washington Headquarters Services



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

June 30, 1994

MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER OF
THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Pentagon Reservation Maintenance Revolving Fund
Financial Statements for FY 1993 (Report No. 94-156)

We are providing this report for your information and use and for use by the Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," requires the Inspector General, Department of Defense, to express an opinion on the financial statements and report on the adequacy of internal controls and compliance with laws and regulations. We issued a draft report of Part II, "Internal Controls," and Part III, "Compliance With Laws and Regulations," on April 29, 1994.

In Part I, we express an adverse opinion because the financial statements do not present fairly the financial position, results of operations, cash flows, or budget and actual expenses of the Pentagon Reservation Maintenance Revolving Fund. Washington Headquarters Services had omitted or misstated financial transactions that materially affected the financial statements. Specifically, the accrual basis of accounting was inconsistently applied; accordingly, account balances were materially misstated. We estimated expenses were materially overstated by \$13.5 million, revenues and financing sources by about \$.9 million, and the shortage of revenues and financing sources over funded expenses by \$12.6 million. Details of the weaknesses are discussed in Part I, "Independent Auditor's Opinion on the Financial Statements," Part II, "Internal Controls," and Part III, "Compliance With Laws and Regulations," of the report.

This report contains no recommendations that are subject to resolution in accordance with DoD Directive 7650.3; accordingly, comments are not required.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. F. Jay Lane, Program Director, at (703)604-9139 (DSN 664-9139) or Mr. Dennis L. Conway, Project Manager, at (703)604-9158 (DSN 664-9158). The distribution of this report is listed in Appendix D. A list of audit team members is inside the back cover.

A handwritten signature in cursive script, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, Department of Defense

Report No. 94-156
(Project No. 3FG-2010)

June 30, 1994

PENTAGON RESERVATION MAINTENANCE REVOLVING FUND
FINANCIAL STATEMENTS FOR FY 1993

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officer's Act of 1990 requires an annual audit of financial statements such as the Pentagon Reservation Maintenance Revolving Fund (the Fund). The Fund was established as a revolving fund in 1990 by Public Law 101-510, "Defense Authorization Act of 1991," which transferred responsibility for the operation, maintenance, protection, repair, and alteration of the Pentagon Reservation from the General Services Administration to the Office of the Secretary of Defense. Revolving funds are accounts authorized by specific provisions of law to finance a continuing cycle of operations and to fund receipts that are normally available for obligation and expenditure without further action by the Congress. Washington Headquarters Services, the operating agency and fund manager, reported assets of \$167.3 million, liabilities of \$11.6 million, and a net position of \$155.7 million, as of September 30, 1993.

Objectives. The objectives of the audit were to determine whether the Fund's FY 1993 financial statements were presented fairly in accordance with Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, and DoD accounting policy guidance. We evaluated the internal control structure established for the Fund and assessed compliance with laws and regulations that could have a material effect on the financial statements. Also, we followed up on the conditions noted in our previous audit of the Fund's financial statements and identified improvements to the financial statement process that could provide beneficial data to program managers and other users of financial statements.

Scope and Methodology. We examined the financial statements of the Pentagon Reservation Maintenance Revolving Fund as of and for the year ended September 30, 1993. The financial statements included the Statement of Financial Position, Statement of Operations (and Changes in Net Position), Statement of Cash Flows, and Statement of Budget and Actual Expenses, Footnotes, and Overview. The statements upon which our examination was based were provided to us on January 19, 1994. The statements are reproduced in Part V of this report.

Our evaluation of the reliability of computer-processed information used in the financial statements was limited to comparing amounts to source documents. Costs of work in process were not accumulated and disclosed in the financial statements; therefore, we were unable to test and express an opinion on the fairness of their value. Also, we have not received a legal representation letter requested from the General Counsel, Washington Headquarters Services, or a management representation letter requested from the Defense Finance and Accounting Service. We received a management representation letter from the Washington Headquarters Services on January 28, 1994; however, the letter did not include representations considered material to the fair presentation of the financial statements. Part I discusses the limitations on the scope of our review in greater detail.

Independent Auditor's Opinion. We are expressing an adverse opinion on the financial statements. The statements do not present fairly the Fund's financial position, results of operations, cash flows, or budget and actual expenses in accordance with Office of Management and Budget Bulletin No. 94-01 and DoD guidance. The material omissions and misstatements made in the Pentagon Reservation Maintenance Revolving Fund's financial statements adversely affected the account balances. Specifically, managers had not ensured that the accrual basis of accounting was consistently applied. Also, information was not disclosed that would be useful in the decisionmaking process of a reasonably informed user.

Internal Controls. We noted material weaknesses in the system of controls over implementing the accrual method of accounting. Management's controls did not ensure that financial transactions were recorded as they occurred, or, if necessary, adjusted upon receipt of more accurate information. We evaluated the Fund's internal control structure including implementation of the DoD Internal Management Control Program. None of the material weaknesses identified in this audit were noted in management's Annual Statement of Assurance. Part II contains our findings on internal controls.

Compliance With Laws and Regulations. We found instances of noncompliance with laws and regulations that materially affected the reliability of the Fund's Principal Statements. We concluded that Washington Headquarters Services had delays in receiving information due to timing differences in the current financial process. Washington Headquarters Services had not complied with provisions of DoD and Office of Management and Budget guidance. Part III discusses the instances of noncompliance with laws and regulations, and Appendix B of Part IV lists laws and regulations reviewed.

Followup on Prior Audit Issues. Internal control weaknesses identified in our audit of the FY 1992 financial statements involved the absence of reconciliations on the Fund Balances with Treasury account and the inability to match cash collection and disbursement transactions in the general ledger and disbursing office data bases. Followup on these issues showed that management had taken commendable action to reconcile the Fund Balances with Treasury account and had adequate controls to verify the accuracy of collection and disbursement transactions. A detailed discussion on those issues is in Part II.

Also, during FY 1992 managers had not complied with laws and regulations. Specifically, cash receipts were not promptly deposited; transferred values of capital assets, accumulated depreciation, and depreciation expense were incorrectly recorded; construction costs were improperly expensed; and annual leave was not accrued or recorded on financial statements. During the followup, we found that procedures for depositing cash receipts were improved, but, were not completely corrected. Also, we found values of capital assets were transferred; accumulated depreciation and depreciation expense were recorded; construction costs were expensed; and annual leave was accrued and recorded. Those conditions are discussed in Part III of this report.

Management Comments. We provided a draft report of Parts II and III to management on April 29, 1994. Management's comments were received on May 16, 1994. Management disagreed with many of the issues in the draft report and either was silent or provided additional information regarding other issues. Management believed that the financial statements did not adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance. Management's comments are reproduced in Part VI of this report.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

**Part I - Independent Auditor's Opinion
on the Financial Statements**

Adverse Opinion

Material omissions and misstatements in the Fund's financial statements affected the account balances and the statements. Further, the accrual method of accounting was not consistently applied. Because of departures from DoD accounting policy guidance, we estimated that program or operation expenses were overstated by \$13.5 million on the Statement of Operations (and Changes in Net Position), revenues and financing sources by \$0.9 million on the Statement of Operations (and Changes in Net Position), and the shortage of revenues and financing sources over funded expenses by \$12.6 million on the Statement of Cash Flows for the year ended September 30, 1993. Further, the effects of those misstatements resulted in overstatements of both the Revolving Fund Balance and the Fund Balances with Treasury line items by \$12.6 million in the Statement of Financial Position.

Washington Headquarters Services (WHS), as managers of the Pentagon Reservation Maintenance Revolving Fund, had not ensured that an estimated \$0.9 million of net revenues were recognized in the year earned. Additionally, revenues charged as administrative fees by the Fund were recorded as earned immediately upon receipt of a request for work. The DoD 7220.9-M, "DoD Accounting Manual" (DoD Accounting Manual), states that revenues shall be recognized when they become realizable with reasonable practical certainty; that is, when the receiving accounting entity acknowledges a claim against its resources or the performing accounting entity has an enforceable claim. Amounts received in advance of the performance of work, however, shall be accounted for as unearned revenue until the performance of work is accomplished. Detailed reviews of supporting documents for administrative fees were not performed; therefore, we could not determine whether the condition had a material effect on the fair presentation of the balance in the revenue account. However, in our review of transactions, we noted at least \$0.8 million in administrative fees that were recognized immediately.

The Fund managers also did not ensure that approximately \$13.5 million of net expenses were recorded when liabilities were incurred. The DoD Accounting Manual states that an expense occurs when a liability is incurred as a result of an accounting entity's efforts to perform its mission.

Also, work-in-process costs were not accumulated in the financial statements. The Footnotes in the Fund's financial statements reflected that the cost accounting module of the accounting system included work-in-process accounts to accumulate reimbursable costs of industrial fund operations. Accumulation of work-in-process costs is required by the DoD Accounting Manual, but those costs were not disclosed in the financial statements for use by decisionmakers.

In our opinion, because of the matters discussed in the preceding paragraphs, the financial statements do not present fairly, in conformity with the "other comprehensive basis of accounting" described in Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial

Statements," November 16, 1993, the financial position of the Pentagon Reservation Maintenance Revolving Fund, as of September 30, 1993, or the results of its operations, cash flows, or budget and actual expenses for the year then ended.

Background

The Pentagon Reservation Maintenance Revolving Fund was established as a revolving fund in 1990 by Public Law 101-510, "National Defense Authorization Act for Fiscal Year 1991," which transferred responsibility for the operation, maintenance, protection, repair, and alteration of the Pentagon Reservation to the Office of the Secretary of Defense.

The Pentagon Reservation includes the area of land (approximately 280 acres) and improvements on which lie the Pentagon Office Building, Federal Building Number 2, the Pentagon heating and sewage treatment plants, various areas designated for vehicle parking, and other related facilities. The Pentagon Reservation is maintained by approximately 1,220 people.

Washington Headquarters Services was designated the operating agency and manager for the Fund. As of September 30, 1993, the Fund reported assets of \$167.3 million and liabilities of \$11.6 million. The Fund is resourced through direct appropriations and reimbursements from Fund property users. For FY 1993, the revenue and financing sources for the Fund totaled \$74.1 million and an operating deficit of \$78.0 million was reported.

The Chief Financial Officers Act requires an annual audit of funds on activities such as the Pentagon Reservation Maintenance Revolving Fund. The Defense Finance and Accounting Service is responsible for preparing the Fund's financial statements. Our responsibility is to express an opinion on those statements based on our examination.

Scope and Methodology

We examined the Principal Statements and the Notes to the Principal Statements of the Pentagon Reservation Maintenance Revolving Fund as of and for the year ended September 30, 1993. The Principal Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. Also included are the Footnotes, Overview, and Supplemental Information. The statements upon which our opinion is based were officially transmitted to us on January 19, 1994. Part V of this report contains a copy of those financial statements.

Independent Auditor's Opinion on the Financial Statements

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, including the accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

Scope of the Review of Internal Controls. We updated the client profile for the Fund and assessed the internal control structure for revenue and disbursement cycles. We also reviewed the trial balance and evaluated selected line item amounts and related adjustments contained on both the Statement of Financial Position and the Statement of Operations, including associated Footnotes. The results of our evaluation were based on stratified random sampling. The sample was taken from 48,283 expense transactions (amounting to \$99.8 million) and 2,713 revenue transactions (amounting to \$74.1 million) for the fiscal year ending September 30, 1993. We sampled 282 expense transactions (amounting to \$19.9 million) and 176 revenue transactions (amounting to \$62.3 million) for supporting documentation and accuracy. Details on our sample methodology and results of the review are presented in Part IV, Appendix A.

We performed a followup review of internal control weaknesses that were identified in our audit of the FY 1992 financial statements. Those weaknesses involved reconciliation of the Fund Balances with Treasury account and the inability to match cash collection and disbursement transactions.

Scope of the Review of Compliance With Laws and Regulations. As part of our examination to obtain reasonable assurance that the Fund's financial statements were free of material misstatements, we performed tests of compliance with provisions of the laws and regulations listed in Appendix B.

We reviewed management's compliance with DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. The review included a comparison of management's most recent Annual Statement of Assurance with our evaluation of the Fund's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented to us in the Overview to the Fund's Principal Statements, as well as supplemental financial and management information. It was not our objective, however, to provide an opinion on overall compliance with such provisions.

We performed a followup review on instances of noncompliance with laws and regulations identified during our audit of the FY 1992 financial statements. That audit showed that cash receipts were not promptly deposited; transferred values of capital assets, accumulated depreciation, and depreciation expense were incorrectly recorded; construction costs were improperly expensed; and annual leave was not accrued or recorded on the financial statements.

Limitations on Scope of Review. The scope of our review was limited by several factors.

Independent Auditor's Opinion on the Financial Statements

Review of Reliability of Computer-Processed Information. We evaluated the reliability of computer-processed information used in the Fund's reports by comparing amounts of revenue and expense transactions to source documents. Based on that comparison, insofar as we could determine, computer-processed information was reliable. However, we made no other tests of general and application controls over the systems that generated the financial statements.

Representations Made by the Fund's Management. We requested, but did not receive, a management representation letter from the Director, Defense Finance and Accounting Service. Also, we requested, but did not receive, a legal representation letter from the General Counsel, WHS. We received a management representation letter from the Director of Budget and Finance dated January 28, 1994. However, the letter did not cover the period of our audit field work or include representations that we considered material in the presentation of the financial statements.

The letter also had the following erroneous or missing representations.

- o No certification was included from the Defense Finance and Accounting Service that all financial information was included in the financial statements.

- o The letter incorrectly stated that the financial statements were fairly presented in accordance with OMB Bulletin No. 93-02, "Form and Content of Agency Financial Statements," October 22, 1992, but the statements should have been in accordance with OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993.

- o No statement was included on the reliability of accounting and non-accounting systems.

- o No statement was made on irregularities involving the Fund's employees.

- o No representation was made concerning unasserted claims or assessments provided by legal representatives.

- o No representation was made that a satisfactory title to all assets existed, and that no liens or encumbrances existed on such assets, or that no assets had been pledged.

- o No attestation was made to the accuracy of the various account balances provided to the Defense Finance and Accounting Service.

- o No representation was made that all adjustments made to account balances by the Fund or the Defense Finance and Accounting Service were fully documented and made in accordance with applicable accounting standards.

