Audit Report

ACCURACY OF THE GOVERNMENT-OWNED CONTRACTOR-OCCUPIED REAL PROPERTY IN THE MILITARY DEPARTMENTS' REAL PROPERTY DATABASES

Report No. D-2001-026 December 22, 2000

Office of the Inspector General
Department of Defense

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Acronyms

CPMS	Contract Property Management System
DCMA	Defense Contract Management Agency
GOCO	Government-Owned Contractor-Occupied
JHU-APL	Johns Hopkins University Applied Physics Laboratory
NAVFAC	Naval Facilities Engineering Command
NFADB	Navy Facility Assets Data Base

INSPECTOR GENERAL
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December 22, 2000

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
NAVAL INSPECTOR GENERAL

SUBJECT: Audit Report on Accuracy of the Government-Owned Contractor-Occupied Real Property in the Military Departments' Real Property Databases (Report No. D-2001-026)

We are providing this report for review and comment. We performed the audit to support the requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Assistant Secretary of the Air Force Deputy Chief of Staff (Installations and Logistics, Civil Engineer), comments were partially responsive on Recommendation 2.d. The Naval Facilities Engineering Command comments on Recommendation 1.b. were not responsive. We request that the Assistant Secretary and the Commander reconsider and provide additional comments in response to the final report by February 22, 2001.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. David F. Vincent at (703) 604-9109 (DSN 664-9109) (dvincent@dodig.osd.mil) or Ms. Barbara A. Sauls at (703) 604-9129 (DSN 664-9129) (bsauls@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

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Assistant Inspector General
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Office of the Inspector General, DoD

Report No. D-2001-026 **December 22, 2000**
(Project No. D1999-FH-0089.000)

Accuracy of the Government-Owned Contractor-Occupied Real Property in the Military Departments' Real Property Databases

Executive Summary

Introduction. This audit was performed to support the requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. Accurate reporting of real property on the Military Departments' real property databases is essential to DoD and the Federal Government receiving favorable audit opinions on their financial statements. For FY 1999, contractors reported $7.7 billion of Government-owned contractor-occupied real property. We reviewed 289 properties at a reported value of $170 million. Contractors occupying Government-owned facilities have the responsibility to maintain detailed records for the real property and annually report the real property through submission of the DD Form 1662, "DoD Property in the Custody of Contractors," to the Defense Contract Management Agency. In addition, the Military Departments must include Government-owned contractor-occupied real property in their real property databases because they retain the title to the property.

Objectives. Our objective was to determine whether the Military Departments' real property databases accurately accounted for the existence, completeness, and valuation of real property in the possession of contractors. In addition, we assessed compliance with laws and regulations and the management control program.

Results. The Army real property databases that we sampled contained an accurate inventory of Government-owned contractor-occupied real property, but the Navy and Air Force databases did not. The Navy real property database did not include 17 of the 80 facilities, with a reported value of $38.9 million, tested for completeness, and the Air Force real property database did not include 8 of the 69 facilities, with a reported value of $43.1 million, tested for completeness. As a result, the Navy real property database was understated by at least $13.0 million or 33.4 percent of the value of the tested facilities, and the Air Force database was understated by at least $6.8 million or 15.8 percent of the tested facilities before consideration of the valuation errors. In addition, the Air Force did not accurately reflect the value of at least 56 properties in the real property databases. The Air Force reported value for the 56 properties was $31.9 million. The contractor reported value was $146.6 million. As a result, the Air Force understated real property by an additional $114.9 million or 78.4 percent of the contractor reported amount. See Appendix A for details of the management control program as it relates to the accuracy of the Military Departments' real property databases for Government-owned contractor-occupied facilities.

Summary of Recommendations. We recommend that the Commander, Naval Facilities Engineering Command, and the Assistant Secretary of the Air Force, Deputy

Chief of Staff (Installations and Logistics, Civil Engineer), improve the accuracy of the real property databases for Government-owned contractor-occupied real property through a reconciliation between the real property reported by the contractors on the DD Form 1662, "DoD Property in the Custody of Contractors," and the real property reported in the real property database. Specifically, the Air Force should correct the real property databases for erroneous values assigned to Government-owned contractor-occupied facilities. In addition, the Navy and the Air Force should develop management controls and procedures to ensure that changes made to Government-owned real property by contractors are recorded in the real property databases of the Navy and the Air Force.

Management Comments. The Assistant Secretary of the Air Force, Deputy Chief of Staff (Installations and Logistics, Civil Engineer), concurred with our recommendations. The Assistant Secretary agreed to improve the accuracy of the real property databases by reconciling the DD Form 1662 to the real property accountability records and recommending management controls to the Defense Contract Management Agency for inclusion in contract modifications. In addition, the Assistant Secretary, if necessary, may request the Defense Contract Management Agency to modify the contracts to require that the contractors provide accountability data that is compatible with an Air Force system. Finally, the Assistant Secretary agreed to correct acquisition cost values for FY 2001 properties reported in the accountability records. The Commander, Naval Facilities Engineering Command concurred with our recommendation to improve the accuracy of the real property databases through the issuance of guidance in both the database and the contracting manual. The Commander nonconcurred with our recommendation to develop management controls and processes for the contractor to report data. The Commander stated that the appropriate DoD office had already provided such guidance and that data in the DD Form 1662 and in the Navy Facility Assets Data Base could not be reconciled. The complete text of the comments is in the Management Comments section. The comments are summarized and discussed in the Finding section of the report.

