Report No. DODIG-2019-056

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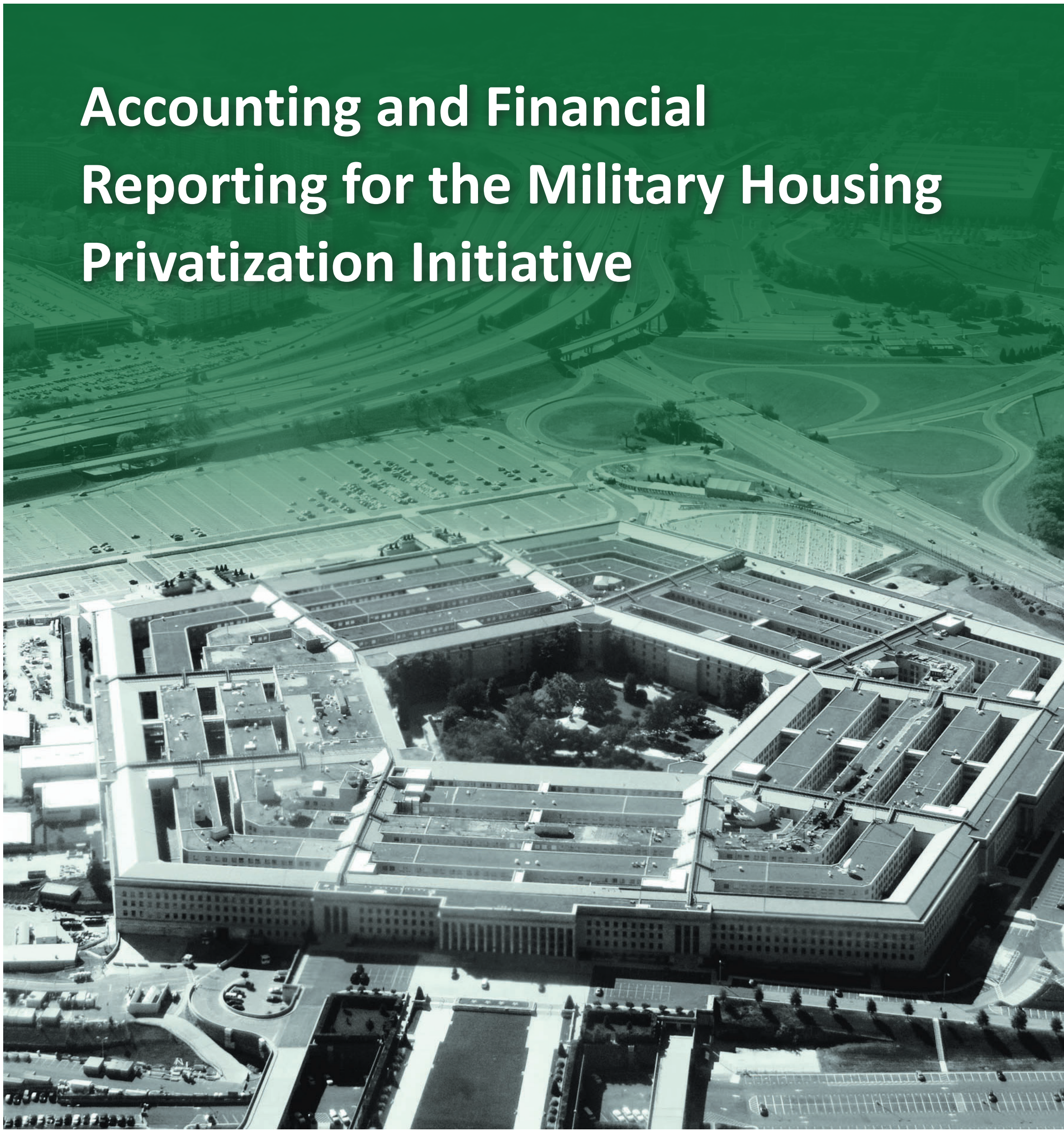
INSPECTOR GENERAL

U.S. Department of Defense

FEBRUARY 12, 2019

Accounting and Financial Reporting for the Military Housing Privatization Initiative



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Results in Brief

Accounting and Financial Reporting for the Military Housing Privatization Initiative

February 12, 2019

Objective

We determined whether the DoD Military Housing Privatization Initiative (MHPI) program was properly accounted for in DoD financial and property systems and reported in the FY 2017 DoD Agency-Wide Financial Statements.[1] The DoD Deputy Chief Financial Officer (DCFO) requested this audit on May 26, 2017.

Background

Public Law 104-106 established the MHPI program to improve the condition of housing for military personnel and their families; attract private lending, expertise, and innovation; and provide housing more efficiently. Before this program was established, DoD personnel estimated that it would take over 30 years and $20 billion to improve the DoD-owned military housing units. Since the program was established in FY 1996, the Military Departments have privatized 99 percent of their military family housing, or approximately 201,600 units. DoD personnel do not publish stand-alone financial statements for the MHPI program but report the program's financial information as part of Other Defense Organizations in the DoD Agency-Wide Financial Statements.

[1] To support the DoD's audit readiness efforts, we determined whether MHPI was properly accounted for and reported by testing the following financial statement assertions: existence, completeness, rights, accuracy, and presentation and disclosure.

~~(FOUO)~~ Findings

~~(FOUO)~~ Defense Finance and Accounting Service–Indianapolis (DFAS-Indianapolis) personnel did not properly account for and summarize MHPI transactions in DoD financial systems. Specifically, DFAS-Indianapolis personnel incorrectly:

- ~~(FOUO)~~ recorded $[redacted] million in transactions for equity investments using guidance for similar transactions because there was no directly applicable Treasury guidance;
- recorded $155.5 million in disbursements for a Government guaranteed private loan which had only $120 million in disbursements;
- summarized $145.1 million in transactions during the financial reporting process as a result of recording and crosswalking errors; and
- recorded $4.2 billion in accounting adjustments without the required supporting documentation.

MHPI financial management personnel also did not report $2.6 billion of real property (such as housing units and other structures) ownership transferred to equity investment projects, $489.5 million of equity investment net losses allocated to the Military Departments, and all required information about the financial risks to the MHPI projects.

These accounting and reporting deficiencies occurred because DCFO personnel did not develop adequate accounting policy or conduct adequate oversight and because DFAS-Indianapolis personnel lacked the procedures needed to ensure proper accounting and reporting. As a result, the FY 2017 DoD Agency-Wide Financial Statements, as related to the MHPI program, were misstated and unsupported. In addition, the FY 2018 DoD Agency-Wide Financial Statements were misstated, as the reported equity investment balance remained unchanged from FY 2017 and there remained no discussions about the financial risks to MHPI projects.

Results in Brief

Accounting and Financial Reporting for the Military Housing Privatization Initiative

Findings (cont'd)

In addition, MHPI program and financial management personnel need to improve funds and privatized housing inventory management for MHPI projects. Specifically, MHPI program and financial management personnel:

- unnecessarily paid $1.8 million in subsidy costs to the DoD Family Housing Improvement Fund for the Fort Wainwright/Greely project loan guarantee;
- did not resolve internal disagreements on the availability of equity investment sales proceeds;
- did not resolve internal disagreements about the methodology used to reestimate direct loan and loan guarantee subsidy costs; and
- did not identify and correct discrepancies between privatized housing inventories or populate the enterprise Military Housing (eMH) system with all privatized housing records.[2]

These funds management and privatized housing inventory deficiencies occurred because MHPI program and financial management personnel lacked adequate oversight, policies, and procedures to properly manage funds and maintain complete and accurate private housing inventories.

Without effective funds management and privatized housing accountability controls, MHPI program management personnel may not be able to efficiently manage and oversee the MHPI program and related projects or obtain necessary MHPI-related information, including information for required reports to Congress.

[2] Subsidy costs are estimated costs incurred by the Government for the projects to obtain loans with favorable terms or where loans may not otherwise be available.

Recommendations

We recommend that the DCFO:

- develop an interim plan to account for equity investments and coordinate with the Department of the Treasury to update Treasury guidance;
- update the DoD guidance once Treasury guidance is established;
- issue accounting policy requiring DFAS-Indianapolis personnel to correctly report real property ownership transfers, equity investment profits and losses allocated to the Military Departments, and all required direct loan and loan guarantee information in the DoD Agency-Wide Financial Statements; and
- issue policy for reestimating subsidy costs.

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), ensure that equity investment and loan information is reported correctly in the DoD Agency-Wide Financial Statements.

We recommend that the DFAS-Indianapolis Director:

- review the accounting transactions for equity investments and revise them as needed once the DoD guidance is updated;
- develop and implement procedures to reconcile, on a quarterly basis, MHPI loan supporting documentation to amounts reported in the Great Plains system and the financial statements; and
- develop and implement a plan to identify root causes for unsupported accounting adjustments and correct the causes or support the adjustments.

Results in Brief

Accounting and Financial Reporting for the Military Housing Privatization Initiative

Recommendations (cont'd)

We recommend that the Assistant Secretary of Defense for Sustainment (ASD[S]):

- issue policy requiring the maximum loan amount on promissory notes to match the corresponding loan agreements and promissory notes to contain complete histories of all amendments;
- coordinate with DoD Deputy Comptroller for Program/Budget and Military Department personnel to issue policy requiring the identification of deobligation opportunities and to develop corresponding procedures;
- issue policy requiring Military Department personnel to ensure that the Office of Management and Budget (OMB)-approved amounts are in the DoD Family Housing Improvement Fund prior to agreeing to any changes to loan terms; and
- coordinate with the eMH system Program Management Office to create procedures for Military Department personnel to input housing records in the eMH system.

We recommend that the Assistant Secretary of the Army for Installations, Energy, and Environment coordinate with the appropriate MHPI program and financial management personnel to rebalance the subsidy cost for the Fort Wainwright/Greely project loan guarantee after the next reestimatation process, to include deobligating the $1.8 million that Army unnecessarily paid.

We recommend that the DCFO and the DoD Deputy Comptroller for Program/Budget coordinate with the Department of the Treasury and OMB to update accounting policy with guidance on whether funds should be considered expended (spent) when initially invested and whether any portion of equity investment sales proceeds are available for use without a new appropriation.

We recommend that Military Department personnel develop and implement procedures to reconcile their privatized housing inventories with the private partners' and the eMH system inventories.

Management Comments and Our Response

The DCFO, also responding for the USD(C)/CFO and the DoD Deputy Comptroller for Program/Budget, agreed with our findings and recommendations. He also agreed to take or stated that he has taken the following actions.

- Update the DoD Transaction Library with the equity investments accounting transactions proposed to the Department of the Treasury (Completed and Verified by Auditors).[3]
- Issue implementing guidance for the accounting treatment of equity investments (Estimated Completion Date: February 28, 2019).
- Draft policy requiring Military Department personnel to monitor and report the financial condition of their equity investments, and obtain and provide to DFAS-Indianapolis personnel the supporting documentation needed to record real property transfers and equity investment profits and losses allocated to the Military Departments (Estimated Completion Date: February 28, 2019).
- Determine the proper subsidy cost reestimation procedures for direct loans and loan guarantees and update the DoD guidance accordingly (Estimated Completion Date: March 31, 2019).

[3] A completed action is an action taken by a DoD component, prior to providing their draft report comments, to close or help close a corresponding recommendation. We do not consider the recommendation closed until the DoD component provides the documentation necessary to verify the recommendation has been fully addressed.

Results in Brief

Accounting and Financial Reporting for the Military Housing Privatization Initiative

Comments (cont'd)

- Ensure real property ownership transferred to projects as equity investments and equity investment profits and losses allocated to Military Departments are reported in the DoD Agency‑Wide Financial Statements (Estimated Completion Date: September 30, 2019).

The DCFO, responding for the DFAS-Indianapolis Director, agreed with our findings and recommendations. He also stated that the DFAS-Indianapolis Director agreed to take or has taken the following actions.

- Develop procedures to reconcile information in direct loan and loan guarantee supporting documentation the Great Plains system, and the DoD Agency-Wide Financial Statements (Completed and Verified by Auditors).
- Develop procedures to research and analyze unsupported manual journal voucher adjustments and require the resolution of new unsupported adjustments within 90 days (Completed and Verified by Auditors).
- Review the accounting transactions for equity investments and revise them as needed once the DoD guidance is updated (Estimated Completion Date: May 30, 2019).

The ASD(S) partially agreed with our recommendations, but addressed all specifics of the recommendations in his response. He agreed to take the following actions.

- Issue policy requiring the maximum loan amount on promissory notes to match the corresponding loan agreements.
- Coordinate with USD(C)/CFO and Military Department personnel to determine whether additional policy requiring the identification of deobligation opportunities is needed and issue policy as needed.
- Issue policy requiring Military Department personnel to ensure that the OMB-approved subsidy cost amounts are in the DoD Family Housing Improvement Fund prior to changes to loan terms (Estimated Completion Date: September 30, 2019).
- Coordinate with the eMH Program Management Office to develop procedures for recording housing records in the eMH system.

The Naval Facilities Engineering Command (NAVFAC) Headquarters Inspector General, responding for the NAVFAC Commander, agreed with our recommendations and agreed to take or has taken the following actions.

- Reconcile privatized housing records between the Navy's housing records and the eMH system (Completed Pending Verification).
- Develop procedures for annual reconciliations between the Navy's privatized housing records and the eMH system (Estimated Completion Date: January 31, 2019).

The recommendations related to the proposed actions provided by the DCFO, ASD(S), and the NAVFAC Headquarters Inspector General, discussed above, remain open. We will close each recommendation once we receive the documentation needed to verify the actions taken and the recommendations are fully addressed.

While the DCFO agreed, in principle, with our recommendation that all required direct loan and loan guarantee information should be reported in the DoD Agency-Wide Financial Statements, he stated that our related recommendation was premature. Therefore, the recommendation is unresolved and we request further comment to the final report.

Comments (cont'd)

The Deputy Assistant Secretary of the Army (Installations, Housing, and Partnerships), responding for the Assistant Secretary of the Army for Installations, Energy, and Environment, disagreed with our recommendation but proposed an alternative recommendation to rebalance the subsidy cost for the Fort Wainwright/Greely project loan guarantee after the next reestimate process. Therefore, we revised this recommendation and the related potential monetary benefit. We will close this recommendation once we receive the documentation needed to verify completion of the subsidy cost rebalancing, to include deobligating the $1.8 million Army unnecessarily paid that can provide monetary benefit to other MHPI projects.

The Privatized Housing and Lodging Program Chief, responding for the Assistant Chief of Staff for Installation Management, Department of the Army, agreed with the recommendation to develop and implement procedures to reconcile privatized housing inventories with the private partners' and the eMH system inventories. However, the comments did not address the proposed actions, with milestones, to ensure the accuracy of the different privatized housing inventories. Therefore, the recommendation is unresolved and we request further comment to the final report.

The Air Force Civil Engineer Center Director did not provide comments to the recommendation. Therefore, the recommendation is unresolved and we request comments to the final report.

Please see the Recommendations Table on the next page for the status of each recommendation.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD	A.3.c	A.3.a, A.3.b	None
Assistant Secretary of Defense for Sustainment	None	B.1.a, B.1.b, B.1.c.1, B.1.c.2, B.1.c.3, B.1.d, B.1.e	None
DoD Deputy Chief Financial Officer	None	A.1.a.1, A.1.a.2, A.1.a.3, A.1.b, A.1.c.1, A.1.c.2, A.1.c.3, A.1.d, B.3, B.4	None
DoD Deputy Comptroller for Program/Budget	None	B.3	None
Director, Defense Finance and Accounting Service–Indianapolis	None	A.2.a, A.2.b.1, A.2.b.2, A.2.c, A.2.d, A.2.e, A.2.f.1, A.2.f.2, A.2.f.3	None
Assistant Secretary of the Army for Installations, Energy, and Environment	None	B.2	None
Assistant Chief of Staff for Installation Management, Department of the Army	B.5.a, B.5.b, B.5.c	None	None
Commander, Naval Facilities Engineering Command	None	B.5.a, B.5.b, B.5.c	None
Director, Air Force Civil Engineer Center	B.5.a, B.5.b, B.5.c	None	None

Please provide Management Comments by March 14, 2019.

Note: The following categories are used to describe agency management's comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

February 12, 2019

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND SUSTAINMENT
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF DEFENSE FOR SUSTAINMENT
ASSISTANT SECRETARY OF THE AIR FORCE FOR FINANCIAL MANAGEMENT AND COMPTROLLER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Accounting and Financial Reporting for the Military Housing Privatization Initiative (Report No. DODIG-2019-056)

We are providing this report for review and comment. We conducted this audit in accordance with generally accepted government auditing standards.

We considered comments on a draft of this report when preparing the final report. DoD Instruction 7650.03 requires that all recommendations be resolved promptly. We request that the following organizations provide comments on the final report as the recommendations remain unresolved.

- Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, for Recommendation A.3.c
- Assistant Chief of Staff for Installation Management, Department of the Army, for Recommendations B.5.a, B.5.b, and B.5.c
- Director, Air Force Civil Engineer Center, for Recommendations B.5.a, B.5.b, and B.5.c

We request comments to the final report by March 14, 2019.

Please send a PDF file containing your comments to audfmr@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the cooperation and assistance received during the audit. Please direct questions to me at (703) 601-5945 (DSN 664-5945).

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

Contents

Introduction

~~(FOUO)~~ Findings

Appendixes

Contents (cont'd)

Introduction

Objective

We determined whether the DoD Military Housing Privatization Initiative (MHPI) program was properly accounted for in DoD financial and property systems and reported in the FY 2017 DoD Agency-Wide Financial Statements.[4] The DoD Deputy Chief Financial Officer (DCFO) requested this audit on May 26, 2017. See Appendix A for our scope and methodology and the Glossary for complete definitions of the technical terms in this report.

Background

Public Law 104-106 established the MHPI program to improve the condition of housing for military personnel and their families; attract private lending, expertise, and innovation; and provide necessary housing at less cost to the Government than DoD-owned, managed, and maintained housing.[5] Before this program was established, DoD personnel estimated that it would take over 30 years and $20 billion to improve the condition of DoD-owned military housing units. Since the program was established in FY 1996, the Military Departments privatized 99 percent of their military family housing in the United States through the creation of entities (projects) that are majority-owned and managed by private investors.[6] As of October 2017, these projects own, manage, and maintain approximately 201,600 privatized family housing units.

To implement the MHPI, program and financial management personnel used the following four methods to provide Government funding for the projects.

- **Equity Investments.** Government investment of cash and real property (such as housing units and other structures) ownership to a project in exchange for an ownership stake in the project, allocated portions of the project's profits and losses, and compensation if the Government investment is sold or the project is terminated.

[4] To support the DoD's audit readiness efforts, we determined whether MHPI was properly accounted for and reported by testing the following financial statement assertions: existence, completeness, rights, accuracy, and presentation and disclosure. In this report, we use the term MHPI program to mean the MHPI program activity recorded in four Other Defense Organization Treasury Accounts: 97X0834 ("DoD Family Housing Improvement Fund"); 97X0836 ("DoD Military Unaccompanied Housing Improvement Fund"); 97X4166 ("DoD Family Housing Improvement Fund, Direct Loan, Financing Account"); and 97X4167 ("DoD Family Housing Improvement Fund, Direct Loan, Financing Account"). Treasury Accounts 97X0834 and 97X0836 are General Fund accounts, while 97X4166 and 97X4167 are Public Enterprise Revolving Fund accounts.

[5] Public Law 104-106, "National Defense Authorization Act for Fiscal Year 1996," "Title XXVIII—General Provisions," "Subtitle A—Military Housing Privatization Initiative," February 10, 1996.

[6] The term "project" is used to describe the entity that owns, manages, and maintains privatized military housing units. The private, non-Government partner owns a majority of the entity and is responsible for day-to-day operations. For equity investment projects, the Military Departments are minority partners.

- **Government Direct Loans (GDLs).** Government provision of cash in the form of a subsidized loan to a project with the expectation of future repayment.
- **Government Loan Guarantees (GLGs).** Government agreement to pay, under limited circumstances, a percentage of the outstanding balance on a non-Government loan in the event of nonpayment by the project.
- **Differential Lease Payments.** Government provision of monthly payments to a project above the basic allowance for housing (BAH) paid by military personnel.[7]

Table 1 shows the $5.3 billion in Government funding for the MHPI program reported in the FY 2017 DoD Agency-Wide Financial Statements by funding method and Military Department.

Table 1. Government Funding for MHPI by Method and Military Department Reported in the FY 2017 DoD Agency-Wide Financial Statements (in millions)

Department	Equity Investments	Government Direct Loans	Government Loan Guarantees	Differential Lease Payments	Total
Army	$1,906.7	$0	$13.7	$0	$1,920.4
Navy	1,515.4	25.3	0	6.1	1,546.8
Air Force	89.5	1,679.3	51.6	0.5	1,820.9
Total	**$3,511.6**	**$1,704.6**	**$65.3**	**$6.6**	**$5,288.1**

Note: The equity investment balance reported in the FY 2017 DoD Agency-Wide Financial Statements incorrectly consisted only of cash investments in the projects, which we discuss in Finding A.

Source: The DoD OIG.

Program and Project Management Roles and Responsibilities

The Assistant Secretary of Defense for Sustainment (ASD[S]) provides policy and oversight for the MHPI program. The Secretaries and Assistant Secretaries of the Military Departments designate responsibility for executing and managing their respective projects within the MHPI program. The following is a listing of the designees for each Department.

- **Army—**Assistant Secretary of the Army for Installations, Energy, and Environment (ASA[IE&E]) and Assistant Chief of Staff for Installation Management, Department of the Army (ACSIM)

[7] BAH is compensation paid by the DoD to military personnel living in non-government-owned housing, which is calculated based on the local civilian housing market. Military personnel receiving BAH who choose to live in an MHPI program housing unit pay their BAH to the MHPI project, which provides the project an income stream to support its current and long-term financial viability.

- **Navy—**Naval Facilities Engineering Command (NAVFAC)
- **Air Force—**Air Force Civil Engineer Center (AFCEC)

Accounting, Reporting, and Budget Roles and Responsibilities

The Office of Management and Budget (OMB) is responsible for the budget and financial management of the Executive branch of Government, which includes the DoD. OMB provides budget and financial management guidance applicable to the MHPI program in OMB Circulars No. A-11, A-129, and A-136.[8] OMB personnel also approve the funding for initial and revised MHPI agreements between the Military Departments and private partners. To ensure that the Government consistently and accurately reports budget, accounting, and financial information, the Department of the Treasury publishes the U.S. Standard General Ledger (USSGL), which includes the Standard General Ledger (SGL) Chart of Accounts and Transaction Guidance.[9]

To comply with OMB and Treasury guidance, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), develops and implements DoD policies for budget, accounting, and financial reporting and issues the DoD Agency-Wide Financial Statements. Within the Office of the USD(C)/CFO, the Deputy Comptroller for Program/Budget (DC[P/B]) is responsible for the DoD budget, and the DCFO is responsible for DoD accounting and financial reporting policies. The DCFO is also responsible for the DoD Chart of Accounts and the DoD Transaction Library, which contain DoD-specific SGL Accounts and transaction guidance that aligns with the USSGL.[10] Within the Defense Finance and Accounting Service (DFAS), the DFAS-Indianapolis Director is responsible for MHPI accounting and financial reporting in accordance with DCFO policies, including compliance with the DoD Transaction Library and USSGL Transaction Guidance. See Appendix B for an organization chart that shows the USD(C)/CFO in relation to the DC(P/B), the DCFO, and the DFAS Director.

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[8] OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," July 2017. OMB Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," January 2013. OMB Circular No. A-136, "Financial Reporting Requirements," August 2017.

[9] The Chart of Accounts contains a list of all SGL Accounts available for use throughout the Government. SGL Accounts are six-digit codes that, along with other financial information, provide the basic structure for Government accounting.

[10] The Transaction Library is a list of accounting transactions for business events that are allowed to occur throughout the DoD.

Program Financial Reporting

DoD personnel do not publish stand-alone financial statements for the MHPI program but, instead, report the program's financial information as part of Tier 4 Other Defense Organizations in the DoD Agency-Wide Financial Statements.[11] In the Financial Statements, the amount reported as Other Investments is comprised solely of MHPI program equity investments and is reported on the Balance Sheet and in Note 4.[12] Also, the amounts reported as Loans Receivable and Loan Guarantee Liability are comprised solely of MHPI program GDLs and GLGs, respectively, and are reported on the Balance Sheet and in Note 8.[13] See Appendix C for the FY 2017 DoD Agency-Wide Financial Statement Note 4 and 8 disclosures.

Military Department financial management personnel transfer funds to the Other Defense Organizations (specifically, to the DoD Family Housing Improvement Fund and the DoD Military Unaccompanied Housing Improvement Fund) for use by MHPI projects. Because the funds are transferred from the Military Departments, MHPI program activity is not reported on the Military Department financial statements. When Military Department personnel transfer real property ownership to projects, the property is no longer reported in the DoD Agency-Wide or Military Department financial statements.

Accounting Systems

DFAS-Indianapolis personnel use the Great Plains system to record MHPI accounting transactions, maintain records for individual privatized housing projects, and support the MHPI trial balances that are used to prepare DoD budgetary reports and financial statements. DFAS-Indianapolis personnel use the Management Reporter application to create, maintain, and view MHPI trial balances from Great Plains.

DFAS-Indianapolis personnel import Great Plains trial balances into Defense Departmental Reporting System–Budgetary (DDRS-B) for use in preparing budgetary reports and generating data files. Once the DDRS-B processing

[11] The DCFO defines Tier 4 Other Defense Organizations as the smallest category of DoD organizations that represent less than 1 percent of the DoD budgetary resources and total assets. DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR), volume 6B, chapter 1, defines the MHPI program as an Other Defense Organization required to perform audit readiness efforts and submit trial balances and corresponding adjustments for the DoD Agency-Wide Financial Statements. MHPI program activity was reported as part of the Other Defense Organizations for the FY 2017 Financial Statements.

[12] "Note 4. Investments and Related Interest," FY 2017 DoD Agency-Wide Financial Statements. "Other Investments" is SGL Account 169000.

[13] "Note 8. Direct Loan and Loan Guarantees," FY 2017 DoD Agency-Wide Financial Statements. "Loans Receivable" is SGL Account 135000, and "Loan Guarantee Liability" is SGL Account 218000.

is complete, DFAS-Indianapolis personnel export the DDRS-B data files to DDRS–Audited Financial Statements (DDRS-AFS) for use in preparing the DoD Agency-Wide Financial Statements.

During the financial statement compilation process, DFAS-Indianapolis personnel record accounting adjustments in both DDRS-B and DDRS-AFS. Accounting adjustments are accomplished either manually or by system-generated transactions. Reasons for these adjustments include instances when:

- subsidiary records do not reconcile to financial balances;
- transactions need correction; or
- SGL Account balances need to reconcile with obligations, accruals, or expenses.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.[14] We identified internal control weaknesses with the MHPI programs' accounting, financial reporting, funds management, and privatized housing inventories. We will provide a copy of this report to the senior official responsible for internal controls in the Office of the USD(C)/CFO, Office of the ASD(S), and the Military Departments.

[14] DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

~~(FOUO)~~ Finding A

~~(FOUO)~~ MHPI Transactions Were Improperly Accounted for, Summarized, and Reported

~~(FOUO)~~ DFAS-Indianapolis personnel did not properly account for and summarize MHPI transactions in DoD financial systems. Specifically, DFAS-Indianapolis personnel incorrectly:

- ~~(FOUO)~~ recorded $[redacted] million in MHPI accounting transactions for equity investments using USSGL Transaction Guidance for similar transactions because the Treasury had no directly applicable USSGL Transaction Guidance for those transactions and DCFO personnel did not coordinate with the Treasury to address inadequacies in the USSGL Chart of Accounts and Transaction Guidance;
- recorded $155.5 million in disbursements for a Government guaranteed private loan which had only $120 million in disbursements because DFAS-Indianapolis personnel did not have procedures to reconcile the supporting documentation to amounts reported in Great Plains and because, according to DFAS-Indianapolis personnel, ASA(IE&E) personnel did not notify them when loan disbursements occurred;
- summarized $145.1 million in MHPI accounting transactions during the financial reporting process as a result of recording and crosswalking errors because DFAS-Indianapolis personnel did not reconcile Great Plains transaction-level details to related DDRS-B account balances; and
- recorded $4.2 billion in MHPI accounting adjustments without required supporting documentation because DFAS-Indianapolis personnel did not identify root causes for all unsupported accounting adjustments and either correct the root causes or support the adjustments until the root causes were corrected.[15]

In addition, MHPI financial management personnel did not report the following MHPI transactions and required note disclosures in the FY 2017 DoD Agency-Wide Financial Statements.[16]

[15] ~~(FOUO)~~ The $[redacted] million in accounting transactions that DFAS-Indianapolis personnel incorrectly recorded relate to the Navy's sale of an equity investment (Everett II) for $[redacted] million. These transactions recorded the impact on the DoD's proprietary and budgetary SGL Accounts of that sale and corrected what DFAS-Indianapolis personnel stated were inaccuracies in the original accounting for that equity investment in FY 2000.

[16] MHPI financial management personnel include personnel from DCFO, DFAS-Indianapolis, and the Military Department financial management and comptroller offices.

