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MILITARY HOUSING

Opportunities Exist to Better Explain Family Housing O&M Budget Requests and Increase Visibility Over Reprogramming of Funds





Highlights of [GAO-04-583](#), a report to congressional committees

Why GAO Did This Study

The military services have owned and operated much housing on their installations but increasingly are privatizing housing, relying on the private sector to manage the renovation, construction, and maintenance of existing and new homes for military families. Funding to operate and maintain existing government-owned housing is provided through the family housing operation and maintenance (O&M) appropriations. The amount of funding required varies based on a number of factors, including how quickly privatization occurs to reduce requirements for government-owned housing. As requested, this report discusses the (1) services' assumptions and methods used to develop budget requests and how well their budget justifications explain the impact of privatization on family housing O&M funds and (2) the extent to which Congress has visibility over the services' reprogramming of family housing O&M funds.

What GAO Recommends

GAO is making several recommendations to better explain the budget requests for family housing O&M and increase visibility over service reprogramming of funds between the accounts and a matter for congressional consideration related to visibility of fund movements.

In written comments on a draft of this report, DOD agreed with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-583.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barry W. Holman at (202) 512-8412 or holmanb@gao.gov.

MILITARY HOUSING

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What GAO Found

Budget justification materials submitted to Congress for family housing O&M funding do not clearly and consistently explain funding requirements and how the housing privatization program impacts the services' budget requests, frustrating congressional oversight. Various factors have contributed to this situation. The services use similar assumptions and methods to develop budget requests for family housing O&M, but they often rely on assumptions established up to a year and a half before the budgets are executed. While the services have the ability to revise and update their budget requests, they typically choose not to because of the difficulty of doing so related in part to other competing defense priorities and the relatively small size of the family housing O&M budget. Given these considerations, defense officials said that they are more likely to make the needed funding adjustments through reprogrammings. In addition, changes in the pace of expected privatization can affect funding required for the nine family housing O&M accounts and subaccounts—although not uniformly—but the effects of these changes are not well explained in budget justifications submissions to Congress. Although, in many cases, the services may have data that could result in better informed decision making, they do not always include such information in budget justifications.

Congress has limited visibility of the services' reprogramming of family housing O&M funds. For example, Congress is not notified when reprogrammings are below 10 percent of the initial funding amount or result in a decrease. On the other hand, DOD provides congressional decision makers with more information on reprogrammings for other appropriations, such as regular O&M. In addition, compared with the other services, the Navy and the Marine Corps' reporting of reprogrammings provides even less visibility. For example, they did not report to Congress reprogrammings for the four subaccounts—management, services, furnishings, and miscellaneous—within the operations account. In addition, the Defense Finance and Accounting Service's obligation reports for the Navy and Marine Corps do not separate the four operations subaccounts, as they do for the other services. Navy and Marine Corps officials were not aware of the usefulness to separate the four operations subaccounts. Also, the Navy and the Marine Corps obligation data reflecting reprogramming actions do not always match comparable official obligation data produced by the Defense Finance and Accounting Service. Even though the two services have been working with the Defense Finance and Accounting Service, officials told GAO that this has been a long-standing issue and difficult to resolve. Collectively, this lack of visibility over the reprogramming of funds and data inconsistencies hinder the ability of congressional and DOD decision makers to evaluate family housing O&M budget requests and obligations.

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Abbreviations

DOD Department of Defense
OSD Office of the Secretary of Defense
O&M operation and maintenance

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G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

May 27, 2004

Congressional Committees

The military services own and operate much housing on their military bases while at the same time they are increasingly moving to privatize their housing. In doing so, they rely on the private sector to renovate and operate privatized housing as well as build and maintain many new housing units. Some funding to support both military-owned housing and privatization is provided for in the family housing operation and maintenance (O&M) portion of the military construction appropriation act. The services' family housing O&M budget requests and resulting congressional appropriations use a budget structure consisting of nine accounts and subaccounts. Congress appropriated about \$2.7 billion to operate and maintain about 230,000 housing units for servicemembers and their families in fiscal year 2004. The services use these funds to meet a range of family housing requirements, such as managing property, providing utilities, and maintaining and leasing housing units.

In 1998, the Department of Defense (DOD) estimated that 60 percent of its family housing inventory in the United States was inadequate and in need of renovation or replacement. In its Defense Planning Guidance for fiscal years 2004 through 2009, DOD set a deadline of fiscal year 2007 to eliminate inadequate family housing across DOD. Recognizing this situation, Congress gave DOD new authorities to use private sector investment capital and housing construction expertise to finance, own, operate, and maintain military housing known as the Military Housing Privatization Initiative.¹ As the services privatize their housing, reductions in their housing inventory will occur. A portion of family housing O&M appropriation supports the privatization initiative, such as funding environmental assessments and consultant fees.

The conference report² accompanying the fiscal year 2004 military construction appropriation bill directed us to conduct a study on the assumptions and methods used by the services to develop their respective

¹ The National Defense Authorization Act for Fiscal Year 1996 (Pub. L. No. 104-106, Feb. 10, 1996).

² H.R. Conf. Rep. No. 108-342, page 16 (2003).

budget requests for the nine accounts and subaccounts³ that comprise the family housing O&M appropriations and review the reprogramming of funds between these accounts.⁴ We recently provided your offices with information summarizing our preliminary findings in a briefing format (see app. I). This report summarizes and updates our findings contained in the briefing materials in the following two areas: (1) the services' assumptions and methods used to develop individual budget requests and how well their budget justifications explain the impact of privatization on family housing O&M funds and (2) the extent to which Congress has visibility over the services' reprogramming of family housing O&M funds.

