Audit Report

GENERAL OFFICER QUARTERS AT KANOEHE BAY, HAWAII; CAMP PENDLETON, CALIFORNIA; AND ALBANY, GEORGIA

Report No. D-2002-020 December 5, 2001

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Acronyms

CAR	Contract Administration Rate
GOQ	General Officer Quarters
M&R	Maintenance and Repair
MARFORPAC	Marine Forces Pacific
MCO	Marine Corps Order
NAVFAC	Naval Facilities Engineering Command
SECNAVINST	Secretary of the Navy Instruction

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

December 5, 2001

MEMORANDUM FOR NAVAL INSPECTOR GENERAL

SUBJECT: Audit Report on General Officer Quarters at Kaneohe Bay, Hawaii; Camp Pendleton, California; and Albany, Georgia (Report No. D-2002-020)

We are providing this report for review and comment. This report is one in a series about general and flag officer quarters maintenance and repair costs. We considered management comments on the draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of Navy comments, we revised Recommendations A.1.d., A.2.a., B.1., and B.2. to clarify our intention. The Navy comments were partially responsive. We request that the Navy provide additional comments on recommendations A.1.c., A.1.d., A.2.a., and B.1 by February 4, 2002.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Stephen T. Hampton at (703) 604-9243 (DSN 664-9243) (shampton@dodig.osd.mil) or Mr. Wayne K. Million at (703) 604-9312 (DSN 664-9312) (wmillion@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

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Report No. D-2002-020 **December 5, 2001**
(Project No. D1999CG-0085.002)

General Officer Quarters at Kaneohe Bay, Hawaii; Camp Pendleton, California; and Albany, Georgia

Executive Summary

Introduction. This report is one in a series of reports about general and flag officer quarters maintenance and repair costs. The Military Construction Appropriations Act 2000, section 128, requires that general officer quarters (GOQ) maintenance and repair costs not exceed $25,000 annually without prior congressional notification. We reviewed five GOQs with the total reported maintenance and repair costs of $136,273, that represented more than a quarter of the total Marine Corps GOQ maintenance and repair costs for FY 2000.

Objectives. Our overall audit objective was to determine the adequacy of management controls over the review and authorization process of GOQ costs. Specifically, this report focuses on annual operations and maintenance costs for the GOQs located at Marine Corps Base Hawaii, Kaneohe Bay, Hawaii (Kaneohe Bay); Marine Corps Base Camp Pendleton, California (Camp Pendleton); and Marine Corps Logistics Base, Albany, Georgia (Albany). See Appendix A for a discussion of the audit scope and methodology.

Results. Marine Corps family housing offices at Kaneohe Bay and Camp Pendleton omitted or improperly classified FY 2000 maintenance and repair costs, and exceeded the $25,000 statutory limitation on annual GOQ maintenance and repair costs for three GOQs. Maintenance and repair costs exceeded the statutory limitation by $1,134 and $2,474 for two GOQs at Kaneohe Bay; and $8,698 for one GOQ at Camp Pendleton. As a result, the Marine Corps accounting for FY 2000 GOQ costs was understated by $13,356, and potential Antideficiency Act violations may have occurred at Kaneohe Bay and Camp Pendleton (finding A). Marine Corps family housing officials at Kaneohe Bay and Albany incurred questionable GOQ operations and maintenance costs totaling $53,081 for FYs 1998 through 2001. As a result, the Marine Corps family housing offices at Kaneohe Bay and Albany lost opportunities to execute higher priority maintenance and repair projects (finding B).

Summary of Recommendations. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) initiate actions to investigate potential Antideficiency Act violations, revise FY 2000 GOQ cost reports, issue a policy memorandum addressing contract administration charges, and direct the Naval Facilities Engineering Command and Marine Corps Deputy Commandant for Installations and Logistics to reflect the new Navy housing policy guidance in revised Navy and Marine Corps family housing manuals. Further, we recommend that Marine Corps Deputy Commandant for Installations and Logistics revise the Marine Corps housing management manual to include guidance on cost classifications consistent with the Navy family housing manual, and direct the Marine Forces Pacific to periodically evaluate the effectiveness of GOQ housing office operations. Finally, we recommend that the Commanding General at Kaneohe Bay and the Commanding Officer at Albany require periodic evaluations of the

effectiveness of GOQ housing management controls, and identify and prioritize GOQ maintenance and repair requirements.

Management Comments. The Navy generally concurred with the intent of the recommendations. The Navy stated that formal and preliminary investigations into potential Antideficiency Act violations are in progress at Camp Pendleton and Kaneohe Bay, respectively. Accounting errors identified in the audit report will be corrected, and congressional reports will be updated as necessary. The Navy stated that they have completed a draft revision to Secretary of the Navy Instruction 11101.73A on general and flag officer quarters, and will recommend those cognizant officials to incorporate guidance on contract administration charges in that document. The Navy further stated that both the Navy family housing manual and Marine Corps housing management manual will be updated when revised Departmental policy guidance is issued. The Navy also stated that Navy guidance was not applicable to Marine Corps housing, and that the Marine Corps is in the process of updating its housing management manual. Marine Forces Pacific has already provided extensive assistance to include a new database for collecting GOQ costs. Further, projected expenses were reviewed in accordance with Marine Corps housing manual at Kaneohe Bay, and management controls were in place at Albany. Finally, the draft revision to Secretary of the Navy Instruction 11101.73A includes a requirement for establishing a long-range maintenance plan. A discussion of management comments is in the Finding section of the report, and the complete text is in the Management Comments section.