- MHPI financial management personnel did not report $2.6 billion of real property ownership transferred to equity investment projects as increases to Other Investments in the FY 2017 DoD Agency-Wide Financial Statements.[17]
- MHPI financial management personnel did not report $489.5 million of equity investment net losses allocated to the Military Departments as decreases to Other Investments in the FY 2017 DoD Agency-Wide Financial Statements.[18]
- MHPI financial management personnel did not report required GDL and GLG information in Note 8 to the FY 2017 DoD Agency-Wide Financial Statements, including discussions about the effects of the BAH reductions on the projects and information about other adverse events and changes in conditions, which increased project risk and led to potential and actual restructures.[19]

The financial statement amounts and note disclosures for the MHPI were not reported in accordance with applicable accounting standards because DCFO personnel did not issue adequate accounting policy or conduct adequate oversight. In addition, DFAS-Indianapolis personnel lacked the procedures needed to ensure proper accounting and reporting. As a result, MHPI program stakeholders did not have complete financial information about MHPI projects.[20] Without full and complete MHPI information, stakeholders may not be able to effectively oversee the program.

Without full and complete MHPI information, stakeholders may not be able to effectively oversee the program.

[17] We tested $2.4 billion of $3.5 billion in equity investments reported in the FY 2017 DoD Agency-Wide Financial Statements by comparing this amount to amounts reported in private project audited financial statements. If MHPI financial management personnel had included the $2.6 billion in real property ownership transferred, the $2.4 billion reported amount would have been valued at $5 billion. For the remaining $1.1 billion in equity investments, Military Department personnel did not provide supporting documentation with the detail needed to determine the value of the real property ownership transferred for testing.

[18] We tested $1.6 billion of $3.5 billion in equity investments reported in the FY 2017 DoD Agency-Wide Financial Statements by comparing this amount to amounts reported in private project audited financial statements. If MHPI financial management personnel had included the $489.5 million in net losses, the $1.6 billion reported amount would have been valued at $1.1 billion. For the remaining $1.9 billion in equity investments, Military Department personnel did not provide supporting documentation with the detail needed to determine the amount of profits or losses for testing. Net profits occur when total revenue for a project or group of projects exceeds total expenses, while net losses occur when total expenses exceeds total revenue.

[19] A restructure occurs when there is a change in the original project agreement terms between a Military Department and private partner; restructures involve GDL and GLG modifications and administrative workouts. Examples include improving the project agreement terms or ensuring the long-term financial viability of projects currently not viable.

[20] Stakeholders include the Military Departments and DoD management, Congress, and the U.S. taxpayer.

~~(FOUO)~~ Improper Accounting for and Summarization of Transactions

~~(FOUO)~~ DFAS-Indianapolis personnel did not properly account for and summarize MHPI transactions in DoD financial systems. Specifically, DFAS-Indianapolis personnel recorded MHPI accounting transactions and adjustments that:

- could not comply with the USSGL because there was no USSGL accounting guidance directly applicable to MHPI equity investments,
- did not reconcile to supporting documentation,
- were not summarized correctly during the financial reporting process, and
- were not supported by required documentation.

~~(FOUO)~~ *Equity Investments Incorrectly Recorded*

~~(FOUO)~~ DFAS-Indianapolis personnel incorrectly recorded $[redacted] million in MHPI accounting transactions using USSGL Transaction Guidance applicable to similar transactions for the Navy's FY 2000 purchase and FY 2017 sale of its equity investment in the Everett II project.[21]

The Treasury had no directly applicable USSGL Transaction Guidance for MHPI equity investments.

This occurred because the Treasury had no directly applicable USSGL Transaction Guidance for MHPI equity investments and DCFO personnel did not coordinate with the Treasury to address inadequacies in the USSGL Chart of Accounts and Transaction Guidance. In addition, DFAS-Indianapolis personnel did not have guidance on how to account for all other MHPI equity investments, which totaled $3.5 billion of cash contributed for 90 investments.[22]

Because of the inadequacies in the USSGL Chart of Accounts and Transaction Guidance, DFAS-Indianapolis personnel requested that DCFO personnel seek to modify the USSGL Chart of Accounts and Transaction Guidance. In addition, DFAS-Indianapolis personnel recorded the equity investment sale transaction using USSGL-approved guidance for a similar investment sales transaction. Based on that approved guidance, DFAS-Indianapolis personnel also revised their accounting for the FY 2000 initial equity investment transaction to correct what they stated were inaccuracies in the original accounting. However, the guidance for similar

[21] The Everett II project was formed to obtain land and provide housing units for military personnel. Since the Navy invested in the project, it received proceeds from the sale of the project. Although we did not review the accounting for the FY 2000 transaction, we reviewed the adjustments made to that transaction in FY 2017.

[22] Multiple equity investments may be made in the same MHPI project.

transactions that DFAS-Indianapolis personnel used was limited to Trust and Special Fund Treasury accounts and not General Fund Treasury accounts, such as the DoD Family Housing Improvement Fund.

To accommodate correct accounting for MHPI equity investments, DCFO personnel requested in June 2018 that the Treasury update the USSGL Chart of Accounts with a new SGL Account and the USSGL Transaction Guidance with the new corresponding accounting entries proposed by DCFO personnel. See Appendix D for the DCFO proposed accounting entries. Treasury personnel responded that the proposed accounting entries were correct but that the Treasury would not be updating the USSGL Chart of Accounts or Transaction Guidance until the Federal Accounting Standards Advisory Board (FASAB) addresses the accounting treatment in FY 2019. Because the USSGL still lacks sufficient guidance, DCFO personnel should issue interim policy until the Treasury updates the USSGL and continue to coordinate with the Treasury to have the USSGL updated with guidance on how to record the initial equity investments in MHPI projects, including the cash and real property contributed and the sale of equity investments in MHPI projects.

When the Treasury updates its guidance, DCFO personnel should update the DoD Chart of Accounts and the DoD Transaction Library to comply with that guidance. After the DoD Chart of Accounts and the DoD Transaction Library have been updated, DFAS-Indianapolis personnel should review the accounting transactions for all equity investments and revise the transactions as needed to comply with the updated guidance.

Overstated Amounts Recorded and Reported

DFAS-Indianapolis personnel incorrectly recorded $155.5 million in disbursements for a Government guaranteed private loan that had only $120 million in disbursements, which overstated the amount disbursed to the Fort Wainwright/Greely project by $35.5 million for its private loan with a GLG. According to Army documents, there were $120 million in disbursements for the private loan as of September 30, 2017, while Great Plains and the DoD Agency-Wide Financial Statements reported $155.5 million for the same loan. This misstatement of SGL Accounts occurred because DFAS-Indianapolis personnel erroneously recorded the private loan balances in Great Plains and did not have procedures to reconcile the supporting documentation to the amounts recorded in Great Plains. DFAS-Indianapolis personnel should develop and implement procedures to reconcile, on a quarterly basis, GDL and GLG supporting documentation to

DFAS-Indianapolis personnel stated that seven of nine private loan amounts disbursed for GLGs were reported incorrectly.

the amounts recorded in Great Plains. DFAS-Indianapolis personnel stated that seven of nine private loan amounts disbursed for GLGs were reported incorrectly.[23] Therefore, DFAS-Indianapolis personnel should review the GDL and GLG amounts reported in the DoD Agency-Wide Financial Statements and correct any identified inaccuracies.

DFAS-Indianapolis personnel also stated that the differences between the supporting documentation and amounts recorded in Great Plains occurred because ASA(IE&E) personnel did not provide disbursement confirmation documentation to notify DFAS-Indianapolis personnel when private loan disbursements occurred. While the DoD Financial Management Regulation (DoD FMR), volume 6A, chapter 2, requires the Military Departments to ensure the accuracy of and provide support for financial information produced by DFAS, it does not explicitly require Military Departments to provide private loan disbursement confirmation documentation to DFAS-Indianapolis.[24] DCFO personnel should issue accounting policy and implement oversight controls to ensure that the Military Departments identify and provide DFAS-Indianapolis personnel with the disbursement documentation needed to support, record, and correctly report DoD Agency-Wide Financial Statement amounts related to GDLs and GLGs.

Accounting Transactions Incorrectly Summarized

DFAS-Indianapolis personnel incorrectly summarized $145.1 million of $11.2 billion in MHPI accounting transactions during the financial reporting process as a result of recording and crosswalking errors.[25] Specifically, DFAS-Indianapolis personnel incorrectly summarized $86.1 million in the Great Plains trial balance and an additional $59 million in the DDRS-B trial balance. This occurred because DFAS-Indianapolis personnel did not reconcile Great Plains transaction-level detail to DDRS-B SGL Account balances and other Account information. The DoD FMR, volume 6A, chapter 2 requires that DFAS-Indianapolis personnel ensure financial information is correctly summarized for use by DoD management to make sound decisions.

DFAS-Indianapolis personnel incorrectly summarized $145.1 million of $11.2 billion in MHPI accounting transactions.

23 DoD personnel reported in the FY 2017 DoD Agency-Wide Financial Statements that the nine private loans had an outstanding balance of $1.1 billion.

24 DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR), volume 6A, chapter 2, section 020201.

25 The requirements for procedures to summarize transactions are outlined in the DoD FMR, volume 6A, chapter 2, section 020201.

Great Plains Trial Balance

DFAS-Indianapolis personnel incorrectly summarized $86.1 million of MHPI accounting transactions in the Great Plains trial balance submitted to DDRS-B.

- $54.1 million of MHPI accounting transactions were incorrectly reported by the Management Reporter application, understating both the Operating Expenses/Program Costs and Adjustment to Subsidy Expense accounts.[26] This occurred because the Management Reporter application incorrectly mapped SGL Account balances from the Adjustment to Subsidy Expense Account to the Operating Expenses/Program Costs Account.
- $32 million of MHPI accounting transactions were incorrectly recorded in Great Plains, understating the Unapportioned Authority Account and overstating the Undelivered Orders-Obligations, Unpaid Account at the detailed transaction-level, resulting in an inconsistency between the transaction-level detail and the amounts reported in the Financial Statements.[27] This occurred because DFAS-Indianapolis personnel did not properly close out the accounting for an MHPI project in FY 2013.

As a result of our audit, DFAS-Indianapolis personnel corrected the errors in January and March 2018, respectively, and we verified the corrections. Because DFAS-Indianapolis personnel corrected the errors based on the audit finding, we will not make a recommendation to correct these errors. They also stated that they were coordinating with the Great Plains system manager to transfer trial balances directly from Great Plains to DDRS-B, which would eliminate the need for the Management Reporter application and reduce the risk of future summarization errors. DFAS-Indianapolis personnel, in coordination with the Great Plains system manager, should implement the transfer of trial balances directly from Great Plains to DDRS-B.

DDRS-B Trial Balance

DFAS-Indianapolis personnel incorrectly reported an Air Force equity investment of $59 million as "Other TI-97 Funds Provided to the Army by the Office of the Secretary of Defense," which understated Air Force equity investments and overstated Army equity investments.[28] This error occurred because DFAS-Indianapolis personnel incorrectly configured the crosswalk from the

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[26] "Operating Expenses/Program Costs" is SGL Account 610000, and "Adjustment to Subsidy Expense" is SGL Account 619900. "Operating Expenses/Program Costs" normally has a debit balance, while "Adjustment to Subsidy Expense" normally has a credit balance.

[27] "Unapportioned Authority" is SGL Account 445000, and "Undelivered Orders-Obligations, Unpaid" is SGL Account 480100. Both normally have credit balances. The Management Reporter application corrected this misstatement of the transaction-level detail before being transferred to DDRS-B and compiled for the DoD Agency-Wide Financial Statements.

[28] Because equity investments from each Military Department were not reported separately in the DoD Agency-Wide Financial Statements, the Statements were not impacted by the incorrect data; however, other reports may have been.

Great Plains trial balance to the DDRS-B trial balance. DFAS-Indianapolis personnel stated that the error resulted from the Great Plains trial balance conversion into the DDRS-B format. As a result of our audit, DFAS-Indianapolis personnel corrected the error in April 2018, and we verified the correction. Because DFAS-Indianapolis personnel corrected the error during this audit, we will not make a recommendation to correct this error.

Reconciliation Between Great Plains Transactions and DDRS-B Trial Balance

DFAS-Indianapolis personnel did not identify and correct the previously discussed summarization errors prior to this audit because they did not reconcile the Great Plains transaction-level detail to the DDRS-B trial balance, including SGL Account balances and other Account information. While DFAS-Indianapolis personnel had reconciliation procedures, they were inadequate because they did not provide for a reconciliation from the Great Plains transaction-level detail to the Great Plains trial balance and then to the DDRS-B trial balance. Therefore, DFAS-Indianapolis personnel should develop and implement procedures to reconcile the Great Plains transaction-level detail to the Great Plains trial balance and then to the DDRS-B trial balance, including SGL Account balances and other Account information.

They did not reconcile the Great Plains transaction-level detail to the DDRS-B trial balance, including SGL Account balances and other Account information.

Unsupported Adjustments in DDRS-B and DDRS-AFS

DFAS-Indianapolis personnel incorrectly recorded $4.2 billion of MHPI accounting adjustments in DDRS-B and DDRS-AFS without required supporting documentation. The DoD FMR, volume 6A, chapter 2, requires DFAS-Indianapolis personnel to support accounting adjustments with the documentation required to establish an audit trail from Great Plains to the financial statements.[29] Supporting documentation for adjustments should include justification for the adjustment, the adjustment date, the name of the approving official, and the dollar amount.

Table 2 shows the unsupported and supported MHPI accounting adjustments by system, which DFAS-Indianapolis personnel recorded to adjust the $11.2 billion in MHPI transactions recorded in Great Plains.

[29] DoD FMR, volume 6A, chapter 2, section 020207.

Table 2. Unsupported and Supported MHPI Accounting Adjustments by System

System	Unsupported Adjustments		Supported Adjustments		Total	
	Number	Amount *(in millions)*	Number	Amount *(in millions)*	Number	Amount *(in millions)*
DDRS-B	57	$4,166.4	37	$2,948.6	94	$7,115.0
DDRS-AFS	5	13.0	1	101.9	6	114.9
Total	**62**	**$4,179.4**	**38**	**$3,050.5**	**100**	**$7,229.9**

Source: DFAS-Indianapolis.

Unresolved, Unsupported Adjustments

The 62 unsupported MHPI accounting adjustments made in DDRS-B and DDRS-AFS remained unresolved and unsupported because DFAS-Indianapolis personnel did not identify the root causes for the adjustments and correct the causes or support the adjustments. DFAS-Indianapolis personnel should develop and implement a plan to identify and correct root causes for all unsupported accounting adjustments and support the adjustments until the causes are corrected.

In Report No. DODIG-2018-041, we identified that DFAS-Indianapolis personnel continued to prepare unsupported accounting adjustments and recommended that they develop a plan to reduce the number of accounting adjustments needed to compile the Other Defense Organizations' General Fund Financial Statements, which included MHPI transactions.[30] The recommendation remains open; therefore, we will not repeat the recommendation to develop a plan to reduce the number of accounting adjustments.

Journal Voucher Adjustments Not Categorized

Of the 62 unsupported MHPI accounting adjustments that DFAS-Indianapolis personnel recorded for the FY 2017 DoD Agency-Wide Financial Statements, 59 were Journal Voucher (JV) adjustments and 3 were feeder-file adjustments.[31] Of the 59, DFAS-Indianapolis personnel did not categorize 50 unsupported JV adjustments in any of the 10 categories prescribed by the DoD FMR.[32] Table 3 shows the categorized and uncategorized unsupported JV adjustments.

[30] Report No. DODIG-2018-041, "The Defense Finance and Accounting Service Financial Reporting Process for Other Defense Organizations' General Funds," December 15, 2017.

[31] Feeder-file adjustments are adjustments made in DDRS-B to reconcile differences between feeder file balances and balances calculated in DDRS-B.

[32] DoD FMR, volume 6A, chapter 2, section 020208.

Table 3. Categorized and Uncategorized Unsupported Journal Voucher Adjustments

Category	Unsupported Adjustments	
	Number	Amount *(in millions)*
Identified Errors and Reasonableness Checks	6	$3,041.2
Adjustment to Balance Reports Internally	3	13.0
Uncategorized	50	1,123.0
Total	**59**	**$4,177.2**

Note: The three feeder-file adjustments were not required to be categorized per DoD FMR, volume 6A, chapter 2. Therefore, we did not present those adjustments in this table.

Source: DFAS-Indianapolis.

The 50 uncategorized JV adjustments were all DDRS-B system-generated. These system-generated adjustments remained uncategorized because DFAS-Indianapolis personnel have not implemented the system change to categorize the system-generated JV adjustments. In Report No. DODIG-2018-041, we identified that DFAS-Indianapolis personnel continue to prepare unsupported adjustments and recommended that they categorize the system-generated JV adjustments for the Other Defense Organizations, such as MHPI. DFAS-Indianapolis personnel provided us with the System Change Request that will result in the categorization of these adjustments. The request did not have an implementation date but, once implemented, it will require retroactive implementation to October 2018 so that current and future year system-generated JV adjustments will be appropriately categorized. The recommendation remains open and DFAS-Indianapolis personnel are working to address the issue; therefore, we will not repeat the recommendation to categorize the system-generated adjustments.

Improper Reporting of MHPI Transactions and Required Note Disclosures

MHPI financial management personnel did not properly report all MHPI transactions and make required note disclosures in the FY 2017 DoD Agency-Wide Financial Statements. Specifically, they did not report:

- real property ownership transferred to equity investment projects as increases to Other Investments,
- annual equity investment project profits and losses allocated to the Military Departments as changes to Other Investments, and
- required GDL and GLG information.

Real Property Ownership Transfers Not Reported

MHPI financial management personnel did not report $2.6 billion of real property ownership transferred to equity investment projects as Other Investments in the FY 2017 DoD Agency-Wide Financial Statements, which is required by Financial Accounting Standards Board, Code Section 970-323-30.[33] This section requires MHPI financial management personnel to report real property ownership transferred to equity investment projects as Other Investments in the financial statements because it is part of the price the Military Departments paid for their equity investments in the projects. The audited financial statements for the projects correctly reported the real property ownership transferred from Military Departments as payment for their equity investments. However, MHPI financial management personnel did not report these payments in the FY 2017 DoD Agency-Wide Financial Statements.

In response to an April 2010 DoD OIG memorandum (see Appendix E), DCFO and DFAS-Indianapolis personnel held meetings between FYs 2010 and 2012 to determine how the DoD should record and report real property ownership transferred to projects as equity investments.[34] DCFO personnel also updated DoD FMR, volume 6B, chapter 10, in FY 2013 with a requirement for MHPI financial management personnel to report in the financial statements non-cash assets invested in projects, such as real property.[35] However, the real property ownership transferred remained unreported.

DCFO personnel also updated DoD FMR, volume 6B, chapter 10, in FY 2013. However, the real property ownership transferred remained unreported.

DCFO personnel explained that the exclusion of real property ownership transferred from DoD Agency-Wide Financial Statements was an oversight on their part because higher-level accounting guidance was lacking and DCFO personnel only recently took back the responsibility for reviewing the financial statements from DFAS. DCFO personnel added that transferred real property should have been reported.

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33 Accounting Standards Codification, Financial Accounting Standards Board, Version v4.10, July 1, 2009, as updated through July 31, 2018, Code Section 970-323-30.

34 DoD OIG Memorandum, "Accounting and Financial Reporting for the Army Military Family Housing Privatization Program (Project No. D2007-D000FL-0233.000)," April 12, 2010.

35 DoD FMR, volume 6B, chapter 10, section 100601. The FY 2013 DoD FMR revision was again revised in August 2018. While the requirement remained the same, DCFO personnel moved the requirement to section 100702.

However, the FY 2013 DoD FMR update lacked the detailed policy needed to ensure that DoD personnel properly recorded and reported the real property ownership transferred to the projects as equity investments. For example, the updated DoD FMR did not prescribe valuation and accounting methodologies for the real property ownership transferred. DCFO personnel should issue updated accounting policy with specific guidance on how real property ownership transferred to projects as equity investments should be recorded in DoD financial systems and reported in the DoD Agency-Wide Financial Statements, along with the responsibilities of each DoD organization involved. DFAS-Indianapolis personnel should coordinate with Military Department project and financial management personnel to develop and implement procedures to record and report real property ownership transferred to the projects as equity investments. In addition, the USD(C)/CFO should ensure that the real property ownership transferred to projects as equity investments is reported in the DoD Agency-Wide Financial Statements prior to issuance.

Project Net Losses Allocated to Military Departments Were Not Reported

MHPI financial management personnel did not report $489.5 million of equity investment net losses allocated to the Military Departments as decreases to Other Investments in the FY 2017 DoD Agency-Wide Financial Statements. Specifically, for FY 2017 statements, DoD personnel were able to provide documentation supporting the allocation of profits and losses for 39 of 90 equity investments. Of those 39 investments, 32 had accumulated a total of $666.6 million in losses over the life of the investments and 7 had accumulated a total of $177.1 million in profits. Financial Accounting Standards Board, Code Section 323-30-25 and Emerging Issues Task Force Issue No. 03-16 require the use of the equity method of accounting for investments in entities that are not corporations (the projects) when the investors (the Military Departments) have significant influence over the projects' operating and financial policies.[36] The equity method of accounting requires the reporting of equity investment profits and losses allocated to the Military Departments as increases or decreases to the amounts reported as Other Investments in the Financial Statements.

[36] Accounting Standards Codification, Financial Accounting Standards Board, Version v4.10, July 1, 2009, as updated through July 31, 2018, Code Section 323-30-25. Financial Accounting Standards Board, Emerging Issue Task Force Abstract Issue No. 03-16, March 18, 2004.

Use of Equity Method Required

The equity method of accounting is required because, as DCFO personnel stated in their request to the Treasury for transaction guidance, DoD personnel significantly influenced the projects' operating and financial policies by participating in the policy-making process during and after the formation of the projects owned by the Military Departments and their private partners. In response to the DCFO's submission to the Department of the Treasury, Treasury personnel agreed with the applicability of the equity method. The significant influence of DoD personnel over these policies is further illustrated by the fact that project agreements require approval by Military Department personnel for significant decisions affecting projects.

DoD personnel significantly influenced the projects' operating and financial policies by participating in the policy-making process during and after the formation of the projects.

Although the projects' annual audited financial statements reported increases and decreases to Military Department investments equal to the profits and losses allocated to the Military Departments, MHPI financial management personnel did not report these increases and decreases in the FY 2017 DoD Agency-Wide Financial Statements. The projects' financial statements reported equity investment balances for the Military Departments that included the cash and real property invested and accumulated profits and losses allocated to the Military Departments. When MHPI financial management personnel include the real property invested and allocated profits and losses in the Other Investments amounts reported in the DoD Agency-Wide Financial Statements, they will be able to readily reconcile these amounts to the projects' audited financial statements.

In addition, DoD FMR, volume 6B, chapter 10, requires MHPI financial management personnel to provide a description of the accounting method used to account for investments in projects in Note 4 to the financial statements. However, no description of the accounting method used was disclosed in Note 4 to the FY 2017 DoD Agency-Wide Financial Statements.

ASD(S) Disagreed With Use of the Equity Method

ASD(S) management disagreed with the DCFO and the Treasury's position that the equity method of accounting for MHPI equity investments is correct. ASD(S) management stated that the cost method of accounting is correct because it does not require reporting of unrealized losses, which are, in part, based on depreciation expenses reported in the projects' financial statements. In ASD(S) management's opinion, the DoD reporting these losses would present an inaccurate perception that the losses diminished the fair market values of the Military Departments' investments. However, the DoD's use of the cost method would not comply with the requirement to use the equity method when the Government has significant influence over the projects' operating and financial policies, as previously discussed. In addition, Financial Accounting Standards Board, Code Section 325-20-05, which is dedicated to the topic of Other Investments, prescribes the use of the cost method for investments in corporations whereas MHPI projects are not corporations.[37] Beginning in FY 2020, Accounting Standards Update 2016-01 will require equity investments not accounted for under the equity method to be reported at fair value.[38]

The DoD's use of the cost method would not comply with the requirement to use the equity method when the Government has significant influence over the projects' operating and financial policies.

DCFO Will Report Profits and Losses Using the Equity Method

DCFO personnel stated that excluding equity investment profit and loss amounts allocated to the Military Departments from the amount reported in the DoD Agency-Wide Financial Statements was an oversight on their part because higher-level accounting guidance was lacking and DCFO personnel only recently took back the responsibility for reviewing the financial statements from DFAS. They added that the amounts should have been included.

DCFO personnel also stated that they did not have an accounting policy requiring the Military Departments to provide equity investment profit and loss amounts from the projects' audited financial statements to DFAS-Indianapolis personnel for use in preparing the DoD financial statements. DCFO personnel should issue accounting policy and implement oversight controls to ensure that the Military Departments identify and provide DFAS-Indianapolis personnel with the documentation needed to support, record, and report equity investment profits and losses allocated to the Military Departments. DFAS-Indianapolis personnel should coordinate with Military Department project and financial management personnel to develop and implement procedures to record and report equity investment profits and losses allocated to the Military Departments and disclose a description of the accounting method used to account for equity investments. In addition, the USD(C)/CFO should ensure that equity investment profits and losses allocated to the Military Departments, along with the accounting method used, are reported in the DoD Agency-Wide Financial Statements prior to issuance.

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37 Accounting Standards Codification, Financial Accounting Standards Board, Version v4.10, July 1, 2009, as updated through July 31, 2018, Code Section 325-20-05. This Code Section was superseded by Accounting Standards Update 2016-01, which is effective for FY 2020 financial reporting.

38 Accounting Standards Update 2016-01, Financial Accounting Standards Board, Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities, January 2016.

Inadequate USSGL Guidance

As a result of this audit, DCFO personnel coordinated with the Treasury in an effort to eliminate inadequacies in the USSGL for recording equity investments of real property and equity investment profits and losses allocated to the Military Departments. However, Treasury personnel decided to not update the USSGL until the FASAB addresses the related accounting treatment in FY 2019. Because the USSGL still lacks sufficient guidance, DCFO personnel should issue interim policy until the Treasury updates the USSGL. DCFO personnel should also continue to coordinate with the Treasury to update the USSGL with guidance on recording the initial equity investments of real property and the MHPI equity investment profits and losses allocated to the Military Departments.

When the Department of the Treasury updates its guidance, DCFO personnel should update the DoD Chart of Accounts and the DoD Transaction Library to comply with the USSGL Chart of Accounts and Transaction Guidance, respectively. After the DoD Chart of Accounts and the DoD Transaction Library have been updated, DFAS-Indianapolis personnel should review the accounting for all equity investment transactions and revise them as needed to comply with the updated guidance.

Significant GDL and GLG Information Not Reported

MHPI financial management personnel did not report GDL and GLG information required by OMB Circular No. A-136, Statement of Federal Financial Accounting Standards (SFFAS) No. 18, and the DoD FMR, volume 6B, chapter 10.[39] These standards require Note 8 to the FY 2017 DoD Agency-Wide Financial Statements to report information about:

- events and changes in conditions having a significant effect on GDLs and GLGs,
- the nature of GDL and GLG modifications, and
- changes in assumptions used to calculate subsidy costs.[40]

[39] OMB Circular No. A-136, "Financial Reporting Requirements," August 2017, Section Number II.4.9; "Statement of Federal Financial Accounting Standards No. 18: Amendments to Accounting Standards for Direct Loans and Loan Guarantees in Statement of Federal Financial Accounting Standards No. 2," May 17, 2000, Paragraphs 39, 41, 46, and 48; and DoD FMR, volume 6B, chapter 10, sections 101001 and 101005. The DoD FMR chapter we cite was updated in August 2018. While the requirements remained the same, DCFO personnel moved the requirements to sections 101101 and 101105, respectively.

[40] The Military Departments are required to reestimate the subsidy cost on an annual basis, which is the estimated cost to the Government of GDLs and GLGs. The subsidy costs are estimated costs incurred by the Government for the projects to obtain loans with favorable terms or where loans may not otherwise be available.

According to SFFAS No. 18, reporting only the GDL and GLG amounts does not provide complete and understandable information to users of the financial statements. SFFAS No. 18 also states that the impact of the amounts disclosed should be discussed to make the amounts meaningful.

Undisclosed Events Significantly Affecting Projects

MHPI financial management personnel did not disclose the BAH reduction included in Public Laws 113-291 and 114-92, which significantly affected MHPI project revenue.

MHPI financial management personnel did not disclose the BAH reduction included in Public Laws 113-291 and 114-92, which significantly affected MHPI project revenue.[41] At the DoD's request, Congress included provisions in those Authorization Acts that authorized the DoD to reduce BAH by 1 percent each year between FYs 2015 and 2019, for a 5 percent reduction in FY 2019 and beyond. This reduction affected the revenue of all MHPI projects and potentially affected the sustainability of some. While ASD(S) management did not believe the reduction significantly affected project sustainability, as of November 29, 2018, they had not yet completed an assessment to determine the full effect of the BAH reduction, as required by Public Law 115-232.[42]

Even without that assessment, we determined that the 5 percent BAH reduction was significant because BAH is a key revenue source. The reduction was even more significant when the sustainability concerns of the Air Force projects are considered; we discuss these projects in the next two report sections. Even if the effects are not currently measured because ASD(S) personnel have not completed their assessment, SFFAS No. 18 requires that Note 8 include discussions about events that have occurred and are more likely than not to have a significant effect that is not measurable at the financial statement reporting date. In addition, Note 8 should disclose DoD personnel's progress in meeting the Public Law 115-232 requirement to develop a plan that includes a full assessment of the BAH reduction effects and efforts to mitigate related losses.