To address these objectives, we interviewed Army, Navy, Marine Corps, and Air Force family housing officials to obtain information on the assumptions and methods used to develop the family housing O&M budget requests, the impact of privatization on family housing O&M funds, and the reprogramming of these funds. In addition, we reviewed the services' budget justification submissions to assess how well the services explained their assumptions, methodology, and the impact of privatization. We assessed the reliability of the services' data and found some inconsistencies between Navy and Marine Corps data and Defense Finance and Accounting Service data. We believe the data gathered are sufficiently reliable for the purposes of this report. We also discussed the results of our work with officials from the Office of the Under Secretary of Defense (Comptroller); the Housing and Competitive Sourcing Office within the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Defense Finance and Accounting Service; and the military services. We conducted our work from December 2003 through March 2004 in accordance with generally accepted government auditing standards. Details about our scope and methodology appear at the end of this letter.

³ The President's budget shows four family housing O&M appropriation accounts, which are broken down into five program activities. However, for budget justifications and committee reports, both Congress and DOD break down these four appropriation accounts into nine accounts and subaccounts that roughly correspond to the five program activities. This report discusses the nine accounts and subaccounts.

⁴ The movement of funds from one appropriation account to another is a "transfer." The movement of funds within the family housing O&M appropriation accounts is referred to as a "reprogramming." Congress and DOD refer to these reprogrammings as fund movements between the nine family housing O&M accounts and subaccounts reported in budget justifications and committee reports. The focus of this report is on reprogrammings.

Results in Brief

Budget justification materials that the services submit to Congress for family housing O&M funding do not clearly and consistently explain the services' funding requirements and how the housing privatization program impacts their budget requests, frustrating congressional oversight. Various factors have contributed to this situation. The services often rely on assumptions established up to a year and a half before the budgets are executed to develop budget requests for family housing O&M. For example, these budget requests are largely based on historical obligations adjusted for pricing and program assumptions. While the services have the ability to revise and update their budget requests, they typically choose not to because of the difficulty of doing so related in part to other competing defense priorities and the relatively small size of the family housing O&M budget. For example, if a service anticipated a slippage in the privatization initiative after the family housing O&M budget amounts are programmed, service officials told us that the budget request may not be revised to reflect the slippage. Defense officials said that they are more likely to make the needed funding adjustments through reprogrammings. In addition, changes in the pace of expected privatization can affect funding required for individual accounts and subaccounts—although not uniformly—but the effects of the changed pace are not well explained in the services' budget justifications. Although in many cases the services may have data that could better explain how the housing privatization program impacts their budget requests, they do not always include such information in budget justification submissions to Congress.

Congress has limited visibility of the services' reprogramming of family housing O&M funds. While all services reprogram family housing O&M funds, they are required to notify Congress of only those reprogrammings that are 10 percent or more of the initial funding levels for the nine accounts and subaccounts. Congress is not notified when reprogrammings are below 10 percent or result in a decrease. For example, in fiscal year 2003, the Air Force was not required to notify Congress of a \$3.7 million increase in the leasing account because it was below 10 percent or a \$75 million decrease in the maintenance account. Also, compared with the other services, the Navy and the Marine Corps' reporting of reprogramming actions provides even less visibility. For example, the Navy and the Marine Corps did not report to Congress reprogrammings of 10 percent or more for the four subaccounts—management, services, furnishings, and miscellaneous—within the operations account. Furthermore, the Defense Finance and Accounting Service's obligation reports for the Navy and the Marine Corps do not separate the four operations subaccounts, as the reports do for the other services. In addition, unlike the Army and the Air Force, the Navy and the Marine

Corps obligation data reflecting reprogramming actions throughout the year do not always match comparable official obligation data produced by the Defense Finance and Accounting Service. DOD provides congressional decision makers with more information on reprogrammings for other appropriations, such as regular O&M,⁵ i.e., it provides a semiannual summary of the initial funding levels, the amount of funds reprogrammed, and the total funds obligated. Collectively, this lack of visibility over the reprogramming of funds and data inconsistencies between the Navy and the Marine Corps and the Defense Finance and Accounting Service hinder the ability of congressional and DOD decision makers to evaluate family housing O&M budget requests and obligations.

To provide Congress with sufficient data in the services' budget justification submissions, we are making a recommendation that the services better explain the data provided to Congress regarding the impact of privatization on family housing O&M budget requests. We are also making recommendations to improve congressional visibility of the Navy and Marine Corps' reprogrammings of family housing O&M accounts and subaccounts and to improve the consistency of the Navy and Marine Corps obligation data. We also suggest that Congress may wish to consider further improving the visibility of the services' reprogrammings by requiring DOD to provide information covering the net movement of funds for each of the nine family housing O&M accounts and subaccounts at the end of the fiscal year, similar to what DOD now provides to Congress on other appropriations. In written comments on a draft of this report, the Deputy Comptroller (Program/Budget) within the Office of the Under Secretary of Defense (Comptroller) agreed with our recommendations and commented favorably about our matter for congressional consideration. The Deputy Comptroller also stated that the department is taking steps to implement our recommendations. DOD's comments are included in this report in appendix III.

Background

In fiscal year 2004, DOD owns and manages about 230,000 housing units for military families. At the same time, DOD is increasingly moving to privatize its housing, relying on the private sector to renovate and operate privatized housing as well as build and maintain many new housing units.

⁵ For purposes of this report, regular O&M refers to operation and maintenance other than family housing operation and maintenance, normally provided in the DOD annual appropriations bill.