Independent Auditor's Opinion on the Financial Statements

The representation letters are part of the evidential matter necessary to afford a reasonable basis for our opinion on the financial statements. The failure of management to provide the letters constitutes another scope limitation and a further basis for forming an adverse opinion on the financial statements.

Further Scope Limitations. The Fund's managers stated in the Footnotes to the financial statements that the cost accounting module of the accounting system included work-in-process accounts to accumulate reimbursable costs of industrial fund operations. Since those costs were not accumulated and disclosed in the financial statements, we were unable to test and express an opinion on the fairness of their value.

We reviewed the Footnotes, Overview, and Supplemental information in the financial statements; however, tests were not performed on either the amounts or disclosures.

Time Period and Location of Audit. This financial statement audit was made during the period June 1993 through April 1994 and we believe that our audit efforts provide a reasonable basis for our results. A complete list of the locations we visited is in Part IV, Appendix C.

Auditing Standards

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free of material misstatements. We relied on the guidelines suggested by the General Accounting Office and our professional judgement in assessing the materiality of matters impacting the fair presentation of the financial statements and related internal control weaknesses.

Accounting Principles

Accounting principles and standards for the Federal Government remain under development. The Federal Accounting Standards Advisory Board was established to recommend Federal accounting standards to the Director, OMB; the Secretary of the Treasury; and the Comptroller General; who are Principals of the Joint Financial Management Improvement Program (JFMIP). Specific standards agreed on by those three officials are issued by the Director, OMB; and the Comptroller General.

Independent Auditor's Opinion on the Financial Statements

Until accounting standards that govern all aspects of financial statement reporting have been issued, which will constitute "generally accepted accounting principles for the Federal Government," agencies are required to follow a hierarchy of accounting principles described in OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements." That hierarchy constitutes an "other comprehensive basis of accounting" to be used for preparing Federal agency financial statements.

A summary of the hierarchy, defined and approved by the JFMIP Principals, follows:

- o standards agreed to and published by the JFMIP Principals,
 - o form and content requirements of the OMB,
 - o accounting standards contained in agency accounting policy guidance,
- and
- o accounting principles published by other authoritative sources.

To date, three accounting standards have been published by the JFMIP Principals, so most accounting standards for the DoD's "other comprehensive basis of accounting" are contained in DoD accounting policy guidance. The DoD accounting guidance is primarily in the DoD Accounting Manual. During FY 1993, the Comptroller of the Department of Defense (DoD Comptroller) updated portions of the DoD Accounting Manual and incorporated those sections into a new regulation, DoD 7000.14-R, "DoD Financial Management Regulation" (DoD Financial Regulation).

The DoD Financial Regulation will eventually serve as the single DoD-wide financial management regulation for use by all DoD Components for accounting, budgeting, finance, and financial management education and training. In the interim, unless superseded by published Federal accounting standards or requirements of OMB, the policy contained in the DoD Accounting Manual or in the DoD Financial Regulation, as applicable, is the authoritative basis for preparing financial statements in accordance with an "other comprehensive basis of accounting."

According to Part V, Footnote 1.B., the Pentagon Reservation Maintenance Revolving Fund managers presented the financial statements in accordance with the DoD Accounting Manual and guidance from the DoD Comptroller. The Footnote also pointed out that to the extent the guidance is not provided in the DoD Accounting Manual, other guidance promulgated by the General Accounting Office, the OMB, the Department of Treasury, and the Federal Accounting Standards Advisory Board, is followed, as appropriate.

Footnote 1.D. to the financial statements points out that accounting transactions are recorded on an accrual basis. The accounting standards in the DoD Accounting Manual also implement accrual accounting as prescribed by 31 U.S.C. 3512(d).

Additional Information

Overview to the Financial Statements. We reviewed the financial information presented in management's Overview of the Pentagon Reservation Maintenance Revolving Fund for FY 1993. Such information has not been audited by us; accordingly, we do not express an opinion on that information except for the performance measures. We found that not all performance measures were included in the financial statements. Results of our analyses of the performance measures are in Part III. In addition, management's assertion that the Fund is operated on a break-even basis is not a fair presentation of the Fund's performance.

In the Overview, management stated that the average of expenses and revenue for FY 1993 and FY 1992 reveals that the Fund is operating on a break-even basis, which is a primary goal of the Fund. The assertion was based on the Fund's net operating loss of approximately \$30.0 million in FY 1993 offset by a net operating gain in FY 1992 of approximately the same amount. Management considered this a break-even position for the Fund over the 2-year period. In our opinion, the Fund's break-even position was more a coincidence than the result of operations. That opinion is based on a determination that revenues were not recognized in the year earned and expenses were not recorded appropriately to match revenues.

Circumstances Noted During the Audit. We issued an advisory memorandum, "Circumstances Noted During the Audit of the Pentagon Reservation Maintenance Revolving Fund Financial Statements for FY 1993," on March 15, 1994. The memorandum presented the following issues to management that affected our opinion on the financial statements.

- o Procedures were not in place to identify, accumulate, and capitalize assets of the Fund.

- o Criteria were not identified for capitalizing improvements paid for by a lessor.

- o The Fund Balances with Treasury account was not reconciled with the actual balance of the U.S. Treasury.

- o Depreciation of the old heating plant was not accelerated to end closer to its scheduled demolition date.

Discussion of management's actions to correct those issues is presented in Parts II and III of this report.

Part II - Internal Controls

Introduction

We examined the internal control structure of the Pentagon Reservation Maintenance Revolving Fund (the Fund), the Principal Statements, and the Notes to the Principal Statements for the year ended September 30, 1993. The statements upon which our opinion is based were officially transmitted to us on January 19, 1994.

Washington Headquarters Services (WHS), as manager of the Fund, is responsible for establishing and maintaining an internal control structure. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

The objectives of an internal control review are to provide management with reasonable but not absolute assurance that the following are met.

- o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

- o Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

- o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the Principal Statements, and any other laws and regulations that the Office of Management and Budget (OMB), Fund management, or the Inspector General, Department of Defense, have identified as being significant for which compliance can be objectively measured and evaluated.

- o Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

- o Questions are answered as to whether performance measures existed and whether those performance measures were adequate to enable the Fund to fulfill its purpose.

Objective

The objective of the audit was to determine whether internal controls over the Fund were adequate to ensure that the financial statements were free of material error. In planning and performing our audit of the Fund for the year ending

September 30, 1993, we evaluated the Fund's internal control structure including implementation of the DoD Internal Management Control Program. The purposes of this evaluation were to:

- o determine our auditing procedures for expressing an opinion on the financial statements and

- o determine whether the internal control structure was established to ensure that the statements were free of material misstatements.

That determination included obtaining an understanding of the internal control policies and procedures, as well as assessing the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant control policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

For purposes of this report, we have classified the significant internal controls, policies, and procedures into the following categories: cash, collections, disbursements, accounts receivable, depreciation, unearned revenue, capital assets, accrued payroll, revenues, and expenses. Material weaknesses noted in this report (see Results of Audit section) were not detected or reported as required by DoD 5010.38, "DoD Internal Management Control Program," April 14, 1987. That is, WHS management did not report the weaknesses to DoD in its Annual Statement of Assurance for FY 1993. The weaknesses had a material effect on the Fund's FY 1993 Principal Statements and affected our opinion on the financial statements.

Prior Audit Coverage

Audit Report. Inspector General, Department of Defense, Audit Report No. 93-128, "Pentagon Reservation Maintenance Revolving Fund Financial Statements - FY 1992," June 25, 1993, is the only prior audit of this Fund. That audit resulted in a disclaimer of opinion. The report identified internal control weaknesses that existed with regard to the Fund as follows.

- o The Fund Balances with Treasury account was not reconciled with the actual balance of the U.S. Treasury.

- o Cash collection and disbursement transactions shown in the Fund's general ledger data base could not be matched with information in the disbursing office's data base.

Followup. Part of this audit required following up on conditions noted in Audit Report No. 93-128. We evaluated actions taken by the Fund's management to reconcile the Fund Balances with Treasury account and to match the general ledger data base with the disbursing data base.

Internal Controls

Reconciliations of Fund Balances With Treasury. The need for reconciling the Fund Balances with Treasury account to the U.S. Treasury's balance was initially noted in Report No. 93-128 and was subsequently discussed in our March 15, 1994, advisory memorandum (see Part I, "Additional Information.") Our report on the Fund's FY 1992 financial statements stated that internal controls did not ensure that \$100.7 million in the Fund Balances with Treasury account was reconciled with the actual balance at the U.S. Treasury. Our advisory memorandum pointed out that adequate controls were still not in place to perform the reconciliations.

The unreconciled difference in FY 1993 was \$0.9 million, a substantial decrease from the \$49.4 million unreconciled difference in FY 1992. Management initiated action to identify and provide accounting documents to support the \$0.9 million difference between the Fund Balances with Treasury account and the actual FY 1993 yearend balance shown by the U.S. Treasury. Specifically, the reconciliation showed that the difference could be reconciled by offsetting \$3.6 million of collections and \$4.4 million of disbursements that were received and recorded after finalizing the accounting records for FY 1993. We judgmentally selected and verified that \$2.7 million of the collections and \$0.9 million of disbursements were accurate. We concluded that the resulting unreconciled balance was immaterial and that WHS had adequately reconciled the Fund Balances with Treasury account. However, our review noted that adequate controls were not in place to ensure that revenues for FY 1992 and FY 1993 were recognized as earned in the proper accounting period. The issue of revenue recognition is discussed in greater detail below under Results of Audit.

Also, a significant effort had been made by WHS personnel to identify and correct \$68.5 million in collections that had been reported by the U.S. Treasury in the wrong appropriation since FY 1991. The WHS action is commendable.

Matching of Account Balances. During the FY 1993 audit, an attempt was made to match collection and disbursement transactions in the general ledger data base with disbursement and collection transactions in the disbursing office data base. Because of differences in voucher numbers between the data bases, no reliable procedure for matching the files could be identified.

We performed alternative audit tests and manually selected a judgment sample of 19 collection transactions, amounting to \$80.7 million, from the WHS office's data base to verify the accuracy of the transactions between the two data bases. All 19 transactions in the sample matched with records located at the disbursing office. We concluded that although the voucher numbers were not comparable between the data bases, adequate controls existed at WHS to ensure accurate processing of the Fund's transactions. We considered this issue resolved and no further followup is required.

Results of Audit

Reportable Conditions. Internal control weaknesses existed that we consider to be material and reportable conditions under standards established by OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance.

A material weakness is a reportable condition in which the design or operation of the internal control structure does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts that would be material to the statements being audited, or material to a performance measure or aggregation of related performance measures, and not be detected within a timely period by employees in the normal course of performing their functions.

Conditions Noted. Our review noted a lack of internal controls over accrual accounting and leasehold improvements. We considered the inconsistent application of the accrual method of accounting as a material and reportable condition.

Accrual Accounting. Accrual accounting was not always implemented when recording revenues and expenses. Internal controls did not ensure that financial transactions were recorded as they occurred, or if necessary, adjusted upon receipt of more accurate information.

Recording of Program or Operation Expenses. Controls were not in place to ensure that program or operation expenses were recorded when liabilities were incurred. Based on a statistical sample, we estimate that 5,118 (10.6 percent) of the 48,283 Program or Operation Expense transactions recorded during FY 1993 actually were incurred in other fiscal years (see Appendix A). As a result, we estimated that \$24.0 million in transactions recorded during FY 1993 in the Program or Operation Expense account were incurred in other fiscal years. For the improperly recorded transactions, the work was performed in FYs 1988, 1991, 1992, or 1994, but the expense was recorded in the accounting records in FY 1993. For example, the Fund's disbursing office at Bolling Air Force Base received an invoice in May 1992 for the Pentagon to upgrade its heating, ventilation, and air conditioning systems. However, due to the time required to process transactions through the disbursing office and the Defense Finance and Accounting Service-Denver Center, WHS did not record the expense until January 1993.

Earnings of Revenues. Insufficient controls were developed and implemented to ensure that revenues were recorded when earned. Based on a statistical sample, we estimate that 339 (12.5 percent) of the 2,713 revenue transactions recorded in FY 1993 were recorded in the wrong fiscal year (see Appendix A). Therefore, we estimate that \$1.3 million in revenue transactions recorded during FY 1993 were recorded in the wrong fiscal year. In our

Internal Controls

sample, we found transactions recognized as earned in FY 1992 that were earned in other years; revenue recorded as earned in FYs 1993 and 1994, but actually earned in FYs 1992 and 1993, respectively; and revenue recognized in FY 1993 for work that had not been performed. Therefore, we concluded that insufficient controls were in place to properly record revenue transactions as required by the accrual method of accounting.

Recognition of Administrative Fees. Administrative fees, charged by WHS to activities for which services were provided, were not recognized as revenues when earned. We found that 21 of the 176 revenue transactions sampled were for administrative fees. All of the sampled administrative fees (amounting to \$0.8 million) were recorded as earned immediately upon receipt of a request for work.

According to the accrual method of accounting, the fee should be recognized and recorded when work is actually performed by WHS. Recording the administrative fee before it is earned results in an overstatement of the revenue account and distorts the net position of the Fund.

We noted the condition concerning administrative fees while testing transactions in the revenue account. Detailed reviews of supporting documents were not performed; therefore, we could not determine whether the condition had a material effect on the balance in the revenue account.

Conditions Impacting on Use of Accrual Accounting. We were informed by WHS personnel that the accounting system had the ability to record individual revenue transactions as earned, thus the system could provide for accrual accounting. However, management made a conscious decision not to use this function because it would require additional manpower. The accounting system was designed to earn revenue based on obligations to be recorded. Therefore, WHS personnel did not selectively record revenues in the accounting system when earned.