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[41] Public Law 113-291, "Carl Levin and Howard P. 'Buck' McKeon National Defense Authorization Act for Fiscal Year 2015," "Title VI—Compensation and Other Personnel Benefits," "Subtitle A—Pay and Allowances," December 19, 2014, and Public Law 114-92, "National Defense Authorization Acts for Fiscal Year 2016," "Title VI—Compensation and Other Personnel Benefits," "Subtitle A—Pay and Allowances," November 25, 2015. Public Law 114-92 states BAH reduction may not exceed 1 percent for months occurring during FY 2015, 2 percent for months occurring during FY 2016, 3 percent for months occurring during FY 2017, 4 percent for months occurring during FY 2018, and 5 percent for months occurring after FY 2018.

[42] Public Law 115-232, "John S. McCain National Defense Authorization Act for Fiscal Year 2019," "Title VI—Compensation and Other Personnel Benefits," "Subtitle A—Pay and Allowances," August 13, 2018, requires the Secretary of Defense to provide to Congress a full assessment of the BAH reduction effects and a plan to mitigate the losses incurred by MHPI projects because of the BAH reductions.

To present a complete and fair discussion about the BAH reduction effects in Note 8, MHPI financial management personnel should also disclose that Public Laws 115-91 and 115-232 reduced the future effects of the BAH reduction by requiring the DoD to pay additional to the projects to offset some or all of the BAH reduction.[43]

Inadequate Presentation and Disclosure of Costs Related to Restructures

MHPI financial management personnel did not fairly present and disclose information about adverse events and changes in conditions.

MHPI financial management personnel did not fairly present and disclose information about adverse events and changes in conditions, which led to project restructures and increased subsidy costs, in the DoD Agency-Wide Financial Statements, as required by SFFAS No. 18 and the DoD FMR, volume 6B, chapter 10. Specifically, for FY 2017, they did not disclose that:

- the Army restructured a project with a GLG (Fort Wainwright/Greely project) to make necessary improvements to housing units and obtain more favorable loan terms, and
- the Air Force restructured two projects with GDLs (Nellis Air Force Base and Air Combat Command Group II projects) to preserve full repayment of the GDL principal balances and ensure that sufficient funds remained to sustain the projects.[44]

OMB approved the two Air Force restructures because of the projects' inability to make their GDL payments and because they determined it would have been more costly to not approve the restructures. The restructures themselves increased the subsidy costs by $6.9 million. In addition, the restructured projects contributed $73.9 million and $36.7 million in increased subsidy costs for the FY 2017 and 2018 annual reestimates, respectively.[45] Table 4 shows the increases in subsidy costs for the two restructured projects resulting from the reestimates and restructures in FYs 2017 and 2018. While the FY 2017 and 2018 reestimate and restructure costs were calculated using different assumptions and much of the costs were offset by

[43] Public Law 115-91, "National Defense Authorization Act for Fiscal Year 2018," "Title VI—Compensation and Other Personnel Benefits," "Subtitle A—Pay and Allowances," December 12, 2017.

[44] According to AFCEC documentation, there was also a restructure of the Air Education and Training Command Group I project in FY 2013.

[45] Each annual reestimate is for the previous year's financial statements and the subsequent year's President's Budget. For example, the FY 2017 annual reestimate is included in the FY 2016 financial statements and the FY 2018 President's Budget.

other projects with cost savings, they combined to increase subsidy costs by $117.5 million.[46] Of the $117.5 million, DC(P/B) personnel had to obtain funding for $111 million; the remaining amount of $6.5 million was offset by other projects (with funding obligated in the same fiscal year) that had cost savings.

Table 4. Increases in Subsidy Costs for the Nellis Air Force Base and Air Combat Command Group II Projects (in millions)

	Nellis Air Force Base	Air Combat Command Group II	Subsidy Cost Increase Over Last 2 Years
FY 2015 Financial Statement Total Reestimate Amount	**($7.9)**	**($22.4)**	
Increase in Reestimated Costs	25.3	48.6	73.9
FY 2016 Financial Statement Total Reestimate Amount	**17.4**	**26.2**	
Restructure Cost Increase	2.8	4.1	6.9
Increase in Reestimated Costs	11.7	25.0	36.7
FY 2017 Financial Statement Total Reestimate Amount	**$31.9**	**$55.3**	
Total Subsidy Costs for the Last 2 Years			**$117.5**

Note: Figures in parenthesis are negative amounts indicating subsidy cost decreases, while positive amounts represent cost increases. The FY 2015 financial statement amounts represent the changes in subsidy cost from the amount initially estimated when the GDLs were originally agreed to.

Source: The DoD OIG.

Note 8 to the Financial Statements (see Appendix C) presents the net reestimated subsidy cost for all GDLs (a net cost increase of $26 million in FY 2016 and a net cost decrease of $14.2 million in FY 2017). However, it does not disclose any information related to those netted amounts that would provide complete, understandable, and meaningful information to the users of the financial statements. As a result, the FY 2017 financial statements did not fairly present the $117.5 million in increased subsidy costs related to the restructured projects.

Undisclosed Information About At-Risk Projects

In addition to the two GDL restructures discussed in the previous section, MHPI financial management personnel did not disclose in Note 8 to the DoD Agency-Wide Financial Statements the adverse events and changes in conditions that increased the risk of projects needing restructure. Specifically, Air Force personnel identified that 4 of the 27 projects with disbursed GDLs were in the "pipeline" for potential restructure due to adverse changes in conditions, such as the projects' local

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[46] The restructure costs were included in an updated FY 2017 annual subsidy cost reestimate.

economies and excess installation housing inventories, which raised concerns about project revenue. These changes increased the risk that an MHPI project may be unable to make future debt payments or sufficiently fund the repair and replacement of privatized housing without a restructure. SFFAS No. 18 and the DoD FMR, volume 6B, chapter 10, require that Note 8 include discussions about events and changes in conditions that have occurred and are more likely than not to have a significant effect that is not measurable at the financial statement reporting date. To comply with these standards, MHPI financial management personnel should have disclosed information about the adverse events and changes in conditions that led to increased risk of restructures.

Lack of Policies and Procedures

MHPI financial management personnel did not disclose the BAH reduction and information about other adverse events and changes in conditions that increased project risk.

MHPI financial management personnel did not disclose the BAH reduction and information about other adverse events and changes in conditions that increased project risk and led to potential and actual restructures because DCFO personnel did not have the policy and oversight controls needed to ensure reporting of required GDL and GLG information. In addition, DFAS-Indianapolis personnel did not coordinate with the Military Departments to develop the procedures needed to ensure proper reporting of required GDL and GLG information. DCFO personnel should issue policy and implement oversight controls to ensure Military Department personnel identify and provide DFAS-Indianapolis personnel the documentation needed to report all GDL and GLG information required by OMB Circular No. A-136, SFFAS No. 18, and the DoD FMR, volume 6B, chapter 10. DFAS-Indianapolis personnel should coordinate with Military Department program and financial management personnel to develop procedures to identify and report all required GDL and GLG information. The USD(C)/CFO should ensure that required GDL and GLG information is adequately disclosed in Note 8 to the DoD Agency-Wide Financial Statements prior to issuance, including discussions about the BAH reduction and other adverse events and changes in conditions that increased project risk and led to potential and actual restructures because of the inability to make debt payments or fund the repair and replacement of privatized housing.

New Additional Disclosure Requirements

Beginning with the FY 2019 financial statements, MHPI financial management personnel will be required to comply with financial statement note disclosure requirements beyond those discussed in the preceding paragraphs. SFFAS No. 49 will require DCFO and DFAS-Indianapolis personnel to disclose information such as amounts of DoD and non-DoD funding of MHPI projects over their expected lives and all risks of financial loss to the DoD.[47] DCFO personnel have circulated for comment proposed revisions to the DoD FMR that include SFFAS No. 49 compliance requirements. They have also drafted internal procedures for obtaining information needed to comply with SFFAS No. 49 disclosure requirements.

Conclusion

Because DCFO personnel did not provide effective oversight or develop adequate accounting policy and DFAS-Indianapolis personnel lacked adequate procedures, the FY 2017 DoD Agency-Wide Financial Statements, as related to the MHPI program, were misstated and unsupported, as shown in Table 5.

Table 5. Summary of Misstatements and Unsupported Adjustments (in millions)

Description	Amount
Overstatement of Guaranteed Loans Outstanding	$35.5
Understatement of Other Investments Due to Not Reporting Real Property	2,634.4
Overstatement of Other Investments Due to Not Reporting Profits and Losses	489.5
Unsupported DDRS-B and DDRS-AFS Adjustments	$4,179.4

Note: The misstatement amounts identified in this table are actual amounts based on the results of sample testing and do not reflect the full extent of the misstatement.

Source: The DoD OIG.

In addition, the reported amounts and note disclosures did not comply with accounting standards. As a result, the DoD Agency-Wide Financial Statements did not provide MHPI program stakeholders with full and complete financial information about MHPI projects, including the risks to DoD funds posed by at-risk projects. For example, the statements did not provide stakeholders with any information about the risks that projects would not be able make required debt payments or fund the repair and replacement of privatized housing. Without full and complete MHPI information, MHPI stakeholders may not be able to provide effective financial oversight.

[47] "Statement of Federal Financial Accounting Standards No. 49, Public Private Partnerships: Disclosure Requirements," April 27, 2016.

Because the FY 2018 DoD Agency-Wide Financial Statements were published prior to the issuance of this report, we reviewed them and determined that the FY 2018 Other Investments balance remained unchanged from FY 2017 and the FY 2018 Note 8 disclosure did not discuss the adverse events and changes in conditions that increased MHPI project risk and led to potential and actual restructures of GDLs and GLGs. Therefore, the FY 2018 DoD Agency-Wide Financial Statements, as related to the MHPI program, were also misstated.

FY 2018 Other Investments balance remained unchanged from FY 2017 and the FY 2018 Note 8 disclosure did not discuss the adverse events and changes in conditions that increased MHPI project risk.

Management Comments on the Finding and Our Response

Although not required to comment, the ASD(S) provided comments on the findings. For a summary of the ASD(S)'s comments on the findings and our response, see Appendix F. For the full text of his comments, see the Management Comments section of this report.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend that the DoD Deputy Chief Financial Officer:

a. **Issue interim policy until the Department of the Treasury updates the U.S. Standard General Ledger and coordinate with the Treasury to update the U.S. Standard General Ledger with guidance on how to:**

   1. **Record equity investments in Military Housing Privatization Initiative projects, including the cash and real property contributed.**

   2. **Record the sale of equity investments in Military Housing Privatization Initiative projects.**

   3. **Record equity investment profits and losses allocated to the Military Departments for Military Housing Privatization Initiative projects.**

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO agreed with the recommendations and stated that the Government, as a whole, does not have accounting transaction guidance for recording equity investments. He added that DCFO personnel have proposed new accounting transactions to the Department of the Treasury for the accounting recognition and measurement of MHPI equity investments, which are included in Appendix D of this report. He also stated that the FASAB issued SFFAS No. 49 in FY 2018, which set disclosure requirements for equity investments. However, it does not address accounting recognition or measurement, which FASAB will address in late FY 2019. He concluded that, until FASAB provides guidance, the DoD will use the accounting transactions shown in Appendix D of this report, which have been incorporated into the DoD Transaction Library, and that the DCFO will issue implementing guidance by February 28, 2019.

Our Response

Comments from the DCFO addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We will close these recommendations once we receive and verify documentation showing that the DCFO has issued the interim guidance and implemented the FASAB accounting recognition or measurement guidance, once it becomes available in the USSGL.

b. Update the DoD Chart of Accounts and the DoD Transaction Library to comply with new Department of the Treasury U.S. Standard General Ledger Chart of Accounts and Transaction Guidance on accounting for equity investments, once established.

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO agreed with the recommendation and stated that DCFO personnel had updated the DoD Transaction Library to reflect the DoD's equity investment transactions on October 18, 2018. He also stated that USD(C)/CFO management considers actions for this recommendation complete.

Our Response

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We confirmed that the DoD Transaction Library was updated. However, the Treasury is waiting until the FASAB provides accounting recognition and measurement guidance before updating the USSGL. We will close this recommendation once we receive and verify documentation showing that the DoD complies with the new USSGL Chart of Accounts and Transaction Guidance on accounting for equity investments, once established.

c. **Issue accounting policy and implement oversight controls that ensure the Military Departments identify and provide Defense Finance and Accounting Service–Indianapolis personnel with the documentation needed to:**

1. **Support, record, and correctly report DoD Agency-Wide Financial Statement amounts related to Government Direct Loans and Government Loan Guarantees, including private loan disbursement confirmations for loans guaranteed.**
2. **Support, record, and report in the DoD Agency-Wide Financial Statements the equity investment profits and losses allocated to the Military Departments.**

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO agreed with the recommendations and stated that DCFO personnel drafted a policy memorandum on the financial management and reporting of equity investments by the Military Departments. He further stated that the draft policy requires Military Department personnel to monitor and report the financial condition of each Military Department equity investment and to obtain and provide to DFAS-Indianapolis personnel the MHPI agreements and supporting documentation for equity investment transactions. He considered actions for this recommendation complete. In further discussions with DCFO personnel, they stated that this drafted policy would be issued by February 28, 2018.

Our Response

Comments from the DCFO addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We will close these recommendations once we receive and verify documentation showing that the DCFO has issued the policy.

3. **Report in the DoD Agency-Wide Financial Statements all Government Direct Loan and Government Loan Guarantee information required by the Office of Management and Budget Circular No. A-136, Statement of Federal Financial Accounting Standards No. 18 and the DoD Financial Management Regulation, volume 6B, chapter 10.**

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO agreed with the recommendation and stated that DCFO personnel are drafting policy to provide additional guidance for credit reform accounting disclosures outlined in OMB Circulars No. A-11 and A-136 and risk disclosures in SFFAS No. 18. He also stated that the policy will be issued by February 28, 2019.

Our Response

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive and verify documentation showing that the DCFO has issued the policy.

d. Issue updated accounting policy with specific guidance on how real property ownership transferred to projects as equity investments should be recorded in DoD financial systems and reported in the DoD Agency-Wide Financial Statements, along with the responsibilities of each DoD organization involved.

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO agreed with the recommendation and stated that the specific accounting entries have been developed to transfer real property to the Limited Liability Companies (projects) as equity investments and that guidance will be issued by February 28, 2019.

Our Response

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive and verify documentation showing that the DCFO has issued the new guidance.

Naval Facilities Engineering Command Comments

Although not required to comment, the NAVFAC Headquarters Inspector General, commenting for the NAVFAC Commander, agreed with the recommendation and stated that the new DCFO policy should use the contributed asset values reported in OMB Scoring Reports.

Our Response

Comments from the NAVFAC Headquarters Inspector General provide a reasonable source of contributed asset valuation information for real property ownership transfers to the projects. However, the valuation methodology prescribed in the DCFO guidance scheduled to issue by February 28, 2019, will be the authoritative accounting policy for use throughout the DoD.

Recommendation A.2

We recommend that the Director, Defense Finance and Accounting Service–Indianapolis:

a. **Review the accounting transactions for all equity investments and revise the transactions as needed to comply with the updated DoD Chart of Accounts and the DoD Transaction Library.**

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO, responding for the DFAS-Indianapolis Director, agreed with the recommendation and stated that DFAS will implement this recommendation once the DCFO issues guidance and the Military Departments provide the necessary supporting documentation. He also stated this review will be completed by May 30, 2019.

Our Response

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive and verify documentation showing that DFAS-Indianapolis personnel revised the SGL Account balances for equity investments to comply with the updated guidance.

b. **Develop and implement procedures to:**

   1. **Reconcile, on a quarterly basis, Government Direct Loan and Government Loan Guarantee supporting documentation to the amounts reported in Great Plains.**

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO, responding for the DFAS-Indianapolis Director, agreed with the recommendation. He stated that DFAS personnel developed the necessary reconciliation procedures in September 2018 and that the reconciliations will begin when the DCFO issues guidance requiring Military Department personnel to provide DFAS with the necessary supporting documentation. He also stated that this review should be completed by May 30, 2019.

Our Response

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. Although DFAS-Indianapolis personnel provided the procedures developed in September 2018 and a corresponding reconciliation, the reconciliation did not resolve the underlying issue of actual disbursements not being recorded correctly in Great Plains. A difference of $12.7 million remains, since the $157.7 million reported in the annual reestimate and in Great Plains does not match the $145 million actually disbursed. This occurred because DFAS-Indianapolis personnel have not received documentation from the Military Departments showing that lower amounts were disbursed than previously anticipated when the annual reestimate was created. We will close this recommendation once we receive and verify documentation showing that actual disbursements align with the amounts reported in Great Plains.

2. **Reconcile the Great Plains transaction-level detail to the Great Plains trial balance and then to the Defense Departmental Reporting System–Budgetary trial balance, including Standard General Ledger Account balances and other Account information.**

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO, responding for the DFAS-Indianapolis Director, agreed with the recommendation and stated that DFAS personnel completed the recommended reconciliation on September 30, 2018.

Our Response

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. Although DFAS-Indianapolis personnel provided the September 30, 2018, reconciliation, they did not provide the underlying procedures for future reconciliations. We will close this recommendation once we receive and verify documentation showing the new reconciliation procedures.

c. **Review the Government Direct Loan and Government Loan Guarantee amounts reported in the DoD Agency-Wide Financial Statements and correct any identified inaccuracies.**

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO, responding for the DFAS-Indianapolis Director, agreed with the recommendation and stated that DFAS personnel developed the necessary reconciliation procedures in September 2018 and that the reconciliations will begin when the DCFO issues guidance requiring Military Department personnel to provide DFAS with the necessary supporting documentation. He also stated this review should be completed by May 30, 2019.

Our Response

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. Although DFAS-Indianapolis personnel provided the procedures developed in September 2018 and a corresponding reconciliation, the reconciliation did not resolve the underlying issue of actual disbursements not being recorded correctly in Great Plains. A difference of $12.7 million remains, since the $157.7 million reported in the annual reestimate and in Great Plains does not match the $145 million actually disbursed. This occurred because DFAS-Indianapolis personnel have not received documentation from the Military Departments showing that lower amounts were disbursed than previously anticipated when the annual reestimate was created. We will close this recommendation once we receive and verify documentation showing that actual disbursements align with the amounts reported in Great Plains.

d. **Coordinate with the Great Plains System Manager to implement the transfer of trial balances directly from Great Plains to Defense Departmental Reporting System–Budgetary.**

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO, responding for the DFAS-Indianapolis Director, agreed with the recommendation and stated that DFAS personnel are communicating with the Great Plains programmers to determine the requirement and how to implement this recommendation, which he estimates will be completed by June 30, 2019.

Our Response

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive and verify documentation showing that Great Plains transmits the trial balance directly to DDRS-B.

e. **Develop and implement a plan to identify and correct root causes for all unsupported accounting adjustments and support the adjustments until the root causes are corrected.**

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO, responding for the DFAS-Indianapolis Director, agreed with the recommendation and stated that DFAS personnel have begun to regularly research and analyze unsupported JVs and that resolution of new unsupported adjustments is required within 90 days. He also stated that he considers actions for the recommendation complete.

Our Response

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. Although DFAS-Indianapolis personnel provided draft procedures that require the research and analysis of root causes for manual JV adjustments, along with the identification of appropriate support, they did not provide documentation that those procedures were implemented. They also did not provide documentation of a plan to correct the root causes or support already existing manual JV adjustments and all system-generated adjustments. We will close this recommendation once we receive and verify documentation showing that DFAS-Indianapolis personnel have implemented the draft procedures for manual JV adjustments and developed and implemented plan to correct the root causes or support the already existing manual JV adjustments and all system-generated adjustments.

f. Coordinate with the Military Department program and financial management personnel to develop and implement procedures to:

1. **Record and report real property ownership transferred to equity investment projects as increases to Other Investments.**
2. **Record and report equity investment profits and losses allocated to the Military Departments as changes to Other Investments and disclose a description of the accounting method used to account for equity investments.**
3. **Identify and report all required Government Direct Loan and Government Loan Guarantee information.**

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO, responding for the DFAS-Indianapolis Director, agreed with the recommendations and stated that DFAS personnel will begin to make necessary corrections to and disclosures in the financial statements when DCFO personnel issue guidance requiring Military Department personnel to provide DFAS with the necessary supporting documentation. He also stated that these corrections will be completed by May 30, 2019.

Our Response

Comments from the DCFO addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We will close these recommendations once we receive and verify documentation showing that DFAS personnel corrected the amount reported in the financial statements and made the required disclosures.

Naval Facilities Engineering Command Comments

Although not required to comment, the NAVFAC Headquarters Inspector General, commenting for the NAVFAC Commander, agreed with Recommendation A.2.f.1 and stated that DFAS-Indianapolis procedures should follow the DCFO policies being developed in response to Recommendation A.l.d.

Our Response

Comments from the NAVFAC Headquarters Inspector General are consistent with the intent of Recommendations A.1.d and A.2.f.1 where we recommend that the DCFO issue accounting policy for reporting real property ownership transferred to the projects as equity investments and DFAS-Indianapolis personnel coordinate with the Military Departments to develop procedures to implement the newly issued accounting policy.

Recommendation A.3

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

a. **Ensure that the real property ownership transferred to projects as equity investments are reported in the DoD Agency-Wide Financial Statements prior to issuance.**

b. **Ensure that equity investment profits and losses allocated to the Military Departments, along with the accounting method used, are reported in the DoD Agency-Wide Financial Statements prior to issuance.**

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that DCFO personnel are developing policies and procedures to ensure that real property ownership transferred to projects as equity investments and equity investment profits and losses allocated to the Military Departments are reported. He also stated this will be completed by September 30, 2019.

Our Response

Comments from the DCFO addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We will close these recommendations once we receive and verify documentation showing that the DoD Agency-Wide Financial Statements include the amounts related to these recommendations.

Naval Facilities Engineering Command Comments

Although not required to comment, the NAVFAC Headquarters Inspector General, commenting for the NAVFAC Commander, agreed with Recommendation A.3.b and clarified that profit or loss from equity investment will not occur until the Navy sells its stake in the MHPI projects. The NAVFAC Headquarters Inspector General also stated that this recommendation will be completed when the Navy sells its stake in their MHPI projects.

Our Response

Comments from the NAVFAC Headquarters Inspector General are inconsistent with Office of the USD(C)/CFO comments related to Recommendation A.3.b. The NAVFAC Headquarters Inspector General should resolve this disagreement with Office of the USD(C)/CFO.

c. Ensure that required Government Direct Loan and Government Loan Guarantee information is adequately disclosed in Note 8 to the DoD Agency-Wide Financial Statements prior to issuance, including discussions about the basic allowance for housing reduction and other adverse events and changes in conditions that increased project risk and led to potential and actual restructures because of projects' inability to make debt payments or fund the repair and replacement of privatized housing.

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation in principal and stated that DCFO personnel will ensure that material disclosures related to potential risks are addressed in the FY 2019 DoD Agency-Wide Financial Statements. He added that, while disclosures are necessary when the financial statements are materially impacted, there is no basis to conclude that the BAH reduction materially impacted the financial statements and that the recommendation to disclose was premature. He concluded that the BAH reduction and restructures are being assessed by subject matter experts and, when that is complete, DCFO personnel will determine whether disclosure is necessary.

Office of the Assistant Secretary of Defense for Sustainment Comments

Although not required to comment, the ASD(S) disagreed with the recommendation and stated that it was inaccurate for the report to state that the BAH reductions "significantly affected" GDLs and GLGs. He also stated that, with input from the Military Departments and private partners, ASD(S) personnel determined that the BAH reduction had minimal impact, not significant. He added that the OIG did not produce an analysis to substantiate that 5 percent revenue reductions are significant, further stating that companies routinely adjust budgets and are not substantially affected. He concluded that, even with the 5 percent reduction, several MHPI projects have had BAH rates that have substantially exceeded the original projections.

In addition, the ASD(S) recommended that some statements related to the four Air Force projects in the "pipeline" for potential restructure be redacted in our final report.

Our Response

Comments from the DCFO did not address all specifics of the recommendation; therefore, the recommendation remains unresolved. In addition, the comments from the ASD(S) are not consistent with Military Department personnel's statements about the effects of the BAH reduction presented in GAO Report No. GAO-18-218.

Our analysis of the four legislative actions related to the BAH reduction and their effect on the subsidy rates, subsidy expense, and subsidy reestimates led us to conclude that the undisclosed legislative actions had (or are more likely than not to have) a significant and measurable effect on subsidy rates, subsidy expenses, and subsidy reestimates. In addition, our analysis of Air Force documentation resulted in our identification of undisclosed adverse events and changes in conditions, other than the BAH reduction, that increased project risk and led to potential and actual restructures and increased costs. OMB Circular No. A-136 states that financial reporting entities should:

> Disclose events and changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates. The discussion should include events and changes that have occurred and are more likely than not to have a significant impact even if the effects are not measurable at the reporting date.

We disagree with the DCFO's conclusion that this recommendation was premature. The passage of Public Law 115-232, which requires the DoD to provide additional funding to negate all future effects of the BAH reduction, is a strong indication that the prior legislative acts reducing BAH had (or were more likely than not to have had) a significant and measurable effect on subsidy rates, subsidy expenses, and subsidy reestimates. For this reason, DoD personnel should disclose in Note 8 to the financial statements information about the effects of the BAH reduction, to include the fact that Public Law 115-232 requires the DoD to provide additional funding to the projects in the future to offset the effects of the BAH reduction.

GAO Report No. GAO-18-218 states that:

- in September 2015, the Army projected a $104 million revenue decrease per project through 2039 for its 35 projects due to the BAH reduction;
- in October 2015, the Navy projected a $2 billion decrease to the long-term sustainment accounts due to the BAH reduction; and
- in November 2015, the Air Force projected a $48 million decrease in revenue per year for all projects due to the BAH reduction.

The GAO report also stated that Military Department personnel stated that the BAH reduction was causing financial stress to the MHPI projects, including making it more difficult to continue operations and repay GDLs and GLGs. Based on those dollar amounts and the Military Department personnel statements, we concluded that the BAH reduction effects are significant and measureable and this information should be disclosed in Note 8 to the DoD Agency-Wide Financial Statements.

The scope of this audit was the FY 2017 DoD Agency-Wide Financial Statements, which were issued prior to the enactment of Public Laws 115-91 and 115-232. For the FY 2017 Financial Statements, a 1 percent BAH reduction had occurred in FY 2015, 2 percent in FY 2016, and 3 percent in FY 2017, and the plan at that time was to reduce BAH by 4 percent in FY 2018 and by 5 percent indefinitely thereafter. An indefinite reduction of revenue by 5 percent is most certainly significant because BAH is based on local market conditions and housing maintenance costs comparable with local non-MHPI housing. This would have forced the MHPI projects to remain competitive with, on average, 5 percent less revenue.

Based on comments received, we requested the MHPI report on the BAH reduction effects that was due to Congress by December 1, 2018, under Public Law 115-232. ASD(S) personnel stated that they were not able to meet this congressional deadline and that the report would not be available until March 2019. ASD(S) personnel also stated that they would not provide this report to the auditors, which could substantiate the significance of the BAH reduction effects, because they believed it to be outside the scope of our audit. We also requested that DC (P/B) personnel provide us with documentation showing that the DoD paid the 5 percent BAH reduction offset required by Public Law 115-232; however, that information was not provided, either. If the DoD makes the payments to the projects, as required by Public Law 115-232, DoD personnel should disclose in Note 8 to the Financial Statements information about the amounts of those payments and the extent to which the payments have offset the BAH reduction effects.

We request that the USD(C)/CFO provide comments on the final report that address the proposed actions his office plans to take to ensure the financial statements contain discussions about the BAH reduction and other adverse events and changes in conditions that increased project risk and led to potential and actual restructures. To close the recommendation, we also request that the ASD(S) provide us with the MHPI report on the BAH reductions effects that was due to Congress by December 1, 2018, under Public Law 115-232, and the USD(C)/CFO provide documentation showing that the DoD paid the 5 percent BAH reduction offset required by Public Law 115-232.

Lastly, we disagree with the ASD(S)'s redaction request related to MHPI project sustainability concerns because the information is already publicly available in GAO Report No. GAO-18-218. However, we requested and received from ASD(S) personnel additional information about the ASD(S)'s redaction request. Based on this information, we were able to come to an agreement to not redact the information requested in the ASD(S)'s comments and instead modify the report wording where possible.

~~(FOUO)~~ Finding B

~~(FOUO)~~ Improvements Needed in Controls Over Restructures, Equity Sales, Reestimates, and Privatized Housing Inventories

MHPI program and financial management personnel need to improve funds management for MHPI projects.[48]

- Army personnel unnecessarily paid $1.8 million in GLG subsidy costs to the DoD Family Housing Improvement Fund for the FY 2017 restructure of the Army's agreement for the Fort Wainwright/Greely project.[49] This occurred because ASD(S) personnel did not provide adequate policy and oversight of the project and ASA(IE&E) personnel did not have adequate procedures to ensure efficient use of project funds.
- DC(P/B), DFAS-Indianapolis, and NAVFAC personnel did not resolve internal disagreements about the availability of equity investment sales proceeds for use. This occurred because DCFO and DC(P/B) personnel did not coordinate with the Treasury and OMB to develop accounting policy on when equity investment funding is considered expended and whether any portion of the equity investment sales proceeds is available without a new appropriation.[50]
- DC(P/B) and DFAS-Indianapolis personnel did not resolve internal disagreements about the methodology used to execute the annual subsidy cost reestimates for GDLs and GLGs. This occurred because DCFO personnel did not issue accounting policy identifying the methodology to be used to execute the annual subsidy cost reestimates.

In addition, Military Department personnel did not maintain complete and accurate privatized housing inventories.