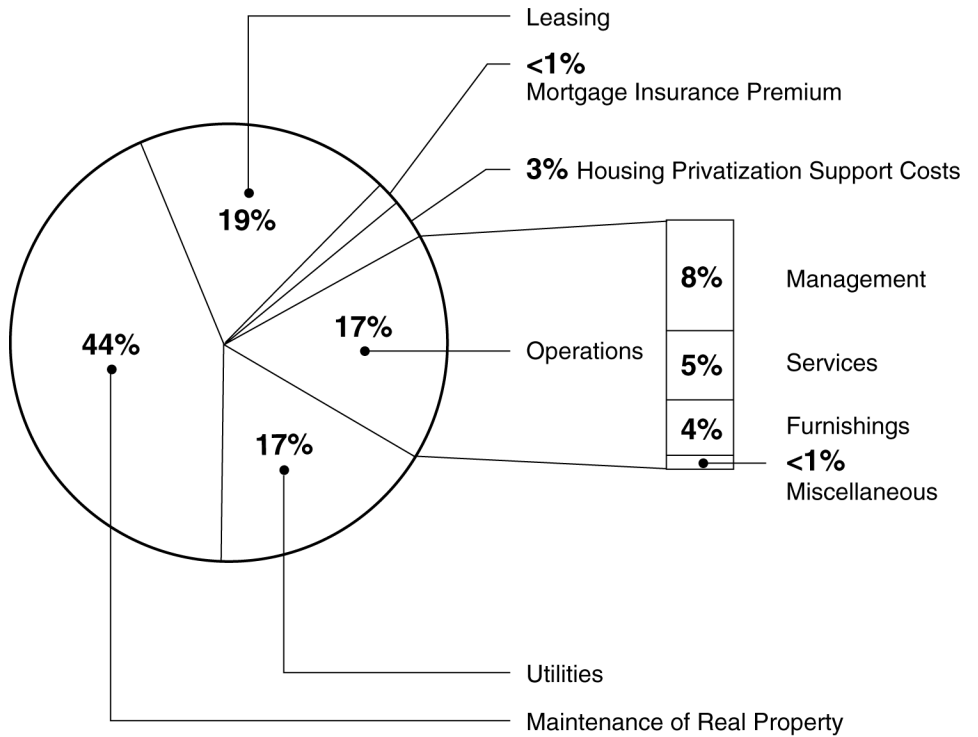
As of February 2004, DOD had privatized about 55,100 housing units and expected to privatize about 160,000 housing units by the end of fiscal year 2007, including construction of many new units. To operate and maintain the government-owned infrastructure, the services use family housing O&M funds to perform maintenance, pay utilities, provide services, manage the family housing program, and fund various other family housing requirements. Also, funding for military-owned and privatization support costs⁶ is provided for in the family housing O&M portion of the annual military construction appropriation. For fiscal year 2004, Congress appropriated about \$2.7 billion for family housing O&M in the military construction appropriation. The services request these funds using a budget structure comprised of nine accounts and subaccounts (see fig. 1).⁷ In turn, Congress, in its conference report accompanying the bill, uses the same nine accounts and subaccounts to designate its understanding of how the funds are to be used. As shown in figure 1, DOD groups the four subaccounts—management, services, furnishings, miscellaneous—under the operations account.⁸

⁶ Privatization support includes costs for consultants for advisory and assistance activities such as individual project development, federal civilian salaries and training activities, and for services such as environmental assessments and land boundary surveys.

⁷ These nine accounts and subaccounts are within each of the four appropriation accounts shown in the President's budget.

⁸ See app. II for definitions of the nine accounts and subaccounts that comprise the family housing O&M appropriations.

Figure 1: Percentage of Funding for the Family Housing O&M Appropriations by Account and Subaccount, Fiscal Year 2004



Source: GAO's analysis of DOD budget data.

Note: May not add to 100 percent due to rounding.

Congressional conferees expressed several concerns about the services' family housing O&M budget requests in the conference report accompanying the 2004 military construction appropriation bill.⁹ Conferees stated concerns about the services not adequately explaining the assumptions and methods used to develop the family housing O&M budget requests and about the services' reprogramming actions. Furthermore, conferees reduced each of the services' fiscal year 2004 family housing O&M budget requests by \$10 million due to the way the services calculated their family housing O&M requirements. Conferees further reduced the Navy's request by another \$7.7 million due to concerns

⁹ Conference Report (H.R. Conf. Rep. No. 108-342, page 16 (2003)), accompanying H.R. 2559 (became Pub. L. No. 108-132 (2003)).

about how the Navy accounted for its housing privatization effort in its family housing O&M budget request for fiscal year 2004.

Family Housing O&M Budget Process

As part of the President's budget request to Congress, the services develop budget requests and justification submissions to fund family housing O&M programs and activities. The process begins with the family housing master plans, which provide a consolidated strategy for planning, programming, and executing the family housing program and include funding plans for maintaining government-owned housing and plans indicating a time frame for privatization. The services' budget formulation process translates the strategy from the family housing master plans into their respective budget requests. In that process, assumptions about the future requirements for family housing, including assumptions related to housing privatization, are established and refined. The budget requests are based largely on historical obligations adjusted for pricing and program assumptions. The Office of the Secretary of Defense (OSD) provides inputs on key pricing assumptions such as inflation, foreign currency rates, and pay adjustments. OSD and the services determine program assumptions including expected reductions in inventory due to housing privatization. For example, when the services are developing the budget request for the utilities account, they typically look at prior year costs per unit and adjust the costs for anticipated inflation and expected changes in housing unit inventory.

The family housing O&M budget requests are developed through a series of scheduled steps as part of DOD's Planning, Programming, and Budgeting System. The planning stage begins about one year before the budget request is sent to Congress, as the family housing O&M requirements are defined based on the family housing master plans (see app. I, slides 10 and 11). Around the same time, OSD issues its Defense Planning Guidance, which may provide broad planning assumptions for the services. For example, DOD's requirement to eliminate inadequate housing by 2007 is derived from the Defense Planning Guidance. In the programming phase, the services develop their Program Objectives Memorandums, which are 6-year plans that define service requirements. Program Objectives Memorandum budget targets, including family housing O&M budget targets, are then matched against the services' available resources. The programming phase concludes with decisions that are documented in OSD's Program Decision Memorandums issued about 3 to 4 months before the President submits the budget to Congress. At the same time, the services are developing the family housing O&M budget request. This request is included in the budget submission the services

send to OSD for consideration. As the budgeting phase begins, changes to the budget estimation submission are issued as Program Budget Decisions, the last of which is generally issued 2 months before the President submits the budget to Congress in February.