Further, management informed us that revenue and expense documentation had to be processed through the Bolling Air Force Base disbursing office and the Defense Finance and Accounting Service-Denver Center prior to being received and recorded in the Fund's general ledger. The length of that process caused expense transactions to be received in the accounting period following the period in which the transaction should have been recorded. However, no controls had been established to compensate for those processing delays, such as requiring the preparer of the receiving report to forward a copy not only to the disbursing office at the Bolling Air Force Base for certification of payment, but also to WHS for processing the expense transactions. The Director, WHS, had informed us of the problem with the time lag in the processing of transactions during our audit in FY 1992. However, no action was taken to identify and establish alternative controls to comply with the accrual method of accounting for the FY 1993 financial statements. Thus, misstatements on the financial statements occurred and could continue to occur in future years unless alternative controls are identified and established. As a minimum, given the

recognition of the problem, we would expect management to make adjustments for financial reporting purposes in order to provide for proper revenue and expense recognition.

Leasehold Improvements. Our FY 1993 advisory memorandum showed that improvements paid for by lessors were not capitalized over the term of the tenant's occupancy. According to generally accepted accounting principles, a lessee should normally capitalize improvements paid by the lessor over the term of a capital lease. According to the DoD Accounting Manual, assets of \$5,000 or more with an estimated useful life of 2 years or more should be capitalized. However, a memorandum prepared by the Acting Comptroller of the Department of Defense, dated July 1992, provided a dollar threshold of \$15,000 for capitalizing an asset. We suggested that Fund managers identify practical criteria for such circumstances and apply it consistently, but no action had been taken by the end of our fieldwork.

Reportable Conditions Not Noted. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Except for matters noted, we believe there is reasonable assurance that the internal control structure meets the internal control objectives.

Management Comments

We received comments on the draft of our report on internal controls from the Director, WHS, on May 16, 1994. The Director, WHS, did not agree with all issues presented in the draft report. Management comments are reproduced in their entirety in Part VI of this report.

In comments to the draft report, the Director, WHS, stated that the issues addressed in the advisory memorandum were discussed and resolved during meetings held in November and December 1993. Further, the Director considered it important to note that the only material internal control weakness identified during the audit was with the system of recording expenses, but that weakness was not addressed in the advisory memorandum.

Management maintained that the WHS Allotment Accounting System was designed to perform accrual accounting and also to enhance the ability to adhere to accrual accounting principles. WHS developed and implemented the Installation Collection and Payment System and the Reimbursable Billing System, but the Director stated that consistent use of accrual accounting would require additional accountants and the development of comprehensive document flow procedures to ensure receipt of documents from various sources. The Director commented that WHS was studying the feasibility of creating an automated accrual procedure for expenses to enable WHS to implement accrual

Internal Controls

accounting without increasing staff. The Director asserted that WHS is adhering as closely as practicable to accrual accounting principles while effectively and efficiently using its systems and staff.

The Director, WHS, stated that 2 of the 25 expense transactions identified as being recorded in the wrong fiscal year were properly recognized and our analyses of the two transactions were materially flawed. Further, he maintained that administrative fees were, in fact, recognized as revenue when earned. Specifically, the Director, WHS, asserted that administrative services are normally performed in advance of the actual work being performed and, consequently, it is proper to earn the revenue when the request for work is accepted.

Management disagreed with our suggestion to capitalize improvements paid for by lessors. They stated that according to DoD Instruction 5305.5, "Space Management Procedures, National Capital Region," May 23, 1966, the Director of Administration and Management is responsible for overall space management within the National Capital Region. Responsibilities include obtaining office space from the General Services Administration (GSA) and assigning, withdrawing, and reassigning that space within the DoD. As a result, tenants of the Pentagon Reservation are not free to vacate at will and no lease is necessary.

Audit Evaluation of Management Comments

We disagree with the WHS statement that all conditions addressed in the March 1994 memorandum were resolved during meetings in November and December 1993. Meetings were held with WHS personnel to resolve the issue of reconciling the Fund Balances with Treasury account after the memorandum was issued in March 1994. We did not address the material weakness in the system of recording expenses in our March 1994 advisory memorandum because the results of our substantive testing on the expense transactions were not completed until after the advisory memorandum was issued.

We agree that the WHS Allotment Accounting System has the capability to perform accrual accounting functions. Specifically, the system is designed to allow WHS personnel to selectively record individual revenue and expense transactions. Therefore, revenues could be recognized when earned and expenses could be recognized when liabilities are incurred as required by accrual accounting. However, according to the WHS comments and our audit work, we concluded the following.

- o Staffing shortages prevented WHS personnel from selectively recording individual transactions.

- o Revenues were consistently recognized based on obligations rather than earnings.

- o Expenses were not recorded when liabilities were incurred due to time delays in processing documents.

Further, although WHS developed and implemented the Installation Collection and Payment System and the Reimbursable Billing System, which may have reduced the number of errors found, those conditions that caused the errors persist. Accordingly, we reassert our belief that the accrual method of accounting was not followed when recording revenues and expenses. The Director, WHS, stated in his comments that they are adhering as closely as possible to accrual accounting, but are exploring corrective actions.

Regarding the Director's comment that two expense transactions were properly recognized as earned, we believe our analyses are correct and our conclusions are adequately supported. Specific support for our position follows.

- o Under the accrual method of accounting, expenses should be recognized in the period in which liabilities are incurred. The Fund received an invoice for electrical services provided from September 12, 1992, to October 12, 1992. Clearly, the majority of services were provided during FY 1992; however, WHS recorded the entire expense in FY 1993.

- o Similarly, the U.S. Army Corps of Engineers submitted a bill for renovations performed in FY 1992. Because the bill was not received until after the end of FY 1992, WHS contended the expense was properly recorded in FY 1993. The Director based his opinion on DoD 7000.14-R, "DoD Financial Management Regulation." However, that directive supports our conclusions. Specifically, organizations are required to use the accrual method of accounting to recognize financial transactions as they occur. If detailed documentation is not available as transactions occur, then adjustments should be made upon receipt. Accordingly, since renovations were performed in FY 1992, an adjustment should have been made upon receipt of the bill to record the expense in the proper period.

We agree that administrative fees should be considered revenues when services are provided, including services provided prior to starting the project. The results of our audit, however, disclosed instances in which administrative fees were assessed prior to starting the project, then returned in full when the contracts were canceled. For example, on May 29, 1992, \$25,000 in administrative fees were assessed for a work order that was canceled, and the total amount of the administrative fees was returned more than 7 months later. Consequently, administrative work was not performed and administrative fees could not have been earned prior to starting the project if all fees were returned.

We agree that DoD Instruction 5305.5 states that the Assistant Secretary of Defense for Administration is responsible for obtaining space from GSA, as required, and assigning, withdrawing, and reassigning space within the DoD. However, this same instruction differentiates between "GSA Controlled Space" and "Military Controlled Space." Our view is that Pentagon space allocation, building improvements, and financial reporting are under the control of the Office of the Secretary of Defense, not the GSA. Further, no action has been taken by WHS to determine whether improvements made to the Pentagon structure, valued at \$15,000 or more, should be capitalized. Our concern is not

Internal Controls

with requiring leases for tenants of the Pentagon. Rather since current accounting guidance is unclear and at times conflicting, the Fund management should review and identify practical criteria for recording capital improvements and apply it consistently.

Part III - Compliance With Laws and Regulations

Introduction

We evaluated the Pentagon Reservation Maintenance Revolving Fund (the Fund) for material instances of noncompliance with laws and regulations for the year ended September 30, 1993. The statements upon which our opinion is based were officially transmitted to us on January 19, 1994. The list of laws and regulations we reviewed is in Part IV, Appendix B.

Objective

The objective of the audit was to assess compliance with laws and regulations for those transactions and events that have a material effect on the financial statements. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions in laws or regulations. Such failures or violations are those that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Principal Statements or those whose sensitive nature would cause them to be perceived as significant by others.

The Director, Washington Headquarters Services (WHS), is the manager of the Fund and is responsible for compliance with applicable laws and regulations. As part of obtaining reasonable assurance about whether the Principal Statements are free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements and other laws and regulations designated by the Office of Management and Budget (OMB) and the Department of Defense.

Prior Audit Coverage

Audit Report. Our Audit Report No. 93-128, "Pentagon Reservation Maintenance Revolving Fund Financial Statements - FY 1992," dated June 25, 1993, is the only prior audit of the Fund. The report disclosed the following instances of noncompliance with laws and regulations that materially affected the reliability of the Fund's Principal Statements:

- o cash receipts were not promptly deposited;
- o the transferred value of capital assets, accumulated depreciation, and depreciation expense was incorrectly recorded;
- o construction costs were improperly expensed; and
- o annual leave was not accrued or recorded on the financial statements.

Followup. Our audit included a review to ensure that conditions noted in Audit Report No. 93-128 were corrected. We evaluated depositing of cash receipts, recording of capital assets, accrual of annual leave, and the allocation of depreciation.

Depositing Cash Receipts. Our FY 1992 audit showed that procedures for depositing cash receipts were not followed. DoD 7220.9-M, "DoD Accounting Manual," (DoD Accounting Manual), chapter 32, requires checks to be deposited no later than the next business day. During FY 1992, deposits totaling at least \$28.7 million were made as much as 6 weeks after receipt.

For FY 1993, the WHS recorded 1,815 collection transactions valued at \$112.6 million. We selected a judgment sample of five collection transactions valued at \$44.7 million for review. For four checks, the time interval between the date checks were received by WHS personnel and the date they were received by the Fund's disbursing office at Bolling Air Force Base for deposit was an average of 4 days. Thus, for the transactions reviewed, substantial improvements were made in making more timely deposits; however, the checks were not deposited by the next business day, as required by the DoD Accounting Manual. We were unable to verify the date of receipt for the remaining check; therefore, we could not determine if it was deposited in accordance with the requirements of the DoD Accounting Manual. Based on that review, we concluded that conditions noted during our FY 1992 audit have improved, but have not been completely corrected.

Recording of Capital Assets. Our FY 1992 audit and FY 1993 advisory memorandum found that procedures for recording the values of property transferred into the Fund and for capitalizing the costs of construction planning and design were not followed. The Pentagon and associated real property were transferred to the DoD in November 1990. WHS has taken corrective action to record the value of the Pentagon at its historical cost of \$102.4 million. That includes accumulated depreciation (to date) of \$62.4 million, the remaining depreciation expense of \$37.6 million, and land valued at \$2.4 million.

WHS has also identified and accumulated costs of \$11.3 million associated with construction of the new Pentagon heating plant on the Fund's FY 1993 trial balance, Principal Statements, and Notes to the Principal Statements.

Accrued Annual Leave. Our audit for FY 1992 found that estimated costs of \$1.9 million for employees' annual leave were not accrued or recorded on the Principal Statements. The DoD Accounting Manual, chapter 43, states, "The accrual of annual leave within the Department of Defense is material and shall be recognized annually in the DoD Component accounting records and financial statements." WHS management has accrued annual leave of \$2.2 million; recorded it on the FY 1993 Principal Statements as an unfunded liability; and disclosed it in the Notes to the Principal Statements.

Results of Audit

The results of our test of compliance with laws and regulations disclosed instances of noncompliance over the use of accrual accounting, accumulation of work-in-process costs, reconciliation of receivables, and use of performance measures. Those instances of noncompliance materially affected the reliability of the Fund's Principal Statements.

Use of Accrual Accounting. We found a material and reportable internal control weakness in the application of the accrual method of accounting. That method was not always implemented when recording revenues and expenses. DoD 7000.14-R, volume 1, chapter 3, implements accrual accounting as prescribed by 31 U.S.C. 3512(d). That law and the General Accounting Office's "Policy and Procedures Manual for the Guidance of Federal Agencies" require the head of each executive agency to maintain accounting records using the accrual basis of accounting. DoD 7000.14-R further states that accrual accounting can contribute materially to the effective financial control over resources and costs of operations and is essential in order to develop adequate financial management information. The material weakness is discussed in Part II, Results of Audit.

Accumulation of Work-in-Process Costs. The WHS did not accumulate or present work-in-process costs in the financial statements. The DoD Accounting Manual, chapter 34, states that costs shall be recorded in work-in-process accounts until transferred upon completion or termination of the job to applicable asset or expense accounts. The Notes to the Principal Statements for FY 1993 indicated that the cost accounting module of the WHS Allotment Accounting System included work-in-process accounts to accumulate reimbursable costs of the industrial fund operations. No evidence existed that an accumulation of work-in-process costs had occurred, and no estimation of the value of the costs was available. WHS personnel informed us that work in process was not accumulated and would require an extensive use of resources. Therefore, those costs were not under financial control and were not segregated from current accounting period expenses on the financial statements.

Reconciliation of Receivables. Accounts receivable were not recorded in the proper accounting period or aged to assist in verifying the accuracy of balances. DoD 7000.14-R, volume 1, chapter 3, states that accounts receivable shall be recorded accurately and promptly to provide a timely and reliable financial status. The regulation also states that all collections shall be under general ledger accounting control and that cash shall be deposited as expeditiously as possible and immediately recorded in the accounting records.

During our verification of the WHS office reconciliation of the Fund Balances with Treasury to the actual U.S. Treasury balance, we found that 9 of 10 transactions, amounting to \$2.5 million, should have been recognized as earned during FY 1992. The effect was an understatement of the FY 1992 Fund Balances with Treasury account and an overstatement of the FY 1993 balance.

DoD Accounting Manual, chapter 31, requires the accounts receivable balance to be reviewed at least annually and reconciled to supporting documentation to ensure the propriety of the accounts receivable balance. If internal controls had been in place to ensure periodic management review of summary accounts or review of performance reports (for example, an aged trial balance of accounts receivables), the transactions could have been identified sooner and been corrected in the proper accounting period (FY 1992). The result would be decreased fluctuations in revenues between the 2 years and more accurate information to predict future Fund financial requirements. Fund personnel agreed that accounts receivable should be aged and followup actions made more timely to verify the accuracy of the balances.

Use of Performance Measures. Not all performance measures were included in the financial statements. Performance measures represent objective indicators of program effectiveness and efficiency that are directly or indirectly tied to program results or outcomes. The measures should be linked to the organization's strategic plans, goals, and objectives.

"DoD Guidance for Form and Content of Financial Statements for FY 1993/1994 Financial Activity," January 1993, required WHS to include a minimum of four program and four financial performance measures in the financial statements. The program measures are required to focus on outputs and outcomes, while the financial measures should summarize the significant indicators of financial results and the financial condition of the Fund.