Audit Response. The Navy comments are partially responsive. As a result of management comments, we modified the wording of some recommendations to request that the Navy and Marine Corps revise their family housing manuals to incorporate changes in the updated Secretary of the Navy Instruction 11101.73A on general and flag officer quarters, to periodically evaluate the effectiveness of GOQ housing management controls, and to identify and prioritize the maintenance and repair requirements for the GOQs at Kaneohe Bay and Albany. We request that the Navy provide comments on the final report by February 4, 2002.

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Background

We reviewed five general officer quarters (GOQs) with the total reported maintenance and repair (M&R) costs of $136,273, that represented more than a quarter of the total Marine Corps GOQ M&R costs for FY 2000. The Office of the Deputy Commandant for Installations and Logistics is responsible for administering the Marine Corps family housing program, to include providing policy and guidance. The Marine Corps family housing offices are responsible for managing GOQ operations. The Marine Forces Pacific (MARFORPAC) is the major command responsible for Marine Corps Base Hawaii, Kaneohe Bay, Hawaii, (Kaneohe Bay); and Marine Corps Base Camp Pendleton, California, (Camp Pendleton). The Marine Corps Logistics Base, Albany, Georgia, (Albany) is a subordinate command of the Marine Corps Materiel Command.

Guidance on GOQ Housing Management

DoD 7000.14-R. "Financial Management Regulation," volume 6, "Reporting Policy and Procedures," provides guidance for establishing and maintaining uniform budget program accounts for the accumulation of obligations incurred for the family housing operations and maintenance program.

Navy Housing Guidance. Secretary of the Navy Instruction (SECNAVINST) 11101.73A, "Approval Authority for Maintenance and Repair of Flag and General Officers' Quarters," October 27, 1989, provides guidance concerning approval authority for maintenance, repair, and restoration of public quarters assigned to flag and general officers.

Naval Facilities Engineering Command Regulation P-930. Naval Facilities Engineering Command (NAVFAC) Regulation P-930, "Navy Family Housing Manual," July 1999, provides guidance on the organization, management, programming, acquisition, and staffing of Navy family housing. The regulation contains specific guidance on the classification of furnishings, maintenance and repair, and improvements as they relate to Navy family housing.

Marine Corps Order P11000.22. Marine Corps Order (MCO) P11000.22, "Marine Corps Housing Management Manual," February 14, 1991, provides guidance for the acquisition, use, and disposition of Marine Corps housing. The manual also provides the policy for Marine Corps housing operations and maintenance.

Objectives

The overall audit objective was to determine the adequacy of management controls over the review and authorization process of GOQ costs. This report focuses on annual operations and maintenance costs for specific GOQs located at

Kaneohe Bay, Camp Pendleton, and Albany. See Appendix A for a discussion of the audit scope and methodology, and prior audit coverage.

A. Accuracy of General Officer Quarters Annual Maintenance and Repair Costs

Marine Corps family housing offices at Kaneohe Bay and Camp Pendleton omitted or improperly classified FY 2000 M&R costs, and exceeded the $25,000 statutory limitation on annual M&R costs for three GOQs. This condition occurred because the Marine Corps had not established adequate management controls over housing office operations. As a result, the Marine Corps accounting of FY 2000 GOQ costs was understated by at least $13,356, and potential Antideficiency Act violations may have occurred at Kaneohe Bay and Camp Pendleton.

Public Law

Section 1341, Title 31, United States Code. "Limitations on Expending and Obligating Amounts," prescribes that an officer or employee of the U.S. Government not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation.

Military Construction Appropriations Act 2000, Section 128. The Act specifically requires that M&R costs not exceed $25,000 per GOQ annually without prior congressional notification.

FY 2000 GOQ Maintenance and Repair Costs

Marine Corps family housing offices at Kaneohe Bay and Camp Pendleton omitted or improperly classified FY 2000 M&R costs, and exceeded the $25,000 statutory limitation on annual M&R costs for three GOQs.

Cost Omissions. Kaneohe Bay and Camp Pendleton omitted at least $11,375 of contract administration services, grounds care, and other costs.

Contract Administration Services Costs. Kaneohe Bay housing officials omitted at least $1,272 and $1,150 of contract administration rate (CAR) costs for GOQ 511 and 515, respectively. These omitted costs were associated with FY 2000 maintenance and repairs that were performed under a change of occupancy contract. The family housing office paid CAR fees to the regional contracting office for administering contracts such as regular M&R, refuse collection, tree trimming, change of occupancy, and custodial services. According to Navy Comptroller officials, CAR fees should have been charged to the specific unit(s) when contracted work was performed exclusively on that unit. The family housing office only charged a flat fee of $223 for each GOQ by using a "prorated" method for assessing CAR costs. Family housing officials stated that

they acted in a reasonable manner in calculating CAR costs due to the lack of clear guidance. However, housing officials had previously charged CAR costs to GOQ 511 correctly for the repair of planters and the installation of shutters in FYs 1998 and 1999.

By contrast, the housing office at Albany charged CAR costs to the GOQ for work that was exclusively performed on that unit. Recently, the Office of the Assistant Secretary of the Navy for Installations and Environment has completed a draft revision to SECNAVINST 11101.73A on general and flag officer quarters. The instruction was substantially revised to incorporate statutory changes and reemphasize the policies and approval authorities for the operation, maintenance, repair, and improvement of general and flag officer quarters. The Navy should incorporate guidance on assessing CAR costs in that document.

Grounds Care Costs. Camp Pendleton omitted at least $8,748 of grounds care costs for GOQ 24154 in FY 2000. During our review of GOQs at Kaneohe Bay, MARFORPAC housing officials questioned the accuracy of grounds care costs recorded for GOQ 24154 at Camp Pendleton, and requested that we review the matter. Camp Pendleton charged a total of $4,362 in grounds care for FY 2000. However, we identified at least $13,110 in grounds care costs incurred in FY 2000.