When submitting the budget requests to Congress, the services include justification submissions to summarize the process by which the budget request was derived. Typically, the justification submissions for family housing O&M accounts include a definition of what the account funds, a description of the prior fiscal year's appropriation, and expected pricing and program changes to that account. The estimate for the budget year is then developed based on those changes. In addition, the justification submissions provide a brief statement about pricing and program changes.

Reprogrammings of Family Housing O&M Funds

During the budget execution year, reprogrammings may be necessary if obligations for each account and subaccount do not match the initial funding amount as specified in the conference report. Historically, the services have reprogrammed family housing O&M funds to pay for unexpected events such as natural disasters, utility rate increases, and foreign currency differences. Delays in housing privatization have also caused some of the services to reprogram funds to pay for expenses associated with housing units they had expected to privatize, according to service officials. Also, OSD and the services consider all family housing O&M accounts, except maintenance, as "must-pay" accounts, meaning that such programs and activities funded in these accounts must be paid even if the obligations differ from the initial funding amount.

According to DOD's Financial Management Regulation, the services are required to notify Congress of any reprogramming of family housing O&M funds that are 10 percent or more of the initial funding level.¹⁰ The conference report accompanying the 2004 Military Construction Appropriations Act further states that the services are to notify Congress when reprogrammings reach 10 percent in the family housing O&M accounts and subaccounts.

¹⁰ DOD Financial Management Regulation 7000-14R, Volume 3, Chapter 7.

Housing Privatization Affects the Family Housing O&M Budgets

Congress authorized DOD to establish the Military Housing Privatization Initiative,¹¹ to use private sector investment capital and housing construction expertise to finance, own, operate, and maintain military housing in an effort to help eliminate inadequate housing from DOD's inventory. In 2002, OSD accelerated the goal of eliminating inadequate military family housing from fiscal year 2010 to 2007, which has impacted the services' ability to budget for family housing O&M. As the services privatize their housing, reductions in their housing inventory will occur. As such, funding levels for the family housing O&M accounts and subaccounts are affected differently by privatization (see app. I, slide 15). Some accounts are more directly related to the inventory of military-owned housing and will therefore be expected to decrease generally in proportion to the decrease in inventory due to privatization. These accounts include costs for utilities, furnishings, and services (e.g., trash removal, snow clearing, and fire and police protection). Other accounts, such as leasing, are based on specific anticipated requirements independent from the housing inventory and pace of privatization. Some accounts, primarily the management subaccount and maintenance of real property account, are partially influenced by privatization-related factors. The management subaccount, for example, covers mostly salary costs for activities such as housing referrals, waiting lists, tenant and landlord complaints, and basic housing allowance surveys in addition to the administrative costs directly related to managing military-owned housing. As a result, many of these costs remain regardless of privatization since they are not related to the housing inventory.

Services Do Not Clearly and Consistently Explain the Impact of Privatization in Their Budget Justifications to Congress

Budget justification materials submitted to Congress for family housing O&M funding do not clearly and consistently explain how the housing privatization program impacts the services' budget requests. The services use similar assumptions and methods to develop budget requests for family housing O&M, but they often rely on assumptions established up to a year and a half before the budgets are executed. While the services have the ability to revise and update their budget requests, they typically choose not to because of the difficulty of doing so when faced, in part, with other competing defense priorities, and the relatively small size of the family housing O&M budget. Furthermore, changes in the pace of expected privatization can affect funding required for individual accounts and

¹¹ The National Defense Authorization Act for Fiscal Year 1996 (Pub. L. No. 104-106), Feb. 10, 1996.

subaccounts, although not uniformly, but the impact of privatization is not well explained in the services' budget justifications.

Services Often Rely on Assumptions Established up to a Year and a Half Before Budget Execution

The services use similar pricing and program assumptions and methods to develop their family housing O&M budget requests and base their budget requests largely on historical obligations adjusted for assumptions about pricing (e.g., inflation, foreign currency rates, and pay adjustments) and the housing program (e.g., expected reductions in inventory due to housing privatization). For example, when the services are developing the budget requests for the utilities account, they typically look at prior year costs per unit and adjust the costs for anticipated inflation and expected changes in housing unit inventory. Further, many of the pricing and program assumptions for family housing O&M are established up to a year and a half before the budget is executed. For example, service officials told us that the fiscal year 2004 budget requests were largely determined when the services' Program Objectives Memorandums were completed in May 2002. Similarly, many of the assumptions, such as the privatization rate, used in preparing the fiscal year 2004 budget request were largely based on the services' 2002 family housing master plans. Once these assumptions are established, service officials told us that the budget requests are less likely to be changed, even if newer information becomes available. While the services have the ability to revise and update their budget requests, service officials told us they typically do not revise the requests because competing defense priorities and the relatively small size of the family housing O&M budget request make revisions difficult. For example, if a service anticipates a slippage in privatization after the family housing O&M budget request is programmed, officials said that revising the request becomes more complicated because previous assumptions have already been reflected in funding shifts to the military personnel appropriation budget request to pay for the expected increase in the housing allowance for those servicemembers intended to be in privatized housing. Rather, service officials said that they are more likely to make the needed funding adjustments for family housing O&M during budget execution through reprogrammings.

Services Are Unclear and Inconsistent in Explaining the Impact of Privatization in Their Budget Justifications to Congress

The services' budget justification submissions to Congress are unclear and inconsistent in explaining the impact of privatization on the family housing O&M budget requests. More specifically, the submissions are not clear in explaining how housing inventory reductions due to privatization affect each of the nine family housing O&M accounts and subaccounts or the extent to which a previously established privatization schedule is on track or slipping. Service officials told us that slippage in the privatization schedule can cause an increase in the cost for some accounts, such as the utilities and maintenance of real property accounts that primarily are influenced by the number of housing units still in DOD's housing inventory and not yet privatized. While some decreases in family housing O&M requests were credited to inventory reductions in military-owned housing, the justification submissions accompanying the requests did not fully explain how privatization led to those decreased requests. For example:

- The Navy indicated a decrease in funds for most of the family housing O&M accounts and subaccounts because of privatization in fiscal year 2004, but it provided no additional information explaining how privatization affected the request for each account.
- The Army indicated a decrease in funds for the management subaccount because of privatization in fiscal year 2004, but it did not explain what management activities the Army adjusted due to privatization.