The eight performance measures required for the Fund included four Program Performance Measures:

- o Backlog of Maintenance and Repair,
- o Office Space Utilization Rate,
- o Utilization Surveys, and
- o Plant Replacement Value.

Four Financial Performance Measures were also included:

- o Operating Costs,
- o Operating Results,
- o Financial Condition, and
- o Financial Obligations.

Contrary to the guidance, only seven of the eight performance measures were included in the financial statements. The Program Performance Measure of Utilization Surveys was not included. Also, no analysis was shown for two of

Compliance With Laws and Regulations

the Program Performance Measures, Backlog of Maintenance and Repair and Office Space Utilization Rate. Those measures, if used, could provide an indicator of the overall:

- o deterioration or improvement in the condition of building structures and mechanical and electrical systems and

- o assignment and management of space by the WHS and other DoD Components within the Pentagon Reservation.

Further, the Fund managers could identify and take action to correct some of the deficiencies identified in this report by using additional performance measures such as comparisons of collections and operating costs; aging of outstanding accounts receivable; and matching of revenues and expenses.

Accelerated Depreciation. Our advisory memorandum suggested accelerating the depreciation write-off of the old heating plant. The DoD Accounting Manual does not provide guidance for depreciating assets, such as the old heating plant, that have been transferred from another Government activity. Therefore, according to the "other comprehensive basis of accounting" described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1994, generally accepted accounting principles should be applied.

According to generally accepted accounting principles, the allocation of depreciation should always be reviewed when factors such as economic benefit and service life change substantively. The WHS has taken corrective action and adjusted the remaining useful life of the old heating plant to 3 years. According to WHS personnel, the change will be reflected in the FY 1994 statements.

Summary. We concluded that WHS has delays in receiving information due to timing differences in the current financial process that sometimes result in fluctuations in reporting financial reporting data. However, basic accounting concepts, such as matching expenses and revenues, consistency for "earning" revenues, and cost allocation of expenses, were often not consistently applied or were ignored.

The results of our tests of compliance indicated that, with respect to the items tested, WHS had not complied with the provisions of the DoD and OMB guidance. The resulting conditions materially affected the Principal Statements and our opinion on the statements. With respect to items not tested, nothing came to our attention that caused us to believe that WHS office personnel had not complied, in all material respects, with those provisions.

Management Comments

The Director, WHS, maintained that our draft report was incorrect because it stated that material internal control weaknesses were found in the system of recording revenues and expenses. He stated that the only material weakness addressed in the report was in the system of recording expenses.

He disagreed with our statement that work-in-process costs were not under financial control. Also, the Director stated that the costs were recorded in the accounting system, but the costs were not segregated from current accounting period expenses on the financial statements.

The Director agreed with our statement that the program performance measure of Utilization Surveys was not included in the financial statements. The Director further stated that the performance measure was not included in the FY 1993 statements because the results of the FY 1992 audit did not comment on the absence of the measure.

Audit Evaluation of Management Comments

We agree with WHS that we only found a material weakness in recording of expenses. Accordingly, the final report has been adjusted to delete the reference to material weaknesses in the system of recording revenues. However, we considered the inconsistent use of the accrual method of accounting as a material and reportable condition. Accrual accounting was not always implemented when recording revenues and expenses. We have modified Part III of this report to reflect that conclusion.

The notes to the Principal Statements for FY 1993 indicated that the cost accounting module of the WHS allotment accounting system included work-in-process accounts to accumulate reimbursable costs of the industrial fund operations. We found no evidence that costs of work in process for ongoing projects were accrued for presentation in the financial statements. Therefore, we maintain that WHS should comply with the DoD Accounting Manual by recording costs of work in process in the accounting records until those costs are transferred upon completion or termination of the job to applicable asset or expense accounts.

Although we did not comment on the lack of the utilization survey in the FY 1992 audit report, the performance measure is required in the financial statements to be in compliance with "DoD Guidance for Form and Content of Financial Statements for FY 1993/1994 Financial Activity," dated January 1993. Therefore, the performance measure should be included in the financial statements.

Part IV - Additional Information

Appendix A. Sample Methodology and Projections

Sample Design

Statistical analysis was performed as part of the audit of the financial statements of the Washington Headquarters Services (WHS) Pentagon Reservation Maintenance Fund. The analysis was made on two WHS data base files containing revenue and expense transactions for the fiscal year ending September 30, 1993.

The Program or Operation Expense file contained 48,283 transactions with a net total value of \$99.1 million. The Intragovernmental Revenue file contained 2,713 transactions with a net total value of \$74.1 million.

Stratified random samples were designed for both data base files. Each sample was stratified by dollar amounts to increase the likelihood that test data were representative of the population as a whole. For the expense data, the population of 48,283 transactions was segmented into 13 strata. The sample derived from those strata contained 282 transactions. For the revenue data, the population of 2,713 transactions was segmented into 7 strata. That sample contained 176 transactions.

The audit compared amounts of revenue and expense transactions recorded on the financial statements to supporting documents to see if the transactions were recorded in the correct fiscal year. Two types of tests were used to determine whether transactions were recorded in the proper fiscal year.

- o Fair Representation Test. Amounts in the revenue and expense accounts were evaluated to determine whether they were fairly represented in the financial statements. The net dollar differences between the individual amounts of transactions in the samples were used to determine whether amounts in the financial statements were fairly represented. Those results were used to support our opinion on the financial statements.

- o Internal Controls Test. Management's internal controls over recording of transactions using the accrual method of accounting were evaluated. The results of those tests were used to support our results regarding the adequacy of internal controls. Specifically, we determined the percentage of transactions recorded in the wrong fiscal year for the revenue and expense populations and the gross dollar effect on the financial statements of not recording revenue and expense transactions in the proper fiscal year.

Sample Results

The tables below show the sample results and findings determined by the tests. Table 1 shows results of the tests on the expense sample. Table 2 shows results of the tests on the revenue sample. Each test measured the difference between the test results and the correct method of recording the transactions. The table values represent the errors due to recording transactions in the wrong fiscal year.

Table 1. Results of Tests on Program or Operation Expenses

(\$ in millions)

	<u>90-Percent Confidence Levels</u>		
	Lower Bound	Point Estimate*	Upper Bound
Fair Representation			
Net Dollars Misstated	\$4.4	\$13.5	\$22.6
Percentage of Net Dollars Misstated	4.4	13.5	22.6
Internal Controls			
Number of Transactions Misstated	3,863	5,118	7,242
Percentage of Transactions Misstated	8.0	10.6	15.0
Gross Dollars Misstated	\$14.9	\$24.0	\$33.1

*The point estimate is the most likely value of the transactions recorded in error.

With 90-percent confidence, we estimate that the net effect on the expense account balance is between \$4.4 and \$22.6 million, with \$13.5 million as the best estimate. The error rate due to incorrect recording of transactions is between 8.0 and 15.0 percent for the expense file, with 10.6 percent as the best estimate. The gross dollars affected by those errors is from \$14.9 to \$33.1 million, with \$24.0 million as the most likely amount.

Appendix A. Sample Methodology and Projections

Table 2. Results of Tests on Intragovernmental Revenue

(\$ in millions)

	90-Percent Confidence Level		
	Lower Bound	Point Estimate*	Upper Bound
Fair Representation			
Net Dollars Misstated	\$0.4	\$0.9	\$1.4
Percentage of Net Dollars Misstated	0.5	1.2	1.9
Internal Controls			
Number of Transactions Misstated	244	339	488
Percentage of Transactions Misstated	9.0	12.5	18.0
Gross Dollars Misstated	\$0.8	\$1.3	\$1.8

*The point estimate is the most likely value of the transactions recorded in error.

With 90-percent confidence, we estimate the net effect on the revenue account balance is between \$0.4 and \$1.4 million, with \$0.9 million as the best estimate. The error rate due to recording transactions in the wrong fiscal year is between 9.0 and 18.0 percent for the revenue file, with 12.5 percent as the best estimate. The gross amount of dollars affected by those transactions recorded in error is from \$0.8 to \$1.8 million, with \$1.3 million as the most likely amount.

Appendix B. Laws and Regulations Reviewed

Public Law 101-510, "Defense Authorization Act of 1991"

Public Law 101-576, "Chief Financial Officers Act of 1990"

OMB Bulletin No. 94-01, "Form and Content of Agency Financial Statements,"
November 16, 1993

OMB Bulletin No. 93-18, "Audit Financial Statements," June 25, 1993

OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements,"
January 8, 1993

DoD Regulation 7000.14R, Volumes 2A and 2B, "Financial Management Regulation -
Budget Formulation and Presentation," June 23, 1993

DoD Regulation 7000.14R, Volume 1, "General Financial Management Information,
Systems, and Requirements," May 1993

DoD 7220.9M, "DoD Accounting Manual," February 1988

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Secretary of Defense
Office of the Comptroller of the Department of Defense, Washington, DC

Department of the Army

U.S. Army Corps of Engineers, Baltimore, MD

Defense Agencies

Headquarters, Defense Finance and Accounting Service, Arlington, VA
Defense Finance and Accounting Service Center, Cleveland, OH
Defense Accounting Office, Arlington, VA
Defense Finance and Accounting Service Center, Denver, CO
Defense Accounting Office - Air Force District of Washington, Bolling Air Force
Base, DC
Washington Headquarters Services, Washington, DC

Appendix D. Report Distribution

Office of the Secretary of Defense

Assistant to the Secretary of Defense (Public Affairs)
Comptroller and Chief Financial Officer of the Department of Defense
Deputy Chief Financial Officer of the Department of Defense

Department of the Army

Secretary of the Army
Inspector General, Department of the Army
Auditor General, Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Washington Headquarters Services

Non-Defense Federal Organizations

Office of Management and Budget
National Security and International Affairs Division, Technical Information Center,
U.S. General Accounting Office

Appendix D. Report Distribution

Non-Defense Federal Organizations (cont'd)

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on
Government Operations

**Part V - Pentagon Reservation
Maintenance Revolving Fund
Financial Statements - FY 1993**

Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

JAN 19 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD

SUBJECT: Transmittal of the Pentagon Reservation Maintenance
Revolving Fund Financial Statements on FY 1993
Financial Activity

The attached financial statements for the Pentagon
Reservation Maintenance Revolving Fund on FY 1993 financial
activity are submitted for audit as required by the Chief
Financial Officers Act.

My staff, and that of the Washington Headquarters Services,
are available to provide assistance and information as you
require in the audit of these financial statements. We will
work with your staff to make the adjustments and improvements
necessary to ensure that these financial statements present
fairly, in all material respects, the assets, liabilities, and
net financial position of the Pentagon Reservation Maintenance
Revolving Fund as of September 30, 1993.

A handwritten signature in cursive script, appearing to read "Alvin Tucker".

Alvin Tucker
Deputy Chief Financial Officer

Attachment

Overview

***PENTAGON RESERVATION
MAINTENANCE
REVOLVING FUND***

OVERVIEW

Overview

**PENTAGON RESERVATION MAINTENANCE
REVOLVING FUND**

AS OF SEPTEMBER 30, 1993

A. Overview of Reporting Entity

1. Message from the Component Head

Enclosed are the financial statements for Fiscal Year 1993 for the Pentagon Reservation Maintenance Revolving Fund (PRMRF). Fiscal Year 1993 was the second full year of operation for the PRMRF, and has proved to be a viable financing method for the operation, repair, and renovation of the Pentagon Reservation. The statements that follow are more than traditional financial statements; they include an overview of the PRMRF mission, an organizational structure, financial and performance analysis, and appropriate footnotes.

The financial statements have been prepared to report the financial position and results of operation for the PRMRF, pursuant to the requirements of the Chief Financial Officer's Act of 1990. While the statements are prepared from the accounting records of the PRMRF in accordance with the formats prescribed by OMB, the statements are different from the financial statements used to monitor and control budgetary resources that are prepared from the same accounting records.

The financial statements should be read with the realization that they are for a sovereign entity, that unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

The PRMRF provides an effective and flexible means of financing, budgeting, and accounting for costs of the operation, repair, and renovation of the Pentagon Reservation. The fund offers several notable advantages:

- Costs of building space and services are appropriately reflected as an expense within each DoD Component's O&M budget.

Pentagon Reservation Maintenance Revolving Fund Financial Statements - FY 1993

Overview

- Performance budgeting is encouraged by providing incentives for improved utilization of space and services,
- A businesslike landlord/tenant type relationship is fostered between OSD/WHS and the serviced DoD Components,
- Real property operation costs are consolidated within a single operating and capital budget justification package, and
- Through the budget process, there is an enhancement of Congressional and OMB oversight of the Renovation Project, and other space related activities within the Reservation

Performance Measures

The debt to asset ratio for FY 1993 shows that the PRMRF is in a sound financial position since assets are substantially greater than liabilities. The PRMRF currently has adequate cash and liquid assets to continue its normal day-to-day operations and satisfy its obligations and liabilities without additional resources.

The average of expenses and revenue for FY 1993 and FY 1992 reveal that the PRMRF is operating on a break even basis which is a primary goal of the fund.

The PRMRF had a net operating loss of approximately \$30 million in FY 1993. However, the fund had a net operating surplus in FY 1992 of approximately \$30 million which left the fund in a break even position for the 2 years combined. The loss in FY 1993 is primarily due to timing differences in recording expenses with the corresponding revenues as fiscal years are crossed.

The acid test ratio for the fund at the end of FY 1993 was 12.44, indicating the fund has sufficient resources to cover its current obligations and liabilities.

The utilization rate (UR) for office space decreased by 3.8 square feet (127.4 to 123.6) per workstation for FY 1993 from the base year (FY 1991). This indicates overall efficiency in the assignment and management of space by WHS and other DoD Components within the Pentagon Reservation.

Overview

Average energy consumption for the Pentagon Reservation decreased by 6% when compared to the base year (FY 1988) which indicates higher efficiencies achieved in the operation of building electrical systems and the effectiveness of initiatives to encourage prudent energy use by building tenants

Description of the Reporting Entity

- a The reporting entity for the PRMRF is

Director, Budget and Finance
Washington Headquarters Services
1155 Defense Pentagon
Washington, DC 20301-1155

b The function of the PRMRF is to provide financial management for the operation, maintenance, and renovation of the Pentagon Reservation. The Pentagon Reservation, Arlington County, is that area of land consisting of approximately 280 acres and improvements thereon, including the Pentagon Office Building, Federal Building Number 2, the Pentagon heating and sewage treatment plants, and other areas designated for the parking of vehicles. The PRMRF finances the activities of the OSD's Washington Headquarters Services in providing space and a full range of building services for DoD Components, including the Military Departments, and other activities housed within the Pentagon Reservation. The relationship is similar to that of a landlord and tenant.