Camp Pendleton housing officials stated that the difference in grounds care costs was attributed to adjustments in the GOQ boundary lines. According to headquarters housing officials, any adjustments to GOQ boundary lines would have required headquarters approval. No such approval had been granted.

Other Omitted Costs. Kaneohe Bay housing officials omitted $205 of regular service and material costs, which should have been charged to GOQ 511.

Cost Classifications. Housing officials at Kaneohe Bay did not properly classify GOQ costs totaling $1,981. Ceiling fans and window air conditioning units at GOQ 515, valued at $1,567, were improperly charged to the furnishings account, rather than the M&R account. In another instance, at GOQ 511, a window air conditioning unit, valued at $414, was incorrectly charged to the furnishings account. Marine Corps housing management policies do not specifically define the classification category of air conditioning units. However, according to Navy Comptroller personnel, Marine Corps housing officials should ensure compliance with NAVFAC Regulation P-930, particularly when encountering an issue that is not specifically addressed by Marine Corps guidance. NAVFAC P-930 clearly states that installed equipment, including air conditioning units (window and central), are not considered a furnishing, but part of the housing unit.

Table 1 shows the amount of understated M&R costs and the GOQs that exceeded the statutory limitation, after our adjustments, without prior notification to Congress.

Table 1. FY 2000 Understated M&R Costs and M&R in Excess of Statutory Limitation

Installation/GOQ	Reported M&R	Audit Identified M&R	Understated M&R	Statutory Limitation	M&R in Excess of Limitation
Kaneohe Bay					
511	$24,243	$26,134	$ 1,891	$25,000	$ 1,134
515	24,757	27,474	2,717	25,000	2,474
Camp Pendleton					
24154	24,950	33,698	8,748	25,000	8,698
Total			**$13,356**		**$12,306**

Adequacy of Management Controls

The Marine Corps had not established adequate management controls over housing office operations. Specifically, MARFORPAC received GOQ cost data that lacked sufficient detail to identify potential errors, and periodic reviews were not performed at the installation level.

GOQ Cost Data Reviews. MARFORPAC reviewed quarterly GOQ cost reports from their subordinate commands that only included summary cost data. Those summary cost reports did not include sufficient detail to enable MARFORPAC to identify potential cost reporting errors. Requiring detailed costs reports to show line item costs for each of the GOQ operation and maintenance accounts would enable MARFORPAC housing officials to identify potential improper cost classifications and noncompliance issues. MARFORPAC should require detailed cost reports in order to strengthen its ability to provide more effective management oversight. However, requiring detailed cost data alone would not completely ensure GOQ cost recording accuracy.

Periodic Reviews of Operations. Marine Corps housing management periodic reviews of housing office operations were not conducted as a part of standard operating procedures. Without the periodic reviews of management control procedures at the installation level, the MARFORPAC ability to ensure the accuracy of GOQ cost recording and compliance with applicable laws and regulations was limited. For example, MARFORPAC did not know whether M&R labor charges or CAR fees were completely captured. Housing offices would be more apt to verify accuracy and compliance if MARFORPAC held those offices accountable by periodically reviewing the effectiveness of management controls and housing office performance in managing GOQs.

Impact of GOQ Cost Recording Errors

The Marine Corps accounting for GOQ costs at Kaneohe Bay and Camp Pendleton were unreliable. Congress requires the Under Secretary of Defense (Comptroller) to annually report all M&R costs for each individual GOQ to the appropriation committees. Because Marine Corps housing officials omitted or improperly charged M&R costs, the Marine Corps reports on GOQ costs for those installations understated M&R costs by at least $13,356.

The failure to comply with the FY 2000, $25,000 statutory limitation on annual M&R costs for the two GOQs at Kaneohe Bay and one GOQ at Camp Pendleton may have resulted in violations of the Antideficiency Act (31 United States Code 1341). Accordingly, the Assistant Secretary of the Navy for Financial Management and Comptroller, should investigate the FY 2000 M&R costs for the three quarters at Kaneohe Bay and Camp Pendleton for potential Antideficiency Act violations, and fix responsibility. If any violations occurred, the Assistant Secretary should comply with the reporting requirements in DoD Directive 7200.1, "Administrative Control of Appropriations," May 4, 1995, and the DoD Financial Management Regulation (DoD 7000.14R), volume 14, "Administrative Control of Funds and Antideficiency Act Violations," March 2001. The Assistant Secretary should also verify that the GOQ costs have been corrected for FY 2000, and the revised costs are reported to the Congress.

Management Actions

In response to increased congressional scrutiny and the preliminary results of our review, the Commander of MARFORPAC established a new system for tracking and reporting GOQ costs. As of April 6, 2001, MARFORPAC directed subordinate commands to use the GOQ Expense Tracking and Reporting System for managing GOQs. This new system should help housing officials improve oversight of GOQ management, enhance accuracy, and minimize GOQ cost omissions. The system generates GOQ quarterly cost reports that include detailed line item data necessary to enable MARFORPAC to provide more effective oversight.

Recommendations, Management Comments, and Audit Response

Revised Recommendation. As a result of management comments, we modified the wording of Recommendations A.1.d. and A.2.a. to direct that the Navy and Marine Corps to revise their family housing manuals to incorporate changes in the updated SECNAVINST 11101.73A on general and flag officer quarters, and the Marine Corps to include guidance on cost classifications in Marine Corps Order P11000.22.

A.1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

a. Initiate actions to investigate potential Antideficiency Act violations at the following general officer quarters:

(1) 511 and 515 at Marine Corps Base Hawaii, Kaneohe Bay, Hawaii, and

(2) 24154 at Marine Corps Base Camp Pendleton, California.