Audit Response. We consider the Assistant Secretary of the Air Force, Deputy Chief of Staff (Installations and Logistics, Civil Engineer), comments to be responsive to the recommendations. However, the Assistant Secretary's response only addressed correcting the acquisition costs for FY 2001 properties. We identified acquisition cost problems with properties that were in the system during FY 1999. As a result, we request that the Assistant Secretary of the Air Force, Deputy Chief of Staff (Installations and Logistics, Civil Engineer), clarify that the intention is to correct the properties valued incorrectly prior to FY 2001 as well the FY 2001 properties. We consider the Commander, Naval Facilities Engineering Command, comments to be partially responsive. The Naval Facilities Engineering Command is responsible for verifying that the Government-owned contractor-occupied properties reported on the DD Form 1662 is properly recorded by the Navy. The Naval Facilities Engineering Command should develop a methodology to verify that the contractor and the Navy real property information is reconciled and recorded correctly in the database. Management controls and processes can be used to improve the accuracy of the information. We request that the Assistant Secretary of the Air Force, Deputy Chief of Staff (Installations and Logistics, Civil Engineer), and the Commander, Naval Facilities Engineering Command, provide additional comments to the final report by February 22, 2001.

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Background

This audit was performed to support the requirements of Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994. On May 15, 1998, the Secretary of Defense issued a memorandum, "Department of Defense Financial Business Practice Reform," which states a commitment to the administration's goal of obtaining a favorable audit opinion on the FY 1999 consolidated financial statements of the Federal Government. Accurate reporting of all real property on the Military Departments' real property databases is essential to DoD receiving favorable audit opinions in the future. For FY 1999, contractors reported $7.7 billion of Government-owned contractor-occupied (GOCO) real property.

This report is the fourth in a series of reports on accounting for property, plant and equipment. The first report states that real property databases for the Military Departments generally contained sufficiently accurate inventories of real property with individual reported values greater than $100,000. The second report states that the Defense Commissary Agency had improved personal property accountability; however, the personal property database of October 1999 did not contain an accurate inventory of personal property. The third report states that the Military Departments' real property databases did not accurately reflect the FY 1999 additions, deletions, and modifications made to real property.

Each contractor occupying Government property is required to report real property annually on the DD Form 1662, "DoD Property in the Custody of Contractors." That form is the input source for the Contract Property Management System (CPMS) database maintained by the Defense Contract Management Agency, previously the Defense Contract Management Command. The contractor has the responsibility to maintain detailed records for the real property and annually report to the Government property administrator the beginning and ending balances to include any changes to the real property. In addition, the Military Departments must include GOCO real property in their real property databases because they retain the title to the property.

Comparison of real property data obtained from DD Forms 1662, "DoD Property in the Custody of Contractors," to real property data obtained from the Military Departments' databases provided an exception framework for physical examination of the real property and assessment of the reporting accuracy. We judgmentally selected Army, Navy, and Air Force locations for existence testing (to verify that a record in the database had a corresponding item) and completeness testing (to verify that an observed item had a record in the database). In addition, we reconciled the values reported in the Military Departments' real property databases with the contractor-recorded values for the items tested for existence and completeness.

Objectives

Our objective was to determine whether the Military Departments' real property databases accurately accounted for the existence, completeness, and valuation of real property in the possession of contractors. We assessed compliance with laws and regulations and the management control program. See Appendix A for a discussion of the audit scope, methodology, and the review of the management control program. See Appendix B for prior coverage related to the audit objectives.

Accuracy and Value of Government-Owned Contractor-Occupied Real Property in the Military Departments' Real Property Databases

The Navy and the Air Force real property databases did not contain an accurate inventory of or an accurate value for GOCO real property. The Navy and the Air Force real property databases were not accurate because of poor management controls and noncompliance with applicable laws and regulations. Specifically:

- Management controls were not adequate to ensure that the Navy and Air Force real property personnel obtained the information needed to update the real property databases for the changes that the contractors made.

- The Air Force did not comply with DoD regulations that required accurate valuation of all real property. The Air Force input a $1,000 value in the real property database to recognize GOCO property when completed but did not update the database when it had the final costs.

As a result of our sample, the Navy and Air Force real property databases were understated by at least $13.0 million (33.4 percent) and $6.8 million (15.8 percent) respectively for omitted properties. In addition, the Air Force real property database was understated by an additional $114.9 million for undervalued properties or 78.4 percent of the contractors' reported value.

Real Property Database Systems

Real property database systems were maintained by both the Military Departments and the contractors to account for facilities and their associated costs. For consistency among contractors, Congress requested the creation of a contractor system to record GOCO acquisition values and capital improvement costs. The system contains information about property that DoD owned but that the contractors used according to the Federal Acquisition Regulation part 45, "Government Property," subpart 45.505-7, "Records of Real Property," effective as of April 25, 2000. The Federal Acquisition Regulation states that the contractor records of Government property are the official records. The Government is not to maintain or support duplicate records. However, the CPMS database was not designed for financial reporting, and CPMS contains only summary data of contractor-occupied facilities. Contractors are not required to provide individual costs for each facility. However, the contractor should have the information available for periodic checks or reconciliation by the Government property administrator (property administrator).

The property administrator is responsible for the review and approval of the contractor's property control system to verify compliance with the Government property clauses of the contract. In addition, the property administrator may represent the Defense Contract Management Agency (DCMA) or one of the Military Departments and is responsible for periodic checks of contractor-occupied properties. The property administrator compares the information on the DD Form 1662, "DoD Property in the Custody of Contractors," with a physical inspection of the sites. Reconciliations are performed, when warranted.

The Military Departments do not use the CPMS when reporting GOCO real property on the financial statements. Therefore, the Military Departments must still keep the databases complete with all real property. The Military Departments use codes in the database to identify GOCO properties. However, capturing and summarizing the total dollar value of GOCO real property in the databases is difficult. As a result, to evaluate the materiality of GOCO properties to other real property, we used the values that the contractors reported in the DD Forms 1662.