- c The mission and major goals of the PRMRF

The FY 1991 Defense Authorization Act transferred responsibility for the operation, maintenance, renovation and management of the Pentagon Reservation from the General Services Administration to the Secretary of Defense.

The Act also established the Pentagon Reservation Maintenance Revolving Fund (PRMRF) to finance the operation, maintenance and renovation of the Pentagon Reservation.

Deposits into the PRMRF consist of funds collected for space, services, and other items provided to tenants using the facility. Funds in the PRMRF have no fiscal year limitation and can be used for real property maintenance, operation, construction, repair, protection, and related activities for the Pentagon Reservation.

The major goal of the PRMRF is to provide finance and accounting support for the operation, maintenance and renovation of the Pentagon Reservation and operate on a break even basis. The PRMRF is an industrial fund activity within the Department of Defense and is managed by the Washington Headquarters Services.

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Overview

d Individuals served or benefiting from the PRMRF

A total population of 27,458 military and civilian personnel are currently benefiting from the PRMRF

e Size of the PRMRF

	<u>FY 1993</u>	<u>FY 1992</u>
Dollars expended		
Building Operations	49,993,968	36,602,784
Renovation-Reimbursable Funding	16,264,532	11,005,088
Renovation-Direct Appropriation	11,307,443	-0-
Tenant Reimbursable	<u>33,558,574</u>	<u>26,553,625</u>
Total	111,124,517	74,161,487
Population served	27,458	27,000
PRMRF Employees	1,222	1,271

f Organization of the reporting entity

WHS Directorate for Budget and Finance

Mission Formulate, present, and execute the Program Objective Memoranda (POM), President's Budgets, and Five-Year Defense Plans (FYDP) for OSD, WHS, and certain DoD Field Activities, administer the Official Representation Program for the Office of the Secretary of Defense including the development of policies for use of these funds throughout the Department, provide travel services for DoD officials, military and civilian employees consultants and experts, and others authorized to travel on official business at Government expense under the auspices of OSD, provide information system technology and management, provide installation level accounting support for appropriations allocated to various DoD Components, develop, establish and administer control procedures for apportionments and allocations at the intermediate level for OSD, manage debt collection and cash management programs and the American Express Government Travel Card Program

WHS Directorate for Real Estate and Facilities

Mission To provide administrative and operational support to specified DoD activities in the National Capital Region (NCR), including space management, law enforcement, building administration, graphics services, acquisition, property management, and other support services

Overview

g Major source of funds for the PRMRF

Sources of funds for Fiscal Year 1993 and future years are comprised of non-expenditure transfers between Federal Government accounts, unobligated balances brought forward from the previous year, anticipated reimbursements and direct appropriations.

h Financial Management Issues of the 90's

During the 90's, the PRMRF undertakes the opportunity to finance the renovation of the Pentagon Building and update the Information Management and Telecommunications (IM&T) and the C3I facilities. This will enable the Pentagon to continue its headquarters mission for the future. Financing this tremendous initiative will be quite challenging. The goal is to obtain funding for the renovation on a pro rata basis from all DoD Components that are tenants in the Pentagon Building via rent charges.

Principal Statements

***PENTAGON RESERVATION
MAINTENANCE
REVOLVING FUND***

PRINCIPAL STATEMENTS

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Pentagon Reservation Maintenance Revolving Fund
Statement of Financial Position
as of September 30, 1993
(Dollars)

ASSETS	1993	1992
1. Financial Resources:		
a Fund Balances with Treasury (Note 2)	\$110,150,408	\$100,691,272
b Cash (Note 3)		
c Foreign Currency (Note 3)		
d Other Monetary Assets (Note 3)		
e Investments, Non-Federal (Note 4)		
f Accounts Receivable, Net - Non-Federal		
g Inventories Held for Sale - Net (Note 5)		
h Loans Receivable - Net - Non-Federal (Note 6)		
i Property Held for Sale (Note 7)		
j Other - Non-Federal (Note 8)		
k Intragovernmental Items		
(1) Accounts Receivable - Federal	5,930,055	44,068,146
(2) Loans Receivable - Federal		
(3) Investments - Federal (Note 4)		
(4) Other - Federal		
l. Total Financial Resources	<u>\$116,080,463</u>	<u>\$144,759,418</u>
2. Non-Financial Resources:		
a Resources Transferable to Treasury		
b Advances and Prepayments, Non-Federal	\$29,163	\$18,921
c Inventories Not Held for Sale (Note 5)		
d Property, Plant and Equipment, Net (Note 9)	51,238,453	94,472,337
e Other (Note 10)		
f. Total Non-Financial Resources	<u>\$51,267,616</u>	<u>\$94,491,258</u>
3. Total Assets	<u>\$167,348,079</u>	<u>\$239,250,676</u>
 LIABILITIES		
4. Funded Liabilities		
a Accounts Payable - Non-Federal	982,580	1,096,695
b Accrued Interest Payable		
c Accrued Payroll and Benefits	3,291,405	1,301,045
d Accrued Entitlement Benefits		
e Lease Liabilities (Note 11)		
f Liabilities for Loans Guarantees (Note 6)		
g Deferred Revenue - Non-Federal		
h Pensions and Other Actuarial Liabilities (Note 14)		

The accompanying notes are integral part of these statements. 11

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Pentagon Reservation Maintenance Revolving Fund
Statement of Financial Position
as of September 30, 1993
(Dollars)

LIABILITIES Continued	1993	1992
i Other Funded Liabilities, Non-Federal (Note 13)		
j Intragovernmental Liabilities		
(1) Accounts Payable Federal	4,691,149	801,036
(2) Debt (Note 12)		
(3) Deferred Revenue (All G)	365,912	34,930
(4) Other Funded Liabilities Federal (Note 13)		
k. Total Funded Liabilities	<u>\$9,331,046</u>	<u>\$3,233,706</u>
5. Unfunded Liabilities:		
a Accrued Leave	2,242,335	0
b Lease Liabilities (Note 11)		
c Debt (Note 12)		
d Pensions and Other Actuarial Liabilities (Note 14)		
e Other Unfunded Liabilities (Note 15)		
f. Total Unfunded Liabilities	<u>\$2,242,335</u>	<u>\$0</u>
6. TOTAL LIABILITIES	<u>\$11,573,381</u>	<u>\$3,233,706</u>
NET POSITION		
7. Fund Balances: (Note 16)		
a Revolving Fund Balances	158,017,033	236,016,970
b Trust Fund Balances		
c Appropriated Fund Balances		
d. Total Fund Balances	<u>\$158,017,033</u>	<u>\$236,016,970</u>
8. Less Future Funding Requirements (Note 17)	<u>2,242,335</u>	
9. Net Position	<u>\$155,774,698</u>	<u>\$236,016,970</u>
10. Total Liabilities and Net Position	<u>\$167,348,079</u>	<u>\$239,250,676</u>

The accompanying notes are integral part of these statements.

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Pentagon Reservation Maintenance Revolving Fund
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1993
(Dollars)

	1993	1992
REVENUES AND FINANCING SOURCES		
1 Appropriations Expensed	\$0	\$60,000,000
2 Revenues from Sales of Goods		
a To the Public	74,116,129	103,774,274
b Intragovernmental		
3 Interest and Penalties Non-Federal		
4 Interest, Federal		
5 Taxes (Note 18)		
6 Other Revenues and Financing Sources (Note 19)		
7 Less Taxes and Receipts Returned to the Treasury		
8 Total Revenues and Financing Sources	\$74,116,129	\$163,774,274
EXPENSES		
9 Program or Operation Expenses (Note 20)	99,817,074	74,161,498
10 Cost of Goods or Services Sold (Note 21)		
a To the Public		
b Intragovernmental		
11 Depreciation and Amortization	4,234,512	0
12 Bad Debts and Write-offs		
13 Interest		
a Federal Financing Bank/Treasury Borrowing		
b Federal Securities		
c Other		
14 Other Expenses (Note 22)		
15 Total Expenses	\$104,051,586	\$74,161,498
16 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Adjustments	(\$29,935,457)	\$89,612,776
17 Plus (Minus) Adjustments		
a Extraordinary Items (Note 23)		
b Prior Period Adjustments (Note 23)	(50,306,815)	
18 Excess (Shortage) of Revenues and Financing Sources over Total Expenses	(\$80,242,272)	\$89,612,776
19 Plus Unfunded Expenses	2,242,335	
20 Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	(\$77,999,937)	\$89,612,776

The accompanying notes are integral part of these statements.

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Pentagon Reservation Maintenance Revolving Fund
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1993
(Dollars)

EXPENSES Continued	1993	1992
21. Net Position, Beginning Balance	\$236,016,970	\$51,931,857
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(80,242,272)	89,612,776
23. Plus (Minus) Equity Transfers (Note 24)		94,472,337
24. Net Position, Ending Balance	<u>\$155,774,698</u>	<u>\$236,016,970</u>

The accompanying notes are integral part of these statements.

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**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Pentagon Reservation Maintenance Revolving Fund
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1993
(Dollars)

	1993	1992
Cash Flows from Operating Activities:		
1 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$80,242,272)</u>	<u>\$89,612,776</u>
Adjustments affecting Cash Flow:		
2 Appropriations Expensed		(\$60,000,000)
3 Decrease (Increase) in Accounts Receivable	\$38,127,849	(34,591,311)
4 Decrease (Increase) in Loans Receivable		
5 Decrease (Increase) in Other Assets		
6 Increase (Decrease) in Accounts Payable	6,097,340	(31,330,126)
7 Increase (Decrease) in Other Liabilities		
8 Depreciation and Amortization	4,234,512	
9 Other Unfunded Expenses	2,242,335	
10 Other Adjustments	50,306,815	
11. Total Adjustments	<u>\$101,008,851</u>	<u>(\$125,921,437)</u>
12. Net Cash Provided (Used) by Operating Activities	<u>\$20,766,579</u>	<u>(\$36,308,661)</u>
Cash Flows from Non-Operating Activities:		
13 Proceeds from Sales of Investments		
14 Proceeds from Sales of Property, Plant and Equipment		
15 Purchases of Investments		
16 Purchases of Property, Plant and Equipment	(\$11,307,443)	
17. Net Cash Provided (Used) by Non-Operating Activities	<u>(\$11,307,443)</u>	<u>\$0</u>
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES		
18 Appropriations (Current Warrants)	\$0	\$60,000,000
19 Add		
a Restorations		
b Transfers of Cash from Others		
20 Deduct		
a Withdrawals		
b Transfers of Cash to Others		
21 Net Appropriations	<u>\$0</u>	<u>\$60,000,000</u>

The accompanying notes are integral part of these statements.

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Pentagon Reservation Maintenance Revolving Fund
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1993
(Dollars)

	1993	1992
22 Borrowing from the Public		
23 Repayments on Loans to the Public		
24 Borrowing from the Treasury and the Federal Financing Bank		
25 Repayments on Loans from the Treasury and the Federal Financing Bank		
26 Other Borrowings and Repayments		
27 Net Cash Provided (Used) by Financing Activities		\$60,000,000
28 Net Cash Provided (Used) by Operating Non-Operating and Financing Activities	\$9,459,136	\$23,691,339
29 Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	\$100,691,272	\$76,999,933
30 Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u>\$110,150,408</u>	<u>\$100,691,272</u>

Supplemental Disclosure of Cash Flow Information:

31 Total Interest Paid

Supplemental Schedule of Financing and Investing Activity:

32 Property and Equipment Acquired Under
Capital Lease Obligations

33 Property Acquired Under Long-term
Financing Arrangements

34 Other Exchanges of Noncash Assets or
Liabilities

The accompanying notes are integral part of these statements.

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Principal Statements

Department/Agency: Department of Defense
Reporting Entity: Pentagon Reservation Maintenance Revolving Fund
Statement of Budget and Actual Expenses
for the Period Ended September 30, 1993
(Dollars)

Program Name(s)	<u>BUDGET</u>			<u>ACTUAL</u> Expenses
	Resources	<u>OBLIGATIONS</u>		
		Direct	Reimbursed	
"A"	\$112,899,394	\$6,200,000	\$99,211,612	\$104,051,586
Totals	<u>\$112,899,394</u>	<u>\$6,200,000</u>	<u>\$99,211,612</u>	<u>\$104,051,586</u>

Budget Reconciliation

A	Total Expenses	\$104,051,586
B	Add	
	(1) Capital Acquisitions	11,307,444
	(2) Loans Disbursed	
	(3) Other Expended Budget Authority	
C	Less	
	(1) Depreciation and Amortization	4,234,512
	(2) Unfunded Annual Leave Expense	2,242,335
	(3) Other Unfunded Expenses	
D	Expended Appropriations	\$108,882,183
E	Less Reimbursements	74,116,129
F	Expended Appropriations Direct	<u>\$34,766,054</u>

The accompanying notes are integral part of these statements.

Footnotes

***PENTAGON RESERVATION
MAINTENANCE
REVOLVING FUND***

***FOOTNOTES
TO THE
PRINCIPAL STATEMENTS***

Footnotes

Note 1 - Summary of Significant Accounting Policies

A. Overview of Reporting Entity

The Pentagon Reservation Maintenance Revolving Fund (PRMRF) was established under the provisions of the Fiscal Year 1991 Defense Authorization Act (10 USC 2674). The Act transferred responsibility for the operation, maintenance, protection, repair and renovation of the Pentagon Reservation from the General Services Administration (GSA) to the Department of Defense.

The PRMRF finances the activities of the Office of the Secretary of Defense, Washington Headquarters Services (WHS) in providing space and a full range of tenant services for DoD Components, including the Military Departments, and other activities housed within the Pentagon Reservation. The relationship is similar to that of a landlord and tenant.

The WHS, Real Estate and Facilities Directorate is responsible for the operation and management of the facilities, and the WHS, Directorate for Budget and Finance is responsible for the finance and accounting functions of the PRMRF.