- Military Department personnel did not identify and correct discrepancies between the housing inventories contained in the Military Department and private partner systems because they did not reconcile the inventories.

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[48] MHPI program management personnel include ASD(S), ASA(IE&E), NAVFAC, and AFCEC personnel.

[49] See Appendix G for a summary of the potential monetary benefit. For the Wainwright/Greely restructure, we define pay to mean the transfer of an amount due. ASA(IE&E) personnel paid the subsidy cost from the Family Housing Construction (Army) Fund to the DoD Family Housing Improvement Fund via a nonexpenditure transfer of funds. These funds were then obligated in the DoD Family Housing Improvement Fund and remain obligated until disbursed to the DoD Family Housing Improvement Fund, Direct Loan, Financing Account proportional to the private loan disbursement amount.

[50] FASAB defines expended appropriations are "the dollar amount of appropriations used to fund goods and services received or benefits or grants provided." In addition, OMB stated that they used expended as the past tense of "to spend."

- Military Department personnel did not identify and correct discrepancies between the housing inventories contained in the Military Department systems and the enterprise Military Housing (eMH) system or populate the eMH with all privatized housing records.[51] This occurred because ASD(S) personnel did not ensure that Military Department personnel had eMH implementation procedures for inputting housing records.

Without effective funds management and privatized housing accountability controls, MHPI program management personnel may not be able to efficiently manage and oversee the MHPI program and related projects or obtain MHPI-related information, including information for required reports to Congress. In addition, complete and accurate privatized housing inventories are critical to Military Department personnel confirming existence, completeness, rights, and obligations of real property located on military bases so they can make informed management and oversight decisions and ensure accurate reporting on their respective financial statements.

Without effective funds management and privatized housing accountability controls, MHPI program management personnel may not be able to efficiently manage and oversee the MHPI program.

~~(FOUO)~~ Improvements Needed for Funds Management

MHPI program and financial management personnel need to improve funds management for MHPI projects. Specifically, they need to implement policies and procedures to prevent the:

- overpayment of subsidy costs,
- unresolved disagreements about the expenditure funding and availability of investment sales proceeds, and
- unresolved disagreements about the methodology for executing reestimates.

[51] According to an Under Secretary of Defense for Acquisition, Technology and Logistics memorandum dated April 16, 2014, eMH is the authoritative data source for housing. The goal of the system is to improve the breadth, timeliness, and accuracy of housing data needed to make sound housing program and investment decisions.

Army Personnel Unnecessarily Paid Subsidy Costs

Army personnel unnecessarily paid $1.8 million in GLG subsidy costs because they had already paid the appropriate costs when the loan was originally established.

Army personnel unnecessarily paid $1.8 million in GLG subsidy costs to the DoD Family Housing Improvement Fund for the FY 2017 restructure of the Fort Wainwright/Greely project agreement because they had already paid the appropriate costs when the loan was originally established in FY 2011. This occurred because ASD(S) personnel did not provide adequate policy and oversight of the project and ASA(IE&E) personnel did not have adequate procedures to ensure efficient use of project funds.

Subsidy Balance in the DoD Family Housing Improvement Fund

In FY 2010, ASA(IE&E) personnel entered into an agreement with the private partner of the Fort Wainwright/Greely project for the Government to guarantee a private loan with a maximum loan amount of $159.4 million.[52] Based on the agreement, Army personnel paid $9.6 million into the DoD Family Housing Improvement Fund, which was the entire subsidy amount ASA(IE&E) owed based on the maximum loan amount.[53]

Since the original FY 2010 agreement, the maximum loan amount has changed twice to accommodate project needs.[54] In FY 2014, the maximum loan amount was reduced to $127.5 million. In FY 2017, the maximum loan amount was increased back to $159.4 million as part of a restructure.[55] According to ASD(S) personnel, the restructure increased the Army's GLG subsidy cost by $1.8 million, from $9.6 million to $11.4 million. However, Army personnel had already paid the subsidy cost on the $159.4 million maximum amount in FY 2011 based on the original loan terms and those funds remained obligated in FY 2017.[56] Therefore, Army personnel did not need to pay any additional subsidy cost when the maximum loan amount returned to $159.4 million in FY 2017. Table 6 shows

[52] The private partner is the non-Government entity that serves as the managing partner or member and is responsible for day-to-day operations of the projects. The maximum loan amount is the maximum amount of funds that the private lender can disburse to the project and was the basis for calculating the subsidy amount the Army paid.

[53] The subsidy amount paid is the original subsidy rate of 6 percent multiplied by the maximum loan amount of $159.4 million. While the agreement was entered into in FY 2010, the Army paid the funds into the DoD Family Housing Improvement Fund in FY 2011. As of September 30, 2017, a portion of the subsidy was obligated in the DoD Family Housing Improvement Fund, while the remaining portion of the subsidy related to private loan amounts disbursed had been moved to and obligated in the DoD Family Housing Improvement Fund, Direct Loan, Financing Account.

[54] In FY 2014, the private partner reduced the maximum loan amount due to concerns about the project's ability to make payments on a $159.4 million loan. In FY 2017, the partner increased the maximum loan amount to make necessary improvements to housing units and obtain more favorable loan terms as part of a restructure.

[55] There were two additional changes to the loan terms when the FY 2017 restructure occurred resulted, which resulted in a net cost savings of $360,266. The interest rate decreased from 8 to 6.6 percent, and the length of the loan increased by 6 months.

[56] An obligation of funds is a legal liability to disburse funds immediately or at a later date as a result of a series of actions.

the maximum loan amount and subsidy cost changes. It also shows that Army personnel paid the subsidy cost on the $159.4 million maximum loan amount in FY 2011 and then unnecessarily paid the subsidy cost again on the same maximum loan amount in FY 2017.

Table 6. Changes to the Maximum Loan Amount and Subsidy Cost (in millions)

Fiscal Year	Total Loan		Portion Related to Maximum Loan Amount Changes	
	Maximum Loan Amount	Subsidy Costs	Maximum Loan Amount	Subsidy Cost
2011 (Original)	$159.4	$9.6	$31.9	$1.9[1]
2014	$127.5	$9.6	$0.0	$1.9[2]
2017	$159.4	$11.4	$31.9	$3.7[3]

[1] The original subsidy rate of 6 percent multiplied by the maximum loan amount reduction of $31.9 million.

[2] According to ASD(S) personnel, ASA(IE&E) personnel could have requested a deobligation of this amount, but did not. This amount remained unchanged until a portion of the $31.9 million was disbursed and reestimated in FY 2018.

[3] $1.9 million that the Army paid in FY 2011 plus the $1.8 million that the Army paid in FY 2017. The $1.8 million solely related to the change in the maximum loan amount. If not for that, the Government would have saved $360,266 as a result of the restructure.

Source: The DoD OIG.

Disagreement About Whether the Maximum Loan Amount Was Reduced

ASD(S) and ASA(IE&E) personnel disagreed about whether the maximum loan amount was reduced for the Fort Wainwright/Greely project in FY 2014 from $159.4 to $127.5 million. In FY 2014, the private partner sent written notification to the private lender electing to reduce the maximum loan amount, in accordance with the loan terms. According to ASA(IE&E) personnel, the written notification never changed the underlying promissory note itself as the maximum loan amount could have subsequently been increased back to $159.4 million. Supporting their position, the amended promissory note, dated April 28, 2017, does not refer to a FY 2014 promissory note amendment even though the loan agreement was amended at that time.

ASA(IE&E) personnel stated that their ability to increase the maximum loan amount in FY 2017 evidenced the fact that the promissory note maximum loan amount never changed.

In addition, ASA(IE&E) personnel stated that their ability to increase the maximum loan amount in FY 2017 evidenced the fact that the promissory note maximum loan amount never changed. As a result, ASA(IE&E) personnel concluded that the maximum loan amount remained $159.4 million through FY 2017. They also concluded that the FY 2017 change in subsidy cost calculation for the restructure was erroneously based on a maximum loan amount of $127.5 million because the annual reestimate calculation immediately prior to the restructure was incorrect.

However, ASD(S) personnel stated that the FY 2014 written notification permanently reduced the maximum loan amount. They concluded that ASA(IE&E) personnel could have requested a deobligation of funds in FY 2014 based on a reduced maximum loan amount. They also concluded that the FY 2017 change in subsidy cost calculation should have been calculated based on an increase in the maximum loan amount from $127.5 to $159.4 million. Supporting their position, the loan agreement states that the written notification "immediately and permanently reduced" the maximum loan amount.

To prevent future disagreements about changes to maximum loan amounts, ASD(S) personnel should issue policies requiring the maximum loan amount on promissory notes to match the corresponding loan agreements and promissory notes to contain complete histories of all amendments to the notes.

Funds Not Deobligated for Maximum Loan Amount Reduction

According to ASD(S) personnel, as a result of the FY 2014 maximum loan amount reduction, Army personnel could have requested deobligation of a portion of the funds paid for subsidy costs in FY 2011, but did not. ASD(S) personnel also stated that the opportunity to deobligate funds had ended but did not provide support for their statement. ASD(S) personnel were uncertain whether OMB would have approved such a request. However, when we asked OMB personnel whether they would approve such a request, they stated, "It is not a requirement of OMB Circular No. A-11 for an agency to seek OMB approval for a deobligation." To prevent missing future deobligation opportunities, ASD(S) personnel, in their MHPI program oversight role, should coordinate with DC(P/B) and Military Department personnel to issue policies requiring the identification of deobligation opportunities, such as when the maximum loan amount is reduced or no longer available, and develop procedures for working with DC(P/B) personnel to deobligate funds when the opportunities arise.

According to ASD(S) personnel, Army personnel could have requested deobligation of a portion of the funds paid for subsidy costs in FY 2011, but did not.

Overpayment of Subsidy

Regardless of whether the maximum loan amount was reduced or funds could have been deobligated in FY 2014, as discussed in previous sections, Army personnel unnecessarily paid $1.8 million in subsidy costs in FY 2017 because they already paid the subsidy cost on a maximum loan amount of $159.4 million in FY 2011. If the ASD(S) position is correct and the maximum loan amount was reduced in FY 2014, $1.9 million in subsidy costs should have been deobligated and available to offset the $1.8 million in increased subsidy costs calculated in FY 2017. If the ASA(IE&E) position is correct and the maximum loan amount was not reduced in FY 2014, the other two loan term changes made as part of the FY 2017 restructure would have saved the U.S. Government $360,266 in subsidy costs, instead of costing $1.8 million. Therefore, ASA(IE&E) personnel should coordinate with ASD(S), DC(P/B), and Assistant Secretary of the Army for Financial Management and Comptroller personnel to submit a request for OMB to return the $1.8 million from the DoD Family Housing Improvement Fund to the Family Housing Construction (Army) Fund that was unnecessarily paid in FY 2017.

Change in Subsidy Cost Not Calculated Prior to Restructure

ASA(IE&E) personnel did not calculate and obtain OMB approval for changes to the subsidy cost resulting from the Fort Wainwright/Greely project restructure to ensure adequate funding of the DoD Family Housing Improvement Fund prior to agreeing to the FY 2017 restructure as required by the United States Code.[57] This occurred because ASD(S) personnel did not have a policy requiring Military Department personnel to submit a change in subsidy cost calculation for review and OMB approval and to ensure the approved funding amount was in the DoD Family Housing Improvement Fund prior to the loan terms changing. ASD(S) personnel provided us with a draft policy memorandum requiring Military Department personnel to obtain ASD(S) approval when subsidy costs change and instructions for performing annual subsidy reestimates. Neither the draft policy nor the instructions require Military Department personnel to perform the following tasks prior to agreeing to any loan term changes: (1) calculate changes in subsidy cost, (2) obtain OMB approval, and (3) ensure the approved funding amount is in the DoD Family Housing Improvement Fund. ASD(S) personnel should issue policy requiring Military Department personnel to:

- calculate changes in subsidy cost for all GDLs and GLGs before agreeing to any loan term changes,
- submit the calculations to ASD(S) for review and OMB approval before agreeing to any loan term changes, and
- ensure the approved funding amount is in the DoD Family Housing Improvement Fund before agreeing to any loan term changes.

[57] Section 2883, title 10, United States Code (10 U.S.C. § 2883 [2017]).

Differences Between OMB-Approved Maximum Loan Amount and Annual Reestimates Were Not Identified

ASA(IE&E) and ASD(S) personnel did not identify and resolve the $31.9 million difference between the original OMB-approved maximum loan amount and the amount on the annual subsidy cost reestimates for the FYs 2014, 2015, and 2016 financial statements. The original OMB-approved amount was $159.4 million, while the maximum loan amount used for all three annual reestimates was $127.5 million. Resolution of this difference between these maximum loan amounts would have prevented confusion among DoD personnel about the maximum loan amount when the FY 2017 Fort Wainwright/Greely restructure occurred. Therefore, ASD(S) personnel should develop and implement controls to ensure that the most recent OMB-approved loan amounts for GDLs and GLGs reconcile to the annual reestimate calculations.

Resolution of this difference between these maximum loan amounts would have prevented confusion among DoD personnel about the maximum loan amount when the FY 2017 Fort Wainwright/Greely restructure occurred.

~~(FOUO)~~ Availability of Sales Proceeds for Use

~~(FOUO)~~ DC(P/B), DFAS-Indianapolis, and NAVFAC personnel did not resolve disagreements about the availability of equity investment sales proceeds for use on other projects. In FY 2000, NAVFAC personnel invested $[redacted] million in the Everett II project under 10 U.S.C. § 2875 (2013), which allows Military Departments to make equity investments in projects that acquire or construct military housing. The funding used for the Everett II equity investment came from the DoD Family Housing Improvement Fund, which was established under 10 U.S.C. § 2883 (2017) and allows funds to "remain available until expended" but limits the amount available for use to those amounts made available by appropriation acts. In FY 2017, the Navy equity investment for the Everett II project was sold for $[redacted] million, which resulted in a $[redacted] million gain. To prevent any potential funding violations, DC(P/B) and DFAS-Indianapolis personnel coordinated to make the funds unavailable until this disagreement is resolved or the funds are reappropriated.

~~(FOUO)~~ DC(P/B), DFAS-Indianapolis, and NAVFAC personnel expressed different opinions about whether the sales proceeds were available for immediate use by the MHPI program without a new appropriation. The following outlines the opinions of each DoD organization.

- ~~(FOUO)~~ DC(P/B) personnel stated that the proceeds were not available for use without a new appropriation because the Navy had already expended the $[redacted] million invested in FY 2000. In DC(P/B) personnel's opinion,

~~(FOUO)~~ 10 U.S.C. § 2883 (2017) limits funding to amounts made available by appropriation acts and the original funding made available was expended, therefore requiring a new appropriation for the entire amount of the sales proceeds.

- ~~(FOUO)~~ DFAS-Indianapolis personnel stated that the portion of the proceeds equal to the initial $[redacted] million investment was available for immediate use because the Navy did not expend those funds when it made the investment in FY 2000. DFAS-Indianapolis personnel also stated that the $[redacted] million gain portion of the proceeds had not been included in an appropriations act. Therefore, DFAS-Indianapolis personnel interpreted 10 U.S.C. § 2883 (2017) to mean that capital gains on sales proceeds must be included in an appropriations act before they become available for use.[58]
- NAVFAC personnel stated that all of the sales proceeds were available for use without a new appropriations act because a precedent had been set when a previous Navy project used sales proceeds returned to the DoD Family Housing Improvement Fund in FY 2013 without a new appropriation. They also stated that the project required an appropriation that transfers the funds, instead of a new appropriation, since previously appropriated funds intended for program sustainment were available in the DoD Family Housing Improvement Fund.

There are inconsistencies between and a lack of clarity within OMB Circular No. A-11 and the USSGL Transaction Guidance on the topic of whether funds used for investments are expended and investment sales proceeds are available without a new appropriation. Depending on the funding source and investment type, OMB Circular No. A-11 considers funds used to purchase investments as expended or unexpended.[59] We requested information from OMB personnel on whether funding used for MHPI equity investments should be recorded as expended or unexpended. However, on June 21, 2018, OMB personnel stated they were not familiar with the Everett II sale and did not provide us with a response to our question. Unlike OMB Circular No. A-11, all USSGL Transaction Guidance currently considers funds used to purchase investments as unexpended.[60]

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58 DFAS-Indianapolis personnel stated that they provided their opinion as subject matter experts in accounting and would record the transaction in accordance with DC(P/B) and Navy guidance once an agreement is reached.

59 OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," Section 113 "Investment Transactions," Subsection 1, July 2017.

60 USSGL, Section III: "Account Transactions," Transaction Codes: B124, B126, B128, B132, B143, B160, B162, B163, B165, and B166. Each code requires the funding to be considered unexpended. These Transaction Codes are all the codes in the USSGL Transaction Guidance for investments made from the U.S. Treasury and include investments in Federal securities and preferred and common stock. In addition, DCFO and DFAS-Indianapolis personnel both agree that Transaction Code C622 reflects the USSGL-approved guidance most applicable to MHPI equity investment sales. However, that code requires funding to be originally unexpended for DFAS-Indianapolis personnel to record the accounting entry for the sale as required by that code.

Neither the OMB Circular nor USSGL Transaction Guidance specifically address whether initial MHPI equity investments should be considered expended or unexpended. The distinction between whether these invested funds are considered expended or unexpended is important because it is the basis for determining whether the funds initially invested are available for use on other MHPI projects without a new appropriation.

DCFO and DC(P/B) personnel have not coordinated with the Treasury and OMB to develop accounting policy on when equity investments are expended.

The differences of opinion continue to exist because DCFO and DC(P/B) personnel have not coordinated with the Treasury and OMB to develop accounting policy on when equity investments are expended and determine the availability of the sales proceeds for use. As discussed in Finding A, DCFO personnel requested in June 2018 that the Treasury update the USSGL Chart of Accounts and Transaction Guidance.[61] In their request, they proposed that equity investment funds be considered expended when initially invested and that all sales proceeds from equity investments be approved by Congress prior to use. Treasury personnel responded that the proposed entries were correct but that the Treasury would not be updating the USSGL until the FASAB addresses the accounting treatment in FY 2019. Because the USSGL still lacks sufficient guidance, DCFO and DC(P/B) personnel should continue to coordinate with the Treasury and OMB to update the USSGL and DoD accounting policy to provide guidance on whether the funding for equity investments is initially considered expended and whether any portion of the equity investment sales proceeds is available without a new appropriation.

Methodology for Executing Reestimates

DC(P/B) and DFAS-Indianapolis personnel did not resolve disagreements about the methodology used to execute the annual subsidy cost reestimates for GDLs and GLGs. DFAS-Indianapolis personnel used one method, the gross method, while DC(P/B) personnel preferred use of another method, the net method.[62] OMB Circular No. A-11 allows both.[63] DC(P/B) management was also concerned that DFAS-Indianapolis personnel's continued use of the gross method would require more borrowing and funding than DC(P/B)'s proposed net method and result in incorrect DoD budgetary reports.

[61] DCFO personnel's request was to the Treasury–Issue Resolution Committee. OMB is a member of this committee. Therefore, OMB's opinion as to whether the funds are expended or unexpended will be considered as an accounting solution is developed.

[62] Appendix H provides an explanation of the gross method and reconciliation between the gross borrowing and the net funding for GDLs. Because borrowing does not occur when reestimating GLGs, this reconciliation does not apply to GLGs.

[63] OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," Section 185, "Federal Credit," July 2017. In a December 2015 e-mail to DFAS Indianapolis personnel, OMB personnel confirmed that the gross method is allowed and reaffirmed that position in March 2018 at our request.

However, we determined that, if the gross method is applied correctly by all DoD organizations, when compared to DC(P/B) net method, it does not increase the:

- net amount borrowed because DFAS-Indianapolis personnel borrowed from the U.S. Treasury–Bureau of Fiscal Services for one project to pay them back for another project, or
- amount of funding that DC(P/B) personnel needed to provide.

The gross method has an added benefit in that it allowed DFAS-Indianapolis personnel to account for each of the projects separately, which both DC(P/B) management and DFAS-Indianapolis personnel agreed was necessary. ASD(S) personnel stated that they were developing procedures to use DC(P/B)'s net method and move funds between U.S. Treasury–Bureau of Fiscal Services loans to account for projects separately, but DFAS-Indianapolis personnel stated that differing loan terms prevented that from occurring.[64]

Based on discussions held at meetings between DC(P/B), DCFO, and DFAS-Indianapolis personnel during this audit, they developed agreed-upon procedures that require DFAS-Indianapolis personnel to perform specific transactions that allow them to continue to use the gross method for executing reestimates, while also ensuring accurate budgetary reporting. DCFO personnel provided us the agreed-upon procedures. To prevent future disagreements as to whether the gross method is allowed and to ensure accurate reporting, DCFO personnel should issue accounting policy to implement the agreed-upon procedures requiring DFAS-Indianapolis personnel to 1) use the gross method for executing the annual subsidy cost reestimates, 2) use specific transactions to ensure that DC(P/B) personnel's budgetary reporting needs are met and, 3) require DC(P/B) personnel to provide only the net funding amount needed for subsidy reestimates.

Complete and Accurate Privatized Housing Inventories Not Maintained

Military Department personnel did not maintain complete and accurate privatized housing inventories. Specifically, Military Department personnel did not identify and correct discrepancies between the Military Department, private partner, and eMH housing inventories for all 14 installations we tested or populate the eMH with all privatized housing records.[65]

[64] The 2007 cohort of loans had interest rates that varied by 1.1 percent and maturity dates that varied by 14 years.

[65] For a list of the 14 installations tested, see Appendix A, Table 7.

Each Military Department uses a different system to account for its real property, which includes privatized housing. The following is a listing of the system each Department uses.

- **Army—**General Fund Enterprise Business System (GFEBS)
- **Navy—**Internet Navy Facilities Asset Data Store (iNFADS)
- **Air Force—**Automated Civil Engineer System (ACES) (transitioning to Tririga)

Once eMH is fully implemented, the ASD(S) and each Military Department will also use the eMH to manage and oversee all privatized housing. In addition to the Military Department systems and the eMH, each private partner maintains privatized housing inventories under its control. To maintain the most accurate housing information for making sound, timely housing program decisions, the Military Department inventory records need to reconcile with eMH and private partner records.

Once eMH is fully implemented, the ASD(S) and each Military Department will also use the eMH to manage and oversee all privatized housing.

Discrepancies Between Privatized Housing Inventories

Military Department personnel did not identify and correct discrepancies between the privatized housing inventories generated by the Military Department system and private partner system at each of the 14 installations we reviewed. While each installation had housing inventories that did not reconcile, the following examples are from three installations.

Navy Privatized Housing at Hampton Roads, Virginia

We identified 1,411 housing record discrepancies between the Navy and the private partner systems at the Navy Region Mid-Atlantic, Hampton Roads area. Navy personnel stated that the discrepancies occurred because there was not an emphasis on accounting for privatized housing until September 2013.[66] In FY 2017, the Navy completed a FY 2013 initiative to establish a baseline of all Navy privatized housing records. Navy personnel stated that they were in the process of using the baseline to update iNFADS and eliminate any discrepancies in the Navy privatized housing records. Navy's goal was to update records by the end of the calendar year 2018. In August 2018, Navy personnel provided updated iNFADS

[66] The Real Property Information Model Version 7.0 guidance, which was issued in September 2013, requires Military Department personnel to maintain privatized housing unit records. Navy personnel stated that no such requirement existed prior to that.

housing records to show corrective actions taken for the Hampton Roads area. The updated records showed only 56 of 1,411 discrepancies remained between the Navy and the private partner records.

Air Force Privatized Housing at Joint Base Pearl Harbor-Hickam, Hawaii

Neither Air Force nor Navy personnel maintained an inventory of Air Force privatized housing units to compare to the 2,500 Air Force private partner records at Joint Base Pearl Harbor-Hickam. As a result of this audit, Air Force and Navy personnel began coordinating to resolve this issue. Navy personnel stated that, before the two bases (Pearl Harbor Naval Station and Hickam Air Force Base) were joined and Navy personnel became responsible for the base, Air Force personnel removed the privatized housing records for Hickam Air Force Base from ACES. Air Force personnel were unable to provide Navy personnel with the records needed to maintain accuracy in iNFADS and compare to the private partner records.

Neither Air Force nor Navy personnel maintained an inventory of Air Force privatized housing units to compare to the 2,500 Air Force private partner records at Joint Base Pearl Harbor-Hickam.

Army Privatized Housing at Fort Shafter/Schofield Barracks, Hawaii

The Army had 990 GFEBS privatized housing records compared to 7,365 housing records in the private partner's system at Fort Shafter/Schofield Barracks. In addition, 3 of 45 GFEBS privatized housing records tested for existence were for housing demolished by the private partner in 2011. However, the GFEBS housing records were not updated and still contained the records for the demolished housing. Army personnel stated that these differences occurred because they had issues accessing GFEBS, as well as issues from the FY 2013 conversion to GFEBS. Army personnel also explained that accounting for Army-owned real property had priority over privatized housing due to ongoing audits.

Lack of Procedures to Reconcile Privatized Housing Inventories

The differences between the Military Department and private partners' housing inventories occurred because Military Department personnel lacked procedures to reconcile their housing inventories to those of the private partner and record private partners' changes to housing records related to property additions and removals. While the Military Departments transferred ownership of the housing units to the private partners, many of the units are located on military installations and ownership may revert to the Military Departments in the future. In addition, the privatized housing records are identified by a unique code that prevents those records from being reported on the Military Departments' financial statement and supports the Military Departments being audit ready for existence, completeness, and rights and obligations testing of real property located on military bases.

Military Department personnel should reconcile their privatized housing inventories with the private partners' housing inventories and update the records as needed to establish a baseline. Once the baseline is established, Military Department personnel should develop and implement procedures to accurately record in Military Department systems the additions and removals of housing unit records from private partner systems, as they occur, to ensure consistency between Military Department and private partners' housing inventories.

eMH Not Populated with All Privatized Housing Records

Military Department personnel did not populate eMH with all privatized housing records, as required by an Under Secretary of Defense for Acquisition, Technology, and Logistics 2014 memorandum.[67] The memorandum designated eMH as the authoritative data source for all housing units and required Military Department personnel to populate eMH by September 30, 2015. Because privatized housing units are recorded in the Military Departments' real property databases, the memorandum applies to privatized housing units. Although eMH was required to be populated, ASD(S) personnel stated that they could not provide any eMH privatized housing records for review because the system functionality did not exist in eMH to provide a privatized housing inventory. However, in September 2018, 8 months after we initially made the request, ASD(S) personnel were able to provide an inventory of privatized housing from eMH, showing that the functionality now exists.

Because ASD(S) personnel could not provide an inventory for our review until September 2018, we were unable to perform a reconciliation between Military Department housing records and eMH. We then asked Military Department personnel about what information they input in eMH. Air Force personnel stated that they input only officer housing records in eMH. Army personnel stated that they did not input any privatized housing records in eMH. Navy personnel stated that they input all privatized housing records in eMH.

In September 2018, 8 months after we initially made the request, ASD(S) personnel were able to provide an inventory of privatized housing from eMH, showing that the functionality now exists.

[67] Under Secretary of Defense for Acquisition, Technology, and Logistics memorandum, "Enterprise Military Housing Information Management System," April 16, 2014. On February 1, 2018, the Under Secretary of Defense for Acquisition, Technology, and Logistics office was realigned under two offices: (1) Under Secretary of Defense for Acquisition and Sustainment, and (2) Under Secretary of Defense for Research and Engineering.

Military Department personnel were inconsistent in their approach to populating eMH because ASD(S) personnel, who lead the eMH working group and have oversight of the MHPI program, did not coordinate with the eMH Program Management Office to provide Military Department personnel with eMH implementation procedures. Therefore, ASD(S) personnel should coordinate with the eMH Program Management Office to ensure the development and implementation of detailed procedures for Military Department to input privatized housing records into eMH. Once implemented, Military Department personnel should develop and implement controls to ensure that eMH and Military Department housing records reconcile.

Conclusion

Without effective funds management and privatized housing accountability controls, MHPI program management personnel may not be able to efficiently manage the MHPI program and related projects or obtain MHPI-related information. Examples of inefficient management identified in this report, include MHPI program and financial management personnel not:

Without effective funds management and privatized housing accountability controls, MHPI program management personnel may not be able to efficiently manage the MHPI program.

- efficiently using MHPI program funding, which cost Army $1.8 million in excess subsidy costs that could have been put to better use;
- efficiently and effectively resolving disagreements about MHPI funding availability and annual subsidy cost reestimates; and
- having accurate and complete privatized housing inventories needed to support sound, timely MHPI management decisions; ensuring that all privatized housing is properly captured or excluded from Military Department financial statements; and efficiently preparing required reports to Congress.

Management Comments on the Finding and Our Response

Although not required to comment on the finding, the NAVFAC Headquarters Inspector General, commenting for the NAVFAC Commander, provided the following comments. For the full text of the NAVFAC Headquarters Inspector General's comments, see the Management Comments section of this report.

Naval Facilities Engineering Command Comments

The NAVFAC Headquarters Inspector General, responding for the NAVFAC Commander, partially agreed with the finding that DC(P/B), DFAS-Indianapolis, and NAVFAC personnel did not resolve internal disagreements about the availability of equity investment sales proceeds for use. However, the NAVFAC Headquarters Inspector General stated that a precedent was established with proceeds from sale of the Everett I project by identifying those proceeds in the FY 2013 budget request and subsequently amending the appropriation language accordingly.