The Army, to include contractor and Army real property personnel, used the Integrated Facilities System to record $12.3 billion of real property for FY 1999. The Integrated Facilities System allowed real property personnel to enter data from their duty station. The contractors used the Integrated Facilities System as their official real property records for the Army real property. In addition, the contractors reported the required information in CPMS. We sampled 39 facilities for existence testing and 140 facilities for completeness testing.

The Navy used the Navy Facility Assets Data Base (NFADB) to account for $17 billion of Navy-owned real property for FY 1999. The Navy designed a remote access software program to provide Naval personnel with the ability to update NFADB. Before the remote access, and for Navy installations not able to use the software and for all contractor locations visited, personnel at a regional engineering field office in Norfolk, Virginia, were responsible for a manual input of data into NFADB. We sampled 24 facilities for existence testing and 80 facilities for completeness testing.

In the Air Force, the Automated Civil Engineering System replaced the previously used Interim Work Information Management System database. The Air Force reported $18.2 billion in real property in FY 1999. Only contractors located at the Air Force Plants and a few Air Force bases could not enter real property data directly into the Automated Civil Engineering System database. We sampled 63 facilities for existence testing and 69 facilities for completeness testing.

Accuracy of the Military Departments' Databases for GOCO Real Property

Although we found no existence problems at the seven sites visited, management controls were not adequate to ensure that the Navy and Air Force real property databases were complete for GOCO real property. Specifically, the real property personnel responsible for the Military Departments' real property databases did not coordinate effectively with contractors, Government contract administrators, or the military organizations writing the contracts, to obtain the changes made to the GOCO properties.

Testing for Existence. For existence testing, we selected 39 facilities in the Army, 24 facilities in the Navy, and 63 facilities in the Air Force real property databases and verified that the facilities existed. To test for existence, we judgmentally selected assets from the Military Departments' real property databases and traced the assets to their physical location. If we did not find the assets selected, we considered it an existence error. We verified that all 126 facilities existed.

Testing for Completeness. For completeness testing, we selected 140 facilities, with a reported value of $88.2 million, in the Army; 80 facilities, with a reported value of $38.9 million, in the Navy; and 69 facilities, with a reported value of $43.1 million, in the Air Force. We found all 140 assets in the Army real property database. In the Navy, of the 80 facilities selected, we did not find 17 facilities in the real property database. In the Air Force, of the 69 facilities selected, we did not find 8 facilities in the Air Force databases. In addition, both the Navy and the Air Force did not always add capital improvements to the real property databases. As a result, the Navy real property database was understated by at least $13.0 million, and the Air Force real property database was understated by at least $6.8 million.

To test completeness, we judgmentally selected facilities at each location where we performed existence testing and traced the selected asset back to the real property databases to verify that the Military Department included the facility in the real property database. If the Military Department did not include the selected real property facility in the real property database, we considered it a completeness error. To state that the database was reliable for completeness, no more than five percent of the assets tested could be omitted from the database. Figure 1 shows the results of completeness testing at selected locations.

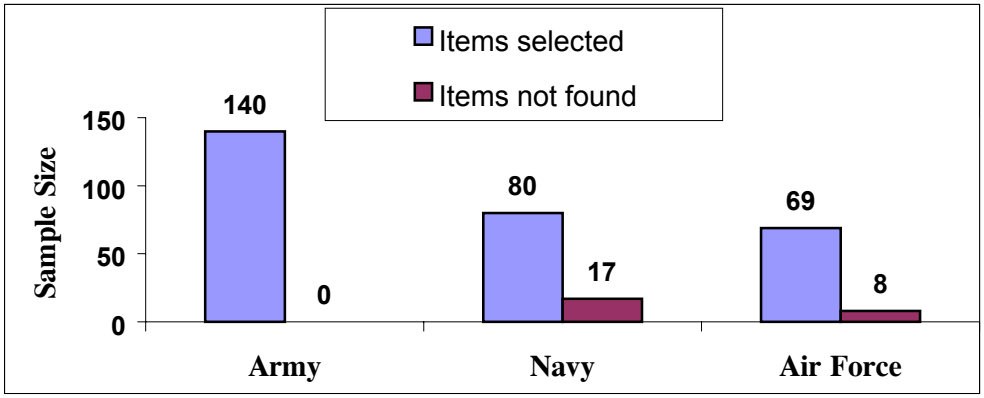

Figure 1. Results of Completeness Testing by Military Department

Accuracy of the Real Property Database at the Army. We performed completeness testing at the Lake City Army Ammunition Plant, Independence, Missouri, and the Hawthorne Army Depot in Hawthorne, Nevada. In the Army, we selected 140 assets and found all of them in the database. The Army did not have a completeness problem because contractors input real property information directly into the Integrated Facilities System. Reporting information in the same system alleviated the need for reconciliation between the contractor's system and the Army systems.

Accuracy of the Real Property Database at the Navy. We performed completeness testing at three sites for the Navy, the Allegany Ballistics Laboratory, Rocket Center, West Virginia; Newport News Shipbuilding, Newport News, Virginia; and the Johns Hopkins University Applied Physics Laboratory (JHU-APL), Laurel, Maryland. In the Navy, we selected 80 assets for testing and could not find 14 buildings and 3 additions to existing buildings in the NFADB. We found no errors at the Allegany Ballistics Laboratory because the contractor communicated directly with Naval Facilities Engineering Command (NAVFAC) personnel in Norfolk, Virginia. The contractor drafted a memorandum to NAVFAC with enclosures of the property record cards indicating new construction at the site. NAVFAC personnel in Norfolk, Virginia, are responsible for updating the NFADB. We found errors at Newport News Shipbuilding and JHU-APL that understated the real property value by $13 million. Because the number of errors exceeded our acceptable error rate, we found the Navy real property database to be unreliable.