B. Accounting Standards

The financial statements for the Pentagon Reservation Maintenance Revolving Fund are presented in accordance with the DoD Accounting Manual and guidance from the DoD Comptroller. To the extent that guidance is not provided in the DoD Accounting Manual, other guidance promulgated by the General Accounting Office, the Office of Management and Budget, the Department of the Treasury, and the Federal Accounting Standards Advisory Board (FASAB), is followed, as appropriate.

The accounting records for the PRMRF are maintained in the WHS Allotment Accounting System (WAAS), using the DoD standard general ledger chart of accounts. The WAAS is a transaction based allotment level accounting system which utilizes the accrual method of accounting. Each transaction contains a type action code which, when combined with other fiscal coding items, generates the proper posting of the general ledger.

The cost accounting module of WAAS includes work in process accounts to accumulate reimbursable costs of industrial fund operations and contains subsidiary accounts as necessary to meet management requirements.

Footnotes

C. Budgets and Budgetary Accounting

The PRMRF was established to satisfy the finance and accounting requirements for the operations, maintenance and renovation of the Pentagon Reservation by using a businesslike buyer-and-seller approach. The requiring activities justify their need for funds to Congress, and reimburse the PRMRF for rent and other supplies and services. The customers and the PRMRF operate under business-type financial management principles. The PRMRF provides the best financial structure for the operation and maintenance of the Pentagon Reservation.

Budgetary accounting is accomplished through the use of unique general ledger accounts which provide funds control over the PRMRF resources. The proprietary accounts do not control an accounting transaction until it becomes an accounts payable or receivable. Conversely, the budgetary accounts provide control from the commitment through disbursement stages of accounting.

D. Basis of Accounting

Accounting transactions are recorded on an accrual basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

Budgetary accounting facilitates compliance with legal constraints, i.e. anti-deficiency statutes, and controls over the use of both appropriated and reimbursable funds, i.e. DoD "flow of funds" policy.

Civilian annual leave earned but not taken is not funded when accrued in the PRMRF. This liability is funded in the period in which payment is required. This unfunded liability is reported in the Statement of Financial Position and is offset as a reduction to the equity balance to accurately reflect the ending net position.

E. Revenues and Other Financing Sources

The PRMRF is designed to operate on a break-even basis over the long term. Revenue to the PRMRF is generated from various sources, however, the PRMRF is primarily dependent upon funds collected via a basic user charge for space and building services. Basic user charge rates are established to recover the cost of day-to-day operations and maintenance of the Reservation, and essential capital improvements including all costs associated with the on-going Pentagon Renovation project. These basic user charges are paid by the DoD Components and other tenants using the facilities.

Footnotes

Revenue for the PRMRF is recognized at the time the service is rendered and is billed on a percentage of completion basis. The WHS provides certain services for the tenants of the Pentagon Reservation. These services are initially financed through the DoD Component's appropriated funds and subsequently reimbursed to the PRMRF upon delivery of the service.

Budgetary resources for the PRMRF consist of non-expenditure transfers between Federal Government accounts, unobligated balances for the previous fiscal year, reimbursable customer orders accepted, and direct appropriations received from Congress. The PRMRF did not receive any direct funding authority during fiscal year 1993.

F. Funds with the U.S. Treasury and Cash

The cash balance for the PRMRF is maintained in the Treasury Index 97 appropriation, 97X4950 2020. Collections and disbursements are processed by Bolling AFB, and the balance with the Treasury represents the aggregate of all unexpended balances.

As of September 30, 1993, the PRMRF had a balance of \$110,150,408.06 of Funds with the Treasury as reported on the undisbursed trial balance from Treasury. The Funds Balance with Treasury general ledger account 1010, as reported in the WAAS as of September 30, 1993 had a balance of \$111,010,528.56. The WAAS balance was \$860,120.50 higher than the Treasury balance. This is due to undistributed collections and disbursements processed through the finance network but not yet recorded in the WAAS.

An entry to WAAS was made in general ledger account 1015, Undistributed Disbursements, for \$860,120.50 to bring these balances into agreement as of the end of the reporting period.

G. Accounts Receivable

As presented in the Statement of Financial Position, the only accounts receivable currently in the PRMRF are from other Federal Agencies. The WAAS system ages the accounts receivable to ensure prompt collection and/or follow-up on receivables.

H. Property, Plant and Equipment

The General Services Administration transferred ownership of the Pentagon Reservation to the Department of Defense in November, 1991, without reimbursement. The Fiscal Year 1992 Financial Statements reported \$94,472,337 for property, plant and equipment on the Statement of Financial Position, which was the capitalized amount recorded in the GSA accounting system at the time of transfer.

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Footnotes

However, prior year depreciation, as recorded by GSA, for \$48,690,493 87 should have been deducted from the capitalized amount on the FY 1992 statements to more fairly present the net book value of the Pentagon Reservation. Depreciation for fiscal years 1991 and 1992 in the amount of \$9,436,412 94 should also have been deducted. This depreciation data was not available at the time the FY 1992 statements were prepared and therefore is reported as a prior year adjustment in the FY 1993 statements.

Capitalized assets accounted for by the PRMRF are those assets which are paid for by direct funds of the PRMRF. The majority of the costs of the PRMRF that meet the capitalization criteria are funded and paid for by other DoD Components and therefore are not considered capital assets of the PRMRF.

The entry of \$11,307,443 36 for construction in process represents the amount of accrued expenditures recorded during fiscal year 1993 for construction planning and design work for the renovation of the Pentagon.

No capitalized equipment was purchased by the PRMRF during Fiscal Year 1993. The accounting system has a property accounting module which is capable of recording capitalized property and computes depreciation on a straight line method. Routine maintenance and repair costs are expenses when incurred and are recorded in the appropriate general ledger expense account.

Pending an appraisal to establish the fair market value of the land for the Pentagon Reservation, the capitalized value according to the GSA accounting records at the time of transfer is presented in the financial statements.

I. Contingencies

The PRMRF is obligated to pay for goods and services which have been ordered but not yet received (undelivered orders). As of September 30, 1993, aggregate undelivered orders amounted to \$118,988,089. The PRMRF also has \$7,487,782 in outstanding commitments which it may be obligated to pay. These commitments represent orders and contracts for goods and services which were not obligated as of September 30, 1993.

Footnotes

J. Civilian Accrued Annual Leave

Civilian annual leave is accrued as it is earned. The amount reported as unfunded accrued annual leave as of September 30, 1993 was computed based on the amount of annual leave hours as provided by the PRMRF servicing payroll office. This amount represents the net change from fiscal year 1992 to 1993. This would normally be a much lower amount, but there was no entry on the fiscal year 1992 statements for accrued annual leave.

Note 2. Fund Balances with Treasury

A. Funds Balances with Treasury

	<u>Revolving Funds</u>
Unobligated Balance Available	
Available	\$110,150,408
Restricted	-0-
Reserve For Anticipated Resources	-0-
Obligated (but not expensed) Balance	-0-
Unfunded Contract Authority	-0-
Unused Borrowing Authority	-0-
Treasury Balance	<u>\$110,150,408</u>

B. Other Information

Undistributed disbursements for the period ending September 30, 1993 totaled \$860,120.50 and were recorded in general ledger account 1015.

NOTE 9. Property, Plant and Equipment, Net

	(1)	(2)	(3)	(4)	(5)
<u>Method</u>	<u>Life</u>	<u>Value</u>	<u>Depreciation</u>	<u>Net</u>	<u>Value</u>
<u>Classes of Fixed Assets</u>					
A Land		2,378,175	-0-		2,378,175
B Structures, Facilities,					
Leasehold Improvements SL >20		99,914,253	62,361,419		37,552,834
I Construction in Progress		11,307,443	-0-		11,307,443
Total		<u>113,599,871</u>	<u>62,361,419</u>		<u>51,238,452</u>

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Footnotes

J. Other Information

The acquisition value of the land and structures is based on the capitalized value of these assets at the time of transfer from the General Services Administration to the Department of Defense as reported in the GSA accounting records. The fair market value of these assets is not available because a recent appraisal has not been done.

The accumulated depreciation on line B consists of \$58,126,906.81 of prior year depreciation and \$4,234,512.43 of depreciation for FY 1993.

The amount reported on line I for construction in progress consists of accrued expenditures recorded in FY 1993 for planning and design work related to the renovation of the Pentagon Reservation.

Note 16. Fund Balances

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Total</u>
A Unexpended				
Appropriations	\$-0-	-0-	-0-	\$-0-
B Invested Capital	236,016,970	-0-	-0-	236,016,970
C Cumulative Results of Operations	(80,242,272)	-0-	-0-	(80,242,272)
D Donations	-0-	-0-	-0-	-0-
E Transfers	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
F Total	\$155,744,698	-0-	-0-	\$155,774,698
G Other Information				

Note 17. Future Funding Requirements

	<u>1993</u>	<u>1992</u>
A Actuarial Liabilities	\$-0-	\$-0-
B Non-Actuarial Liabilities		
(1) <u>Accrued Annual Leave-Civilian (Unfunded)</u>	<u>2,242,443</u>	<u>-0-</u>
C Total	<u>\$2,242,443</u>	<u>-0-</u>
D Other Information		

Footnotes

Note 20. Program or Operating Expenses

	<u>1993</u>	<u>1992</u>
A. Operating Expenses by Object Classification		
(1) Personal Services and Benefits	\$32,601,220	28,515,714
(2) Travel and Transportation	139,668	88,072
(3) Rent, Communication and Utilities	6,660,647	6,369,445
(4) Printing and Reproduction	35,590	39,580
(5) Contractual Services	56,146,813	35,853,961
(6) Supplies and Materials	3,880,885	3,124,864
(7) Equipment not Capitalized	352,251	169,862
(8) Grants, Subsidies and Contributions	-0-	-0-
(9) Insurance Claims and Indemnities	-0-	-0-
(10) Other (describe)		
(11) Total Expenses by Object Class	<u>\$99,817,074</u>	<u>\$74,161,498</u>

Note 23. Extraordinary Items and Prior Period Adjustments

A. Extraordinary Items

(1) \$-0-

B. Prior Period Adjustments

(1) Depreciation FY74 - FY90	\$48,690,494
(2) Depreciation FY91 - FY92	9,436,413
(3) Increase in account 1730	<u>(7,820,092)</u>
Total	<u>\$50,306,815</u>

C. Other Information

The depreciation amount reported above represents prior years depreciation not reported on the FY 1992 Financial Statements. Documentation was also obtained which reflected an increase in the capitalized value of the Pentagon by \$7,820,092.

Supplemental

***PENTAGON RESERVATION
MAINTENANCE
REVOLVING FUND***

SUPPLEMENTAL

Supplemental

REPAIRS AND ALTERNATIONS - PROJECT BACKLOG

Definition

Repair and Alternations (R&A) Cost of labor, supervision, supplies, materials and contractual services for repairs, replacements, modifications and restorations having an estimated cost (including design, management and inspection) over \$10,000

R&A Project Backlog The total estimated cost of the inventory of all identified R&A projects as of the prior fiscal year ending September 30

Performance Measure:

Current year backlog expressed as a percent of the average R&A Project Backlog since FY 91, adjusted for inflation

Significance

Assuming a complete, valid and accurate R&A project inventory, net change from the average project backlog is an indicator of overall deterioration or improvement in the condition of building structures and mechanical and electrical systems

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Supplemental

Backlog Index (Base Year = 1992)

TOTAL FUNDING REQUIRED TO COMPLETE

\$11,876,486

STANDARD LEVEL-REPAIRS (75 Projects)

PROJECT	BUILDING	ORG RESP	PROJECT DESCRIPTION	ESTIMATED PROJECT COST					
				INCREMENTAL			CUMULATIVE		
				CONSTRUCTION	DESIGN	TOTAL	CONSTRUCTION	DESIGN	TOTAL
Pentagon		PRPU	Relocate Chilled Water Lines	1 000 000		1 000 000	1 000 000	0	1 000 000
Pentagon		PRPU	Replace River Terrace Bldg	3 700 000		3 700 000	4 700 000	0	4 700 000
Pentagon Bldg		FFI	Steam Cools control valves condensate lines	30 000		30 000	4 730 000	0	4 730 000
PULP		FFD	Replace steam/condensate valves expansion joints	80 000		80 000	4 810 000	0	4 810 000
FB2		FFI	HVAC Controls and dampers	300 000		300 000	5 110 000	0	5 110 000
Pentagon Bldg		FFD	Replace 24 boundary drains	48 000		48 000	5 158 000	0	5 158 000
FB2		FFD	Asbestos abatement	100 000		100 000	5 258 000	0	5 258 000
PULP		FFD	Asbestos abatement	45 000		45 000	5 303 000	0	5 303 000
Pentagon Bldg		FFD	Chilled water liner valves	30 000		30 000	5 333 000	0	5 333 000
Pentagon Bldg		FFI	Replace steam PR Valves all stations	80 000		80 000	5 413 000	0	5 413 000
Pentagon Bldg		FFI	Asbestos abatement	550 000		550 000	5 963 000	0	5 963 000
Pentagon Bldg		FFD	Drinking Water Pumps	100 000		100 000	6 063 000	0	6 063 000
Pentagon Bldg		FFI	Repair or Replace exit doors	200 000		200 000	6 263 000	0	6 263 000
Pentagon Bldg		FFI	Air handler drain pans	60 000		60 000	6 323 000	0	6 323 000
Pentagon Bldg		FFI	H A C duct cleaning	120 000		120 000	6 443 000	0	6 443 000
Pentagon Bldg		FFI	Fire doors - a rung	60 000		60 000	6 503 000	0	6 503 000
FB2		FFI	New Roof Design(except 5th wing)	75 000		75 000	6 578 000	0	6 578 000
PULP		FFI	Overhaul condenser water pump	65 000		65 000	6 643 000	0	6 643 000
FB2		FFI	Asphalt parking lot repair stripe signs	75 000		75 000	6 718 000	0	6 718 000
FB2		FFE	Fire Alarm system upgrade construction	1 500 000		1 500 000	6 218 000	0	8 218 000
FB2		FFI	Roof repairs(5th wing)	75 000		75 000	8 293 000	0	8 293 000
FB2		FFI	Replace convectors	50 000		50 000	8 343 000	0	8 343 000
FB2		FFI	Exterior stair railing replacement	50 000		50 000	8 393 000	0	8 393 000
Pentagon Bldg		FFI	Cyclical painting	400 000		400 000	8 793 000	0	8 793 000
FB2		FFI	Parking building exterior lighting	25 000		25 000	8 818 000	0	8 818 000
FB		FFD	A/E study for handicapped accessibility	20 000		20 000	8 838 000	0	8 838 000
Pentagon Bldg		FFI	It expansion joints concrete	20 000		20 000	8 858 000	0	8 858 000
Pentagon Bldg		FFI	Install weathermaster filters (O&M)	25 000		25 000	8 883 000	0	8 883 000
FB2		FFI	Entrance door repairs	15 000		15 000	8 898 000	0	8 898 000
FB2		FFD	Cyclical painting	50 000		50 000	8 948 000	0	8 948 000
FB2		FFI	Corridor renovations/general	200 000		200 000	9 148 000	0	9 148 000
FB2		FFD	Restroom upgrades	50 000		50 000	9 198 000	0	9 198 000
FB2		FFD	A/E study of water systems	40 000		40 000	9 238 000	0	9 238 000
PULP		FFD	Retube No 1 boiler	300 000		300 000	9 538 000	0	9 538 000
PULP		FFD	Repair chilled water pumps	25 000		25 000	9 563 000	0	9 563 000
PULP		FFD	Overhaul chiller	150 000		150 000	9 713 000	0	9 713 000
PULP		FFD	Repair replace chilled water valves	100 000		100 000	9 813 000	0	9 813 000