In addition, the services did not consistently address the impact of privatization for each of the family housing accounts and subaccounts within a fiscal year, nor did they consistently address the impact of privatization on a specific account from fiscal year to fiscal year. For example:

- The Army indicated decreases in funds for most of the family housing O&M accounts because of privatization in fiscal year 2003, but it did not decrease funding in the management subaccount for privatization, as would be expected. In contrast, the Army did indicate decreases in funds for the management subaccount in fiscal years 2002 and 2004 due to privatization.
- The Air Force indicated decreases in funds for inventory reductions due to privatization in its management subaccount request in fiscal years 2002 and 2003. In contrast, in fiscal year 2004, the Air Force's budget request for the same subaccount had no discussion of the impact of privatization. Nor did the request include a reduction in the

funding for the management subaccount in fiscal year 2004, as would be expected.

Although the services' budget justification submissions to Congress are unclear in explaining the impact that housing privatization is having on the family housing O&M budget at the time the budget is prepared, all the services have information that could help clarify how privatization affects the family housing O&M accounts and subaccounts. For example, Army officials recognized that clear information explaining the impact of privatization is not always presented to Congress and, consequently, added additional information explaining privatization impacts in its fiscal year 2005 family housing O&M budget justification submission. Also, the Army and the Navy are currently conducting studies to better determine the impact of housing privatization on their management costs. OSD officials said that more experience with housing privatization is needed to properly assess its impact on funding levels for the management subaccount. The dynamics of trying to maintain government-owned housing while increasingly moving to privatization means that early assumptions about when privatization will actually occur for individual projects can change over time and require changes in funding for selected accounts and subaccounts.

Congress Has Limited Visibility Over the Reprogramming of Family Housing O&M Funds

Congress has limited visibility of the services' reprogramming of family housing O&M funds. Although the services are required to notify Congress of reprogrammings to an account or subaccount by 10 percent or more, notification of reprogrammings by less than 10 percent or a decrease in funds to an account is not required. However, appropriations such as the regular O&M do provide such information. Compared with the other services, reporting for the Navy and the Marine Corps provides even less visibility over their reprogramming actions because reprogrammings for the four operations subaccounts were not reported to Congress. In addition, their data reflecting reprogramming actions throughout the year do not always match comparable official obligation data produced by the Defense Finance and Accounting Service.

Current Requirements on Reprogrammings Provide Congress with Limited Visibility

Current requirements provide congressional decision makers with limited visibility of the services' reprogrammings between the nine family housing O&M accounts and subaccounts. The services are required to report to Congress reprogrammings that are 10 percent or more to an account or subaccount. However, Congress is not notified when reprogrammings are below 10 percent or result in a funding decrease. Other required

appropriations reporting, such as regular O&M, provides congressional decision makers with more information.

Current reporting requirements do not provide Congress with complete visibility of the services' reprogrammings between the family housing O&M nine accounts and subaccounts. First, the services are not required to inform Congress of reprogrammings below 10 percent. Due to the varying sizes of the accounts within family housing O&M, a below-threshold reprogramming in a large account such as maintenance can be significant when compared to smaller accounts or subaccounts. On the other hand, smaller valued accounts may generate many more reprogramming actions because of their smaller funding base. As shown in table 1, in fiscal year 2003, the Army reprogrammed 4.7 percent (\$22.6 million) to the maintenance account. Although the amount reprogrammed into the maintenance account was below 10 percent, this amount represented 54.4 percent of the services subaccount. In another example, the Air Force was not required to notify Congress of a \$3.7 million increase in the leasing account because it was below 10 percent in fiscal year 2003. Second, the services are not required to notify Congress of decreases to an account. Between fiscal year 2001 and 2003, there were 14 instances involving decreases of 10 percent or more from an account. As shown in table 1 for example, the Air Force reprogrammed 14.9 percent (\$75 million) in fiscal year 2003 from the maintenance account to fund expenses in other accounts.

Table 1: Services' Reprogramming Amounts and Percentages Reprogrammed, Fiscal Year 2003

Dollars in thousands

Account	Army		Navy and Marine Corps		Air Force	
	Dollar amount change	Percent change	Dollar amount change	Percent change	Dollar amount change	Percent change
Operations						
Management	-\$7,103	-8.0	\$16,063	19.7	\$19,434	40.4
Services	3,083	7.4	7,276	11.7	5,380	21.5
Furnishings	-3,857	-8.0	-8,059	-26.7	2,155	6.1
Miscellaneous	-118	-9.0	-196	-21.6	441	29.4
Utilities	-11,246	-5.3	8,602	5.0	28,029	21.2
Maintenance	22,605	4.7	-9,926	-2.7	-75,000	-14.9
Privatization	5,000	24.2	3,087	27.3	9,200	60.0
Leasing	-19,718	-9.2	0	0.0	3,773	3.7
Mortgage insurance premium	0	0.0	0	0.0	0	0.0

Source: GAO's analysis of service appropriation and obligation information.

Note: A negative number means the services reprogrammed funds out of the account or subaccount.

In other appropriations, DOD provides congressional decision makers with more information on reprogrammings than in family housing O&M. For example, the services are required to submit a Report of Programs to Congress twice a fiscal year for regular O&M.¹² The report provides information tracking the movement of funds from initial appropriation through final obligation, including supplementals, rescissions, transfers, and reprogrammings. For the family housing O&M appropriation, DOD is not required to provide such a report, thus limiting congressional visibility over all reprogrammings. Service officials told us that such information is already tracked at the headquarters level and could be provided to Congress.

¹² DOD Financial Management Regulation 7000-14R, Volume 3, Chapter 6.