Newport News Shipbuilding. At Newport News Shipbuilding, the contractor reported 14 buildings, with a value of $10.2 million, on the DD Form 1662. Although we physically observed the 14 buildings selected for completeness testing, none of the 14 buildings were located on NFADB. We examined the Government's records and held discussions with contractor and NAVFAC personnel to identify the property in NFADB, but without success. The GOCO buildings were scattered among contractor-owned buildings within a large area of the shipyard and were assigned contractor, not Government, building numbers. The contractor did not follow the Federal Acquisition Regulation, subpart 45.506, "Identification," which requires that the contractor

identify Government property in accordance with agency regulations. As a result, the NFADB was incomplete by at least 14 facilities and underreported the real property value by $10.2 million.

Johns Hopkins University Applied Physics Laboratory. At JHU-APL, we tested four items for completeness. Of the four items tested, three assets, valued at $2.8 million, could not be located in the Navy database. Further investigation of the difference indicated that the errors related entirely to additions made to real property since calendar year 1990. With a recent change in property management personnel at JHU-APL, the past additions had been added in total to the DD Form 1662 in calendar year 1998, but not to the NFADB. Although the DD Form 1662 only required the total amount of real property, the NFADB required detailed information per building. Not reporting additions to NFADB caused the three completeness errors and an understatement of $2.8 million.

Accuracy of the Real Property Database at the Air Force. We performed completeness testing at Tinker Air Force Base, Oklahoma, and Air Force Plant 42, Palmdale, California. For the Air Force, we selected 69 assets and could not locate 8 of the assets in the database. At Tinker Air Force Base, we tested 10 facilities for completeness of the Air Force database and found no problems. At Air Force Plant 42, we tested 59 assets for completeness and found 8 errors. Both the Government and the contractor caused the errors. As a result, the Air Force database was understated by at least $6.8 million. Because the number of errors exceeded our acceptable error rate, we found the Air Force real property database to be unreliable.

Eight separate production sites surrounded a common runway complex at Air Force Plant 42. The major contractors occupying the sites were Northrop-Grumman (sites 3 and 4), Lockheed Martin (sites 2, 7, and 8), Cabaco (site 5), and Boeing/National Aeronautics and Space Administration (site 1). Both Lockheed Martin and Boeing/National Aeronautics and Space Administration had completeness errors.

Specifically, at Lockheed Martin, out of the 14 assets tested, 2 had completeness errors. At Boeing/National Aeronautics and Space Administration, we tested 20 assets, which had 6 completeness errors. Boeing held Hush Houses,* with a reported value of $5.4 million, which were classified as real property on the DD Form 1662 but were not included in the Air Force real property database. We included the two Hush Houses in the completeness results because we considered them to be real property. Of the six additional facilities not included in the database, Boeing also held two manufacturing facilities with a reported value of $1.1 million. The eight omitted facilities understated the database by $6.8 million.

*The Hush Houses were designed to suppress aircraft engine noise during testing. The contractors considered the buildings to be real property, but the Air Force considered the Hush Houses to be equipment.

Coordination Among Proponents. We found a lack of coordination between real property personnel and the other proponents responsible for real property accountability. For example, real property personnel at NAVFAC and the Air Force Real Estate Agency did not coordinate with the contractors to obtain the changes made to the real property in their possession. In addition, DCMA and the contract users were not required to provide real property information to the real property personnel. As a result, the information needed to keep the real property databases current was not being obtained or forwarded to the responsible personnel. However, according to DCMA personnel, the Military Departments did have access to the CPMS and could obtain the information from the system.

Navy Coordination. Several breakdowns in coordination existed among the real property personnel, the contractor, the property administrator, and the user. While visiting the Supervisor of Shipbuilding in Norfolk, Virginia, we found 14 GOCO real property items not recorded in the NFADB. The NFADB is the official financial real property record for the Navy and supports the values reported on the financial statements. The Naval Sea Systems Command wrote the contracts and knew of the buildings associated with five different contracts. The contracts listed the buildings and their relative values. The contractors had reliable and auditable property records for each of the buildings as the contract required. DCMA received a DD Form 1662 annually from the contractor and used the DD Form 1662 to update the CPMS database for additions, deletions, and modifications to the real property in the contractor possession. NAVFAC had no knowledge of the buildings, the contracts, or the information reported to DCMA on the DD Form 1662. As a result, NAVFAC did not record the real property in the NFADB, and in turn, it was not reported on the Navy or DoD financial statements. NAVFAC was unaware of the property because DCMA, the Naval Sea Systems Command, the property administrator, and the contractor did not inform NAVFAC of the GOCO property.

The contractors at JHU-APL were required to supply only real property information to the Government when requested. During FY 1998, when the Navy requested real property changes from JHU-APL, the contractor did not report the additions because JHU-APL real property personnel felt that the additions were not Government property. The contractor should have reported all additions to Government-owned real property when requested by the Navy. JHU-APL showed the lack of instructions and requirements for determining reportable changes to Government-owned real property.

Air Force Coordination. We found no completeness errors at Tinker Air Force Base because Government real property personnel entered GOCO real property information directly into the real property database. However, at Air Force Plant 42, the Air Force real property personnel annually mail the AR 7115 report, "U.S. Air Force Real Property Inventory Change Report," to the contractors. In that report, the Air Force requested that the contractors annotate any changes to the real property records. Not all contractors responded to the request, and for those that did respond, some updated only square footage and usage codes. In some instances, the AR 7115 report did not get to the correct contractor personnel, was not returned, or was only partially updated. The instructions accompanying the AR 7115 report were not concise,

and some contractors did not update the AR 7115 report because of past security standards. When the report was returned, the Air Force did not always enter the information in the real property databases.