Our Response

Comments from the NAVFAC Headquarters Inspector General present additional information about NAVFAC personnel's position on whether equity investment sales proceeds are available for use without a new appropriations act. We present NAVFAC personnel's position in this report because of the precedent mentioned by the NAVFAC Headquarters Inspector General in her comments and because DCFO and DC(P/B) personnel had not developed applicable accounting policy. However, the final decision about whether equity investment sales proceeds are available for use rests with the USD(C)/CFO, in coordination with the Department of the Treasury and OMB, as they are responsible for accounting policy.

Recommendations, Management Comments, and Our Response

Revised Recommendation

As a result of management comments to the draft report, we revised Recommendation B.2 and the related potential monetary benefit to recommend that the ASA(IE&E) coordinate with the necessary DoD organizations to deobligate the $1.8 million that Army unnecessarily paid. In our draft report, we had recommended $1.8 million be returned from the DoD Family Housing Improvement Fund to the Family Housing Construction (Army) Fund because it was unnecessarily paid in FY 2017.

Recommendation B.1

We recommend that the Assistant Secretary of Defense for Sustainment:

a. **Issue policy requiring the maximum loan amount on promissory notes to match the corresponding loan agreements and promissory notes to contain complete histories of all amendments to the notes.**

Office of the Assistant Secretary of Defense for Sustainment Comments

The ASD(S) partially agreed with the recommendation and stated that he would issue policy under the stipulations that the policy would:

- apply only to loans where the Government is a signatory, such as GDLs and GLGs;
- apply only to new loans or existing loans that are amended;
- not require loan amendments for the sole purpose of satisfying this recommendation; and
- require the aggregate amount of multiple promissory notes under one loan agreement to equal the principal amount on the loan agreement.

Our Response

Although the ASD(S) partially agreed, his comments addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive:

- the issued policy and verify that it contains the recommended requirements, and
- a list of promissory note amounts and corresponding loan agreement amounts for each existing GDL or GLG to identify any differences and help prevent future disagreements about maximum loan amounts and related subsidy costs.

b. Coordinate with the DoD Deputy Comptroller for Program/Budget and Military Department personnel to issue policies requiring the identification of deobligation opportunities, such as when the maximum loan amount is reduced or no longer available, and develop procedures for working with DC(P/B) personnel to deobligate funds when the opportunities arise.

Office of the Assistant Secretary of Defense for Sustainment Comments

The ASD(S) partially agreed with the recommendation and stated that ASD(S) personnel would coordinate with USD(C)/CFO and Military Department personnel to determine if additional policies are needed to identify deobligation opportunities and to identify the office with jurisdiction to issue such policies.

Our Response

Although the ASD(S) partially agreed, his comments addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive evidence of a newly issued or existing policy requiring the identification of deobligation opportunities, along with the corresponding procedures to deobligate funds.

c. Issue a policy requiring Military Department personnel to:

1. Calculate changes in subsidy cost for all Government Direct Loans and Government Loan Guarantees before agreeing to any loan term changes.

Office of the Assistant Secretary of Defense for Sustainment Comments

The ASD(S) agreed with the recommendation and stated that ASD(S) personnel will update and issue a policy with a requirement that addresses this recommendation by September 2019.

Our Response

Comments from the ASD(S) addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive the issued policy and verify that it contains the recommended requirements.

2. Submit the calculations to the Assistant Secretary of Defense for Sustainment for review and to the Office of Management and Budget for approval before agreeing to any loan term changes.

3. Ensure that the approved amount of funding is in the DoD Family Housing Improvement Fund before agreeing to any loan term changes.

Office of the Assistant Secretary of Defense for Sustainment Comments

The ASD(S) partially agreed with these recommendations and stated that ASD(S) personnel will update and issue a policy with requirements that address these recommendations by September 2019. He also stated that the policy will apply only to loans where the Government is a signatory, such as GDLs and GLGs.

Our Response

Although the ASD(S) partially agreed, his comments addressed all specifics of these recommendations; therefore, these recommendations are resolved but will remain open. We will close these recommendations once we receive the issued policy and verify that it contains the recommended requirements.

d. Develop and implement controls to ensure that the most recent Office of Management and Budget-approved loan amounts for Government Direct Loans and Government Loan Guarantees reconcile to the annual reestimate calculations.

Office of the Assistant Secretary of Defense for Sustainment Comments

The ASD(S) partially agreed with the recommendation and stated that the DC(P/B) and the Deputy Assistant Secretary of Defense, Facilities Management, already jointly issue annual MHPI Credit Subsidy Reestimate Instructions. However, he added that the instructions did not address GDLs and GLGs where an amount less than the maximum loan amount is drawn, and ASD(S) personnel have begun developing internal controls to address this recommendation in the implementation guidance to support the FY 2021 President's Budget.

Our Response

Although the ASD(S) partially agreed, his comments addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive the issued guidance and verify that it contains the recommended requirements.

e. Coordinate with the enterprise Military Housing Program Management Office to ensure the development and implementation of detailed procedures for Military Department personnel to input privatized housing records into the enterprise Military Housing system, which would allow all Military Departments to comply with the "Enterprise Military Housing Information Management System" memorandum, dated April 16, 2014.

Office of the Assistant Secretary of Defense for Sustainment Comments

The ASD(S) partially agreed with the recommendation and stated that the Under Secretary of Defense for Acquisition, Technology, and Logistics memorandum already tasks the eMH Program Management Office to coordinate procedure development and implementation for Military Departments' input of privatized housing records. He acknowledged that progress to incorporate privatized housing inventory is slower than expected, but stated that support and monitoring efforts are ongoing.

Our Response

Although the ASD(S) partially agreed, his comments addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive the documentation needed to verify that the implementation of detailed procedures result in eMH containing all privatized housing records.

Recommendation B.2

We recommend that the Assistant Secretary of the Army for Installations, Energy, and Environment, in coordination with the Assistant Secretary of Defense for Sustainment and any other necessary DoD organizations, rebalance the subsidy cost for the Fort Wainwright/Greely project loan guarantee after the next reestimate process, to include deobligating the $1.8 million that Army unnecessarily paid.

Office of the Assistant Secretary of the Army for Installations, Energy, and Environment Comments

The Deputy Assistant Secretary of the Army (Installations, Housing, and Partnerships), responding for the ASA(IE&E), did not agree with the recommendation. However, he proposed an alternative recommendation wherein the Army coordinates with the ASD(S) to rebalance the subsidy costs for the Fort Wainwright/Greely project GLG after the next reestimate process. He also added that there will be additional excess subsidy balances that need to be deobligated because the project only used $145 million of the $159 million maximum loan amount.

Our Response

We revised this recommendation and the related potential monetary benefit based on the Deputy Assistant Secretary's input; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive the documentation needed to verify completion of the subsidy cost rebalancing, to include deobligating the $1.8 million Army unnecessarily paid that can provide monetary benefit to other MHPI projects. The intent of the recommendation was to ensure that MHPI funds were used efficiently. To that end, the funds were not used efficiently when ASA(IE&E) personnel, overseen by ASD(S) personnel for MHPI matters, unnecessarily paid $1.8 million from the Army General Fund to the DoD Family Housing Improvement Fund in FY 2017. Those funds were then unnecessarily obligated within the Improvement Fund even though Army personnel had already paid and obligated the necessary amount in FY 2011. As our report states, according to ASD(S) personnel, "Army personnel could have requested deobligation of a portion of the funds paid for subsidy costs in FY 2011, but did not." To correct that missed opportunity, Army's reestimating and rebalancing efforts should result in those unnecessarily paid and obligated funds being deobligated. While this recommendation does not address the deobligation of additional excess subsidy balances related to maximum loan amounts no longer available for use, we agree that those funds should also be deobligated under Recommendation B.1.b.

Recommendation B.3

We recommend that the DoD Deputy Chief Financial Officer and DoD Deputy Comptroller for Program/Budget coordinate with the Department of the Treasury and the Office of Management and Budget to update the U.S. Standard General Ledger and DoD accounting policy to provide guidance on whether the funding for equity investments should be initially considered expended and whether any portion of equity investment sales proceeds are available without a new appropriation.

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO, responding for both the DCFO and DC(P/B), agreed with the recommendation and stated that the DoD has long taken the position that funds used for equity investments are expended upon obligation. He added that the DoD FMR, volume 2B, chapter 6, states that the non-appropriated proceeds deposited into the DoD Family Housing Improvement Fund account must be appropriated first prior to use.[68] He also stated that the DoD Office of General Counsel opined, in response to this audit, that equity investments are expended upon obligation.

In addition, he stated that DCFO personnel have already proposed accounting transactions to the Department of the Treasury for the accounting recognition and measurement of equity investments, which were based on the presumption that the funds were expended at the time of investment. He further stated that the Treasury agreed with the DoD's proposed accounting transactions but deferred to take action until FASAB takes action in FY 2019. He concluded that he considers this recommendation complete.

Our Response

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive and verify documentation showing that the transactions added to the DoD Transaction Library align with the new FASAB accounting recognition and measurement guidance for equity investments and the corresponding updates to the USSGL Chart of Accounts and the DoD Transaction Library, once established.

[68] DoD FMR, volume 2B, chapter 6, section 060106.

Recommendation B.4

We recommend that the DoD Deputy Chief Financial Officer issue accounting policy to implement the agreed-upon procedures requiring Defense Finance and Accounting Service–Indianapolis personnel to use the gross method for executing the annual subsidy cost reestimates and use specific accounting transactions to ensure that DoD Deputy Comptroller for Program/Budget personnel's budgetary reporting needs are met, and requiring the DoD Deputy Comptroller for Program/Budget to provide only the net funding amount needed for subsidy reestimates.

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The DCFO agreed with the recommendation and stated that USD(C)/CFO and DFAS personnel are working together to determine the proper procedures for reporting reestimates. He added that the FY 2018 information reported in the FY 2020 budget submissions was correct and that the DCFO will issue accounting policy to document the procedures used in FY 2018, so that they are correct and repeatable. He also stated that the DCFO would update the DoD FMR, volume 12, chapter 4, to incorporate the agreed-upon procedures. He concluded that this will be completed by March 31, 2019.

Our Response

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive and verify documentation showing that the DoD FMR, volume 12, chapter 4, has been updated with the agreed-upon procedures.

Office of the Assistant Secretary of Defense for Sustainment Comments

Although not required to comment, the ASD(S) stated that the audit report appears to confuse the difference between what occurs for budget purposes and funds control and what occurs for accounting purposes. He also stated that the DoD submits President's Budget and apportionment documents that use the net amounts.

Our Response

Comments from the ASD(S) are not consistent with the DCFO's comments, where he agreed with the recommendation and provided no remarks about confusion within the finding. ASD(S) personnel should work with USD(C)/CFO personnel to resolve any misunderstandings and support DCFO personnel, as needed, to implement this recommendation. In addition, we acknowledge that users of the accounting records have specific needs, which is why our recommendation states that DFAS-Indianapolis personnel should use specific, agreed-upon accounting transactions to ensure that DC(P/B) personnel's budgetary reporting needs are met.

Recommendation B.5

We recommend that the Assistant Chief of Staff for Installation Management, Department of the Army; Commander, Naval Facilities Engineering Command; and Director, Air Force Civil Engineer Center:

a. Reconcile their privatized housing inventories with the private partners' housing inventories and update the records as needed to establish a baseline.

Office of the Assistant Chief of Staff for Installation Management, Department of the Army Comments

The Privatized Housing and Lodging Program Chief, responding for the ACSIM, agreed with the recommendation and stated that reconciliation between the Army and the private partner privatized housing records requires input from the ACSIM proponent for GFEBS to establish a complete and accurate baseline.

Our Response

Comments from the Privatized Housing and Lodging Program Chief did not address the specifics of the recommendation; therefore, the recommendation is unresolved. We agree that reconciling the GFEBS privatized housing records to the private partners' records would require input from the ACSIM proponent for GFEBS, the ACSIM Director of Operations. However, the Chief did not internally coordinate with the ACSIM Director of Operations to provide proposed actions and milestones for addressing the recommendation. We request that the ACSIM provide internally coordinated comments on the final report that address the proposed actions that ACSIM personnel plan to take to fully reconcile GFEBS with the private partners' privatized housing records.

Naval Facilities Engineering Command Comments

The NAVFAC Headquarters Inspector General, responding for the NAVFAC Commander, agreed with the recommendation and stated that NAVFAC personnel coordinated with the private partners to take the appropriate steps to identify and record all privatized housing records in eMH and iNFADS. The NAFVAC Headquarters Inspector General stated that these actions were completed in November 2018.

Our Response

Comments from the NAVFAC Headquarters Inspector General addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. Although the NAVFAC Headquarters Inspector General's comments stated that these actions had already been taken in November 2018, the NAVFAC Headquarters Inspector General did not provide supporting documentation along with the comments. In addition, her revised comments to B.5.b state that the Navy's reconciliation was complete but Marine Corps' was nearing completion. We will close this recommendation to NAVFAC once we receive and verify documentation showing that the Navy's privatized housing inventories reconcile with the private partners'.

Management Comments Required

The AFCEC Director did not respond to this report. Therefore, this recommendation is unresolved as it relates to the Air Force. We request that the Director provide comments on the final report.

b. Develop and implement procedures to accurately record the additions and removals of housing records to ensure consistency between the Military Department and private partner systems.

Office of the Assistant Chief of Staff for Installation Management, Department of the Army Comments

The Privatized Housing and Lodging Program Chief, responding for the ACSIM, agreed with the recommendation and stated that the ACSIM is developing procedures to ensure that additions and removals of housing records from the eMH are consistent with the private partner systems. He also stated that the accuracy of the privatized housing records in GFEBS is outside the Privatized Housing and Lodging Program's purview and is the ACSIM Director of Operations' responsibility.

Our Response

Comments from the Privatized Housing and Lodging Program Chief did not address the specifics of the recommendation; therefore, the recommendation is unresolved. While the Chief stated that the ACSIM is developing procedures to ensure the accuracy of eMH, he did not internally coordinate with the ACSIM proponent for GFEBS, the ACSIM Director of Operations, to provide proposed actions and milestones for addressing the recommendation. We request that the ACSIM provide internally coordinated comments on the final report that address the proposed actions that ACSIM personnel plan to take to ensure additions and removals of housing records from GFEBS are accurately recorded to be consistent with the private partners' systems.

Naval Facilities Engineering Command Comments

The NAVFAC Headquarters Inspector General, responding for the NAVFAC Commander, agreed with the recommendation and stated that an electronic interface between private partners' property management system and eMH updates real property inventory real time on a daily basis. In revised comments, she also stated that the Navy conducts an annual reconciliation between iNFADS and eMH that covers both the addition and removal of privatized housing records. She added that this reconciliation was completed for the Navy and nearing completion for the Marine Corps. She also commented that annual meetings are held between the private partner and Government representative to discuss significant changes in privatized housing units. She concluded that the estimated completion date is January 31, 2019.

Our Response

Comments from the NAVFAC Headquarters Inspector General addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation to NAVFAC once we receive and verify documentation showing the interface agreement between the private partners' system and eMH and procedures for the annual reconciliation between iNFADS and eMH and the most recent related reconciliation results.

Management Comments Required

The AFCEC Director did not respond to this report. Therefore, this recommendation is unresolved as it relates to the Air Force. We request that the Director provide comments on the final report.

c. **Develop and implement controls to ensure that the enterprise Military Housing system and Military Department housing records reconcile once privatized housing records are in the enterprise Military Housing system.**

Office of the Assistant Chief of Staff for Installation Management, Department of the Army Comments

The Privatized Housing and Lodging Program Chief, responding for the ACSIM, agreed with the recommendation and stated that the controls should be developed by the ACSIM proponents for GFEBS and eMH.

Our Response

Comments from the Privatized Housing and Lodging Program Chief did not address the specifics of the recommendation; therefore, the recommendation is unresolved. While the Chief agreed with the recommendation, he did not internally coordinate with the ACSIM proponent for GFEBS and eMH, the ACSIM Director of Operations, to provide proposed actions and milestones for addressing the recommendation. We request that the ACSIM provide internally coordinated comments on the final report that address the proposed actions that ACSIM personnel plan to take to implement controls that ensure eMH and GFEBS housing records reconcile.

Naval Facilities Engineering Command Comments

The NAVFAC Headquarters Inspector General, responding for the NAVFAC Commander, agreed with the recommendation and stated that an electronic interface between private partners' property management system and eMH updates real property inventory real time on daily basis. In revised comments, she also stated that data reconciliation between the private partner system, eMH, and iNFADS, will occur on a reoccurring basis as discussed in the Navy's response to Recommendation B.5.b. She added that the estimated completion date is January 31, 2019.

Our Response

Comments from the NAVFAC Headquarters Inspector General addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation to NAVFAC once we receive and verify the interface agreement between the private partners' system and eMH and the procedures and reconciliation results identified in the NAVFAC Headquarters Inspector General's response to B.5.b.

Management Comments Required

The AFCEC Director did not respond to this report. Therefore, this recommendation is unresolved as it relates to the Air Force. We request that the Director provide comments on the final report.

Appendix A

Scope and Methodology

We conducted this performance audit from November 2017 through November 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We reviewed $11.2 billion of MHPI program-related transactions recorded by DFAS-Indianapolis personnel in Great Plains and reported as Other Defense Organization activity in the FY 2017 DoD Agency-Wide Financial Statements. Our review of $3.3 million of FY 2017 DoD Family Housing Improvement Fund Administrative funding originally accounted for in a system separate from Great Plains, the Defense Agencies Initiative, was limited to the related unsupported and supported accounting adjustments subsequently recorded in DDRS-B.

In addition, our audit focused on the DoD Family Housing Improvement Fund portion of the MHPI program. According to ASD(S) documentation, the Family Housing Improvement Fund accounts for over 90 percent of the privatized housing units and projects in the MHPI program, as of October 2017. The remaining portion of the MHPI program relates to DoD Military Unaccompanied Housing Improvement Fund and Lodging projects. We reviewed only the $80 million in FY 2017 beginning balances, along with their related financial reporting, for DoD Military Unaccompanied Housing Improvement Fund because DFAS-Indianapolis personnel did not record any other transactions during FY 2017.

Our review of the Military Department Financial Statements was limited to determining whether the statements contained any disclosures on real property ownership transferred to projects as equity investments, to include any capital gains or losses on real property ownership transferred. Military Department personnel were unable to provide us with documentation needed to determine whether they properly reported capital gains or losses on real property ownership transferred to the projects.

We reviewed the MHPI accounting and funding to determine compliance with applicable laws and standards. To achieve this, we obtained and reviewed the FY 2017 DoD Agency-Wide Financial Statements, along with the related accounting transactions and adjustments in Great Plains, DDRS-B, and DDRS-AFS to determine whether MHPI accounting transactions and adjustments were:

- recorded in compliance with the USSGL Transaction Guidance,
- accurately summarized and adequately supported, and
- accurately and adequately reported in the DoD Agency-Wide Financial Statements.

While reviewing MHPI program related FY 2017 accounting transactions, we identified MHPI project funds management issues that impacted our audit objective. To ensure coverage of these issues, we obtained and reviewed the related supporting documentation to determine whether MHPI funds were:

- used efficiently when the Army restructured their agreement for the Fort Wainwright/Greely project,
- available for use from the Navy's sale of its equity investment in the Everett II project, and
- appropriately used when reestimating the subsidy cost for GDLs and GLGs.

We also tested the accuracy of privatized housing records by reviewing nonstatistically selected samples of privatized housing records from 14 installations. See Table 7 for a list of the installations by Military Department. At those installations, we obtained and compared lists of privatized housing records maintained by the DoD, the Military Departments, and the private partners.

Table 7. Installation Tested by Military Department

Department	Installation Tested
Army	Fort Bragg
	Fort Shafter/Schofield Barracks
	Joint Base Langley-Eustis
	Joint Base Lewis-McChord
Navy	Camp Pendleton
	Hampton Roads Area
	Joint Base Pearl Harbor-Hickam
	Marine Corps Base Hawaii
	Naval Base Kitsap
	Naval Base San Diego
Air Force	Edwards Air Force Base
	Fairchild Air Force Base
	Joint Base Langley-Eustis
	Joint Base Pearl Harbor-Hickam

Note: Camp Pendleton and Marine Corps Base Hawaii are both Marine Corps installations.
Source: The DoD OIG.

We met with and obtained documentation from OMB; DCFO; DC(P/B); ASD(S); DFAS-Indianapolis; ASA(IE&E); ACSIM; NAVFAC; AFCEC; and Assistant Secretaries of the Army, Navy, and Air Force for Financial Management & Comptroller personnel. We reviewed the SFFASs, Financial Accounting Standards, United States Code, USSGL, OMB Circulars, DoD FMR, and the DoD Chart of Accounts and the DoD Transaction Library, and determined whether the DCFO and Military Departments maintained compliant accounting and reporting policies.

Use of Computer-Processed Data

We traced the FY 2017 MHPI accounting data from Great Plains to amounts reported in DDRS-B, DDRS-AFS, and the FY 2017 DoD Agency-Wide Financial Statements. To ensure data reliability, we tested the transactions used in Great Plains against the USSGL Chart of Accounts and Transaction Guidance and reperformed the compilation process.

We also used housing record data from the eMH, the Military Departments (ACES, GFEBS, iNFADS, and Tririga), and the private partners' systems. To test data reliability, we performed a reconciliation between the three data sets. While our reconciliation showed that the systems did not contain complete MHPI housing data, we determined that this was caused by data input problems, not by data processing problems. Therefore, we concluded that the computer-processed data obtained were sufficiently reliable to support the findings and conclusions in this report.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD Office of Inspector General (DoD OIG) issued four reports discussing MHPI and its related accounting and reporting. Unrestricted GAO reports can be accessed at http://www.gao.gov. Unrestricted DoD OIG reports can be accessed at http://www.dodig.mil/reports.html/.

GAO

Report No. GAO-18-218, "Military Housing Privatization: DoD Should Take Steps to Improve Monitoring, Reporting, and Risk Assessment," March 2018

> The DoD has not used consistent measures, consistently assessed future sustainment of MHPI projects or the ability to maintain the housing in good condition, or issued required reports to Congress in a timely manner. The Military Departments vary in their use of future sustainment measurements and sustainment information has not been included in the reports to Congress.

Report No. GAO-14-313, "Military Housing: Information on the Privatization of Unaccompanied Personnel Housing," March 2014

> The Navy and Army concluded that privatization could be used under a narrow set of circumstances for unaccompanied housing, while Air Force and Marine Corps concluded that privatization was not suitable for unaccompanied housing needs. None of the Military Departments have plans to pursue unaccompanied privatized housing projects.

DoD OIG

Report No. DODIG-2018-041, "The Defense Finance and Accounting Service Financial Reporting Process for Other Defense Organizations' General Funds," December 15, 2017

> DFAS-Indianapolis personnel did not properly accumulate and report the Other Defense Organizations' General Fund financial data for the FY 2015 DoD Agency-Wide Financial Statements. DFAS-Indianapolis personnel prepared unsupported JV adjustments. Because of these complications, the DoD Agency-Wide Financial Statements were at increased risk of material misstatement.

Report No. DODIG-2015-166, "Independent Auditor's Report on Attestation of the Existence, Completeness, and Rights of the Army's Real Property," September 2, 2015

> In the DoD OIG's opinion, except for the material deficiencies associated with rights documentation and the universe, the Army's real property was ready for audit, as of September 30, 2014. The audit identified instances where Army personnel did not adequately validate asset information during physical inventories.

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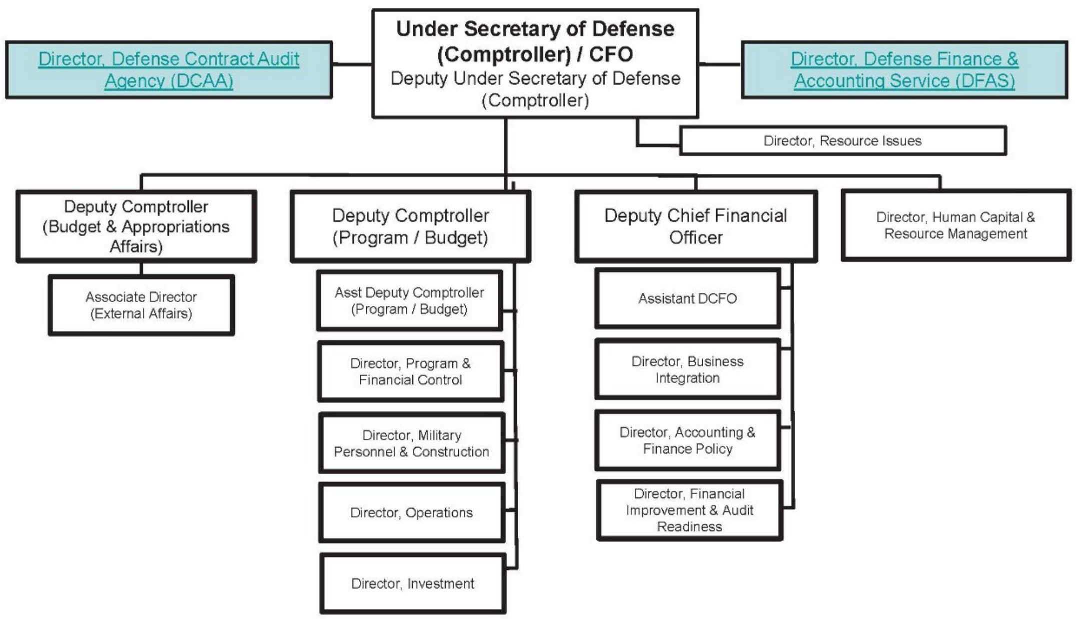
Appendix B

Relationship Between USD(C)/CFO, DC(P/B), DCFO, and DFAS

The USD(C)/CFO, DC(P/B), DCFO, and DFAS Director all have responsibilities related to the MHPI program. The Office of the USD(C)/CFO organization chart below shows the relationship between the four positions.

Figure. OUSD (Comptroller) / CFO Organizational Chart



Source: The Office of the USD(C)/CFO.

Appendix C

FY 2017 DoD Agency-Wide Financial Statement Note Disclosures Relevant to MHPI

U.S. Department of Defense Agency Financial Report for FY 2017

NOTE 4. INVESTMENTS AND RELATED INTEREST

Investments and Related Interest					*Dollars in Millions*
	2017				
As of September 30	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Nonmarketable, Market-Based					
Military Retirement Fund	$ 755,224.4	See Below	$ (31,092.9)	$ 724,131.5	$ 779,882.2
Medicare-Eligible Retiree Health Care Fund	262,142.0	See Below	(13,604.4)	248,537.6	280,882.8
US Army Corps of Engineers	9,257.2	See Below	(67.3)	9,189.9	9,184.1
Other Funds	2,619.5	See Below	(114.8)	2,504.7	2,530.4
Total Nonmarketable, Market-Based	**$ 1,029,243.1**		**$ (44,879.4)**	**$ 984,363.7**	**$ 1,072,479.5**
Accrued Interest	7,370.2		0.0	7,370.2	7,370.3
Total Intragovernmental Securities	**$ 1,036,613.3**		**$ (44,879.4)**	**$ 991,733.9**	**$ 1,079,849.8**
Other Investments					
Total Other Investments	**$ 3,511.6**	**See Below**	**$ 0.0**	**$ 3,511.6**	**N/A**
Amortization Method Used: Effective Interest					

Investments and Related Interest					*Dollars in Millions*
	2016				
As of September 30	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Nonmarketable, Market-Based					
Military Retirement Fund	$ 684,211.3	See Below	$ (29,836.4)	$ 654,374.9	$ 754,114.1
Medicare-Eligible Retiree Health Care Fund	250,500.2	See Below	(12,839.8)	237,660.4	284,553.0
US Army Corps of Engineers	8,928.9	See Below	(60.9)	8,868.0	8,894.7
Other Funds	2,430.1	See Below	(135.1)	2,295.0	2,360.7
Total Nonmarketable, Market-Based	**$ 946,070.5**		**$ (42,872.2)**	**$ 903,198.3**	**$ 1,049,922.5**
Accrued Interest	7,369.6		0.0	7,369.6	7,369.6
Total Intragovernmental Securities	**$ 953,440.1**		**$ (42,872.2)**	**$ 910,567.9**	**$ 1,057,292.1**
Other Investments					
Total Other Investments	**$ 3,521.7**	**See Below**	**$ 0.0**	**$ 3,521.7**	**N/A**
Amortization Method Used: Effective Interest					

Financial Section

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FY 2017 DoD Agency-Wide Financial Statement Note Disclosures Relevant to MHPI (cont'd)

The Department invests primarily in non-marketable, market-based U.S. Treasury securities. The value of these securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; thus, balances are not adjusted to market value.

The U.S. Treasury securities are issued to authorized funds and are an asset to the Department and a liability to the U.S. Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. Cash generated is deposited in the U.S. Treasury and used for general Government purposes. Since the Department and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Governmentwide financial statements.

The U.S. Treasury securities provide the Department with authority to access funds to make future benefit payments or other expenditures. When the Department requires redemption of securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all other expenditures.

In FY 2017, Other Funds primarily consists of $1.2 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and $1.1 billion in investments of the DoD Education Benefits Trust Fund. In FY 2016 Other Funds primarily consisted of $1.3 billion in investments of the DoD Education Benefits Trust Fund and $778.2 million in investments of the Support for U.S. Relocation to Guam Activities Trust Fund.

Other Investments consists of Military Housing Privatization Initiative limited partnerships. The Department invests in nongovernmental entities involved in the acquisition or construction of family housing and supporting facilities at Army, Air Force, Navy, and Marine Corps installations. The Department provides cash, land, or facilities as equity, but has no management role. A limited partnership arrangement operates purely as a private business and does not require Market Value Disclosure.