Management Comments. The Navy concurred and stated that a formal investigation into a potential Antideficiency Act violation at Camp Pendleton, California, is in progress. The Commanding General, Marine Corps Base, Hawaii, has directed that a preliminary review for a potential Antideficiency Act violation be conducted.

b. Verify that general officer quarters costs have been corrected for FY 2000, and update congressional reporting of general officer quarters costs to reflect accounting error corrections.

Management Comments. The Navy concurred and stated that they will make appropriate accounting corrections, and update congressional reporting if the investigations uncover accounting errors.

c. Issue a policy memorandum addressing contract administration charges for work performed exclusively for general officer quarters.

Management Comments. The Navy concurred in principle and stated that the Office of the Assistant Secretary of the Navy for Installations and Environment has completed a draft revision to SECNAVINST 11101.73A on general and flag officer quarters. The Assistant Secretary of the Navy for Financial Management and Comptroller will recommend that the Office of the Assistant Secretary of the Navy for Installations and Environment incorporate appropriate guidance in that document.

Audit Response. The Navy comments are partially responsive. The Navy did not indicate an approximate date when the revised instruction would be completed. We request that the Navy provide an estimated completion date in its comments on the final report.

d. Direct the Naval Facilities Engineering Command and Marine Corps Deputy Commandant for Installations and Logistics to revise the Naval Facilities Engineering Command P-930 and Marine Corps Order P11000.22 to reflect new policy guidance.

Management Comments. The Navy concurred in principle and stated that the Navy Family Housing Manual (NAVFAC P-930) is under the jurisdiction of the Naval Facilities Engineering Command. When revised Departmental policy guidance (SECNAVINST 11101.73A) is issued, the Naval Facilities Engineering Command and Headquarters Marine Corps will update P-930 and MCO P11000.22.

Audit Response. The Navy comments are partially responsive. We revised our recommendation to accurately reflect the responsible activities for updating Navy and Marine Corps family housing manuals. The Navy did not indicate an approximate completion date for the revised SECNAVINST 11101.73A. We request that the Navy provide an estimated completion date in its comments on the final report.

A.2. We recommend that Marine Corps Deputy Commandant for Installations and Logistics:

a. Revise Marine Corps Order P11000.22 to include guidance on cost classifications consistent with NAVFAC P-930.

Management Comments. The Navy nonconcurred and stated that the Naval Facilities Engineering Command P-930 guidance is applicable to Navy housing and that Marine Corps Order P11000.22 is the implementing guidance for the Marine Corps. The Marine Corps is in the process of updating Order P11000.22, to include addressing cost classifications.

Audit Response. The Navy comments are partially responsive. We revised our recommendation to accurately reflect the responsibility of the Marine Corps for implementing guidance on cost classifications. We request that the Navy provide an estimated completion date in its comments on the final report.

b. Direct the Commander, Marine Forces Pacific, to periodically evaluate the effectiveness of general officer quarters housing office operations to ensure compliance with applicable directives.

Management Comments. The Navy concurred and stated that Marine Forces Pacific, has already provided extensive assistance to include a new database for collecting GOQ costs. Periodic site visits were also made in FYs 2000 and 2001.

B. Review and Authorization of General Officer Quarters Operations and Maintenance Costs

Marine Corps family housing officials at Kaneohe Bay and Albany incurred questionable GOQ operations and maintenance costs totaling $53,081 for FYs 1998 through 2001. This condition occurred because housing officials did not consistently review and authorize GOQ costs in a prudent manner, as required by Marine Corps guidance. As a result, the Marine Corps family housing offices at Kaneohe Bay and Albany lost opportunities to execute higher priority M&R projects.

GOQ Operations and Maintenance Costs

Marine Corps family housing officials at Kaneohe Bay and Albany spent $53,081 during FYs 1998 through 2001 for items and projects that did not comply with housing guidance or were low priority in view of other higher priority projects identified by the housing officials. Table 2 shows the questionable GOQ costs at Kaneohe Bay and Albany.

Table 2. Questionable GOQ Costs for Kaneohe Bay and Albany

Installation /GOQ	Noncompliant	Low Priority	Total
Kaneohe Bay			
511	$9,314	$10,349	$19,663
515	24,943		24,943
Albany			
A		4,244	4,244
B		4,231	4,231
Total	**$34,257**	**$18,824**	**$53,081**

Noncompliant Costs. Housing officials reviewed and approved at least $34,257 for costs that were not consistent with Marine Corps guidance. The specific noncompliant costs included interior window shutters, a leather sofa, and tile flooring.

Interior Window Shutters. Interior window shutters charged to the furnishings account valued at $28,736, were installed in GOQs at Kaneohe Bay. According to MCO P11000.22, draperies and sheer curtains may be provided for the official entertainment areas of the GOQs. The guidance also states that reasonable window treatment is permitted for all areas of the GOQs designated as special command positions. The two GOQs at Kaneohe Bay were not designated as special command positions. Further, in Marine Corps headquarters letter, "Refurbishment of General Officer Quarters (GOQs),"

dated March 14, 1994, family rooms and enclosed porches, which are referred to in Hawaii as lanais, are not part of the public entertainment area. Therefore, the Government should not have paid the entire cost of shutters.

Leather Sofa. At GOQ 515, Kaneohe Bay, a three-piece leather sofa, valued at $2,344, was purchased in FY 2000. According to a housing office document, the spouse of the occupant requested to pick out a sofa for the lanai area, and have the housing office purchase it as furnishings. The lanai was used as a family room as stated by the occupant's spouse during the GOQ tour. MCO P11000.22 states that furniture procurement is limited to supplementary furniture for the public entertainment areas only, and is not intended to replace personal furnishings. Public entertainment areas include the entrance foyer, living rooms, dining rooms, and the stairways and hallways interconnecting these areas. Because Marine Corps housing guidance does not consider the lanai area to be part of the public entertainment area, the sofa purchase should have been disapproved.