Coordination among the proponents can be improved through formalized procedures for information gathering and reporting. The Navy and the Air Force should include instructions in the contracts and clearly communicate them to the contractors. In addition, real property officials can use CPMS to obtain summary information on changes made to Government property.

Valuation of Air Force GOCO Real Property

The real property databases in the Air Force did not contain an accurate value for all GOCO properties. Of the 358 assets chosen for valuation testing, 56 Air Force assets had critical valuation errors. As a result, the contractors recorded a value of $146.6 million for the 56 assets, but the Air Force recorded a value of $31.7 million for the same 56 assets, resulting in an understatement of $114.9 million.

Air Force Valuation. In addition to existence and completeness testing, we compared the dollar values recorded in the Military Departments' databases with the dollar values recorded in the contractor's real property records. A critical error occurred when the contractor's recorded value for the selected asset was outside a plus or minus 10-percent range of the Military Departments' recorded value. We chose our sample by using the same assets chosen for existence and completeness testing. We used the contractor's records to identify asset values because not all of the assets were in the Military Departments' databases because of completeness errors. The causes for critical errors can be summarized under the lack of updating the real property databases and the Air Force's erroneous valuation of assets at $1,000.

At Air Force Plant 42, 48 buildings had valuation errors. For example, a contractor reported a value of $795,541 for a building, and the Air Force valued the same building at $68,000. In addition to valuing the building incorrectly, the Air Force omitted the cost to install an electrical system, valued at $259,213. The Air Force reported eight buildings with a contractor-reported value of $106.6 million as $1,000 each. The contractor recorded a value of $99 million for the largest of the three buildings. The Air Force inaccurately valued the real property at the inception of the assets into the database. For inventory purposes, the Air Force recognized real property projects in the database when completed. The final cost to the Government was not always known at that time because of the inability to capitalize a partial work order, pending litigation, and recording assets when placed in service. When the Government had the final costs, either the Air Force was not informed, or the database was not updated. The Air Force should correct the values reported on the properties when the final costs are in place.

Contractor Valuation. Federal Acquisition Regulation part 45, "Government Property," subpart 45.505-14, "Reports of Government Property," requires

contractors to report annually the total acquisition cost of Government-owned property for which they are accountable under each contract. Property administrators at Tinker Air Force Base provided information to the contractors to update their records regarding the cost of the property occupied.

Use of Incorrect Information on DD Form 1662. Contractors at Tinker Air Force Base reported GOCO real property with the replacement value instead of acquisition cost. By using the replacement value instead of the acquisition cost, the reported values of the real property on the DD Form 1662 for Tinker Air Force Base were greatly overstated. Although the acquisition cost of the property tested for existence at Tinker Air Force Base was $1.3 million, the DD Form 1662 stated $25.7 million. The acquisition cost of the property tested for completeness was $5.9 million; however, the DD Form 1662 stated $16.4 million. Although the incorrect values were used on the DD Forms 1662, the reported values on the financial statements were not affected because the Government did not use the DD Form 1662 for financial statement reporting purposes. Because our objectives did not include validating the DD Form 1662, we did not do an in-depth review of the values reported.

Omissions on the DD Form 1662. At Air Force Plant 42, we found problems with omitted DD Forms 1662. Lockheed Martin reported $41.6 million in real property on its DD Form 1662. The contractor prepared the DD Form 1662 and gave it to the Government's property administrator. The DCMA property administrator did not submit the DD Form 1662 to DCMA for input into the CPMS database. The reason that the property administrator gave for withholding the $41.6 million from the CPMS database was security reasons. The property administrator could not provide any documentation or written authorization to withhold the data for security reasons. All the other contractors at Air Force Plant 42 submitted a DD Form 1662. In addition, all of Lockheed Martin's buildings were visible from public roads and could be seen during commercial air flights. In addition, Northrop-Grumman incorrectly reported $7.9 million for real property on site 8 on its DD Form 1662. Because Northrop-Grumman no longer occupied site 8, it should not be included on the total of real property reported on its DD Form 1662. Lockheed Martin occupies site 8 and should report it on its DD Form 1662. Both Northrop-Grumman and Lockheed Martin erroneously included land values within the "Other Real Property" total on the DD Form 1662.

Summary

To maintain accountability of GOCO facilities, several proponents must coordinate. The real property database personnel, the Government contracting entity, the Government property administrator, and the contractor each have responsibility. Whenever the contractor modifies or adds property, the information must be communicated not only to DCMA through the CPMS, but to the real property database personnel, too. At the time of this audit, the vehicles exist to allow for communication, but the management controls are not in place to ensure use of the vehicles. Because the contractors maintain the official records for the Military Departments, the Navy and the Air Force need

to use a formalized method, such as the one that the Army developed. In addition, the Military Departments can have access to the summary information in CPMS. However, the Military Departments must obtain the information reported on the DD Form 1662, in its individual form. If the process is not put in place, the Military Departments' real property databases cannot be relied upon for completeness. Because of the management control weakness, the Military Departments' real property databases were understated by at least $134.7 million for FY 1999.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Commander, Naval Facilities Engineering Command:

a. Improve the accuracy of the real property databases for Government-owned contractor-occupied real property through a reconciliation between the real property reported by the contractors on the DD Form 1662 and the real property reported in the real property database.