FY 2017 DoD Agency-Wide Financial Statement Note Disclosures Relevant to MHPI (cont'd)

NOTE 8. DIRECT LOAN AND LOAN GUARANTEES

The Department operates loan guarantee programs for MHPI.

The *Federal Credit Reform Act of 1990* governs all new and amended direct loan obligations and loan guarantee commitments made after FY 1991.

Direct loans are reported at the net present value (NPV) of the following projected cash flows:

- Loan disbursements;
- Repayments of principal; and
- Payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries.

Loan guarantee liabilities are reported at the NPV. The cost of the loan guarantee is the NPV of the following estimated projected cash flows:

- Payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments; offset by payments to the Department including origination and other fees, penalties, and recoveries.

Military Housing Privatization Initiative

The MHPI includes both direct loan and loan guarantee programs. The programs are authorized by section 2801 of the *National Defense Authorization Act for FY 1996* and includes a series of authorities allowing the Department to work with the private sector to renovate and build military family housing. The MHPI accelerates the construction of new housing built to market standards and obtains private sector capital to leverage government funds. The Department provides protection to private sector partners against specific risks, such as base closure or member deployment.

Summary of Direct Loans and Loan Guarantees		*Dollars in Millions*
As of September 30	**2017**	**2016**
Loans Receivable		
Direct Loans:		
Military Housing Privatization Initiative	$ 1,644.2	$ 1,603.9
Total Direct Loans	**$ 1,644.2**	**$ 1,603.9**
Total Loans Receivable	**$ 1,644.2**	**$ 1,603.9**
Loan Guarantee Liability		
Military Housing Privatization Initiative	$ 65.2	$ 70.9
Total Loan Guarantee Liability	**$ 65.2**	**$ 70.9**

FY 2017 DoD Agency-Wide Financial Statement Note Disclosures Relevant to MHPI (cont'd)

Direct Loans Obligated		*Dollars in Millions*
As of September 30	**2017**	**2016**
Direct Loans Obligated After FY 1991 (Present Value Method):		
Military Housing Privatization Initiative		
Loans Receivable Gross	$ 1,704.6	$ 1,667.4
Allowance for Subsidy Cost (Present Value)	(60.4)	(63.5)
Value of Assets Related to Direct Loans, Net	**1,644.2**	**1,603.9**
Total Direct Loans Receivable	**$ 1,644.2**	**$ 1,603.9**

Direct Loans Receivable does not represent proceeds the Department would expect to receive from selling the loans, and includes interest receivable. Interest receivable is calculated using the interest earned method.

Total Amount of Direct Loans Disbursed		*Dollars in Millions*
As of September 30	**2017**	**2016**
Direct Loan Programs		
Military Housing Privatization Initiative	$ 56.3	$ 126.3
Total	**$ 56.3**	**$ 126.3**

Subsidy Expense for Direct Loan by Program *Dollars in Millions*

2017	Interest Differential	Defaults	Fees	Other	Total
New Direct Loans Disbursed					
Military Housing Privatization Initiative	$ 1.0	$ 11.8	$ 0.0	$ 0.0	$ 12.8
Total	**$ 1.0**	**$ 11.8**	**$ 0.0**	**$ 0.0**	**$ 12.8**

2016	Interest Differential	Defaults	Fees	Other	Total
New Direct Loans Disbursed					
Military Housing Privatization Initiative	$ (2.4)	$ 15.9	$ 0.0	$ 0.0	$ 13.5
Total	**$ (2.4)**	**$ 15.9**	**$ 0.0**	**$ 0.0**	**$ 13.5**

FY 2017 DoD Agency-Wide Financial Statement Note Disclosures Relevant to MHPI (cont'd)

2017	Modifications	Interest Rate Reestimates	Technical Reestimates	Total
Direct Loan Modifications and Reestimates				
Military Housing Privatization Initiative	$ 0.0	$ 6.1	$ (20.3)	$ (14.2)
Total	**$ 0.0**	**$ 6.1**	**$ (20.3)**	**$ (14.2)**

2016	Modifications	Interest Rate Reestimates	Technical Reestimates	Total
Direct Loan Modifications and Reestimates				
Military Housing Privatization Initiative	$ 0.0	$ 19.4	$ 6.6	$ 26.0
Total	**$ 0.0**	**$ 19.4**	**$ 6.6**	**$ 26.0**

	2017	2016
Total Direct Loan Subsidy Expense:		
Military Housing Privatization Initiative	$ (1.4)	$ 39.5
Total	**$ (1.4)**	**$ 39.5**

Subsidy Rates for Direct Loan by Program					
As of September 30, 2017	**Interest Differential**	**Defaults**	**Fees**	**Other**	**Total**
Budget Subsidy Rates for Direct Loans					
Military Housing Privatization Initiative	0.0%	0.0%	0.0%	0.0%	0.0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements.

These rates cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense. Subsidy expense for new loans disbursed in the current year results from disbursements of loans from current and prior year loan agreements. Subsidy expense reported in the current year also includes reestimates.

FY 2017 DoD Agency-Wide Financial Statement Note Disclosures Relevant to MHPI (cont'd)

Schedule for Reconciling Subsidy Cost Allowance Balances for Post-FY 1991 Direct Loans		*Dollars in Millions*
As of September 30	**2017**	**2016**
Beginning Balance, Changes, and Ending Balance:		
Beginning Balance of the Subsidy Cost Allowance	**$ 63.5**	**$ 31.2**
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
Interest Rate Differential Costs	1.0	(2.4)
Default Costs (Net of Recoveries)	11.8	15.9
Total of the above Subsidy Expense Components	**$ 12.8**	**$ 13.5**
Adjustments		
Subsidy Allowance Amortization	(1.7)	(7.2)
Total of the above Adjustment Components	**$ (1.7)**	**$ (7.2)**
Ending Balance of the Subsidy Cost Allowance before Reestimates	**$ 74.6**	**$ 37.5**
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimates	$ 6.1	$ 19.4
Technical/Default Reestimate	(20.3)	6.6
Total of the above Reestimate Components	**(14.2)**	**26.0**
Ending Balance of the Subsidy Cost Allowance	**$ 60.4**	**$ 63.5**

Guaranteed Loans Outstanding		*Dollars in Millions*
As of September 30	**Outstanding Principal of Guaranteed Loans, Face Value**	**Amount of Outstanding Principal Guaranteed**
2017		
Guaranteed Loans Outstanding		
Military Housing Privatization Initiative	$ 1,074.2	$ 1,074.2
Total	**$ 1,074.2**	**$ 1,074.2**
2016		
Guaranteed Loans Outstanding		
Military Housing Privatization Initiative	$ 958.9	$ 958.9
Total	**$ 958.9**	**$ 958.9**
2017		
New Guaranteed Loans Disbursed		
Military Housing Privatization Initiative	$ 115.3	$ 115.3
Total	**$ 115.3**	**$ 115.3**
2016		
New Guaranteed Loans Disbursed		
Military Housing Privatization Initiative	$ 84.2	$ 84.2
Total	**$ 84.2**	**$ 84.2**

FY 2017 DoD Agency-Wide Financial Statement Note Disclosures Relevant to MHPI (cont'd)

Liabilities for Loan Guarantees		*Dollars in Millions*
As of September 30	**2017**	**2016**
Liabilities for Loan Guarantee from Post- FY 1991 (Present Value)		
Military Housing Privatization Initiative	$ 65.2	$ 70.9
Total Loan Guarantee Liability (Post-FY 1991)	**$ 65.2**	**$ 70.9**
Total Loan Guarantee Liability	**$ 65.2**	**$ 70.9**

Subsidy Expense for Loan Guarantees by Program
As of September 30 — *Dollars in Millions*

2017	**Interest Differential**	**Defaults**	**Fees**	**Other**	**Total**
New Loan Guarantees Disbursed					
Military Housing Privatization Initiative	$ 0.0	$ 12.0	$ 0.0	$ 0.0	$ 12.0
Total	**$ 0.0**	**$ 12.0**	**$ 0.0**	**$ 0.0**	**$ 12.0**

2016	**Interest Differential**	**Defaults**	**Fees**	**Other**	**Total**
New Loan Guarantees Disbursed					
Military Housing Privatization Initiative	$ 0.0	$ 12.0	$ 0.0	$ 0.0	$ 12.0
Total	**$ 0.0**	**$ 12.0**	**$ 0.0**	**$ 0.0**	**$ 12.0**

2017	**Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**	**Total**
Modifications and Reestimates					
Military Housing Privatization Initiative	$ 0.0	$ (3.3)	$ (16.5)	$ (19.8)	$ (19.8)
Total	**$ 0.0**	**$ (3.3)**	**$ (16.5)**	**$ (19.8)**	**$ (19.8)**

2016	**Modifications**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**	**Total**
Modifications and Reestimates					
Military Housing Privatization Initiative	$ 0.0	$ (2.0)	$ (7.7)	$ (9.7)	$ (9.7)
Total	**$ 0.0**	**$ (2.0)**	**$ (7.7)**	**$ (9.7)**	**$ (9.7)**

	2017	**2016**
Total Loan Guarantee		
Military Housing Privatization Initiative	$ (7.8)	$ 2.3
Total	**$ (7.8)**	**$ 2.3**

FY 2017 DoD Agency-Wide Financial Statement Note Disclosures Relevant to MHPI (cont'd)

U.S. Department of Defense Agency Financial Report for FY 2017

Subsidy Rates for Loan Guarantees by Program *As of September 30, 2017*	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Loan Guarantees					
Military Housing Privatization Initiative	0.0%	0.0%	0.0%	0.0%	0.0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements.

These rates cannot be applied to loan guarantees agreed to during the current reporting year to yield the subsidy expense. Subsidy expense reported in the current year also includes reestimates.

Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees *As of September 30* (*Dollars in Millions*)	2017	2016
Beginning Balance, Changes, and Ending Balance		
Beginning Balance of the Loan Guarantee Liability	**$ 70.9**	**$ 66.5**
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
Default Costs (Net of Recoveries)	12.0	12.0
Total of the above Subsidy Expense Components	**$ 12.0**	**$ 12.0**
Adjustments		
Interest Accumulation on the Liability Balance	2.1	2.1
Total of the above Adjustments	**$ 2.1**	**$ 2.1**
Ending Balance of the Loan Guarantee Liability before Reestimates	**$ 85.0**	**$ 80.6**
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	$ (3.3)	$ (2.0)
Technical/Default Reestimate	(16.5)	(7.7)
Total of the above Reestimate Components	**$ (19.8)**	**$ (9.7)**
Ending Balance of the Loan Guarantee Liability	**$ 65.2**	**$ 70.9**

Administrative Expenses

Administrative Expenses are limited to separately identified expenses for administering pre-FY 1992 and post-FY 1991 Direct Loans and Loan Guarantee Programs.

Financial Section

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Note: The Federal Credit Act of 1990 was amended. For the current laws governing GDL obligations and GLG commitments, see title 2, chapter 17A, United States Code.

Source: The Office of the USD(C)/CFO.

Appendix D

Proposed Accounting Entries for Equity Investments

DCFO personnel proposed the following accounting entries for the following scenarios.

- cash investment in equity investment projects (Table 8)
- real property ownership transfer to equity investment projects (Table 9)
- annual equity investment profits and losses allocated to the Military Departments (Table 10)
- capital gains and losses on the sale of an equity investment projects (Table 11)

Table 8. Cash Investments

SGL Account	Account Name	Debit	Credit
461000	Allotments - Realized Resources	1,000,000	
480100	Undelivered Orders - Obligations, Unpaid		1,000,000
480100	Undelivered Orders - Obligations, Unpaid	1,000,000	
490200	Delivered Orders - Obligations, Paid		1,000,000
169XXX	Public-Private Partnership Investments	1,000,000	
101000	Fund Balance With Treasury		1,000,000
310700	Unexpended Appropriations - Used	1,000,000	
570000	Expended Appropriations		1,000,000

Note: SGL Account 169XXX is an SGL Account not yet included in the USSGL; when it is, a complete 6-digit number will be assigned. The amounts in this table do not represent actual transactions.

Source: The Office of the USD(C)/CFO.

Table 9. Real Property Ownership Transferred

SGL Account	Account Name	Debit	Credit
171900	Accumulated Depreciation on Improvements to Land	250,000	
173900	Accumulated Depreciation on Buildings, Improvements and Renovations	750,000	
169XXX	Public-Private Partnership Investments	1,000,000	
171100	Land and Land Rights		300,000
171200	Improvements to Land		200,000
173000	Buildings, Improvements, and Renovations		1,500,000

Note: SGL Account 169XXX is an SGL Account not yet included in the USSGL; when it is, a complete 6-digit number will be assigned. The amounts in this table do not represent actual transactions.

Source: The Office of the USD(C)/CFO.

Table 10. Annual Profits and Losses Allocated to the Military Departments

SGL Account	Account Name	Debit	Credit
169XXX	Public-Private Partnership Investments	25,000	
719000	Other Gains		25,000
729000	Other Losses	10,000	
169XXX	Public-Private Partnership Investments		10,000

Note: SGL Account 169XXX is an SGL Account not yet included in the USSGL; when it is, a complete 6-digit number will be assigned. The amounts in this table do not represent actual transactions.

Source: The Office of the USD(C)/CFO.

Table 11. Capital Gains and Losses on Equity Investment Sale

SGL Account	Account Name	Debit	Credit
426600	Other Actual Business-Type Collections From Non-Federal Sources	1,021,000	
445000	Unapportioned Authority		1,021,000
101000	Fund Balance With Treasury	1,021,000	
171100	Land and Land Rights	300,000	
171200	Improvements to Land	110,000	
173000	Buildings, Improvements, and Renovations	645,000	
711100	Gains on Disposition of Investments		61,000
169XXX	Public-Private Partnership Investments		2,015,000
445000	Unapportioned Authority	1,010,000	
426600	Other Actual Business-Type Collections From Non-Federal Sources		1,010,000
101000	Fund Balance With Treasury	1,010,000	
171100	Land and Land Rights	300,000	
171200	Improvements to Land	110,000	
173000	Buildings, Improvements, and Renovations	580,000	
721100	Losses on Disposition of Investments	15,000	
169XXX	Public-Private Partnership Investments		2,015,000

Note: SGL Account 169XXX is an SGL Account not yet included in the USSGL; when it is, a complete 6-digit number will be assigned. The amounts in this table do not represent actual transactions.

Source: The Office of the USD(C)/CFO.

Appendix E

Memorandum for DoDIG Project No. D2007-D000FL-0233.000 Related to the Reporting of Equity Investments

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

APR 1 2 2010

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/ CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Accounting and Financial Reporting for the Army Military Family Housing Privatization Program (Project No. D2007-D000FL-0233.000)

We are providing this memorandum for information and use. The purpose of the subject audit was to assess DOD's internal controls over the financial accounting and reporting in the Army's military family housing privatization program. We are concluding our audit effort for the project, and management is not required to provide written comments on this memorandum.

Background

Public Law 104-106, Section 2801, "National Defense Authorization Act of 1996," also known as the "Military Housing Privatization Initiative," authorized DOD to leverage Government funding and Government-owned housing to attract private capital and to work with the private sector to build and renovate military housing. In addition, the law directed DOD to establish the "Department of Defense Family Housing Improvement Fund" (the Fund). DOD is required to credit the Fund with amounts authorized and appropriated to the Fund and with income, such as loan interest and income and gains from the investment activities.

The Army partners with private-sector developers to construct, renovate, and operate military family housing. These partnerships are formed as joint ventures, in which the Army has minority ownership interests. Since the program's inception in November 1999 through August 2009, the Army has privatized 34 of the projects, which consisted of 87,877 family housing units. The 34 projects involved $1.7 billion in DOD cash investments and $12.2 billion in Army partner (private-sector) investments.

The Navy, Air Force, and U.S. Marine Corps have also established family housing privatization programs. In addition to privatization of military family housing, the Military Housing Privatization Program authorizes DOD to privatize military unaccompanied housing under the Military Unaccompanied Housing Improvement Fund.

Results

We reviewed the DOD accounting for and reporting for 27 joint ventures in which the Army had equity interest. DOD had not adequately accounted for and reported its investment interest in these joint ventures for Army housing on the DOD Agency-wide Financial Statements. DOD had transferred to the joint ventures the Army properties plus cash in exchange for equity interest in the 27 joint ventures. DOD accounted for and reported the cash invested in joint ventures in the DOD Agency-wide Balance Sheet; however, it did not account for and report the gain or loss on property transferred to the joint ventures or for joint venture operating gains or losses.

This occurred because DOD did not establish procedures for financial accounting and reporting of its investments in joint ventures. The Under Secretary of Defense

Memorandum for DoDIG Project No. D2007-D000FL-0233.000 Related to the Reporting Equity Investments (cont'd)

(Comptroller)/Chief Financial Officer is responsible for financial accounting and reporting policies for the Department. The Office of Management and Budget (OMB) is responsible for establishing guidance on Federal financial reporting. The Federal Accounting Standards Board establishes accounting standards and provides guidance specific to Federal accounting. Federal accounting standards are contained in U.S. generally accepted accounting principles. However, OMB guidance and Federal accounting standards do not provide comprehensive procedures for joint venture investment accounting and reporting. The OMB guidance does state that the International Accounting Standards may be used as an option. The "International Accounting Standards" do provide accounting guidance for joint ventures investment.

In addition, the Army did not have adequate documentation to support the accounting and reporting for housing properties transferred to the joint ventures, and it incorrectly treated the transfers as disposals.

DOD's lack of adequate procedures for accounting for and reporting its investments in military family housing joint ventures has contributed to a material misstatement on the Department of Defense Family Housing Improvement Fund. The joint venture financial management requirements also apply to the accounting and reporting for the Military Unaccompanied Housing Improvement Fund. Accordingly, the needed accounting procedures would also apply to the Military Unaccompanied Housing Improvement Fund. DOD's broad privatization initiative bolsters the need for DOD to establish procedures on accounting and reporting for its investments in joint ventures.

Suggested Actions

We suggest that the Under Secretary of Defense (Comptroller)/Chief Financial Officer develop procedures for the accounting and reporting of DOD investments in joint ventures. Request guidance from OMB and the Federal Accounting Standards Advisory Board, and review the international accounting standards for applicability. In addition, we suggest that the Assistant Secretary of the Army (Financial Management and Comptroller) provide acquisition cost and accumulated depreciation information or estimated amounts for properties transferred when adequate documentation is not available.

We appreciate the courtesies extended to the staff. Please direct questions to [redacted]. If you desire, we will provide a formal briefing on the results.

Patricia A. Marsh

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

Appendix F

Office of the Assistant Secretary of Defense for Sustainment Comments on the Findings and Our Response

The ASD(S)'s comments below discuss additional details and comments related to the audit results and findings.

Office of the Assistant Secretary of Defense for Sustainment General Comments

The ASD(S) stated that "the audit report makes erroneous references throughout that 'Without MHPI information, MHPI stakeholders will not be able to effectively oversee the program,' and 'Once eMH is fully implemented, ASD(EI&E) and each Military Department will also use the eMH to manage all privatized housing.'"[69] The ASD(S) also stated that the audit team was repeatedly told these statements were categorically untrue and that MHPI program management personnel are effectively overseeing the program without referencing the DoD Agency-Wide Financial Statements or having a complete database of eMH privatized housing records. He added that the MHPI stakeholders do not manage privatized housing; rather, they oversee private management.

In addition, the ASD(S) stated that, "throughout the draft report, the MHPI stakeholder roles and functional responsibilities are inaccurately reflected." He added that OMB approves Scoring Reports for MHPI projects but does not approve the MHPI legal agreements between the Military Departments and the private partners, as stated in this report.[70]

Our Response

We appreciate the intent of the ASD(S)'s comments to clarify the language in this report. Throughout the audit process, we requested and received feedback on the technical accuracy and factual correctness of this report from all DoD organizations subject to this audit. When ASD(S) personnel were able to provide documentation adequately supporting requested revisions, we updated the report accordingly. We made several revisions to a discussion draft version of this report based on the preliminary feedback we received. Unfortunately, ASD(S) personnel did not provide documentation to adequately support all the changes they

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69 Per the ASD(S)'s comments, as of November 1, 2018, ASD(EI&E) ceased to exist and responsibilities were realigned under the ASD(S).

70 Scoring Reports provide a description of the project, its financing, and the amount of Government funding needed.

requested. Subsequently, we continued with the facts that we could support though our internal review process, which is designed to ensure the factual correctness of each statement in this report. Below, we address the specific examples included in the ASD(S)'s comments regarding erroneous references and the inaccurate reflection of roles and functional responsibilities.

The ASD(S)'s comments included inaccurate quotations of our draft report as examples of erroneous and inaccurate reporting. We did not state in the draft report that "Without MHPI information, MHPI stakeholders will not be able to effectively oversee the program." However, we did state, "Without full and complete MHPI information, stakeholders may not be able to effectively oversee the program," and that "Without full and complete MHPI information, MHPI stakeholders may not be able to provide effective financial oversight." The ASD(S) comments also limit the meaning of "MHPI stakeholders" to include only MHPI program management personnel; however, as footnote 20 in our report states, MHPI stakeholders also include Congress and the U.S. taxpayer. Without full and complete MHPI information in the DoD Agency-Wide Financial Statements and reports required by Congress, those stakeholders may not be able to effectively oversee the program and provide effective financial oversight.

The ASD(S) further questioned the factual correctness of our draft report statement that "Once eMH is fully implemented, ASD(EI&E) and each Military Department will also use the eMH to manage all privatized housing." However, the Under Secretary of Defense for Acquisition, Technology, and Logistics memorandum cited in this report, states:

> Establishing the eMH system as the Department's common process to manage unaccompanied and family housing will significantly improve the breadth, timeliness, and accuracy of housing data needed to make sound housing program and investment decisions. The Defense Components should ensure that they work with the Department of the Navy to migrate to the eMH system not later than September 30, 2015.

In addition, the Deputy Assistant Secretary of Defense for Facilities Management stated that, if eMH was functioning as intended, he could more efficiently gather the housing inventory data needed to prepare required reports to Congress. GAO Report No. GAO-18-218 identified that the ASD(S) was not providing congressionally-required reports in a timely manner, which resulted in Public Law No. 115-232 requiring the ASD(S) to "immediately resume issuing such reports on the financial condition of MHPI housing." If the eMH system was fully populated, it would assist the ASDS(S) in meeting this requirement. Therefore, we stand by our draft report statement, cited above, as true and correct.

The ASD(S) also stated that MHPI stakeholders do not manage privatized housing but, instead, oversee private management. We contend that they do both. We agree that MHPI stakeholders provide oversight based on DoD Manual 4165.63, "DoD Housing," dated December 29, 2017, which states that the ASD(S) will oversee the Military Departments' implementation of privatized housing authority. However, MHPI stakeholders also manage privatized housing through MHPI program and project management. For example, DoD personnel participated in the policy making process when the projects were formed, and the operating agreements we reviewed state that DoD personnel have the authority to participate in major decision-making concerning the projects, which is a management function. This is consistent with the previously cited Under Secretary of Defense for Acquisition, Technology, and Logistics memorandum and the ASD(S)'s own comments identifying the Government personnel who oversee privatized housing as MHPI program management personnel.

As to whether OMB approves the MHPI legal agreements between the Military Departments and the private partners, our report does not state that they approve the "MHPI legal agreements" but rather states that they approve the "MHPI agreement." Since we intended to mean OMB must approve the funding as part of the approval process for the MHPI agreement, we modified this report to add clarity and state, "OMB personnel also approve the funding for initial and revised MHPI agreements."

Office of the Assistant Secretary of Defense for Sustainment Comments on the Presentation and Disclosure of Costs Related to Restructures

The ASD(S) stated that Table 4 in our report erroneously overstated the cost of the two project restructures because we incorrectly used FY 2015 reestimate amounts from the FY 2016 President's Budget. He added that ASD(S) procedures require a more conservative assumption of default risk when projects' ability to pay falls below certain thresholds and, if the projects recover, the reestimated subsidy cost increases are reversed out.

Our Response

Comments from the ASD(S) that we "erroneously overstated" the costs because we incorrectly used FY 2015 reestimate amounts from the FY 2016 President's Budget are not accurate. Instead of using the FY 2015 reestimate amounts, we actually used the FY 2017 and FY 2018 reestimate amounts in Table 4. In addition, even though the ASD(S) states that the report overstated the costs, he did not provide support for what the FY 2017 and FY 2018 reestimate amounts were. If the ASD(S) or his staff had provided support for those amounts at any time throughout the audit (including as part of his comments), we would have evaluated the sufficiency and appropriateness of that evidence for use in our report. However, they did not. Therefore, we used the FY 2017 and FY 2018 reestimate summary reports, provided by AFCEC personnel, as we found them both sufficient and appropriate in determining the reestimate costs for Nellis and Air Combat Command Group II projects because they tie to the amounts reported in the President's Budget.

More specifically, we used the FY 2017 reestimate summary report, dated September 28, 2016, to support the $73.9 million. Because of the Nellis and Air Combat Command Group II project restructures, the FY 2017 reestimate summary report was updated on June 15, 2017, to report a total of $80.7 million in increased subsidy costs for those two projects. The $80.7 million supported the $73.9 million from the original reestimate and $6.9 million from the restructures with the $0.1 million difference caused by rounding. The updated FY 2017 reestimate summary report, dated June 15, 2017, also supported the FY 2017 adjusted amounts reported in the FY 2019 President's Budget. Furthermore, we used the FY 2018 reestimate summary report dated November 6, 2017, to support the $36.7 million. This report was used as support for the FY 2019 President's Budget and FY 2017 DoD Agency-Wide Financial Statements. Once the $80.7 million and $36.7 million were netted with the downward reestimate amounts within the cohort and added to all other cohort balances, as shown in our report Tables 12 and 13, the net upward reestimate amounts match the GDL reestimate funding requested in the FY 2019 President's Budget. Therefore, we never used the FY 2015 reestimate amounts and this report consistently and accurately presents the increased reestimate and restructure costs.

Comments from the ASD(S) explaining the assumptions made to determine the subsidy cost and how they may differ under certain circumstances are reasonable. However, regardless of the assumptions used, the resulting subsidy costs, by definition, are the estimated costs to the Government, as presented in our report Table 4 and in the Note 8 to the DoD Agency-Wide Financial Statements. DoD personnel should disclose and discuss in Note 8 these estimated costs, along with information about assumptions made, to provide complete, understandable, and meaningful information about the subsidy costs. For example, based on the FY 2017 reestimate amount presented in Note 8 ($14.2 million in net cost decrease), the users of the financial statements would be unaware that there were $36.7 million in cost increases offset by $50.9 million in cost decreases, as this report presents in Table 13. In addition, the users would be unaware that most of the cost increases were caused by the Nellis and Air Combat Command Group II projects in the FY 2006 and FY 2007 cohorts, respectively. They would also be unaware that most of the cost decreases were caused by the reassessment of the risk related to the Western Group project in the FY 2012 cohort.

Office of the Assistant Secretary of Defense for Sustainment Comments on Profits and Losses Allocated to Military Departments

The ASD(S) stated that the report does not accurately reflect ASD(S) personnel's concerns about reporting of "unrealized gains or losses" due to depreciation expenses. He added that, from a programmatic standpoint, the report is misleading and could be harmful to the MHPI program and that the report makes no mention that the result of "unrealized gains or losses" are not necessarily reflective of the "actual" financial viability or sustainment of the privatized projects. The ASD(S) stated that MHPI projects with equity investments are intended to be held for the life of the underlying ground leases and that actual gains or losses might not be realized until after the end of the 50-year ground leases. He also stated that the audit report should not include ASD(S) personnel's preliminary comments, since ASD(S) personnel defer to the DCFO to develop and provide financial, accounting, and reporting policies because ASD(S) personnel are not subject matter experts on the topics.

Our Response

Comments from the ASD(S) that our report does not accurately reflect ASD(S) personnel's concerns about reporting of "unrealized gains or losses" due to depreciation expenses are, themselves, inaccurate because the report states the following.

> They [ASD(S) personnel] stated that the cost method of accounting is correct because it does not require reporting of unrealized losses, which are, in part, based on depreciation expenses reported in the projects' financial statements. In ASD(S) management's opinion, the DoD reporting these losses would present an inaccurate perception that the losses diminished the fair market values of the Military Departments investments.

While we agree that, in some circumstances, operating losses may not necessarily be a reflection of financial viability or sustainability, this discussion is not relevant because it neither supports nor conflicts with our finding that the equity method of accounting should be used. Therefore, the discussion in this report was limited to the ASD(S)'s disagreement with the DCFO and the Treasury related to whether the equity method of accounting was appropriate. The accounting standards required the DoD to use the equity method because Military Department personnel have significant influence over the projects' operating and financial policies; therefore, there is no justification for use of a different method to report MHPI equity investments in the financial statements.

ASD(S) personnel's preliminary comments will be included in the final report because they conflict with preliminary and formal draft report comments provided by DCFO personnel. During the audit, DCFO personnel have maintained the position that the equity method of accounting is appropriate and ASD(S) personnel were made aware of that position. However, ASD(S) personnel continued to disagree that the equity method is appropriate. The ASD(S) also commented to the draft report that "ASD(S) personnel defer to the DCFO to develop and provide financial, accounting, and reporting policies, as ASD(S) personnel are not subject matter experts on the topics." For this reason, ASD(S) personnel should discuss the appropriateness of the equity method of accounting for equity investments with DCFO personnel and support the USD(C)/CFO in implementing Recommendation A.3.b.