Navy and Marine Corps' Reporting Provides Even Less Visibility Over Reprogrammings

When compared to the other services, reporting on the Navy and the Marine Corps' family housing O&M reprogrammings provides less visibility. The reporting of the Navy and the Marine Corps' family housing O&M funds does not always separate the operations account into the four subaccounts. In addition, the Navy and Marine Corps obligation data reflecting reprogramming actions during a fiscal year do not always match comparable official obligation data produced by the Defense Finance and Accounting Service.

The reporting of the Navy and the Marine Corps' family housing O&M funds does not always separate the operations account into the four subaccounts. While the other services notified Congress of reprogrammings that were 10 percent or more for the subaccounts within operations, until fiscal year 2004, the Navy and the Marine Corps combined the four subaccounts into the operations account when reporting reprogrammings. For example, in fiscal year 2003, the management and services subaccounts increased by 19.7 percent (\$16.1 million) and 11.7 percent (\$7.3 million), respectively. Even though the reprogrammings exceeded the 10 percent threshold, no notification was sent to Congress because when these reprogrammings were combined with the other subaccounts, overall reprogrammings in the operations account did not exceed 10 percent. Navy budget officials said that with their fiscal year 2004 notifications to Congress, the Navy and the Marine Corps will be reporting reprogrammings for each subaccount individually, similar to the practices of the other services. In addition, the Defense Finance and Accounting Service does not report obligations for the four subaccounts individually for the Navy and the Marine Corps, as it does for the other services.

Unlike the other services, Navy and the Marine Corps obligation data reflecting reprogramming actions during a fiscal year do not always match comparable obligation data produced by the Defense Finance and Accounting Service. For example, in fiscal year 2002, the Defense Finance and Accounting Service reported obligations for the Navy and Marine Corps' maintenance account as \$391.1 million. However, the Navy and the Marine Corps reported fiscal year 2002 obligations of \$368.5 million for maintenance in their justification submission to Congress. According to Navy and OSD officials, examples like this are part of long-standing problems with ensuring the consistency of data between Navy, Marine Corps, and Defense Finance and Accounting Service data systems. However, because Defense Finance and Accounting Service obligation data are considered official, OSD officials use that data when evaluating the budgets for the family housing O&M program. Service officials told us

they are working with the Defense Finance and Accounting Service to address these issues.

Conclusions

The services' budget justification submissions to Congress have not always been clear in explaining funding requirements and the impacts of the privatization initiative on the budget requests for each of the nine family housing O&M accounts and subaccounts. Although the family housing O&M budget requests are expected to decrease due to reductions in housing inventory as the services privatize more housing, a continued lack of clarity in explaining the impacts of privatization will not allow Congress to determine the appropriateness of any decreases. Until the services provide Congress with sufficient data in their budget justification submissions explaining the impact of privatization, the services will continue to hinder the ability of Congress to conduct its oversight responsibilities. This also places the services at risk of having Congress reduce their budgets, as was the case with their fiscal year 2004 appropriations for family housing O&M.

Reprogramming notifications provide Congress some visibility over the movement of funds; however, complete information on all movement of funds is not required to be provided to Congress for the family housing O&M appropriation. In contrast, DOD is required to provide Congress with more information on the movement of funds for other defense appropriations, such as regular O&M. Until DOD provides Congress similar information on the reprogramming of family housing O&M funds, Congress will continue to receive an incomplete picture over the total movement of family housing O&M funds. Lacking such aggregate information on all fund movements could also limit Congress' ability to fully conduct oversight of family housing O&M programs and activities. In addition, the Navy and the Marine Corps provide even less visibility of reprogrammings of family housing O&M funds because they do not report obligations for the four operations subaccounts and, prior to fiscal year 2004, did not notify Congress of reprogrammings for these subaccounts. Therefore, congressional and DOD decision makers are not getting the same level of detail with regard to obligations for the four subaccounts as they do for the other services. Also, the Navy and the Marine Corps' family housing O&M obligation data have been inconsistent with the comparable data produced by the Defense Finance and Accounting Service. Until the Navy and the Marine Corps report obligation data using the same structure that congressional conferees use to designate funds for the four operations subaccounts and resolve data inconsistencies between them and the Defense Finance and Accounting Service, DOD and congressional decision

makers will continue to lack sufficient budget visibility, hindering their ability to evaluate Navy and Marine Corps budget requests with the same degree of confidence and detail as those of the other services.

Recommendations for Executive Action

To provide Congress with sufficient data in the services' budget justification submissions, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to work with the services to better explain the impacts of the housing privatization initiative on the budget requests for each of the nine family housing O&M accounts and subaccounts.

To improve visibility over the Navy and the Marine Corps' reprogrammings of family housing O&M funds, we recommend that the Secretary of Defense direct the Secretary of the Navy to work with the Defense Finance and Accounting Service to take the following two actions:

- Report obligation data using the same budget structure that congressional conferees use to designate how funds are to be used for the four operations subaccounts, similar to reporting done by the other military services.
- Resolve long-standing data inconsistencies to ensure that obligation data reported by the Defense Finance and Accounting Service match obligation data reported by the Navy and the Marine Corps.

Matter for Congressional Consideration

To improve visibility over reprogrammings of family housing O&M funds by all services, Congress may wish to consider requiring the Secretary of Defense to provide it information covering the movement of funds for the family housing O&M appropriations in a report at the end of the fiscal year, similar to what DOD now provides to Congress on other DOD appropriations. This report should provide timely and accurate information on movement of funds, which includes reprogrammings within the nine family housing O&M accounts and subaccounts, along with other information on other fund movements such as transfers and supplementals.

Agency Comments

In written comments on a draft of this report, the Deputy Comptroller (Program/Budget) within the Office of the Under Secretary of Defense (Comptroller) agreed with our recommendations stating that the department is taking steps to implement them. In reference to our recommendation that the services better explain the data provided to

Congress regarding the impact of privatization on family housing O&M budget requests, the department has already drafted changes to its financial management regulation and expects to issue an update to these regulations within the next 90 days. In reference to our two recommendations to improve congressional visibility of Navy and Marine Corps' reprogrammings of family housing O&M accounts and subaccounts and to improve the consistency of Navy and Marine Corps obligation data, DOD plans to provide written direction to the Secretary of the Navy and the Defense Finance and Accounting Service within 30 days after the release of our report to address these two recommendations.