Management Comments. The Commander concurred and agreed to request that the contractors complete property records in accordance with Naval Facilities Engineering Command P-78, "Navy Facility Asset Database Management System."

b. Develop management controls and processes for contractors to report data that they compile on the DD Form 1662, and for the Navy to later report the data to and record the data in the real property databases of the Navy.

Management Comments. The Commander nonconcurred because the Naval Facilities Engineering Command considers this the responsibility of another DoD office. In addition, the Commander stated that the information on the DD Form 1662 and the information contained in the database do not lend themselves to be reconciled.

Audit Response. We consider the comments nonresponsive and note that the Air Force concurred with the same type of recommendation. In the response to Recommendation 1.a., the Commander agreed to reconcile the real property reported by the contractors on the DD Form 1662, with the real property reported in the Navy Facility Assets Data Base. Yet, in the response to this recommendation, the Commander stated that the two sources of real property data do not lend themselves to be reconciled. The two sources of information can be reconciled and should be as agreed to in Recommendation 1.a. The Naval Facilities Engineering Command is responsible for the accuracy of the real property data in the Navy Facility Assets Data Base.

During the audit we determined that the Navy contracts had stated that the contractor must provide, at the Government's request, any or all of the basic information set forth in the Federal Acquisition Regulation 45.505-1. The basic information contains the name of the property, national stock number, unit price, location, and date of transaction. This is the same type of information needed in the Navy Facility Assets Data Base. When the Naval Facilities Engineering Command requested this information, the contractor provided it. When it was not specifically requested, it was not received. Management controls must be established that will verify that all contractors provide this pertinent information to the Naval Facilities Engineering Command. We request that the Commander reconsider his response and provide comments to the final report.

c. **Provide contractors with contractual guidance that clearly identifies the information gathering and reporting needed to allow for the maintenance of the real property databases.**

Management Comments. The Commander concurred and agreed to provide the additional guidance needed to clearly identify to the contractors, the information that should be gathered and reported to the Naval Facilities Engineering Command for proper maintenance of the real property database.

2. We recommend that the Assistant Secretary of the Air Force, Deputy Chief of Staff (Installations and Logistics, Civil Engineer):

a. **Improve the accuracy of the real property databases for Government-owned contractor-occupied real property through a reconciliation between the real property reported by the contractors on the DD Form 1662 and the real property reported in the real property database.**

Management Comments. The Assistant Secretary concurred and has started evaluating alternatives to verify that DD Form 1662 and the real property databases agree. In addition, the Air Force plans to expend funds to develop an automated system and to train plant personnel on reconciling the two systems.

b. **Develop management controls and processes for contractors to report data that they compile on the DD Form 1662, and for the Air Force to later report the data to and record the data in the real property databases of the Air Force.**

Management Comments. The Assistant Secretary concurred and plans to modify the contracts to ensure the contractors use an automated system to report data now compiled on the DD Form 1662. The Air Force will evaluate the management controls both within the Air Force and the contractors to verify that the DD Form 1662 and the real property databases are accurate.

c. **Provide contractors with contractual guidance that clearly identifies the information gathering and reporting needed to allow for the maintenance of the real property databases.**

Management Comments. The Assistant Secretary concurred and agreed to evaluate the need to modify their contracts through the Defense Contract Management Agency to require contractors to use the automated system to report real property.

d. Correct the values reported on the properties with the recorded $1,000 values.

Management Comments. The Assistant Secretary concurred and agreed to correct FY 2001 acquisition values reported in the accountability records to reflect the costs identified on the DD Form 1662.

Audit Response. The Assistant Secretary comments were responsive to the recommendation. However, the Assistant Secretary's response only identified correcting the acquisition costs for FY 2001 properties. The finding identified acquisition cost problems with properties that were in the system during FY 1999. In response to the final report, we request that the Assistant Secretary of the Air Force, Deputy Chief of Staff (Installations and Logistics, Civil Engineer), clarify that the intention is to correct the properties valued incorrectly prior to FY 2001 in addition to the FY 2001 properties.

Appendix A. Audit Process

Scope and Methodology

Work Performed. In this financial-related audit, we evaluated the management controls associated with maintaining the Military Departments' real property databases. Specifically, we concentrated on GOCO real property in the Military Departments' databases. We used the CPMS database as of September 30, 1999, to determine contractors occupying Government-owned real property as reported on the DD Form 1662, "DoD Property in the Custody of Contractors." To test the Military Departments' GOCO real property records, we used the Integrated Facilities System, the Navy Facility Assets Data Base, and the Automated Civil Engineering System, all as of September 30, 1999. We performed existence and completeness testing of GOCO real property in the Military Departments' databases. We performed audit work at the Lake City Army Ammunition Plant, the Hawthorne Army Depot, Newport News Shipbuilding, the Rocket Center Industrial Research Ordnance Plant, Johns Hopkins University Applied Physics Laboratory, Tinker Air Force Base, and Air Force Plant 42. As of September 30, 1999, the value of contractor-reported GOCO real property was $7.7 billion for the Military Departments, or $3.7 billion, $1.4 billion, and $2.6 billion for the Army, the Navy, and the Air Force, respectively. In the Army, we tested 39 facilities for existence testing and 140 facilities for completeness testing. In the Navy, we tested 24 facilities for existence testing and 80 facilities for completeness testing. In the Air Force, we tested 63 facilities for existence testing and 69 facilities for completeness testing. Real property included buildings, structures, and facilities.

DoD-Wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to the following goal, subordinate performance goal, and performance measures.