Office of the Assistant Secretary of Defense for Sustainment Comments on the $1.8 million in Potential Monetary Benefit

The ASD(S) disagreed with Recommendation B.2 and stated that the audit inaccurately reported $1.8 million in potential monetary benefit based on the Army's unnecessary payment of subsidy costs. He added that the ASA(IE&E), ASD(S), USD(C)/CFO, and OMB personnel all agreed in FY 2017 that the $1.8 million was necessary to cover the subsidy cost for the GLG modification, for a total funding requirement of $11.4 million.

Our Response

While we modified Recommendation B.2 and the potential monetary benefit based on comments from the Deputy Assistant Secretary of the Army (Installations, Housing, and Partnerships), comments from the ASD(S) remain inconsistent with our finding. During this audit, ASD(S) personnel stated that (1) Army personnel could have requested the deobligation of funds but did not; (2) ASD(S) personnel were uncertain whether OMB would approve such request; and (3) the opportunity to deobligate funds had ended. Based on ASD(S) personnel statements, ASA(IE&E) and ASD(S) personnel missed an opportunity to deobligate $1.9 million in FY 2014 and provide monetary benefit to other MHPI projects. Instead, the Army paid the subsidy cost a second time in FY 2017. To prevent future missed opportunities, we recommended six policies and controls to prevent, identify, or correct future missed opportunities, all of which the ASD(S) effectively agreed with as they pertained to GDLs and GLGs.[71] As to whether ASA(IE&E) and ASD(S) personnel can correct the missed opportunity, ASD(S) personnel stated that the opportunity was

[71] The six policies and controls recommended are included in Recommendations B.1.a, B.1.b, B.1.c.1, B.1.c.2, B.1.c.3, and B.1.d.

no longer available; however, they did not provide support for their claim. If the ASD(S) wishes to provide additional documentation supporting this claim, we will consider it in determining whether to close out Recommendation B.2.

In addition, our finding does not dispute that $1.8 million was necessary to cover the subsidy cost for the GLG modification. Our finding is that ASA(IE&E) personnel unnecessarily paid the subsidy cost twice, once in FY 2011 and then again in FY 2017.

As to whether the funding requirement for the Fort Wainwright/Greely project GLG was $11.4 million, OMB personnel stated, "The cost of modifying a GDL or GLG is not dependent on the existence of budget authority." Therefore, ASA(IE&E), ASD(S), USD(C)/CFO, and OMB personnel could have agreed that $1.8 million was necessary to cover subsidy costs resulting from the modification in FY 2017, while not agreeing that the funding requirement was $11.4 million. If ASA(IE&E) and ASD(S) personnel had deobligated the $1.9 million in FY 2014 when the maximum loan was reduced, the funding requirement would have been only $9.5 million, instead of $11.4 million.

Appendix G

Summary of the Potential Monetary Benefit

Recommendation	Type of Benefit	Amount of Benefit	Account
B.2	Economy and Efficiency. Funds that can be put to better use on other MHPI projects.	$1.8 million	DoD Family Housing Improvement Fund–97X0834

Appendix H

Reconciling Gross and Net Reestimate Methods

For the FY 2017 and FY 2018 annual subsidy cost reestimates, DFAS-Indianapolis personnel borrowed funds using the gross method for GDLs, as opposed to the net method that DC(P/B) personnel preferred. However, the results of the two methods should reconcile. The only difference between the gross and net methods is that, for the gross method, DFAS-Indianapolis personnel borrow the gross downward reestimate amount for each cohort then net all cohort reestimates together, as opposed to netting the cohort reestimates then borrowing that amount.

Tables 12 and 13 show that all cohorts balanced when DFAS-Indianapolis personnel borrowed the gross downward reestimate amounts and DC(P/B) personnel provided the funding for the net upward reestimate amounts. For each cohort shown in both table, DFAS-Indianapolis personnel:

- borrowed the gross downward reestimate amount from the U.S. Treasury–Bureau of Fiscal Services,
- paid U.S. Treasury the net downward reestimate amount,
- transferred funding between projects for any difference between the gross borrowing and net downward reestimate amounts to pay U.S. Treasury–Bureau of Fiscal Services for projects with upward reestimates, and
- obtained funding from DC(P/B) personnel to pay the U.S. Treasury–Bureau of Fiscal Services for only the net upward reestimate amount.

Table 12. Post-Restructure GDL Borrowing and Funding Reconciliation for the FY 2017 Reestimates (in thousands)

Cohort Year	Downward Reestimates		Transfer to Upward (c=a-b)	Upward Reestimates		Receipt from Downward (f=c)	Cohort Balance (g=d-e-f)
	Gross (a)	Net (b)		Gross (d)	Net (e)		
2000	($42.7)	$0	($42.7)	$5,348.7	$5,306.0	$42.7	$0
2001	(139.0)	(139.0)	0	0	0	0	0
2002	(265.2)	(265.2)	0	0	0	0	0
2003	(1,077.5)	(1,077.5)	0	0	0	0	0
2004	(1,554.0)	(1,554.0)	0	0	0	0	0
2005	(4,723.8)	(4,723.8)	0	0	0	0	0
2006	(121.4)	0	(121.4)	28,095.9	27,974.5	121.4	0
2007	(3,074.7)	0	(3,074.7)	52,636.5	49,561.8	3,074.7	0
2008	(1,439.8)	(1,439.8)	0	0	0	0	0
2009	(847.9)	(847.9)	0	0	0	0	0
2010	0	0	0	0	0	0	0
2011	(38,801.4)	(38,801.4)	0	0	0	0	0
2012	(2,022.2)	(2,022.2)	0	0	0	0	0
2013	0	0	0	673.8	673.8	0	0
Total	**($54,109.6)**	**($50,870.8)**	**($3,238.8)**	**$86,754.9**	**$83,516.1**	**$3,238.8**	**$0**

Note: Figures include the reestimate amounts adjusted for the restructures of the Nellis Air Force Base and Air Combat Command Group II projects. In addition, figures in parentheses represent downward reestimates and funding transferred from projects.

Source: DFAS-Indianapolis.

Table 13. GDL Borrowing and Funding Reconciliation for the FY 2018 Reestimate (in thousands)

Cohort Year	Downward Reestimates		Transfer to Upward (c=a-b)	Upward Reestimates		Receipt from Downward (f=c)	Cohort Balance (g=d-e-f)
	Gross (a)	Net (b)		Gross (d)	Net (e)		
2000	($611.7)	($611.7)	$0	$0	$0	$0	$0
2001	(136.6)	(136.6)	0	0	0	0	0
2002	(143.9)	(143.9)	0	0	0	0	0
2003	(600.6)	(600.6)	0	0	0	0	0
2004	(1,021.1)	(1,021.1)	0	0	0	0	0
2005	(4,615.9)	(4,615.9)	0	0	0	0	0
2006	(120.6)	0	(120.6)	11,731.9	11,611.2	120.6	0
2007	(3,206.2)	0	(3,206.2)	25,016.1	21,809.9	3,206.2	0
2008	(1,482.2)	(1,482.2)	0	0	0	0	0
2009	(922.0)	(922.0)	0	0	0	0	0
2010	0	0	0	0	0	0	0
2011	(3,138.7)	(3,138.7)	0	0	0	0	0
2012	(32,451.2)	(32,451.2)	0	0	0	0	0
2013	(2,497.0)	(2,497.0)	0	0	0	0	0
Total	**($50,947.7)**	**($47,620.9)**	**($3,326.8)**	**$36,748.0**	**$33,421.1**	**$3,326.8**	**$0**

Note: The difference between the 2006 Cohort Balance and the calculated cohort balance is due to rounding. Figures in parentheses represent downward reestimates and funding transferred from projects.

Source: The DoD OIG.

Management Comments

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

DEC 18 2018

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING DIRECTORATE, DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Comments on Draft Audit Report, "Accounting and Financial Reporting for the Military Housing Privatization Initiative" (Project No. D2018-D000FL-0050.000)

This memorandum responds to your request for comments on the 22 recommendations made to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) and the Defense Finance and Accounting Service (DFAS). We concur with all of your recommendations except for A.3.c., which deals with missing disclosures related to Basic Allowance for Housing (BAH) reduction and restructures. We concur in principle with recommendation A.3.c. While we do agree that disclosures are necessary when there is a material impact on the financial statements, there was no basis to conclude that the BAH reduction significantly affected the projects with Government Direct Loans and Loan Guarantees. Without further analysis and support, we believe the recommendation to disclose is premature. We currently have subject matter experts assessing the impact of the BAH reduction and restructures. Once the assessment is complete and the impact analyzed, we will determine whether disclosure is necessary.

We concur with the remaining recommendations. The majority of these relate to how to do accounting and reporting of equity investments in the unique business of public-private partnerships. In most cases, we sought additional guidance from Treasury and are addressing with updated internal policies. For example, we drafted policy to provide the detailed accounting entries to record equity investment transactions for the Department. The Department of Defense (DoD) Office of Inspector General (OIG) acknowledged this action in Appendix D of the draft report. We are also defining roles and responsibilities for all stakeholders to drive accountability, oversight, and to strengthen the internal controls of this program. We plan to have all remediation actions completed to permit review during the fiscal year 2019 financial statement audit. Detailed responses to each recommendation are attached.

The Department appreciates the opportunity to comment on the draft report, and ongoing DoD OIG engagements to improve DoD financial management. My staff point of contact is [redacted]

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer (cont'd)

DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL
DRAFT AUDIT REPORT D2018-D000FL-0050.000
DATED NOVEMBER 9, 2018

"ACCOUNTING AND FINANCIAL REPORTING FOR THE MILITARY HOUSING PRIVATIZATION INITIATIVE"

UNDER SECRETARY OF DEFENSE (COMPTROLLER)/ DEPARTMENT OF DEFENSE CHIEF FINANCIAL OFFICER, DEPUTY CHIEF FINANCIAL OFFICER, DEPUTY COMPTROLLER (PROGRAM/BUDGET), AND DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE RESPONSES TO RECOMMENDATIONS

Recommendations A.1.a.1., A.1.a.2., and A.1.a.3.:

A.1. We recommend the DoD Deputy Chief Financial Officer:

a. Issue interim policy until Treasury updates the U.S. Standard General Ledger and coordinate with the Department of the Treasury to update the U.S. Standard General Ledger with guidance on how to:

1. **Record equity investments in Military Housing Privatization Initiative (MHPI) projects, including the cash and real property contributed.**
2. **Record the sale of equity investments in Military Housing Privatization Initiative projects.**
3. **Record equity investment profits and losses allocated to the Military Departments for Military Housing Privatization Initiative projects.**

OUSD(C) Management Response:

Concur. The federal government as a whole does not have accounting entries/transactions for recording equity investments in Limited Liability Companies (LLCs) with private companies. The Office of the Deputy Chief Financial Officer (ODCFO) proposed accounting entries for the recognition and measurement of MHPI Equity Investments in Public-Private Partnerships (PPPs) for the six scenarios below:

a. The Department of Defense's (DoD's) initial investment in formation of LLC of cash only;

b. DoD's initial investment in formation of the LLC of cash and conveys property to LLC;

c. DoD recognizes the amount of equity method earnings – Equity Method Loss;

d. DoD recognizes the amount of equity method earnings – Equity Method Income;

e. DoD dissolves all of its interest in the LLC – at a loss; and

f. DoD dissolves all of its interest in the LLC – at a gain.

Attachment

Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer (cont'd)

The DoD Office of Inspector General (OIG) has included the entries in Appendix D of its draft report. In Fiscal Year (FY) 2018, the Federal Accounting Standard Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standard (SFFAS) 49 which set disclosure requirements for risk taken on by PPPs. However, it does not address accounting recognition or measurement. FASAB's website indicates that the second phase of the PPP project will address accounting measurement and recognition in late FY 2019. DoD will use entries we developed until FASAB releases guidance on the accounting recognition, measurement, and reporting of the PPPs and Treasury develops entries. We have updated our DoD Transactions Library to incorporate these entries. We will issue guidance to the Military Departments and DFAS to implement the DoD entries. Estimated Completion Date (ECD): February 28, 2019.

Recommendation A.1.b.:

A.1. We recommend the DoD Deputy Chief Financial Officer:

- **b. Update the DoD Chart of Accounts and Transaction Library to comply with new Department of the U.S. Standard General Ledger (USSGL) Chart of Accounts and Transaction Guidance on accounting for equity investments, once established.**

OUSD(C) Management Response:

Concur. On October 18, 2018, the ODCFO updated the DoD USSGL Transaction Library to reflect the DoD's equity investment transactions. We consider this recommendation completed.

Recommendations A.1.c.1. and A.1.c.2.:

A.1. We recommend the DoD Deputy Chief Financial Officer:

- **c. Issue accounting policy and implement oversight controls that ensure the Military Departments identify and provide Defense Finance and Accounting Service–Indianapolis personnel with the documentation needed to:**
  1. **Support, record, and correctly report DoD Agency-Wide Financial Statement amounts related to Government Direct Loans and Government Loan Guarantees, including private loan disbursement confirmations for loans guaranteed.**
  2. **Support, record, and report equity investment profits and losses allocated to the Military Departments.**

OUSD(C) Management Response:

Concur. The ODCFO drafted a policy memo on the financial management and reporting of equity investments by a Military Department as a member of an LLC that owns the privatized military housing.

The draft policy states that it is each Military Department's responsibility to monitor and report the financial condition of each of its equity investments in privatized military housing or changes

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Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer (cont'd)

in economic events creating significant risks to the U.S. Government for direct loans or loan guarantees. The draft policy directs the Military Departments to obtain the agreements and supporting documentation for its equity investments in the LLCs to support its business events.

The draft policy memo further states that the Military Departments will provide to the Defense Finance and Accounting Service (DFAS) the applicable supporting documents, including operating agreements, revenue agreements, independent public accountant audits of the individual LLCs, and any other relevant documents to properly record business events and disclose significant risks related to this program. We consider this recommendation completed.

Recommendation A.1.c.3.:

A.1. We recommend the DoD Deputy Chief Financial Officer:

c. Issue accounting policy and implement oversight controls that ensure the Military Departments identify and provide Defense Finance and Accounting Service–Indianapolis personnel with the documentation needed to:

3. Report all Government Direct Loan and Government Loan Guarantee information required by the Office of Management and Budget Circular A-136, Statement of Federal Financial Accounting Standard (SFFAS) 18, and the DoD Financial Management Regulation, volume 6B, chapter 10.

OUSD(C) Management Response:

Concur. The ODCFO is drafting policy to provide additional guidance to include disclosures as outlined in Office of Management and Budget (OMB) Circulars A-11 and A-136 for credit reform accounting and FASAB SFFAS No. 18 related to risk disclosures. ECD: February 28, 2019.

Recommendation A.1.d.:

A.1. We recommend the DoD Deputy Chief Financial Officer:

d. Issue updated accounting policy with specific guidance on how real property ownership transferred to projects as equity investments should be recorded in DoD financial systems and reported in the DoD Agency-Wide Financial Statements, along with the responsibilities of each DoD organization involved.

OUSD(C) Management Response:

Concur. The specific accounting entries have been developed to transfer real property to the LLCs as equity investments and guidance will be issued in February 2019. See also the responses to Recommendations A.1.a. and A.1.c. ECD: February 28, 2019.

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Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer (cont'd)

Recommendation A.2.a.:

A.2. We recommend that the Director, Defense Finance and Accounting Service–Indianapolis:

a. Review the accounting transactions for all equity investments and revise the transactions as needed to comply with the updated DoD Chart of Accounts and Transaction Library.

OUSD(C) Management Response on Behalf of DFAS:

Concur. DFAS will implement once ODCFO provides guidance and the Military Departments provide the necessary supporting documentation. ECD: May 30, 2019.

Recommendation A.2.b.1.:

A.2. We recommend that the Director, Defense Finance and Accounting Service–Indianapolis:

b. Develop and implement procedures to:

1. Reconcile, on a quarterly basis, Government Direct Loan and Government Loan Guarantee supporting documentation to the amounts reported in Great Plains.

OUSD(C) Management Response on Behalf of DFAS:

Concur. DFAS developed the necessary procedures to reconcile direct loans and loan guarantees to the supporting documentation in September 2018. The reconciliation will begin following the issuance of guidance to the Military Departments requiring them to provide the necessary supporting documentation to DFAS. ECD: May 30, 2019.

Recommendation A.2.b.2.:

A.2. We recommend that the Director, Defense Finance and Accounting Service–Indianapolis:

b. Develop and implement procedures to:

2. Reconcile the Great Plains transaction-level detail to the Great Plains trial balance and then to the Defense Departmental Reporting System–Budgetary trial balance, including account balances and other account information.

OUSD(C) Management Response on Behalf of DFAS:

Concur. DFAS reconciled the Great Plains transaction-level detail to the Great Plains trial balance and then to the Defense Departmental Reporting System–Budgetary trial balance, including account balances and other account information. Completed September 30, 2018.

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Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer (cont'd)

Recommendation A.2.c.:

A.2. We recommend that the Director, Defense Finance and Accounting Service–Indianapolis:

c. Review the Government Direct Loan and Government Loan Guarantee amounts reported in the DoD Agency-Wide Financial Statements and correct any identified inaccuracies.

OUSD(C) Management Response on Behalf of DFAS:

Concur. DFAS developed the necessary procedures to reconcile direct loans and loan guarantees to the supporting documentation in September 2018. The reconciliation will begin following the issuance of guidance to the Military Departments requiring them to provide the necessary supporting documentation to DFAS. ECD: May 30, 2019.

Recommendation A.2.d.:

A.2. We recommend that the Director, Defense Finance and Accounting Service–Indianapolis:

d. Coordinate with the Great Plains System Manager to implement the transfer of trial balances directly from Great Plains to Defense Departmental Reporting System–Budgetary.

OUSD(C) Management Response on Behalf of DFAS:

Concur. DFAS is in communication with the Great Plains programmers to determine the requirement and implement this recommendation. ECD: June 30, 2019.

Recommendation A.2.e.:

A.2. We recommend that the Director, Defense Finance and Accounting Service–Indianapolis:

e. Develop and implement a plan to identify and correct root causes for all unsupported accounting adjustments and support the adjustments until the root causes are corrected.

OUSD(C) Management Response on Behalf of DFAS:

Concur. DFAS has already begun to regularly research and analyze unsupported journal vouchers to include resolving any new unsupported adjustments within 90 days of identification. We consider this recommendation completed.

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Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer (cont'd)

Recommendation A.2.f.1.:

A.2. We recommend that the Director, Defense Finance and Accounting Service–Indianapolis:

f. Coordinate with the Military Department program and financial management personnel to develop and implement procedures to:

1. Record and report real property ownership transferred to equity investment projects as increases to Other Investments.

OUSD(C) Management Response on Behalf of DFAS:

Concur. The ODCFO will issue guidance to the Military Departments requiring them to provide the necessary supporting documentation to DFAS to record and report real property ownership transferred to the equity investment projects. DFAS will make the necessary corrections to the financial statements once the information is received. ECD: May 30, 2019.

Recommendation A.2.f.2.:

A.2. We recommend that the Director, Defense Finance and Accounting Service–Indianapolis:

f. Coordinate with the Military Department program and financial management personnel to develop and implement procedures to:

2. Record and report equity investment profits and losses allocated to the Military Departments as changes to Other Investments and disclose a description of the accounting method used to account for equity investments.

OUSD(C) Management Response on Behalf of DFAS:

Concur. The ODCFO will issue guidance to the Military Departments requiring them to provide the necessary supporting documentation to DFAS to record and report equity investment profits and losses. DFAS will make the necessary corrections to the financial statements to include disclosing the accounting method used to account for equity investments once the information is received. ECD: May 30, 2019.

Recommendation A.2.f.3.:

A.2. We recommend that the Director, Defense Finance and Accounting Service–Indianapolis:

f. Coordinate with the Military Department program and financial management personnel to develop and implement procedures to:

3. Identify and report all required Government Direct Loan and Government Loan Guarantee information.

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Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer (cont'd)

OUSD(C) Management Response on Behalf of DFAS:

Concur. The ODCFO will issue guidance to the Military Departments requiring them to provide the necessary supporting documentation to DFAS to report direct loan and loan guarantee information. DFAS will make the disclosures required by OMB A-136 to the financial statements once the information is received. ECD: May 30, 2019.

Recommendations A.3.a., A.3.b., and A.3.c.:
A.3. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

a. **Ensure that the real property ownership transferred to projects as equity investments are reported in the DoD Agency-Wide Financial Statements prior to issuance.**

b. **Ensure that equity investment profits and losses allocated to the Military Departments, along with the accounting method used, are reported in the DoD Agency-Wide Financial Statements prior to issuance.**

c. **Ensure that required Government Direct Loan and Government Loan Guarantee information is adequately disclosed in Note 8 to the DoD Agency-Wide Financial Statements prior to issuance, including discussions related to the basic allowance for housing reduction, project restructures, and projects that are at-risk of not being able to make debt payments or fund the repair and replacement of privatized housing.**

OUSD(C) Management Response:

Concur in principle. ODCFO concurs with recommendations A.3.a. and A.3.b. The ODCFO will ensure that the information detailed in these recommendations and material disclosures (A.3.c.) related to potential risks are addressed in the DoD's FY 2019 Agency-wide Financial Statements. The ODCFO concurs in principle with recommendation A.3.c. While disclosures are necessary when there is a material impact on the financial statements, there is no basis to conclude that the BAH reduction significantly affected the projects with Government Direct Loans and Loan Guarantees. ODCFO believes the recommendation to disclose is premature. Subject matter experts are assessing the impact of the BAH reduction and restructures. Once the assessment is complete and the impact analyzed, the ODCFO will determine whether disclosure is necessary. The ODCFO and DFAS are already developing policies and procedures to address recommendations A3.a. and A3.b. ECD: September 30, 2019.

Recommendation B.3.:

We recommend that the DoD Deputy Chief Financial Officer, and DoD Deputy Comptroller for Program/Budget, coordinate with the Department of the Treasury and the Office of Management and Budget to update the U.S. Standard General Ledger (USSGL) and DoD accounting policy to provide guidance on whether the funding for equity

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Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer (cont'd)

investments is initially considered expended and whether any portion of equity investment sales proceeds are available without a new appropriation.

<u>OUSD(C) Management Response</u>:

Concur. The DoD has long taken the position that funds used for equity investments are expended upon obligation. The DoD Financial Management Regulation (FMR) Volume 2B, Chapter 6, paragraph 060106 C.1.c.(2) expressly states:

> Section 2883(d) limits the funds that can be expended from the account to such amounts as provided in the appropriations act. Therefore, non-appropriated proceeds deposited into the Family Housing Improvement Fund (FHIF) account cannot be used to fund privatization projects, without it being appropriated first.

Furthermore, the DoD Office of General Counsel has regularly opined, most recently in response to this audit, that equity investments are expended upon obligation.

As noted in ODCFO's response to recommendations A.1.a.1, A.1.a.2, and A.1.a.3, we have already proposed journal entries for the recognition and measurement of equity investments. The proposed journal entries were based on the presumption that DoD's equity investments are expended at the time of investment. The Department of the Treasury agreed with DoD's proposed journal entries but stated it is deferring taking action regarding adding new USSGL accounts or USSGL transaction codes awaiting FASAB's consideration of the accounting for PPPs in FY 2019. We consider this recommendation complete.

<u>Recommendation B.4.</u>:

We recommend that the DoD Deputy Chief Financial Officer issue accounting policy to implement the agreed-upon procedures requiring Defense Finance and Accounting Service–Indianapolis personnel to use the gross method for executing the annual subsidy cost reestimates and use specific transactions to ensure that DoD Deputy Comptroller for Program/Budget personnel budgetary reporting needs are met and requiring the DoD Deputy Comptroller for Program/Budget to only provide the net funding amount needed for subsidy reestimates.

<u>OUSD(C) Management Response</u>:

Concur. In July, staff from the Office of the Under Secretary of Defense (Comptroller) and DFAS are working to determine the proper procedures for reporting reestimates. During the FY 2020 budget submission, FY 2018 actuals information submitted by DFAS to OUSD(C) correctly reflected net reestimate amounts. ODCFO will issue accounting policy to document these procedures so that FY 2018 submissions are correct and repeatable. Also, ODCFO will update the DoD FMR Volume 12, Chapter 4, "Direct Loans and Loan Guarantees," to incorporate the procedures that ODCFO, DC(P/B) and DFAS agree are appropriate. ECD: March 31, 2019.

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Office of the Assistant Secretary of Defense for Sustainment

ASSISTANT SECRETARY OF DEFENSE
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

SUSTAINMENT

DEC 11 2018

MEMORANDUM FOR PROGRAM DIRECTOR FOR FINANCIAL MANAGEMENT AND REPORTING, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: OIG Draft Report, Project No. D2018-D000FL-0050.000, "Accounting and Financial Reporting for the Military Housing Privatization Initiative," November 9, 2018

I am providing responses to the general content and recommendations contained in the subject report for 7 of the 33 recommendations contained therein.

I appreciate the DoDIG's detailed review of the complex accounting and financial rules and processes associated with the Military Housing Privatization Initiative (MHPI). Over the course of the audit review, our office has provided a substantial amount of information regarding the MHPI program. While the report addresses some of the issues raised by my office, significant disagreements still exist. We have included those in the attached document. The responses to the seven recommendations are:

Recommendation B.1.a:
a. Issue policy requiring the maximum loan amount on the promissory note to match the corresponding loan agreement and the promissory note to contain a complete history of all amendments to the note.

Response:
Partially Concur. Assistant Secretary of Defense (Sustainment) (ASD(S)) will develop and issue policy to the Military Departments in support of this recommendation, with the following stipulations: (1) the policy would apply where the Government is a signatory to the Federal credit facility documents such as when the project has a Government Direct Loan (GDL) or Government Loan Guarantee (GLG); (2) the policy would be applied on a project-by-project basis as new loans are executed or as existing loans are amended, thus minimizing the imposition of burdensome legal costs on projects; (3) the policy would not be retroactive to projects that require no amendments to loan documents for reasons other than to satisfy this recommendation, in order to avoid unnecessary legal costs; and (4) if a loan is divided into multiple pieces, and each piece has its own promissory note, then the aggregate principal amounts on the promissory notes will equal the principal amount on the loan agreement.

Recommendation B.1.b:
b. Coordinate with the DoD Deputy Comptroller for Program/Budget and Military Department personnel to issue policies requiring the identification of deobligation opportunities, such as when the maximum loan amount is reduced or no longer available, and develop procedures for working with DC(P/B) personnel to deobligate funds when the opportunities arise.

Response:
Partially Concur. The Office of the ASD(S) (OASD(S)) will coordinate with the Office of the Under Secretary of Defense (Comptroller) and Military Departments to determine if additional policies are needed with respect to identifying deobligation opportunities and which office should have jurisdiction to issue such policies.

Office of the Assistant Secretary of Defense for Sustainment (cont'd)

Recommendation B.1.c.1:
c. Issue a policy requiring Military Department personnel to:
1. Calculate changes in subsidy cost for all Government Direct Loans and Government Loan Guarantees before agreeing to any loan term changes.

Response:
Concur. OASD(S) is updating and issuing a policy with this requirement by the end of FY 2019.

Recommendation B.1.c.2:
c. Issue a policy requiring Military Department personnel to:
2. Submit the calculations to the Assistant Secretary of Defense for Energy, Installations, and Environment for review and to the Office of Management and Budget for approval before agreeing to any loan term changes.

Response:
Partially Concur. OASD(S) is updating and issuing a policy by the end of FY 2019 with the requirement to submit subsidy cost calculations for projects with GDL or GLG before agreeing to any loan term changes. The audit report recommends submitting subsidy cost calculations to ASD(S) prior to the Military Departments agreeing to "any loan term changes." OASD(S) does not agree that the policy direction is applicable to loans taken out by the project partners that are not backed by the U.S. Treasury. We anticipate the proposed policy will be issued by the end of FY 2019.

Recommendation B.1.c.3:
c. Issue a policy requiring Military Department personnel to:
3. Ensure the approved amount of funding is in the DoD Family Housing Improvement Fund before agreeing to any loan term changes.

Response:
Partially Concur. The audit report recommends ensuring subsidy cost funding in the FHIF prior to the Military Department personnel agreeing to "any loan term changes." While OASD(S) agrees that such a policy should be applied to Treasury-backed loans, OASD(S) does not agree that the policy direction is applicable to loans taken out by the project partners that are not backed by the U.S. Treasury. OASD(S) is updating and issuing a policy by the end of FY 2019 that would address this requirement for projects that have a GDL or GLG. The policy would also stipulate that the approved amount of funding be in the DoD Family Housing Improvement Fund before executing (e.g., signing) any legal documents that change loan terms that would incur a Government obligation.

Recommendation B.1.d:
d. Develop and implement controls to ensure the most recent Office of Management and Budget-approved loan amounts for Government Direct Loans and Government Loan Guarantees reconcile to the annual reestimate calculations.

Response:
Partially Concur. In line with this recommendation, DoD Deputy Comptroller for Program/Budget (DC(P/B)) and Deputy Assistant Secretary of Defense, Facilities Management

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Office of the Assistant Secretary of Defense for Sustainment (cont'd)

(DASD(FM)) already jointly issue MHPI Credit Subsidy Reestimates Instructions on an annual basis, which includes guidance on approval and supporting documentation for any modifications, administrative workouts, or other changes to the loans executed since completion of the previous fiscal year for budgeting purposes. The supporting documentation reconciles any revisions made to the previous reestimates calculations to meet guidance in OMB Circular A-11, Part 5-Federal Credit, Section 185 for reestimates "to incorporate any available actual data and to update future year projected data for any changes in assumptions." However, in select instances, existing provisions of executed legal agreements for GDLs and private loans with GLGs allow for less than the maximum loan amount to be drawn by the project, under preset conditions. To account for these type of changes, OASD(S) has already started to develop additional internal controls that will be incorporated in the implementation guidance in support of the FY21 President's Budget.