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Supplemental

Backlog Index (Continued) (Base Year = 1992)

TOTAL FUNDING REQUIRED TO COMPLETE

\$11,976,486

STANDARD LEVEL-REPAIRS (75 Projects)

PROJECT	BUILDING	ORC RESP	PROJECT DESCRIPTION	ESTIMATED PROJECT COST					
				INCREMENTAL			CUMULATIVE		
				CONSTRUCTION	DESIGN	TOTAL	CONSTRUCTION	DESIGN	TOTAL
1950*	Pentagon Bldg	FFD	ROOF REPAIR	2,553		2,553	9,815,553	0	9,815,553
19518	TECH STAFF	FFD	KISS & DROP CONFIG	10,000		10,000	9,825,553	0	9,825,553
19528	Pentagon Bldg	FFD	POAC SIDE WALK PAVING	665		665	9,826,218	0	9,826,218
19534	Pentagon Bldg	FFD	REPL MTL DRS E/ACCORD FIRE DRS	69,500		69,500	9,895,718	0	9,895,718
19535	FBII	FFD	REDESIGN UNSAFE STAIRS	15,000		15,000	9,910,718	0	9,910,718
19536	Pentagon Bldg	FFD	REPR LEAK MTR POOL TANKS	103		103	9,910,821	0	9,910,821
29506	FB2	FFD	Asbestos rem Fin AHL 2 mech rms	86,168		86,168	9,997,009	0	9,997,009
29508	TECH STAFF	FFD	Concrete Sidewalk & curbs for Pentagon	171,950		171,950	10,168,959	0	10,168,959
29509	FB2	FFD	Repl Connectors thru-out bldg	500		500	10,169,459	0	10,169,459
29513	TECH STAFF	FFD	A&E South Loading ingress/egress	53,148		53,148	10,222,607	0	10,222,607
29515	TECH STAFF	FFD	C Eng Sids Chill Wtr 9 10 Corr	100,000		100,000	10,322,607	0	10,322,607
29522	Pentagon Bldg	FFD	Replace Ders Ramps 1 2 3	19,518		19,518	10,342,124	0	10,342,124
29530	FB2	FFD	Rem. 1B1 & 3 wings	70,610		70,610	10,412,734	0	10,412,734
29545	Pentagon Bldg	FFD	Repair Expansion joint 10 oc	18,036		18,036	10,430,770	0	10,430,770
29546	AWG	FFD	Install 5 ton AC BF915A	7,594		7,594	10,438,363	0	10,438,363
29547	Pentagon Bldg	FFD	Replace drs Concourse 10 con	2,865		2,865	10,441,228	0	10,441,228
29548	Pentagon Utility Plant	FFD	Evaluate/Repair chilled water pipes	160,992		160,992	10,602,220	0	10,602,220
29502	FB2	FFD	Recondition Fan Cool units	0		0	10,602,220	0	10,602,220
29519	AWG/Pentagon Bldg	FFD	Removats & Cor E wing 4th D	(2,869)		(2,869)	10,599,351	0	10,599,351
29543	Pentagon Utility Plant	FFD	Rpr Steam Line in FB2	(15,069)		(15,069)	10,584,282	0	10,584,282
39502	TECH STAFF	FFD	Install Energy Save Lights	75,892		75,892	10,660,175	0	10,660,175
39505	FB #2	FFD	Install Energy Grease Traps	8,209		8,209	10,668,383	0	10,668,383
39506	Pentagon Utility Plant	FFD	Replace 29&53 drs	442,000		442,000	11,110,383	0	11,110,383
39507	FB #2	FFD	Renovate 1300 Cor	141,787		141,787	11,252,170	0	11,252,170
39508	FB #2	FFD	Build Storeroom	20,693		20,693	11,272,864	0	11,272,864
39510	Pentagon Bldg	FFD	Supply Storeroom 9 10 con	36,000		36,000	11,310,864	0	11,310,864
39511	FB #2	FFD	Repair A11 30 rm G724	95,153		95,153	11,406,017	0	11,406,017
39513	AWG	FFD	Build Print room	19,566		19,566	11,425,583	0	11,425,583
39515	AWG	FFD	3rd floor patch, paint	7,550		7,550	11,433,133	0	11,433,133
39516	FB #2	FFD	R.A Evaluation	13,183		13,183	11,446,316	0	11,446,316
39517	Pentagon Bldg	FFD	A&E Evaluation	137,654		137,654	11,583,971	0	11,583,971
39518	FB #2	FFD	Door replacement -Roof	29,258		29,258	11,613,228	0	11,613,228
39519	FB #2	FFD	Repair air handlers 78&79	3,277		3,277	11,616,505	0	11,616,505
39520	FB #2	FFD	Install lights parking lot	55,000		55,000	11,671,505	0	11,671,505
39521	Pentagon Utility Plant	FFD	Repair sewage pumping station	47,150		47,150	11,718,655	0	11,718,655
39522	Pentagon Bldg	FFD	Repair A/E Drive 7th Cor	84,148		84,148	11,802,803	0	11,802,803
39523	Pentagon Bldg	FFD	Replace handic drs 3rd Cor	9,815		9,815	11,812,618	0	11,812,618
39528	FB2	FFD	3400 Wing structural support/air duct	26,904		26,904	11,839,522	0	11,839,522
39529	FB2	FFD	Post and Chain Fence Southgate Rd	62		62	11,839,584	0	11,839,584
39530	FB2	FFD	Parking lot asphalt repairs and striping	40,000		40,000	11,879,584	0	11,879,584
39531	FB2	FFD	Fire alarm system upgrade design/survey	21,902		21,902	11,901,486	0	11,901,486
39533	FB2	FFD	Roof replacement survey	75,000		75,000	11,976,486	0	11,976,486

Supplemental _____

ENERGY CONSERVATION CONSUMPTION INDEX

Definitions

British Thermal Unite (BTU) Heat (energy) required to raise temperature of one (1) pound of water one degree from 59F to 60F at standard atmospheric pressure

Gross Square Feed (GSF) All floor area (including all openings in floor slabs) measured to the outer surfaces of exterior of enclosing walls and includes all floors, mezzanines, halls, vestibules, stairwells, service and equipment rooms, penthouses, enclosed passages and walks, finished usable space with sloping ceilings (such as attic space) having 5 feet of more headroom and appended covered shipping or receiving platforms at truck or railroad car height Also included in gross floor area, but calculated on one-half of actual floor area, are covered open porches, passages and walks, with appended uncovered receiving and shipping platforms at truck or railroad car height

Performance Measure

Percent change in average energy consumption expressed as KBTU's/GSF (thousand of BTU's per gross square foot), between the current year and the preceding fiscal year and between the current year and the base year, FY 88 (Base year established as year the reservation was delegated from GSA to DoD)

Significance

Utilities and fuels costs for the Pentagon Reservation account for about 14% of Total standard level costs for Real Property Operations Changes in average rate of energy consumption, is an indicator of not only efficiencies achieved in the operation and maintenance of building mechanical and electrical systems, but also the effectiveness of Management's initiatives to encourage prudent energy use by building tenants

**AVERAGE ENERGY CONSUMPTION
PENTAGON RESERVATION
(KBTU'S/GSF)**

FISCAL YEAR	KBTU PER GSF	PERCT.CHANGE FROM BASE YEAR	PERCT. CHANGE FROM REV. YEAR
1988	167 3		
1992	153 8	-9%	N/A
1993	156 8	-6%	2%

* BASE YEAR = 1988

Supplemental

OFFICE SPACE UTILIZATION RATE

Definitions

Occupiable Square Feet/Area (OSF) That portion of the gross area which is available for use by an occupant agency's personnel for furnishings including space available jointly (joint use) to all building occupants such as conference rooms, cafeterias, training rooms, auditoriums, etc. It is computed by measuring from the occupants side of ceiling high corridor partitions or partitions enclosing mechanical, toilet and/or custodial space to the inside finish of permanent exterior building walls or the face convertor if the convertor occupies at least 50 percent of the length of the exterior wall. When computing occupiable area separated by partitions, measurements are taken from the center line of the partitions.

Workstation Allocations within an office space assignment that provides working area for one or more persons during a single eight-hour shift. In general, the number of work stations in an office assignment should not exceed the number of personnel housed in an assignment.

Office Space Space which provides an environment suitable in its present state for an office operation.

Performance Measure

Percent change in utilization rate (UR) for office space expressed as OSF/Workstation, between the current year and the preceding fiscal year and between the current year and a base year (i.e., FY 91).

Office space utilization rate (UR) calculated by dividing total occupiable area of assigned office space by the total number of workstations within the assigned space.

Significance

Although there are other mitigating variables that must be carefully considered in interpreting this statistic, the UR is an indicator of overall efficiency in the assignment and management of space by WHS and other DoD Components within the Pentagon Reservation.

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Supplemental

**PENTAGON RESERVATION MAINTENANCE
REVOLVING FUND**

**OFFICE SPACE
UTILIZATION RATE**

**PENTAGON
RESERVATION
BY MAJOR
COMPONENT**

DOD COMPONENT	OCCUPIABLE SQUARE FEET-OFFICE			AUTHORIZED PERSONNEL ASSIGNED TO OFFICE SPACE			UTILIZATION RATE-OFFICE (Occ Sq Ft/Auth pers)		
	FB #2	Pentagon	Total	FB#2	Pentagon	Total	FB#2	Pentagon	Total
		Blgd.			Blgd.			Blgd.	
OSD	540	540 872	541 412	28	4 111	4 139	19.3	131.6	130.8
ARMY	810	773 676	774 466	0	6 515	6 524	90.0	118.7	118.7
NAVY	624 265	335 217	959 282	5 340	2 326	7 675	116.7	144.1	125.0
AIR FORCE	0	662 841	662 841		5 140	5 140	0.0	128.7	128.7
OJCS	0	234 700	234 700		1 777	1 777	0.0	132.1	132.1
DISA	0	74 256	74 256		527	527	0.0	140.9	140.9
DIA	0	143 532	143 532		1 145	1 145	0.0	125.4	125.4
DMA	0	2 285	2 285		4	4	0.0	571.3	571.3
NSA	0	1 870	1 870		15	15	0.0	125.3	125.3
TOTAL PENTAGON RESERVATION	624 415	2 769 328	3,394 743	5 386	22 072	27 458	116.1	125.3	123.6

SOURCE Real Estate & Facilities Div (SPAD/RMO)

Supplemental

FINANCIAL ATTRIBUTES OF DOD ENTITIES

**WHS - PENTAGON RESERVATION MAINTENANCE
REVOLVING FUND**

OPERATING COSTS ATTRIBUTE

(Dollars in thousands)

	FISCAL YEAR		Average
	1992	1993	
Current Dollars			
Total Costs and Expense	74,161	104,052	89,107
Revenues and Reimbursements	(103,774)	(74,116)	(88,945)
Net Operating Costs	(29,613)	29,935	161
Annual Percentage Change		(200.2)%	
1990 Constant Dollars			
Net Operating Costs	(30,531)	30,863	166
Annual Percentage Change		(100.1)%	

OPERATING COSTS ATTRIBUTE

The Operating Costs Supplemental Report displays the cost of operating the PRMRF and is useful for planning and budgeting purposes. This attribute can also be used to evaluate overall program operating efficiency, compare program costs to revenues, and assessing alternatives to reduce costs.

The average of expenses and revenue for FY 1993 and FY 1992 reveal that the PRMRF is basically operating on a break even basis which is a primary goal of the fund. Customer orders, which represent revenue to the fund, have been adequate to fund the operating expenses of the fund.

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Supplemental _____

**FINANCIAL ATTRIBUTES OF DOD ENTITIES
WHS - PENTAGON RESERVATION MAINTENANCE
REVOLVING FUND**

OPERATING RESULTS ATTRIBUTE
(Dollars in thousands)

	FISCAL YEAR	
	1992	1993
Revenues		
Federal Sources	103,774	74,116
Public Sources	-0-	-0-
Other	-0-	-0-
Total Revenue	103,774	74,116
Expenses and Losses	74,161	104,052
Net Operating Income (Deficit)	29,613	(29,936)
Additional Appropriations	60,000	-0-
Operating Surplus (Deficit)	89,613	(29,936)

OPERATING RESULTS

The Operating Results Attribute Supplemental Report compares the net operating costs for FY 1993 to the cost for FY 1992. This attribute also combines the PRMRF revenues and additional direct appropriations, less the program's expenses, to identify if sufficient revenues are available to cover operating costs.

The PRMRF has had an operating surplus in FY 1992 which is a positive indicator of the Fund's ability to meet its operating expenses. The fund had a net operating deficit in FY 1993. However, for the two fiscal years combined, it is operating at a net surplus. This attribute also displays the financial risks of the PRMRF, its possible needs for assistance, and its potential cost to the taxpayer.