Tile Flooring. Black-and-white tile was installed, at a cost of $3,177, in four bedrooms at the request of the occupant of GOQ 515, Kaneohe Bay. According to MCO P11000.22, the flooring color should be a neutral shade to ensure compatibility with any present and future occupant's furnishings. Service housing regulations prohibit the occupant to request procurement of replacement furniture, carpets, tiles, wallcoverings, or other work on the basis of compatibility with personal furnishings or personal preferences. During the GOQ tour, a housing official stated that the occupant's spouse insisted on the use of black-and-white pattern of tiles, even though he did not agree with the color selection.

Low Priority Costs. Housing officials reviewed and approved at least $18,824 for costs that they considered lower priority when compared to other major repair needs. The low priority costs included security systems, planters, and fencing.

Security Systems. The housing officials at Albany spent a total of $19,000 on security systems for GOQs A and B with regular operation and maintenance funds in FY 1999. Housing officials stated that the installation of the security systems was legal, but not required. Additionally, they questioned the need for the systems because the installation had tight security. We contacted the Office of the Provost Marshal at Albany concerning the security systems. Provost Marshal officials stated that they did not direct the installation of the security systems. Because the systems were installed, the family housing office will incur required annual maintenance fees of $8,475 for FYs 2000 and 2001, and additional $21,435 for FYs 2002 through 2005.

Planters. Three planters were repaired in FY 1998, at GOQ 511, Kaneohe Bay, at a cost of $7,949. The planters are located at the entrance to the quarters and in the lawn terrace behind the quarters. They function solely to enhance the external appearance of the quarters. The planter repairs could have been deferred until other higher priority items were repaired or replaced.

Fencing. At GOQ 511, Kaneohe Bay, a backyard fence approximately 12 feet long was installed, at a cost of $2,400. The fence was installed in FY 1999,

at the request of the occupant, for the purpose of enclosing a section of the lawn terrace. According to housing officials, the fence was installed as a measure to close off the enclosed wind break area, not to structurally support the wind break. Therefore, the fence functions as a gate leading to the remainder of the backyard, and serves no other apparent purpose such as providing privacy or security.

Review and Authorization of GOQ Costs

Housing officials did not consistently review and authorize GOQ costs in a prudent manner, as required by Marine Corps guidance. Specifically, they did not review and authorize costs consistent with the repair priorities identified as necessary to improve existing conditions.

Compliance Reviews. Housing officials at Kaneohe Bay did not ensure that GOQ costs complied with Marine Corps guidance. As previously discussed, costs for interior window shutters, a leather sofa, and tile flooring were not consistent with Marine Corp guidance. The housing officials should have concluded that the costs were unauthorized.

Maintenance and Repair Priorities. Housing officials at both installations did not review and authorize costs consistent with the repair priorities of the GOQs. Marine Corps policy requires economical and practical management using the prudent landlord concept.

Kaneohe Bay. The repair priorities of GOQs 511 and 515 at Kaneohe Bay were documented by the housing officials in revitalization projects, valued at approximately $191,000 and $330,000, respectively. The planned revitalization projects included replacement of outdated electrical and plumbing systems, new windows, new kitchen, wall and floor finishes, bathroom upgrades, and exterior items.

Albany. Prior to installing the security systems, housing officials proposed renovations to the electrical and plumbing systems in GOQ A, which was built in 1955. However, the occupant objected to the proposed plan, because of the costs. Housing officials decided to defer the utility renovation, however, the 6-year, long-range maintenance plan did not reflect any future utility projects to upgrade the electrical and plumbing systems.

Impact of Questionable Costs

The Marine Corps family housing offices at Kaneohe Bay and Albany lost opportunities to improve existing conditions. If housing officials had consistently reviewed and authorized GOQ costs in a prudent manner, resources could have been better managed and applied to urgent M&R needs.

Other Matters of Interest

Marine Corps housing personnel at Kaneohe Bay and Albany omitted $1,039 and $2,505, respectively, in operations costs from credit card transactions during FY 2000. Since a majority of the omitted costs would have been charged to the furnishings account, which has no statutory limitation, there was no breach of any regulatory or statutory ceiling requirements. The only impact was that total operations costs were understated by $3,544. Table 3 shows the understated operations costs for the GOQs reviewed.

Table 3. FY 2000 Understated Operations Costs

Installation/GOQ	Reported Operations	Audit Identified Operations	Understated Operations
Kaneohe Bay: 511	$6,717	$7,756	$1,039
Albany: A	12,882	15,387	$2,505
Total			**$3,544**

Recommendations, Management Comments, and Audit Response

Revised Recommendations. As a result of management comments, we revised Recommendations B.1. and B.2. to clarify our intention that periodic evaluations of the effectiveness of general officer quarters housing management controls be required, and to identify and prioritize the maintenance and repair requirements for the general officer quarters at Kaneohe Bay and Albany.

B. We recommend that the Commanding General, Marine Corps Base Hawaii, Kaneohe Bay; and the Commanding Officer, Marine Corps Logistics Base, Albany:

1. Require periodic evaluations of the effectiveness of general officer quarters housing management controls to ensure compliance with Marine Corps guidance.

Management Comments. The Navy concurred and stated that at Marine Corps Base Hawaii, Kaneohe Bay, projected expenses were reviewed in accordance with Marine Corps Order P11000.22. At Marine Corps Logistics Base, Albany, internal management controls were in place to ensure compliance with applicable laws and regulations.