FY 2001 DoD Corporate-Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**

- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**

- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and finance systems. **(01-DoD-2.51.)**

- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.52.)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

- **Financial Management Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. (**FM-5.3**)

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

Use of Computer-Processed Data. To achieve the audit objectives, we relied extensively on computer-processed data in several systems. We relied on the data from the Integrated Facilities System for the Army, the Navy Facility Assets Data Base System for the Navy, the Automated Civil Engineering System for the Air Force, and the Contract Property Management System for all Military Departments. We found the data from the Army system to be reliable. We did not find data from the remaining systems to be reliable. The unreliability of the data from those systems supported the finding that the real property databases were unreliable for GOCO properties.

Audit Type, Dates, and Standards. We performed this financial-related audit from September 1999 through August 2000, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls as were considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and private companies holding facilities contracts with DoD. Further details are available on request.

Management Control Program

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

Scope of Review of the Management Control Program. We reviewed the adequacy of the Military Departments' management controls over accountability for GOCO real property and the maintenance of databases. Specifically, we reviewed management controls over existence and completeness, acquisition, and disposal of GOCO real property maintained in the Military Departments' databases. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses for GOCO real property in the Navy and Air Force databases as defined by DoD Directive 5010.38. The Navy and Air Force databases did not contain all GOCO real property. The reported values of the Navy and Air Force were significantly different from the contractor's recorded values. Management controls and processes must be established to verify that data that contractors reported on the DD Forms 1662 are later reported to and recorded in the Navy and Air Force real property databases. Recommendations 1. and 2., if implemented, will result in at least an additional $134.7 million being reported in the financial statements. A copy of the report will be provided to the senior official responsible for management controls in the Office of the Commander, Naval Facilities Engineering Command, and the Office of the Commander, Air Force Facilities Support Branch, Acquisition, Environmental, Safety and Health Division Engineering Directorate.

Adequacy of Management's Self-Evaluation. Officials for the Navy and Air Force real property databases did not identify GOCO property as an assessable unit and, therefore, did not identify or report the material management control weaknesses we identified.

Appendix B. Prior Coverage

Inspector General, DoD

Inspector General, DoD, Report No. 99-013, "Summary Report on Financial Reporting of Government Property in the Custody of Contractors," October 15, 1998.

Inspector General, DoD, Report No. 98-042, "Financial Reporting by Selected Defense Agencies of Government Property in the Custody of Contractors" December 16, 1997.

Inspector General, DoD, Report No. 97-202, "Financial Reporting of Government Property in the Custody of Contractors," August 4, 1997.

Naval Audit Service

Naval Audit Service Report No. 046-97, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Government Property Held by Contractors," August 14, 1997.

Air Force Audit Agency

Air Force Audit Agency Project No. 96053011, "Government Furnished Property, Fiscal Year 1995 Air Force Consolidated Financial Statements," October 22, 1996.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
  Director, Defense Procurement
Under Secretary of Defense (Comptroller/Chief Financial Officer)
  Deputy Chief Financial Officer
    Director for Accounting Policy
  Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

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

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Assistant Secretary of the Air Force, Deputy Chief of Staff (Installations and Logistics, Civil Engineer)
Auditor General, Department of the Air Force

Other Defense Organizations

Defense Logistics Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Cleveland Center
  Director, Defense Finance and Accounting Service Denver Center
Director, Defense Finance and Accounting Service Indianapolis Center
Defense Contract Management Agency
Defense Contract Audit Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

Assistant Secretary of the Air Force, Deputy Chief of Staff (Installations and Logistics, Civil Engineer) Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON DC

17 OCT 2000

MEMORANDUM FOR ~~SAF/AGA~~ DoDIG

FROM: HQ USAF/IL
1030 Air Force Pentagon
Washington DC 20330-1030

SUBJECT: DoD (IG) Draft Report on Accuracy of the Government-Owned Contractor-Occupied Real Property in the Military Departments' Real Property Databases (Project No. D1999FH-0089.000)

We have reviewed the findings and recommendations of the subject report. Specific management comments are attached.

If you have any questions with our comments, our POC is Ms. Lyne Hunter, AF/ILEBI, DSN 227-7356.

MICHAEL E. ZETTLER
Lieutenant General, USAF
DCS/Installations & Logistics

Attachment:
Management Comments

cc:
SAF/FMPF

Air Force Response to DoD(IG) Draft Report

Accuracy of the Government-Owned Contractor-Occupied Real Property in the Military Departments' Real Property Databases
Project No. D1999FH-0089.000

Findings: Concur

Recommendation 2.a. Improve the accuracy of the real property databases for Government-owned contractor-occupied real property through a reconciliation between the real property reported by the contractors on the DD Form 1662 and the real property reported in the real property database.

AF/IL Comments: Concur. The Air Force is evaluating three alternatives that will ensure that the data reported on DD Form 1662 maintained by the plant operators are reconciled with the real property accountability records maintained by Air Force Materiel Command (AFMC). AFMC has $300,000 set aside to fund developing an Automated Civil Engineer System (ACES)-compatible automated solution and training plant operators to use it. Once an alternative is selected, the Air Force Civil Engineer Support Agency will task the Standard Support Group to program and provide software to achieve this result. ECD for selection of the alternative and programming software is 30 Aug 01.

Potential Monetary Benefit (Rec. 2.a.): None.

Recommendation 2.b. Develop management controls and processes for contractors to report data that they compile on the DD Form 1662, and for the Air Force to later report the data to and record the data in the real property databases of the Air Force.

AF/IL Comments: Concur. Operators of the four (4) contractor-occupied plants retained by the Air Force will be tasked, through contract modification negotiations, to utilize an automated system to report data now compiled on the DD Form 1662. AF will evaluate those management controls and processes necessary to ensure the data accurately reflects the real property held by the contractors. Management controls for the operators will be recommended to the Defense Contract Management Agency for inclusion in the contract modifications. Management controls for the AF, if required, will be adopted to enhance the accuracy of the AF real property databases. ECD 30 Aug 02.