In addition, the Deputy Comptroller (Program/Budget) within the Office of the Under Secretary of Defense (Comptroller) responded favorably to our matter for congressional consideration suggesting that Congress may wish to consider further improving the visibility of the services' reprogrammings by requiring DOD to provide information covering the net movement of funds for each of the nine family housing O&M accounts and subaccounts. DOD's comments, which are included in this report in appendix III, also discusses the types of information DOD would provide to Congress covering the net movement of funds for the family housing O&M accounts and subaccounts.

Scope and Methodology

To assess the services' assumptions and methods used to develop individual budget requests and how well their budget justifications explain the impact of privatization on family housing O&M funds, we reviewed and analyzed the services' budget justification submissions covering fiscal years 2002 through 2004. We evaluated how these justifications incorporated the services' privatization schedule and the resulting explanation in the budget requests. In addition, we interviewed Army, Navy, Marine Corps, and Air Force family housing officials to obtain information on the assumptions and methods used to develop the family housing O&M budget requests. We identified statements in the services' budget justification submissions to assess how well the services explained their assumptions, methodology, and the impact of privatization.

To assess the extent to which Congress has visibility over the services' reprogramming of family housing O&M funds, we compared the services' initial funding levels with year-end obligations for the nine family housing O&M accounts and subaccounts to determine the amount reprogrammed by the services during fiscal years 2001 through 2003. To review the reprogramming of funds between the family housing O&M accounts, including amounts over and under established reprogramming thresholds,

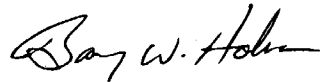
we analyzed the services' and the Defense Finance and Accounting Service's budget data for the family housing O&M account. In addition, we compared these reprogrammings with the congressionally mandated requirements for the services to report reprogrammings to Congress and the execution data in the services' justification submissions to the Defense Finance and Accounting Service's reports to ensure that the information was consistent. For the Army and the Air Force, we found that the obligation amounts reported matched those reported by the Defense Finance and Accounting Service. Based on our comparisons and speaking with Army and Air Force officials, we were satisfied with the information. Consequently, we determined the use of Army and Air Force justification materials and Defense Finance and Accounting Service reports was sufficiently reliable for meeting our objectives. For the Navy and Marine Corps, we found inconsistencies between the services' justification submission and the Defense Finance and Accounting Service's reports.

We discussed the results of our work with officials from the Office of the Under Secretary of Defense (Comptroller); the Housing and Competitive Sourcing Office within the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Defense Finance and Accounting Service; and the military services. We have designated DOD's financial management area—including funding and cost data—as high risk due to long-standing deficiencies in DOD's systems, processes, and internal controls.¹³ However, as discussed, we determined the data we used during our review of the services' reprogramming of family housing O&M funds were sufficiently reliable for this report.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Commandant of the Marine Corps; and the Director, Office of Management and Budget. We will also make copies available to others upon request. In addition, the report is available at no charge on GAO's Web site at www.gao.gov.

¹³ U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Defense*, GAO-03-98 (Washington, D.C.: January 2003) and U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

Please contact me on (202) 512-8412, or my Assistant Director, Mark Little, at (202) 512-4673 if you or your staff have any questions regarding this report. Major contributors to this report were Laura Talbott, James Reynolds, Daniel Chen, and Jane Hunt.



Barry W. Holman, Director
Defense Capabilities and Management

Congressional Committees

The Honorable John W. Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Kay Bailey Hutchison
Chairman
The Honorable Dianne Feinstein
Ranking Minority Member
Subcommittee on Military Construction
Committee on Appropriations
United States Senate

The Honorable Duncan Hunter
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

The Honorable Joe Knollenberg
Chairman
The Honorable Chet Edwards
Ranking Minority Member
Subcommittee on Military Construction
Committee on Appropriations
House of Representatives

Appendix I: GAO Briefing Slides



Briefing

DOD's Military Family Housing Operation and Maintenance Budget



Objectives: Engagement Stems from Congressional Mandate

- In the conference report accompanying the fiscal year 2004 Military Construction Appropriations Act, Congress expressed its concerns about the family housing operation and maintenance (O&M) budget:
 - Congress concerned that the assumptions and methods underlying the budget request for family housing O&M accounts are not adequately explained by the services.
 - Congress concerned about movement of funds between the various family housing O&M subaccounts.
- Congress directed us to
 - conduct a study on the assumptions and methods underlying the services' budget requests for the family housing O&M budget and
 - review the movement of funds between the family housing O&M budget accounts and subaccounts.

2



Results in Brief

- Services' budget requests are built on historical pricing and program assumptions. However, their budget justification materials do not provide a sufficient explanation of how the housing privatization program has affected budget requests for family housing O&M.
 - Justification materials often rely on historic data and assumptions.
 - Services use similar assumptions and methods to develop budgets, but approaches among the services differ that lead to inconsistencies.
 - Justification materials present an unclear and inconsistent picture in explaining the impact of inventory reductions from housing privatization on the services' budget requests to Congress.
- As a result, unclear budget requests
 - hinder Congress' ability to conduct oversight responsibilities and
 - continue to place the services at risk of having their budgets reduced by Congress, as was the case with their fiscal year 2004 appropriations.