Audit Response. The Navy comments are partially responsive. We disagree with the position that Marine Corps Base Hawaii, Kaneohe Bay, complied with Marine Corps Order P11000.22, and Marine Corps Logistics Base, Albany had adequate management controls. To prevent future noncompliant general officer quarters costs, the Commanding General, Marine Corps Base Hawaii, Kaneohe Bay; and

the Commanding Officer, Marine Corps Logistics Base, Albany, need to strengthen their general officer quarters housing management controls to ensure compliance with Marine Corps guidance. We request that the Marine Corps reconsider its position on the recommendation and provide comments on the final report.

2. Identify and prioritize the maintenance and repair requirements for the general officer quarters at Kaneohe Bay and Albany.

Management Comments. The Navy concurred and stated that the draft revision to SECNAVINST 11101.73A includes a requirement for establishing a long-range maintenance plan. The Navy and Marine Corps will update their housing manuals to implement the new guidance when it is approved by the Secretary of the Navy.

Appendix A. Audit Process

Scope

Work Performed. We conducted the audit of management controls over the review and authorization process for GOQ costs, as a followup to our two previous audits, Report No. D-2001-027, "Navy Management Controls over General and Flag Officer Quarters," December 26, 2000; and Report No. D-2000-071, "Maintenance and Repair of DoD General and Flag Officer Quarters," January 27, 2000. We reviewed FYs 1999 and 2000 operations and maintenance costs for the two GOQs at Albany, and reviewed the same type of GOQ costs incurred in FYs 1998 through 2001 for the two GOQs at Kaneohe Bay.

Limitations to Scope. At the request of MARFORPAC, we reviewed M&R costs for GOQ 24154 at Camp Pendleton, but limited our review to just grounds care costs in FY 2000.

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

Methodology

Use of Computer-Processed Data. To achieve the audit objectives, we obtained and reviewed computer-processed data contained in the Standard Accounting Budgeting and Reporting System, Maximo, and other automated databases. Our review of system controls and the results of data tests showed discrepancies that cast doubt on the overall reliability of the data. However, when the data were reconciled with source documentation such as contract delivery orders, labor reports, vendors' invoices, and other documents, we believe that the opinions, conclusions, and recommendations in this report are valid.

Universe and Sample. During the FY 2000, the Marine Corps managed 38 GOQs at 10 installations. To achieve the audit objectives, we judgmentally selected two installations from two different major commands. During the audit, we added Camp Pendleton at the request of MARFORPAC.

Contacts During the Audit. We visited or contacted individuals and organizations within the DoD. Further details are available upon request.

Audit Type, Dates, and Standards. We performed the financial-related audit from November 2000 through July 2001, in accordance with generally accepted government auditing standards.

Prior Coverage

During the past 5 years, the Inspector General, DoD, the Naval Inspector General, the Naval Audit Service, and the Air Force Audit Agency issued reports that discussed general and flag officer quarters.

Inspector General, DoD

Inspector General, DoD, Audit Report No. D-2001-027, "Navy Management Controls over General and Flag Officer Quarters Costs," December 26, 2000.

Inspector General, DoD, Audit Report No. D-2000-071, "Maintenance and Repair of DoD General and Flag Officer Quarters," January 27, 2000.

Navy

Naval Inspector General, Report of Investigation, "Senior Official Case 990441; Alleged Misuse of Operating Funds for Maintenance and Repair of Flag Officer Quarters," October 27, 1999 (FOUO).

Naval Audit Service, Audit Report NAVAUDSVC P-7520.1, "Management of Family Housing Operations and Maintenance Resources," December 4, 1998 (FOUO).

Air Force

Air Force Audit Agency, Audit Report 99052030, "United States Air Force Academy General Officer Quarters," October 26, 1999.

Appendix B. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Naval Inspector General
    Auditor General, Department of the Navy
    Inspector General of the Marine Corps
Marine Corps Deputy Commandant for Installations and Logistics
Commander, Marine Forces Pacific
    Commanding General, Marine Corps Base Camp Pendleton
    Commanding General, Marine Corps Base Hawaii
Commanding Officer, Marine Corps Logistics Base Albany

Department of the Air Force

Auditor General, Department of the Air Force

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate 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 Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

OCT 25 2001

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DRAFT PROPOSED AUDIT,"GENERAL OFFICER QUARTERS AT KANEOHE BAY, HAWAII; CAMP PENDLETON, CALIFORNIA; AND ALBANY, GEORGIA" (PROJECT NO. D1999CG-0085.002) OF 30 JULY 2001

Ref: (a) DODIG Draft of a Proposed Audit Report
(b) SECNAVINST 11101.2C

Encl: (1) Department of the Navy Comments on Recommendations
(2) Department of the Navy Comments on Findings

The Department of the Navy's comments on the recommendations and findings in reference (a) are provided in enclosures (1) and (2).

While we generally concur with the intent of the recommendations, we are concerned that the findings upon which the recommendations were based may need clarification. There appears to be a misunderstanding concerning the management of family housing within the Department. As provided by reference (b), the Chief of Naval Operations and the Commandant of the Marine Corps are each responsible for family housing for their respective Services. Because of the differences in operations between the two Services, there is separate implementing guidance for each Service. The Navy's implementing guidance is the Navy Family Housing Manual (NAVFAC P-930) and the Marine Corps utilizes the Marine Corps Housing Management Manual (Marine Corps Order P11000.22).

The audit in several instances questions the judgment and priority of executed projects. The Marine Corps strongly supports the judgment of the Commanding Officer and the authorities and responsibilities vested by DOD Directive 4001.1. We ask that the auditors performing this review meet with Headquarters Marine Corps staff to reconcile the differences noted in the findings before the draft is published.