Supplemental

**FINANCIAL ATTRIBUTES OF DOD ENTITIES
WHS - PENTAGON RESERVATION MAINTENANCE
REVOLVING FUND**

FINANCIAL CONDITION ATTRIBUTE

(Dollars in thousands)

	FISCAL YEAR	
	1992	1993
Available Sources of Cash	100,691	110,150
Future Requirements for Cash	3,234	11,573
Cash Surplus (Shortfall)	97,457	98,577
Total Assets	239,251	167,348
Total Liabilities	3,234	11,573
Debt to Asset Ratio	73.98	14.46

The Financial Condition Attribute Supplemental Report displays the financial position of the PRMRF, and its ability to generate sufficient funds to maintain its operation and meet obligations without additional supplementary resources. This report also provides an understanding of future funding requirements which includes a liability for unfunded accrued annual leave.

The debt to asset ratio for FY 1993 shows that the PRMRF is in a sound financial position since assets are substantially greater than liabilities. This report indicates that the PRMRF has adequate cash and liquid assets to continue its normal day-to-day operations and satisfy its future obligations without additional resources.

The decrease in the debt to asset ratio from FY 1992 to FY 1993 is predominantly due to a \$72 million decrease in the PRMRF assets. This decrease in assets was due to a \$50 million prior period adjustment for depreciation not reported in the FY 1992 financial statements, and a reduction in accounts receivable.

**Pentagon Reservation Maintenance Revolving Fund Financial Statements -
FY 1993**

Supplemental _____

**FINANCIAL ATTRIBUTES OF DOD ENTITIES
WHS - PENTAGON RESERVATION MAINTENANCE
REVOLVING FUND**

FINANCIAL OBLIGATIONS ATTRIBUTE

(Dollars in thousands)

	FISCAL YEAR	
	1992	1993
Total Current Assets	144,778	116,110
Total Current Liabilities	3,234	9,331
Current Ratio	44.76	12.44
Total Quick Assets	144,778	116,110
Total Current Liabilities	3,234	9,331
Acid Test Ratio	44.76	12.44

FINANCIAL OBLIGATIONS ATTRIBUTE

The Financial Obligations Attribute Supplemental Report displays the current ratio and acid test ratio for the PRMRF. The current assets include Fund Balance with Treasury, Advances, and Accounts Receivable. The Current liabilities include Accounts Payable-Non Federal, Accrued Payroll and Benefits, Accounts Payable-Federal, and Deferred Revenue.

Since the current assets and quick assets are equal for the PRMRF, the current and acid test ratios are the same. These attributes are the indicators of the Fund's ability to pay its liabilities. The information relating to the Fund's financial obligations is important because these obligations represent a future demand for cash from the PRMRF.

The analysis of these indicators reveals that the PRMRF has sufficient resources to cover its current liabilities and obligations. The decrease in the current and acid test ratios from FY 1992 to FY 1993 is due to a reduction in accounts receivable of \$38.1 million and an increase in accounts payable of \$6.1 million.

Part VI - Management Comments

Washington Headquarters Services Comments



DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
1155 DEFENSE PENTAGON
WASHINGTON, DC 20301-1155



16 May 1994

MEMORANDUM FOR ACTING DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE,
(DODIG)

SUBJECT: Draft Report on Internal Controls and Compliance with
Laws and Regulations for the Pentagon Reservation
Maintenance Revolving Fund Financial Statements for
FY 1993 (Project 3FG-2010)

The subject draft report has been reviewed and the following
comments are provided per your request.

11

Objectives (p. 3, para 3, sentences 2 and 3)

The alleged material weaknesses were not reported by WHS in
its Annual Statement of Assurance for FY 1993 because they were
not considered to be material, nor were they disclosed until five
months after the report was submitted. The annual FMFIA report
was submitted on November 1, 1993, while the audit work was not
finished until March, 1994. The only alleged material weakness
identified in the audit was the system of recording expenses.

5

Scope and Methodology (p. 4, para 1, last sentence)

The field work of the PRMRF audit lasted approximately five
months. During that time period, WHS provided the audit staff
with numerous computer-generated listings and reports such as
trial balances (closing and pre-closing), 1176 reports,
depreciation schedules, document details, subsidiary ledger
listings, ASCII data files, and several other special reports.

In no instance did any auditor find an inconsistency on a
report or question the validity of any report's contents. To
state that after 5 months of intense scrutiny of automated
products of the system, "time constraints" precluded the
evaluation of the system's reliability, is inconsistent with the
facts. Whether the auditors realized it or not, their detailed
audit work based on these listings, reports and data files did
evaluate and attest to the reliability of the automated system.

An "audit through the computer" using IG test data would
support this observation. This method was used by the DFAS-
Richmond Detachment in January, 1993, and their results confirmed
that the automated system was in compliance with GAO principles
and standards. The evaluation was accomplished in three days.



Scope and Methodology (p. 4, para 4, sentence 1)

5

Based on guidance received in a January 12, 1994 memorandum from the DoD Deputy Chief Financial Officer, a management representation letter was prepared and submitted to the Assistant Inspector General for Auditing on January 28, 1994. The signature level for our management representation letter was defined by the Deputy CFO as the senior management official responsible for the reporting entity, which is the Director of Budget and Finance.

The guidance memorandum also stated that the Defense Finance and Accounting Service (DFAS) shall not be requested to co-sign management representation letters, or provide separate management representation letters. However, DFAS is required to provide supporting certification to the official signing the management representation letter. DFAS did provide this certification which was provided to the audit staff.

Advisory Memorandum (p. 5)

8

Even though the management advisory memorandum was dated March 15, 1994, the issues addressed in the memorandum were discussed and resolved during meetings held in November and December, 1993. The advisory memorandum should have been issued in October, 1993. The audit report is misleading in stating that the conditions were disclosed in March, 1994, when in actuality these issues were resolved 3 months earlier.

It is also important to note that the only material internal control weakness identified, the system of recording expenses, which is addressed at great length in the draft audit report, was not addressed in the advisory memorandum.

Matching of Account Balances (p. 6, para 1, last sentence)

12

The draft report states that "..., no matches could be made." The WHS Allotment Accounting System (WAAS) uses a six character field for the voucher number. The DFAS-DE Bolling office, which provides disbursing support for WHS, uses voucher numbers varying from four to eight characters and is inconsistent in the use of that field. Importantly, there were a substantial number of matches between the two databases when the leading zeros and blanks were eliminated.

Results of Audit (p. 6, sentence 1)

13

The CFO reports being audited do not "adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance."

The WHS Allotment Accounting System produces a wide variety of financial and management reports on a monthly basis and upon request that are used by the Fund's managers to effectively control and manage resources. The CFO financial statements are not used for any managerial purpose and are not current enough to be used for that purpose.

The CFO financial statements are not completed until late December of each year and can be changed until the completion of the audit cycle. They contain a "snapshot" of accurate and reliable financial information at the time of publication. However, the data is considered to be too out-of-date to be used to manage and evaluate operational performance.

13

Accrual Accounting (p. 7)

The draft report states that, "The method of accrual accounting was not always implemented when recording revenues and expenses." The WHS Allotment Accounting System (WAAS) is designed to perform accrual accounting and has all necessary general ledger accounts to accomplish accrual accounting.

However, to consistently perform accrual accounting for 100 per cent of PRMRF accounting events would require at least three more accountants and very comprehensive document flow procedures to ensure receipt of accrual documents from a wide variety of sources.

We are studying the feasibility of creating an automated accrual procedure for expenses that occur on a monthly basis that would satisfy this requirement without an increase in staff.

13

Recording of Program or Operating Expenses (p. 7)

The draft report states that 282 expense transactions were tested having a value of \$19.9 million. It further states that, for 25 of these transactions, the expense was recorded in the wrong fiscal year. The value of these 25 transactions was \$2.8 million.

A review of the audit staff's work reveals two material errors. An invoice for \$786,586.43 for document number AL20007 was identified by the audit staff as being recorded in the wrong period. The invoice was dated December 4, 1993 and was for electricity usage based on a meter reading taken on October 12, 1993. This is an expense properly chargeable to FY 1994, contrary to the audit team finding.

An SF1080 bill was received from the Army Corps of Engineers on October 15, 1993 and subsequently sent to Bolling AFB for payment on October 23, 1993. The charges on this bill were for the period ended September 30, 1993. However, since we had no

documentary evidence of work being performed prior to closing the books on October 1, 1993, the expense for this bill was properly charged after opening the books for FY 1994.

The DoD Financial Management Regulation (DoD 700.14-R) describes the key accounting requirement for accrual accounting in Volume 1, Chapter 3, on page 31. It states that "Amounts of accrued expenses and revenues must be recorded only when supported by prescribed documentary evidence on the basis of initial documentation received. Examples of acceptable documentation received include receiving reports, bills of lading, job sheets, certified unpaid invoices and journal vouchers showing estimates by responsible officials." For the bill in question, none of these existed as of October 1, 1993.

Earnings of Revenue (p. 7)

The amount of revenue that was recognized in FY 1992 and 1994 is considered to be immaterial. The amount of revenue that was identified as mismatched between fiscal years only amounts to 1.8 percent of total revenues recorded for FY 1993.

Recognition of Administrative Fees (p. 8, para 1, sentence 1)

The draft report states that the administrative fees "were not recognized as revenue when earned." The administrative fees are for contract administration, management oversight, accounting support, and other miscellaneous overhead activities supporting the reimbursable program.

DoD Instruction 5030.60, dated September 17, 1993, section E. 2. b. states "The IAD, B&F, shall establish the project as a unique cost center in the WHS accounting system and establish the customer billing file. Any administrative cost distribution reflected on the DD Form 2647 shall be applied at that time."

The services covered by the administrative fee are normally performed in advance of the actual work being performed under a work order. It is proper to earn this revenue when the work request is accepted, as the work pertaining to this fee has been performed and should not be confused with the project labor.

Conditions Impacting on Use of Accrual Accounting (p. 8, para 1)

The WHS Allotment Accounting System is designed to allow the individual recording of a revenue transaction. However, due to staffing shortages, and in order to both minimize the number of transactions and to maximize ADP processing, management decided to program the system to automatically earn the revenue based on obligations being recorded. WHS personnel can selectively record revenues in the system when the earning occurs contrary to what the audit report states.

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Conditions Impacting Use of Accrual Accounting (p. 8, para 2)

The draft report states that "However, no action was taken to identify and establish alternative controls to comply with the accrual method of accounting for the FY 1993 financial statements." The Installation Collection And Payment System (ICAPS) and the Reimbursable Billing System were developed and implemented during the past 18 months to address this particular problem. Since WHS is not a disbursing office, WHS is vulnerable to the extreme time delays of the finance network.

These two new subsystems have significantly reduced the time lag in recording of accruals, revenue, disbursements and collections. The statements in this paragraph are inaccurate and ignore the information requested by and provided to the audit staff on several occasions.

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Leasehold Improvements (p. 9, para 1)

DoD Instruction 5305.5, dated May 23, 1966, subject: "Space Management Procedures, National Capital Region", paragraph IV, delegates responsibility for overall space management and planning within the NCR to the Assistant Secretary of Defense for Administration. The DoDI further states that the ASD for Administration (now called the Director for Administration and Management) is responsible for obtaining space from GSA, as required, and assigning, withdrawing, and reassigning space within the DoD. Thus the tenants of the Pentagon Reservation are not free to vacate at any time and no lease is necessary in light of current directives.

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Use of Accrual Accounting (p. 14, para 1, last 2 sentences)

The draft report states "We found material internal control weaknesses in the system of recording revenues and expenses." The finding on the system of recording revenues was deemed to be immaterial. The only alleged material weakness is in the system of recording expenses. WHS is addressing the feasibility of automating the recording of recurring expenses.

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Accumulation of Work in Process Costs (p. 15)

Work in process costs were accumulated by work order number in the WAAS. However, these costs were immediately expensed rather than posting the costs to the asset accounts until completion and then transferring these costs to the expense accounts. It would require extensive resources to account for these projects using the work in process accounts. However, to say that these costs are not under financial control is inaccurate. We concur with the statement that "they were not segregated from current accounting period expenses on the financial statements."

Use of Performance Measures

The draft report states that only seven of the eight performance measures were included in the financial statements. It further states that the program performance measure of Utilization Surveys was not included.

This statement is true. However, an additional performance measure for Energy Consumption was added to both the FY 1992 and FY 1993 financial statements. This provided a more meaningful program measure since energy consumption is a high cost item for the Pentagon Reservation. Since there were no comments on the performance measures used in the FY 1992 statements, the same measures were used again for the FY 1993 statements.

Summary (p. 17)

The draft report states that "WHS has delays in receiving information that sometimes result in fluctuations." The WHS accounting process is dependent on the current structure of the disbursing finance network throughout DFAS and is always affected by the inherent time delays in that system.

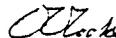
If WHS had not taken the initiative to develop and implement ICAPS and the Reimbursable Billing Subsystems, then the results of the audit would have shown even more mismatches of expenses and revenues over different accounting periods. The matching of expenses and revenues were performed as well as possible with the staff available for that function.

Revenues were earned on a consistent basis based on the obligation, and expenses were accumulated and accounted for by project within the prescribed OMB object classes.

Based on the limited staff (3.5 FTE) available to perform accounting for the PRMRF, the sometimes lengthy time delays in receiving financial information through the DFAS finance network, the inconsistent and sometimes untimely receipt of vendor invoices, and delayed receipt of progress reports from the Army Corps of Engineers, matching 98.2 percent of revenues and 90 percent of expenses in the proper period is commendable.

My point of contact for this matter is Mr. William Bader who can be reached at 703-614-0971.

The opportunity to comment is appreciated.



D. O. Cooke
Director

Audit Team Members

Russell A. Rau
Terry L. McKinney
F. Jay Lane
Dennis L. Conway
Y.K. Chen
Jerri D. Johnson
Pamella W. Biggs
Mark W. Baxley
Robert L. Hoss
Cynthia L. Hines
Frank C. Sonsini
Brian M. Taylor
Joan E. Fox
Sheila L. Hampton