Recommendation B.1.e:
e. Coordinate with the enterprise Military Housing Program Management Office to ensure the development and implementation of detailed procedures for Military Department personnel to input privatized housing records into the enterprise Military Housing system, which would allow all Military Departments to comply with the "Enterprise Military Housing Information Management System" memorandum, April 16, 2014.

Response:
Partially Concur. The Under Secretary of Defense (Acquisition, Technology and Logistics) enterprise Military Housing (eMH) memo of April 16, 2014, already tasks the eMH Program Management Office (PMO) to coordinate procedure development and implementation for Military Departments input of privatized housing records. The DoD governance structure established to oversee the eMH is tasked to ensure compliance with the direction. We acknowledge that progress to incorporate privatized housing inventory is slower than expected, but support and monitoring efforts are ongoing. For example, the eMH PMO facilitates periodic working groups that are attended by Military Departments and ODASD(FM) to discuss progress and work through issues, such as recent challenges with technical problems in the real-time upload of data between the privatized housing systems and eMH.

My office has already taken steps to develop the policies recommended in the draft report, consistent with the included comments. Please contact [redacted], if additional information is required.

Robert H. McMahon

Attachments:
As stated

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Office of the Assistant Secretary of Defense for Sustainment (cont'd)

Other Items of Concern

The Office of the Assistant Secretary of Defense for Sustainment (OASD(S)) has reviewed the audit report and, in addition to providing responses to the recommendations directed to our office, we provide the following comments to other sections of the report to clarify or correct technical issues and/or inaccuracies.

1. Recommendation B.2: Fort Wainwright-Fort Greely MHPI Project Subsidy Cost for Government Loan Guarantee Modification:

   The audit inaccurately reports a potential $1.8 million monetary benefit, stating multiple times throughout report that the Army "unnecessarily paid $1.8 million in subsidy costs to the DoD Family Housing Improvement Fund" related to the Fort Wainwright-Fort Greely Military Housing Privatization Initiative (MHPI) project. However, the Army, OASD(S), OUSD(C), and OMB all agreed that the $1.8 million was necessary to cover the cost of the modification of the limited Government Loan Guarantee (GLG) resulting from the restructure of the private loan.

   a. OMB determined that the changes in the private loan terms negotiated by the Fort Wainwright-Fort Greely project with its lender and approved by Office of the Assistant Secretary of the Army (IE&E) personnel in FY 2017 constituted a modification of the project's limited GLG under OMB Circular A-11, Part 5-Federal Credit, Section 185.

   b. Since a modification had been determined to have occurred, a modification cost/savings needed to be calculated. The upward modification cost approved by OMB for the limited GLG resulting from the FY 2017 restructure was $1.8 million, for a total obligated subsidy fund requirement of $11.4 million.

   c. During the FY 2017 formal coordination process, both ASA(IE&E) and OUSD(C) concurred with the determination that, in addition to the original subsidy of $9.6 million, another $1.8 million from other appropriations to the Family Housing Improvement Fund (FHIF) was required to cover the upward subsidy costs generated as a result of the restructure of the Fort Wainwright-Fort Greely MHPI project's private loan, for a total of $11.4 million of obligated subsidy funds. As such, the Army transferred $1.8 million into the FHIF to cover the increase in subsidy costs for the Fort Wainwright-Fort Greely project's limited GLG.

2. Recommendation B.4, Borrowing/Repaying Treasury to Execute Reestimates – Implications of Using Net Method vs. Gross Method:

   In the report, there appears to be confusion between what occurs during the President's Budget re-estimation of subsidy costs for budget purposes and subsequent funds control (i.e., apportionments), and what occurs during execution for accounting purposes.

   a. In accordance with the Federal Credit Reform Act of 1990 (P.L. 101-508) codified in 2. U.S.C. 661 and OMB Circular A-11, the Department prepares and submits its annual reestimates netted by cohort (obligation) year in response to OMB's Budget Data Request for Credit Reform Reestimates, Subsidy Estimate & Federal Credit Supplement Data,

Attachment A

Office of the Assistant Secretary of Defense for Sustainment (cont'd)

which are reviewed and approved by OMB for inclusion into the annual President's Budget. During budget execution, the subsequent funding apportionments are prepared in support the President's Budget and reflect the netted reestimates amounts, as approved by OMB. This has been a long-established budget practice to prepare the annual reestimates netted by cohort (obligation) year for the President's Budget and to prepare the apportionment to support the President's Budget amounts, requiring both to be approved by OMB.

b. As such, the accounting for reestimates should be netted by cohort year in support of the President's Budget and within approved legal limits as reflected in the OMB-approved apportionment, as prescribed by the OMB Circular A-11 and in support of the Digital Accountability & Transparency Act (or DATA Act) of 2014 (P.L. 113-101). As part of accounting transactions, the borrowing for accounting purposes can be done by using gross methodology.

3. Recommendation A.3.c, Premature Statements About the Impact of BAH Reductions and Need to Disclose Their Impacts:

Throughout the development of this audit report, OASD(S) has advised the IG that it is inaccurate to state that the Basic Allowance for Housing (BAH) reductions have "significantly affected" project Government Direct Loans (GDLs) and GLGs. OASD(S) personnel are currently analyzing the impacts of BAH reductions. Based on Military Department input to date, and conversations with project partners on installations, the BAH reduction impact has been minimal, not significant. There has not been one MHPI GDL and GLG (i.e., project with a loan or loan guarantee backed by the U.S. Treasury) that had to be modified or altered solely or primarily as a result of the BAH reductions. Further, the OIG has not produced analysis that substantiates a 5% revenue cut is significant given Federal Government and private companies routinely adjust budgets based on many economic variables and the resulting operations are not substantially affected. At several MHPI projects, even with a 5% out-of-pocket reduction, BAH rates substantially exceed project pro forma expectations that were used as the basis to size project debt to fund initial and long-term development (i.e., reinvestment), meaning the project financials exceed original pro forma expectations even with a 5% BAH reduction.

4. Overstating the Importance of Agency Financial Statements and Complete eMH Inventory Records in Effective Program Management:

The audit report makes erroneous references throughout that "Without MHPI information, MHPI stakeholders will not be able to effectively oversee the program," and "Once eMH is fully implemented, ASD(EI&E) and each Military Department will also use the eMH to manage all privatized housing." OASD(S) staff has repeatedly informed audit staff that these statements are categorically untrue. The MHPI program management personnel within the Military Departments and at OSD are effectively overseeing the program without referencing the DoD Agency-Wide Financial Statements or having a complete database of eMH privatized housing records. The eMH is a tool that would make access to data much faster; however, the lack of having the tool fully populated with housing privation inventory today

Attachment A

Office of the Assistant Secretary of Defense for Sustainment (cont'd)

is not hampering management or oversight of the program. Furthermore, the MHPI Stakeholders do not manage privatized housing; rather they oversee private management.

5. Recommendation A.3.c, Premature Statements About the Impact of Potential Restructures and Need to Disclose Their Impacts:

~~(FOUO)~~ The audit report also inappropriately mentions that the Air Force has identified four projects that [redacted] OASD(S) recommends that this statement be redacted in the final publication as it could directly negatively impact the Air Force's latitude in future negotiations with the MHPI partners and lenders associated with these four projects. Further, project bond ratings for the entire MHPI portfolio may be negatively impacted by publicly revealing that these projects are being considered for restructure.

6. Overstatement of Government Cost for GDL Restructures:

The draft report narrative and Table 4 erroneously overstates the costs associated with the two FY17 Air Force project restructures, since it incorrectly includes FY15 annual reestimates from the FY16 President's Budget. The costs for restructures or administrative workouts are calculated using more conservative assumptions of risk defaults and debt service coverage ratio assessments. For example: The large increase in FY15 year-end reestimate subsidy costs is independent of the restructures in the following fiscal years. Furthermore, DC(P/B) and ASD(S) reestimate procedures require the Military Departments to apply a more stringent assumption of default risk when a project's debt service coverage ratio (DSCR), a measure of how much net operating income is available after paying debt service, is below a certain threshold in the fiscal year just ending. The application of a much more conservative assumption of default risk artificially increases the reestimate subsidy costs to ensure sufficient subsidy is available in the event of a default on the GDL or GLG, but it's not directly tied to a restructure: if the project's fortunes (and hence DSCR) rebound on their own, then in the next reestimate cycle, the Military Department's calculations revert to the original default risk assumption and the reestimate subsidy costs are reversed out.

7. Recommendations A.1.a.3, A.1.c.2, A.2.f.2, & A.3.b, Recognizing Gains and Losses in the Agency Financial Statements – Cost vs Equity Method:

The report does not accurately reflect OASD(S)'s concerns about reporting of "unrealized gains or losses" due to depreciation expenses. From a programmatic standpoint, the report is misleading and could cause potential harm to the MHPI program and its Public-Private Partnerships. The report makes no mention that the result of "unrealized gains or losses" due to depreciation expenses are not necessarily reflective of the "actual" financial viability and/or sustainment of the privatized project(s). MHPI projects with equity investments are intended to be held for the life of the underlying ground lease. As such, actual "gains or losses" might not be realized until after the end of the lease terms or 50-years.

In addition, the audit draft report should not include OASD(S) preliminary comments of the initial discussion draft report, since OASD(S) defers to DCFO to develop and provide financial, accounting and reporting policies. Suggest that the report be amended accordingly.

Attachment A

Office of the Assistant Secretary of Defense for Sustainment (cont'd)

8. MHPI Stakeholder Roles and Responsibilities:

Throughout the draft report, the MHPI Stakeholder roles and functional responsibilities are inaccurately reflected. For example:

a. OMB approves Scoring Reports for MHPI Projects. However, they do not approve MHPI legal agreements between the Military Department and the private partners, as stated in the report.

b. OASD(S) personnel are not the functional managers or subject matter experts for developing financial procedures, accounting policy or funding guidance. As such, OASD(S) personnel depend on and/or defer to financial managers for advice and determination on these matters, only providing "informal" feedback in the capacity of a layperson, when requested or solicited.

Revised based on comment

9. Reorganization of the Office of Acquisition, Technology and Logistics:

With the reorganization of AT&L, Assistant Secretary of Defense (Energy, Installations & Environment) is no longer in existence. These functions have been realigned under the Assistant Secretary of Defense (Sustainment). As such, the report will need to be amended accordingly. The reorganization was effective on November 1, 2018.

Attachment A

Office of the Assistant Secretary of the Army for Installations, Energy, and Environment

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
INSTALLATIONS, ENERGY AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

SAIE-IHP DEC 10 2018

MEMORANDUM FOR

PROGRAM DIRECTOR FOR FINANCIAL MANAGEMENT AND REPORTING, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: OIG Draft Report, Project No. D2018-D000FL-0050.000, "Accounting and Financial Reporting for the Military Housing Privatization Initiative," November 9, 2018

1. As per the referenced IG Report – Recommendation B.2, the Assistant Secretary of the Army for Installations, Energy, and Environment is to initiate communication with the Assistant Secretary of Defense for Energy, Installations, and Environment; the DoD Deputy Comptroller for Program/ Budget; and the Assistant Secretary of the Army for Financial Management and Comptroller in order to request that Office of Management and Budget return the $1.8 million from the DoD Family Housing Improvement Fund to the Family Housing Construction Account, Army - that was unnecessarily paid in FY 2017.

2. Army proposes IG remove the requirement of repayment coordination from Recommendation B.2, and allow Army to work with ASD(S) in any rebalancing effort until after the loan guarantee re-estimate process next year. There will be an additional excess balance at that time due to unutilized loan capacity ($145M existing balance vs. $159.425 capacity).

3. I look forward to working with you to resolve this issue quickly and efficiently.

4. My Points of Contact in this matter are [redacted]

Paul D. Cramer
Deputy Assistant Secretary of the Army
(Installations, Housing and Partnerships)

DISTRIBUTION:
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DOD DEPUTY COMPTROLLER FOR PROGRAM/ BUDGET
ASSISTANT SECRETARY OF THE ARMY FM AND COMPTROLLER

Office of the Assistant Chief of Staff for Installation Management, Department of the Army

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT
600 ARMY PENTAGON
WASHINGTON, DC 20310-0600

DAIM-ISH 7 December 2018

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (DOD)

SUBJECT: Accounting and Financial Reporting for the Military Housing Privatization Initiative (Project D2018-D000FL-0050.000)

1. The Office of the Assistant Chief of Staff for Installation Management reviewed DOD Inspector General Report Project D2018-D000FL-0050.000 and concurs with comment on each of the three recommendations.

2. Our office concurs with recommendation B.5a, to reconcile our privatized housing inventories with the private partners housing inventories and update the records as needed to establish a baseline. Reconciliation requires input from the Army's General Fund Enterprise Business System (GFEBS) asset and accounting management system to establish a complete and accurate baseline.

Revised recommendation based on comment

3. Our office concurs with recommendation B.5b, to develop and implement procedures to accurately record the additions and removals of housing records to ensure consistency between the Military Department and private partners systems. Our office is developing procedures ensuring additions and removals of housing records from the Army's Enterprise Military Housing (eMH) system are consistent with the private partners systems but the Installation Real Property Offices must ensure accuracy with the Army's GFEBS as that is outside our purview.

4. Our office concurs with recommendation B.5c to develop and implement controls to ensure that the Enterprise Military Housing system and Military Department housing records reconcile once privatized housing records are in the enterprise Military Housing system. The controls should be developed by the proponents of the Army's GFEBS asset and accounting management system and the eMH system.

IAN A. CLARK
Chief, Privatized Housing and Lodging Programs

Naval Facilities Engineering Command

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

5740
Ser 09IG/039
7 Dec 18

From: Commander, Naval Facilities Engineering Command
To: Department of Defense Inspector General, Financial Management and Reporting

Subj: DODIG DRAFT REPORT, "ACCOUNTING AND FINANCIAL REPORTING FOR THE MILITARY HOUSING PRIVATIZATION INITIATIVE" (PROJECT NO. D2018-D000FL-0050.000)

Ref: (a) 2018-NAVIGAUDITANDCOSTFO-000000877.002

Encl: (1) Naval Facilities Engineering Command Response to Subject Draft Report

1. In accordance with reference (a), enclosure (1) is hereby submitted.

2. Please refer questions to [redacted].

S. M. Jones

S. M. JONES
Captain, CEC, U.S. Navy
Inspector General

Naval Facilities Engineering Command (cont'd)

NAVAL FACILITIES ENGINEERING COMMAND RESPONSE TO DODIG OFFICIAL DRAFT REPORT #18FL-0050.000, "ACCOUNTING AND FINANCIAL REPORTING FOR THE MILITARY HOUSING PRIVATIZATION INITIATIVE", DATED 9 NOVEMBER 2018

FINDING B: MHPI program and financial management personnel need to improve funding management for MHPI projects.

- DC(P/B), DFAS-Indianapolis, and NAVFAC personnel did not resolve internal disagreements about the availability of equity investment sales proceeds for use. This occurred because DCFO and DC(P/B) personnel did not coordinate with Treasury and OMB to develop accounting policy on when equity investment funding is considered expended and whether any portion of the equity investment sales proceeds is available without a new appropriation.

NAVFAC Response: Partially concur. The intent of the MHPI legislation is to reinvest any potential proceeds for long term sustainment rather than reliance on additional appropriated funds. A precedent was established with the sales proceeds from Everett I being utilized in Northwest Phase 2 by identifying the sales proceeds in a FY-2013 budget book request and subsequently amending the appropriation language accordingly.

Recommendation B.5.a: Assistant Chief of Staff for Installation Management; Department of the Army; Commander of the Naval Facilities Engineering Command; and Director of the Air Force Civil Engineer Center reconcile their privatized housing inventories with the private partners housing inventories and update the records as needed to establish a baseline.

NAVFAC Response: Concur. Naval Facilities Engineering Command (NAVFAC) in coordination with PPV Partners have taken the appropriate steps to identify and record PPV inventory in eMH and iNFADS.

Estimated Completion Date/Date Completed: November 2018

Recommendation B.5.b: Assistant Chief of Staff for Installation Management; Department of the Army; Commander of the Naval Facilities Engineering Command; and Director of the Air Force Civil Engineer Center develop and implement procedures to accurately record the additions and removals of housing records to ensure consistency between the Military Department and private partners systems.

NAVFAC Response: Concur. An electronic interface between Partners' Yardi system property management software and the electronic Military Housing (eMH) updates real property inventory real time every 24 hours. (Attachment A).

Estimated Completion Date/Date Completed: November 2018

Recommendation B.5.c: Assistant Chief of Staff for Installation Management; Department of the Army; Commander of the Naval Facilities Engineering Command; and Director of the Air

Enclosure (1)

Naval Facilities Engineering Command (cont'd)

Force Civil Engineer Center develop and implement controls to ensure that the enterprise Military Housing system and Military Department housing records reconcile once privatized housing records are in the enterprise Military Housing system.

NAVFAC Response: Concur. An electronic interface between Partners' Yardi system property management software and the electronic Military Housing (eMH) updates real property inventory real time every 24 hours. (Attachment A).

Estimated Completion Date/Date Completed: November 2018

In addition to the Recommendations which NAVFAC was assigned, NAVFAC is providing the following input for consideration:

Recommendation A.1.d: DCFO personnel should issue updated accounting policy with specific guidance on how real property ownership transferred to projects as equity investments should be recorded in DoD financial systems and reported in the DoD Agency-Wide Financial Statements, along with the responsibilities of each DoD organization involved.

NAVFAC Response: Concur with comment. NAVFAC recommends DCFO policy utilize value of contributed assets reported in OMB scoring reports.

Estimated Completion Date/Date Completed: Financial Statements following DCFO policy completion and release.

Recommendation A.2.f.1: DFAS-Indianapolis personnel should coordinate with Military Department project and financial management personnel to develop and implement procedures to record and report real property ownership transferred to the projects as equity investments.

NAVFAC Response: Concur with comment. NAVFAC recommends that DFAS Indianapolis procedures should follow DCFO policies being developed as per Recommendation A.1.d.

Estimated Completion Date/Date Completed: Financial Statements following DCFO policy completion and release.

Recommendation A.3.b: In addition, the USD(C)/CFO should ensure that equity investment profits and losses allocated to the Military Departments, along with the accounting method used, are reported in the DoD Agency-Wide Financial Statements prior to issuance.

NAVFAC Response: Concur with comment. NAVFAC would like point out that profit or loss from equity investment of the government will not occur until dissolution of LLCs on DoN projects.

Estimated Completion Date/Date Completed: After the dissolution of the LLCs.

Enclosure (1)

Naval Facilities Engineering Command–Revised

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

5740
Ser 09IG/039
7 Dec 18

From: Commander, Naval Facilities Engineering Command
To: Department of Defense Inspector General, Financial Management and Reporting

Subj: DODIG DRAFT REPORT, "ACCOUNTING AND FINANCIAL REPORTING FOR THE MILITARY HOUSING PRIVATIZATION INITIATIVE" (PROJECT NO. D2018-D000FL-0050.000)

Ref: (a) 2018-NAVIGAUDITANDCOSTFO-000000877.002

Encl: (1) Naval Facilities Engineering Command Response to Subject Draft Report

1. In accordance with reference (a), enclosure (1) is hereby submitted.

2. Please refer questions to [redacted].

S M Jones
S. M. JONES
Captain, CEC, U.S. Navy
Inspector General

Naval Facilities Engineering Command–Revised (cont'd)

NAVAL FACILITIES ENGINEERING COMMAND RESPONSE TO DODIG OFFICIAL DRAFT REPORT #18FL-0050.000, "ACCOUNTING AND FINANCIAL REPORTING FOR THE MILITARY HOUSING PRIVATIZATION INITIATIVE", DATED 9 NOVEMBER 2018

FINDING B: MHPI program and financial management personnel need to improve funding management for MHPI projects.

- DC(P/B), DFAS-Indianapolis, and NAVFAC personnel did not resolve internal disagreements about the availability of equity investment sales proceeds for use. This occurred because DCFO and DC(P/B) personnel did not coordinate with Treasury and OMB to develop accounting policy on when equity investment funding is considered expended and whether any portion of the equity investment sales proceeds is available without a new appropriation.

NAVFAC Response: Partially concur. The intent of the MHPI legislation is to reinvest any potential proceeds for long term sustainment rather than reliance on additional appropriated funds. A precedent was established with the sales proceeds from Everett I being utilized in Northwest Phase 2 by identifying the sales proceeds in a FY-2013 budget book request and subsequently amending the appropriation language accordingly.

Recommendation B.5.a: Assistant Chief of Staff for Installation Management; Department of the Army; Commander of the Naval Facilities Engineering Command; and Director of the Air Force Civil Engineer Center reconcile their privatized housing inventories with the private partners housing inventories and update the records as needed to establish a baseline.

NAVFAC Response: Concur. Naval Facilities Engineering Command (NAVFAC) in coordination with PPV Partners have taken the appropriate steps to identify and record PPV inventory in eMH and iNFADS.

Estimated Completion Date/Date Completed: November 2018

Recommendation B.5.b: Assistant Chief of Staff for Installation Management; Department of the Army; Commander of the Naval Facilities Engineering Command; and Director of the Air Force Civil Engineer Center develop and implement procedures to accurately record the additions and removals of housing records to ensure consistency between the Military Department and private partners systems.

NAVFAC Response: Concur. An electronic interface between Partners' Yardi system property management software and the electronic Military Housing (eMH) updates real property inventory real time every 24 hours. (Attachment A).

Estimated Completion Date/Date Completed: November 2018

Recommendation B.5.c: Assistant Chief of Staff for Installation Management; Department of the Army; Commander of the Naval Facilities Engineering Command; and Director of the Air

Enclosure (1)

Naval Facilities Engineering Command–Revised (cont'd)

Force Civil Engineer Center develop and implement controls to ensure that the enterprise Military Housing system and Military Department housing records reconcile once privatized housing records are in the enterprise Military Housing system.

NAVFAC Response: Concur. An electronic interface between Partners' Yardi system property management software and the electronic Military Housing (eMH) updates real property inventory real time every 24 hours. (Attachment A).

Estimated Completion Date/Date Completed: November 2018

In addition to the Recommendations which NAVFAC was assigned, NAVFAC is providing the following input for consideration:

Recommendation A.1.d: DCFO personnel should issue updated accounting policy with specific guidance on how real property ownership transferred to projects as equity investments should be recorded in DoD financial systems and reported in the DoD Agency-Wide Financial Statements, along with the responsibilities of each DoD organization involved.

NAVFAC Response: Concur with comment. NAVFAC recommends DCFO policy utilize value of contributed assets reported in OMB scoring reports.

Estimated Completion Date/Date Completed: Financial Statements following DCFO policy completion and release.

Recommendation A.2.f.1: DFAS-Indianapolis personnel should coordinate with Military Department project and financial management personnel to develop and implement procedures to record and report real property ownership transferred to the projects as equity investments.

NAVFAC Response: Concur with comment. NAVFAC recommends that DFAS Indianapolis procedures should follow DCFO policies being developed as per Recommendation A.1.d.

Estimated Completion Date/Date Completed: Financial Statements following DCFO policy completion and release.

Recommendation A.3.b: In addition, the USD(C)/CFO should ensure that equity investment profits and losses allocated to the Military Departments, along with the accounting method used, are reported in the DoD Agency-Wide Financial Statements prior to issuance.

NAVFAC Response: Concur with comment. NAVFAC would like point out that profit or loss from equity investment of the government will not occur until dissolution of LLCs on DoN projects.

Estimated Completion Date/Date Completed: After the dissolution of the LLCs.

Enclosure (1)

Acronyms and Abbreviations

ACES	Automated Civil Engineer System
ACSIM	Assistant Chief of Staff for Installation Management, Department of the Army
AFCEC	Air Force Civil Engineer Center
ASA(IE&E)	Assistant Secretary of the Army for Installations, Energy, and Environment
ASD(S)	Assistant Secretary of Defense for Sustainment
BAH	Basic Allowance for Housing
DCFO	DoD Deputy Chief Financial Officer
DC(P/B)	DoD Deputy Comptroller for Program/Budget
DDRS-AFS	Defense Departmental Reporting System-Audited Financial Statements
DDRS-B	Defense Departmental Reporting System-Budgetary
DFAS	Defense Finance and Accounting Service
eMH	enterprise Military Housing
FASAB	Federal Accounting Standards Advisory Board
FMR	Financial Management Regulation
GDL	Government Direct Loan
GFEBS	General Fund Enterprise Business System
GLG	Government Loan Guarantee
iNFADS	Internet Navy Facilities Asset Data Store
JV	Journal Voucher
MHPI	Military Housing Privatization Initiative
NAVFAC	Naval Facilities Engineering Command
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
USSGL	U.S. Standard General Ledger

Glossary

Accounting Adjustments. Changes to the accounting records in instances when subsidiary records do not reconcile to financial balances, when transactions need correction, or when accounts need to reconcile.

Appropriation. An amount of money specifically authorized by Congress against which obligations may be incurred and from which payments may be made.

Authorization. Legislation enacted by Congress that obligates funding for a program or agency. Authorizations typically lead to appropriations.

Balance Sheet. The presentation amounts of assets owned or managed by a reporting entity, debts owed, and the difference between assets and debts at a point in time.

Basic Allowance for Housing. Compensation paid by the DoD to military personnel living in non-government-owned housing, which is calculated based on the local civilian housing market. If the military personnel that are receiving basic allowance for housing chooses to live in Military Housing Privatization Initiative housing units, the personnel pay their basic allowance for housing to the project. This, in turn, provides an income stream to support the project's current and long-term financial viability.

Capital Gains. When the sale price of a capital asset (an investment) exceeds the purchase price.

Chart of Accounts. A list of all SGL Accounts that can be used throughout the Government or the DoD.

Cohort. A grouping of Government Direct Loans or Government Loan Guarantees based on the fiscal year in which the Government funds are obligated.

Compile. Collection of information to produce data, such as financial statements.

Corporation. A corporation is a legal entity that is separate and distinct from its owners. Corporations enjoy most of the rights and responsibilities that an individual possesses, including entering into contracts, loaning and borrowing money, and owning assets.

Cost Method of Accounting. Investors initially record and report their investments at cost and no changes to the amounts reported are needed except when, for example, a series of operating losses incurred by the investee indicate that a decrease in investment value of the has occurred that is not temporary, in which case the value of the investment is reduced.

Differential Lease Payments. Government provision of monthly payments to an entity (project) above the basic allowance for housing paid by military personnel.

Downward Reestimate. The amount of subsidy needed in a financing account (DoD Family Housing Improvement Fund, Direct Loan, Financing Account or DoD Family Housing Improvement Fund, Direct Loan, Financing Account) decreases, meaning the account has excess funding that must be disbursed.

Equity Investment. Government investment of cash and real property (such as housing units and other structures) ownership to a project in exchange for an ownership stake in the project, allocated portions of the project's profits and losses, and compensation if the Government investment is sold or the project is terminated.

Equity Method. Used to report in the investors' (Military Departments) financial statements their share of the investees (projects) profits or losses.

Expended Appropriation. The dollar amount of appropriations used to fund goods and services received or benefits or grants provided.

Fair Value. The sale price agreed upon by a willing buyer and seller, assuming both parties enter the transaction freely and knowledgeably.

Feeder-File Adjustments. Adjustments made in Defense Departmental Reporting System–Budgetary to reconcile differences between feeder-file balances and balances calculated in Defense Departmental Reporting System–Budgetary.

Government Direct Loans. Government provision of cash in the form of a subsidized loan to an entity (project) with the expectation of future repayment.

Government Loan Guarantees. Government agreement to pay, under limited circumstances, any or all of the outstanding balance on a non-Government loan in the event of nonpayment by the entity (project).

Journal Voucher Adjustments. Adjustments made in Defense Departmental Reporting System–Budgetary and Defense Departmental Reporting System–Audited Financial Statements to reconcile differences between subsidiary accounting systems' general ledgers.

Net Loss. Total expenses for a project or group of projects exceeds total revenue.

Net Profit. Total revenue for a project or group of projects exceeds total expenses.

Obligation. A legal liability to disburse funds immediately or later as a result of a series of actions.

Reestimates. Revisions of the subsidy cost estimate based on information about the actual performance and estimated changes in future cash flows of the cohort.

Restructure. A change in the original project agreement terms between Military Departments and private partner, which involves Government Direct Loan and Government Loan Guarantee modifications and administrative workouts.

Standard General Ledger Account. A six-digit code that, along with other Standard General Ledger Account information, provides the basic structure for Government accounting.

Subsidy Cost. The estimated cost to the Government for Government Direct Loans and Government Loan Guarantees, which are incurred for the projects to obtain loans with favorable terms or where loans may not otherwise be available.

Transaction Library. A list of accounting transactions for business events that are allowed to occur throughout the DoD. The transactions illustrate both proprietary and budgetary Standard General Ledger Accounts for each transaction.

Trial Balance. A list of all Standard General Ledger Accounts and their corresponding balances at a point in time.

Upward Reestimate. The amount of subsidy needed in a financing account (DoD Family Housing Improvement Fund, Direct Loan, Financing Account or DoD Family Housing Improvement Fund, Direct Loan, Financing Account) increases, meaning the account has insufficient funding and more must be added.

Whistleblower Protection

U.S. Department of Defense

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