Gladys J. Commons

GLADYS J. COMMONS
Principal Deputy
Assistant Secretary of the Navy
(Financial Management and Comptroller)

Copy to:
ASN (I&E)

Department of the Navy
Comments on Recommendations
DRAFT PROPOSED AUDIT,"GENERAL OFFICER QUARTERS AT KANEOHE BAY, HAWAII; CAMP PENDLETON, CALIFORNIA; AND ALBANY, GEORGIA"
(PROJECT NO. D1999CG-0085.002) OF 30 JULY 2001

Recommendation A.1.a. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) initiate actions to investigate potential Anti-deficiency Act violations at the following general officer quarters: (1) Marine Corps Base Hawaii, Kaneohe Bay, Hawaii, GOQs 511 and 515, and (2) Marine Corps Base Camp Pendleton, California, GOQ 24154.

Response A.1.a. Concur. In accordance with the DODFMR, Volume 14, a formal investigation into a possible Anti-deficiency Act violation at Camp Pendleton, California, is in progress. The Commanding General, Marine Corps Base, Hawaii has directed that a Preliminary Review for a potential Antideficiency Act violation be conducted.

Recommendation A.1.b. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) verify that general officer quarter's costs have been corrected for FY2000, and update congressional reporting of general officer quarters costs to reflect accounting error corrections.

Response A.1.b. Concur. If the on-going investigations uncover accounting errors, appropriate corrections and notifications will be made.

Recommendation A.1.c. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) issue a policy memorandum addressing contract administration charges for work performed exclusively for general officer quarters.

Response A.1.c. Concur in principle. The Office of the Assistant Secretary of the Navy (Installations and Environment) has completed a draft revision to SECNAVINST 11101.73 on General and Flag Officers' Quarters. The instruction was substantially revised to incorporate statutory changes and re-emphasize the policies and approval authorities for the operation, maintenance, repair, and improvement of quarters assigned to General and flag officers. We will recommend they incorporate appropriate guidance in that document.

Enclosure (1)

Final Report Reference

Recommendation A.1.d. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) revise the Navy family housing manual to reflect new policy guidance. Revised

Response A.1.d. Concur in principle. The Assistant Secretary of the Navy (Financial Management and Comptroller) does not maintain this document. The Navy Family Housing Manual (NAVFAC P-930) is under the jurisdiction of the Naval Facilities Engineering Command and is applicable to Navy Housing. Marine Corps Order P11000.22, Marine Corps Housing Management Manual, is the implementing guidance for the Marine Corps. When revised Departmental policy guidance (SECNAVINST 11101.73) is issued, the Naval Facilities Engineering Command and Headquarters Marine Corps will update P-930 and MC order P11000.22.

Recommendation A.2.a. We recommend that Marine Corps Deputy Commandant for Installations and Logistics issue a policy memorandum that directs Marine Corps family housing offices to apply Naval Facilities Engineering Command P-930 guidance on cost classifications when encountering issues not addressed in Marine Corps guidance. Revised

Response A.2.a. Non-concur. The Naval Facilities Engineering Command P-930 guidance is applicable to Navy Housing. Marine Corps Order P11000.22, Marine Corps Housing Management Manual, is the implementing guidance for the Marine Corps. This Order is in the process of being updated, and will address cost classifications.

Recommendation A.2.b. We recommend that Marine Corps Deputy Commandant for Installations and Logistics direct Commander, Marine Forces Pacific, to periodically evaluate the effectiveness of general officer quarters housing office operations to ensure compliance with applicable directives.

Response A.2.b. Concur. Marine Forces Pacific, is already providing extensive assistance to include a new database for collecting GOQ costs. In addition to working closely with the activities via phone and E-mail, periodic site visits were made in FY2000 and FY2001.

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Revised

Recommendation B.1. We recommend that the Commanding General, Marine Corps Base Hawaii, Kaneohe Bay; and the Commanding Officer, Marine Corps Logistics Base, Albany evaluate the effectiveness of the housing offices' review and authorization of general officer quarters costs to ensure compliance with applicable laws and regulations.

Response B.1. Concur. At Kaneohe Bay, projected expenses were reviewed in accordance with Marine Corps Order P11000.22, Marine Corps Housing Management Manual. At MCLB Albany, internal management controls were in place to ensure compliance with applicable laws and regulations.

Revised

Recommendation B.2. We recommend that the Commanding General, Marine Corps Base Hawaii, Kaneohe Bay; and the Commanding Officer, Marine Corps Logistics Base, Albany develop and execute a plan that identifies and prioritizes the maintenance and repair requirements of the general officer quarters.

Response B.2. Concur. The draft revision to SECNAVINST 11101.73 includes a requirement for establishing a long range maintenance plan. Upon signature, the Navy and Marine Corps will update their housing manuals to implement that guidance. Currently, the Kaneohe Bay Housing Office develops and executes an annual plan for GOQ maintenance and repair requirements. In April 2001, Marine Forces Pacific Family Housing staff created an Excel file, which is used to submit the General and Flag Officer Quarters Long-Range Maintenance Plan. Likewise, at Albany, the Housing Office develops and executes the plan for GOQ maintenance and repair requirements.

Final Report Reference

Department of the Navy
Comments on Findings
DRAFT PROPOSED AUDIT,"GENERAL OFFICER QUARTERS AT KANEOHE BAY, HAWAII; CAMP PENDLETON, CALIFORNIA; AND ALBANY, GEORGIA"
(PROJECT NO. D1999CG-0085.002) OF 30 JULY 2001

Finding A: GOQ Annual Maintenance and Repair Costs.