Potential Monetary Benefit (Rec. 2.b.): None.

Recommendation 2.c. Provide contractors with contractual guidance that clearly identifies the information gathering and reporting needed to allow for the maintenance of the real property databases.

AF/IL Comments: Concur. AF is evaluating the need to request the Defense Contract Management Agency to modify the contracts to require accountability data be provided in an automated format compatible with ACES. AF will provide software to the

contractors and training on the ACES system. ECD for completion of contract modifications, if needed, and scheduling of plant operators for training is 30 Aug 01.

Recommendation 2.d. Correct the values reported on the properties with the recorded $1000 values.

AF/IL Comments: Concur. AF will ensure that the FY 01 acquisition costs reported in the accountability records reflect the costs identified on the DD Form 1662 or in reports automatically generated with ACES-compatible software. ECD 30 Aug 01.

Potential Monetary Benefit (Rec. 2.d.): None.

Naval Facilities Engineering Command Comments

DEPARTMENT OF THE NAVY
NAVAL INSPECTOR GENERAL
1014 N STREET SE SUITE 100
WASHINGTON NAVY YARD DC 20374-5006

IN REPLY REFER TO:
5740
Ser N4/2066
31 OCT 2000

From: Naval Inspector General
To: Department of Defense, Inspector General (Attn: Director, Finance and Accounting Directorate)

Subj: DODIG DRAFT AUDIT REPORT ON ACCURACY OF THE GOVERNMENT-OWNED CONTRACTOR-OCCUPIED REAL PROPERTY IN THE MILITARY DEPARTMENTS' REAL PROPERTY DATABASES (PROJECT NO. 9FH-0089.00)

Ref: (a) DODIG draft audit report #9FH-0089.00 of 17 Aug 00

Encl: (1) COMNAVFACENGCOM ltr 7500 IG2/00-96 of 24 Oct 2000

1. In accordance with reference (a) enclosure (1) is forwarded. Questions concerning this matter may be addressed to Ms. Diana Cooper at (202) 433-3236.

Cluster Davies
CLUSTER DAVIES
By direction

DEPARTMENT OF THE NAVY

NAVAL FACILITIES ENGINEERING COMMAND
WASHINGTON NAVY YARD
1322 PATTERSON AVENUE SE SUITE 1000
WASHINGTON DC 20374-5065

IN REPLY REFER TO

7500
IG2/00-96
24 October 2000

From: Commander, Naval Facilities Engineering Command
To: Naval Inspector General

Subj: DODIG DRAFT AUDIT REPORT (9FH-0089.00) 17 AUGUST 2000 (Accuracy of The Government-Owned Contractor-Occupied Real Property In The Military Departments' Real Property Databases)

Encl: (1) Comments on subject draft report findings and recommendations.

1. Enclosure (1) provides comments to recommendations 1a, 1b, and 1c of the subject audit report.

2. My staff point of contact is Kenneth Jackson, at (202) 685-9112.

R. MELLO
Inspector General

ACCURACY OF THE GOVERNMENT-OWNED CONTRACTOR-OCCUPIED REAL PROPERTY IN THE MILITARY DEPARTMENTS' REAL PROPERTY DATABASES
D1999FH-0089.000

1. **RECOMMENDATION 1a:** Improve the accuracy of the real property databases for Government-owned contractor-occupied real property through a reconciliation between the real property reported by the contractors on the DD Form 1662 and the real property reported in the real property database.

   RESPONSE: Concur. We concur that there needs to be a reconciliation between the real property reported by contractors on the DD Form 1662 and the real property reported in the Navy Facility Assets Database. We will request the contractors to complete the NAVFAC Class 2 Acquisition Property Record (APR), in accordance with the NAVFAC P-78, NFADB Management System.

2. **RECOMMENDATION 1b:** Develop management controls and processes for contractors to report data that they compile on the DD Form 1662, and for the Navy to later report the data to and record the data in the real property databases of the Navy.

   RESPONSE: Non-Concur. We do not concur with the suggestion that NAVFAC develop management controls and processes for contractors to report data they compile on the DD Form 1662. The appropriate DoD office responsible for the form has already provided such guidance. In addition, the data on the DD Form 1662 provided by the contractors does not lend itself to be reconciled with data contained in the NFADB. The DD Form 1662 contains financial type data, versus real property data, which is what is contained in the NFADB.

3. **RECOMMENDATION 1c:** Provide contractors with contractual guidance that clearly identifies the information gathering and reporting needed to allow for the maintenance of the real property database.

RESPONSE: Concur. The Federal Acquisition Regulation (FAR) Part 45, entitled Providing Government Property to Contractors, provides policies and procedures for providing Government property. Property is defined as all property, both real and personal, that includes facilities, material, special tooling, special test equipment, and agency-peculiar property. FAR Part 45.302-6(e)(1) requires the Contracting Officer to insert the clause FAR 52-245-11, Government Property (Facilities Use) in solicitations and contracts when a facilities use contract is contemplated. The Department of Defense FAR Supplement (DFAR) Part 245.505-14, entitled Reports of Government Property, requires the Contracting Officer to include the clause DFAR 252.245.7001, Reports of Government Property, in all solicitations and contracts containing the FAR clause 52/245/11, mentioned above. This DFAR clause requires the contractor to provide an annual report for all DOD property for which the contractor is accountable under the contract prepared in accordance with the requirements of DD 1662, or approved substitute. In addition to the DoD guidance, NAVFAC will provide additional guidance through the NAVFAC contracting manual (P-68),to include gathering and reporting information to the real property database.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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