(1) Implementing Guidance (Page 2). The listing of Service Implementing Guidance is inaccurate. It is noted that Marine Corps Order P11000.22, Marine Corps Housing Management Manual, which is the Service implementing guidance for the Marine Corps, is not referenced. Page 1

(2) NAVFAC P-930 (Page 2). NAVFAC P-930 applies to Navy family housing programs, not Marine Corps family housing. In this regard, please note that there are differences in Marine Corps and Navy guidance not recognized within the audit report. Page 1

(3) Contract Administration Services Costs (Page 3). The Marine Corps did not omit or improperly classify contract administration services costs (CAR). The Activity acted in a reasonable manner when it calculated CAR. When no definitive guidance exists, it is not unreasonable to use a "prorated" method for assessing those costs. Revised

(4) Grounds Care Costs (Page 3). The Marine Corps does not concur with the following statements, "When we informed the Marine Corps Headquarters housing officials that Camp Pendleton had redefined the boundary lines, they strongly objected," and "Marine Corps headquarters housing officials indicated that cognizant congressional officials had previously reviewed the quarters, and specifically prohibited any reconfiguration of the property." HQMC has no evidence of anyone at HQMC providing these comments to the IG. We are unaware of any Congressional prohibition to adjust boundaries. HQMC, MARFORPAC and Camp Pendleton have no documentation or information regarding a requirement for Congressional approval to reconfigure the grounds boundaries. Revised Page 4

(5) Cost Classifications (Page 4). The DOD FMR Volume 2B, Chapter 6 identifies room air-conditioners as part of the fixtures or other appliances in a housing unit (paragraph 060105D.1.b refers). Paragraph 060105D.1.c.(5) provides the management undertakings arising in connection with the management and oversight of family housing in connection with furnishing. These references indicate that outfitting of family Revised

Enclosure (2)

1

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housing with fixtures or other equipment that are either integral or portable such as a window air-conditioner or ceiling fan are furnishings and the purchase, installation and maintenance and repair of such items is properly chargeable to the furnishing cost category.

Finding B: Review and Authorization of GOQ Operations and Maintenance Costs.

Revised Page 9

(1) Questionable GOQ Costs (Page 7). Disagree with the implication that the Marine Corps wasted $63,606. In fact, the report does not say any of these costs were unwarranted. According to HQMC representatives, during an 18 June 2001 telephone conversation the auditors indicated that these expenditures were valid, but believed they should have been deferred to accomplish other work. [It appears that the auditors' complaint is really with the judgment exercised by Marine Corps officials. The fact that some people would have done things differently is irrelevant. Inserting the auditors judgment for that of management is not an acceptable audit finding.]

Page 9

(2) GOQ Operations and Maintenance Costs (Page 7). None of the work accomplished was noncompliant with existing Marine Corps housing guidance. There is no indication that the housing staff was directed to perform a lower priority project sacrificing higher needs. The Marine Corps surveyed the field and none of the housing officials have indicated that the projects they undertook superseded a higher priority project that could be accomplished within Family Housing, Marine Corps funding. The auditors' references to higher priority projects, "such as electrical wiring, plumbing and windows" and the costs identified are not the type of work that would be accomplished using annual family housing maintenance and repair funding. Work cited by the auditors would generally be considered whole house type project work, which is budgeted and funded with the Family Housing Post Acquisition (improvement) funds.

Page 9

Revised

(3) Noncompliant Costs (Page 7).

a. Interior Window Shutters. The Marine Corps disagrees with the analysis that the cost associated with these shutters was unreasonable. Although more costly up front, shutters have a life of 20-30 years vice a 5-year life for draperies at Kaneohe Bay. As written, the audit appears to imply that less costly shutters would be considered compliant. Cost is not a noncompliance issue. Additionally, the audit is

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incorrect when it states that the installation of shutters was not authorized on the lanai. In this case, the lanai is a public entertainment area.

b. Leather Sofa (Page 8). The three-piece leather sofa was properly purchased for use in the public entertainment area as prescribed by the Marine Corps Order. The Marine Corps discovered that previous residents moved the sofa after purchase/placement, but that does not make the acquisition questionable. Please be advised that the sofa is back in the living room portion of the public entertainment area. What is important is the rationale behind the purchase, not the placement of the sofa during the auditors' visit to the quarters. Revised Page 10

c. Tile Flooring (Page 8). The Marine Corps has indicated that this work was not accomplished at the request or direction of the resident, but was performed because the flooring was failing and needed to be replaced. While the Marine Corps Order states that flooring should generally be neutral in color, the Marine Corps does not consider the purchase of black and white tile a concern at Kaneohe Bay nor are they opposed to offering residents a choice of colors within a reasonable range. Revised Page 10

(4) Low Priority Costs (Page 8). Page 10

a. Security Systems (Page 8). The type and installation of security systems installed were in compliance with Antiterrorism/Force Protection guidelines. The audit apparently is not questioning the system or annual maintenance fee, only that other things should have been accomplished ahead of the security system. From a housing maintenance perspective, we would prefer not to fund security systems with family housing funds that could otherwise be used to maintain a home; however, contrary to the implication in the report, the installation of this security system was directed by force protection specialists who are the experts on what measure of security is appropriate. Revised Page 10

b. Planters (Page 8). The report is factually inaccurate. This was a high priority repair, required to maintain the integrity of the quarters. The repairs solved the problem of water infiltration into the inside of the quarters by including linings. Page 10

Enclosure (2)

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Revised Page 10

c. Fencing (Page 8). The report is inaccurate. The fencing was required to ensure a complete and usable facility for the residents. The fencing provides a windscreen for the patio, which is located on the bluff side of the home. Winds are high and failure to provide the fence severely limits use of the yard.

(5) Occupant Choice. The report makes reference to "occupant choice" on three separate occasions. It is important to note that the occupants did not demand the purchase of the sofa, flooring or fencing. Housing staff consulted with residents on required actions. There is no foundation for the conclusion that housing personnel abandoned good judgment just to satisfy the occupants.

Audit Team Members

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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