Results in Brief (con't)

- Congress has limited visibility of the reprogramming of military family housing O&M funds.
 - Congress is getting a partial picture with regard to the reprogramming of family housing O&M funds because (1) the services are not required to inform Congress of reprogrammings that decrease an account or a subaccount and (2) until last year, Navy did not notify Congress of specific reprogrammings in its four operations subaccounts.
 - The services are not required to report to Congress all movement of funds for the family housing O&M appropriations, although such reporting is required for other DOD appropriations, such as in procurement.
 - Without such reporting it could limit congressional oversight.
-

4



Results in Brief (con't)

- Navy and Marine Corps provide even less visibility of activities associated with operating their military family housing O&M program.
 - Unlike the other services, Navy and Marine Corps do not report obligations for the four operations subaccounts and, prior to fiscal year 2004, did not notify Congress of their reprogramming actions for these subaccounts.
 - Navy and Marine Corps family housing O&M obligation data does not always match comparable official obligation data produced by Defense Finance and Accounting Service for the last several years.
- This lack of budget visibility and accountability hindered the ability of decisionmakers to evaluate Navy and Marine Corps budget requests with the same degree of confidence and detail as those of the other services.



Background: Congress Appropriated about \$2.7 Billion to the Services for Military Family Housing O&M for Fiscal Year 2004

Fiscal Year 2004 Military Family Housing O&M Appropriation

Dollars in millions

Service	Amount
Army	\$1,033.0
Navy and Marine Corps	835.1
Air Force	816.1
Total	\$2,684.2

Source: Military Construction Appropriations Act for Fiscal Year 2004.

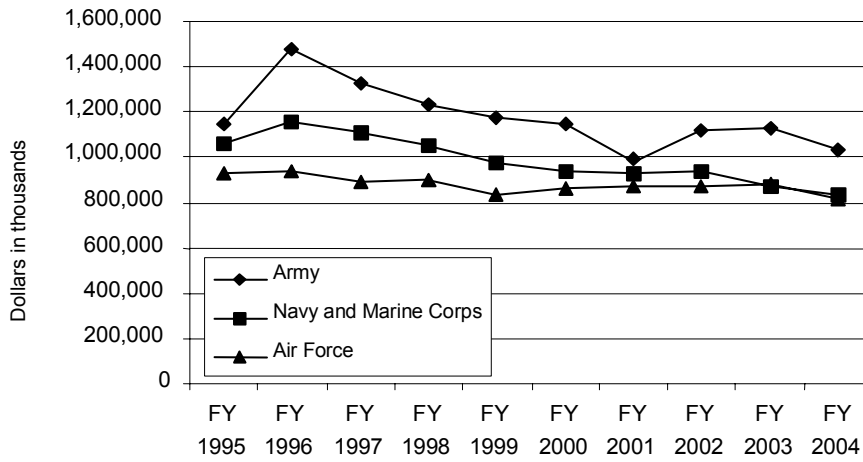
Note: In addition, Congress appropriated \$49.4 million for defensewide family housing O&M (defense-wide includes National Security Agency, Defense Logistics Agency, and Defense Intelligence Agency).

Congress appropriates through the Military Construction Appropriations Act military family housing O&M funds to each service.



Background: Military Family Housing O&M Appropriation for Each Service Has Decreased Slightly over the Last Decade

Military Family Housing O&M Appropriations
 Fiscal Years 1995-2004 (constant fiscal year 2004 dollars)

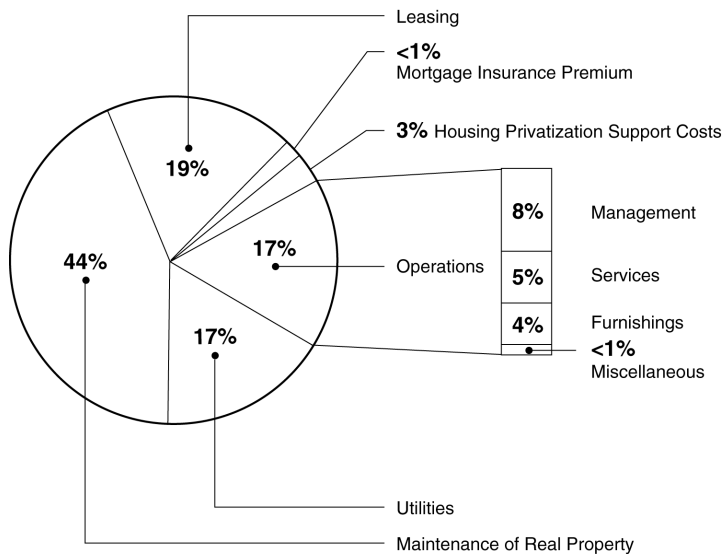


Source: GAO analysis of applicable conference reports.



Background: Congress Designates Its Expected Use of Military Family Housing O&M Funds by Account and Subaccount

Fiscal Year 2004 Military Family Housing O&M Appropriations by Account and Subaccount



Source: GAO's analysis of DOD budget data.

Note: May not add up to 100 percent due to rounding.



Background: Maintenance Account Generally Has Spending Flexibility Because Maintenance Requirements Can Be Deferred

Must pay accounts

- Management
- Services
- Furnishings
- Miscellaneous
- Utilities
- Leasing
- Privatization
- Mortgage Insurance Premium

Discretionary account

- Maintenance

Must pay accounts must be paid, even if the amounts differ from the budget estimate.



Assumptions and Methods: Services' Budget Formulation Process Translates Strategy from Master Plans into Their Budget Requests

Family Housing Master Plans

- Begins the family housing O&M budget process by outlining the assumptions in each service's family housing master plans.
- Provides a consolidated strategy for planning, programming, and executing the family housing program.
- Includes housing privatization schedule and plans to eliminate inadequate housing.



DOD Budget Documents

- DOD's budget building process involves balancing defense priorities, fiscal constraints, and program requirements.
- Family housing requirements are matched to OSD's planning and fiscal guidance.
- Fiscal and program assumptions are further refined as the services build their budget requests as contained in key defense budget documents like:
 - Defense Planning Guidance
 - Defense Fiscal Guidance
 - Program Objectives Memorandum
 - Program Decision Memorandum
 - Budget Estimate Submission
 - Program Budget Decisions



President's Budget Request and Justification Books

- Services request funds by family housing O&M appropriation accounts and subaccounts.

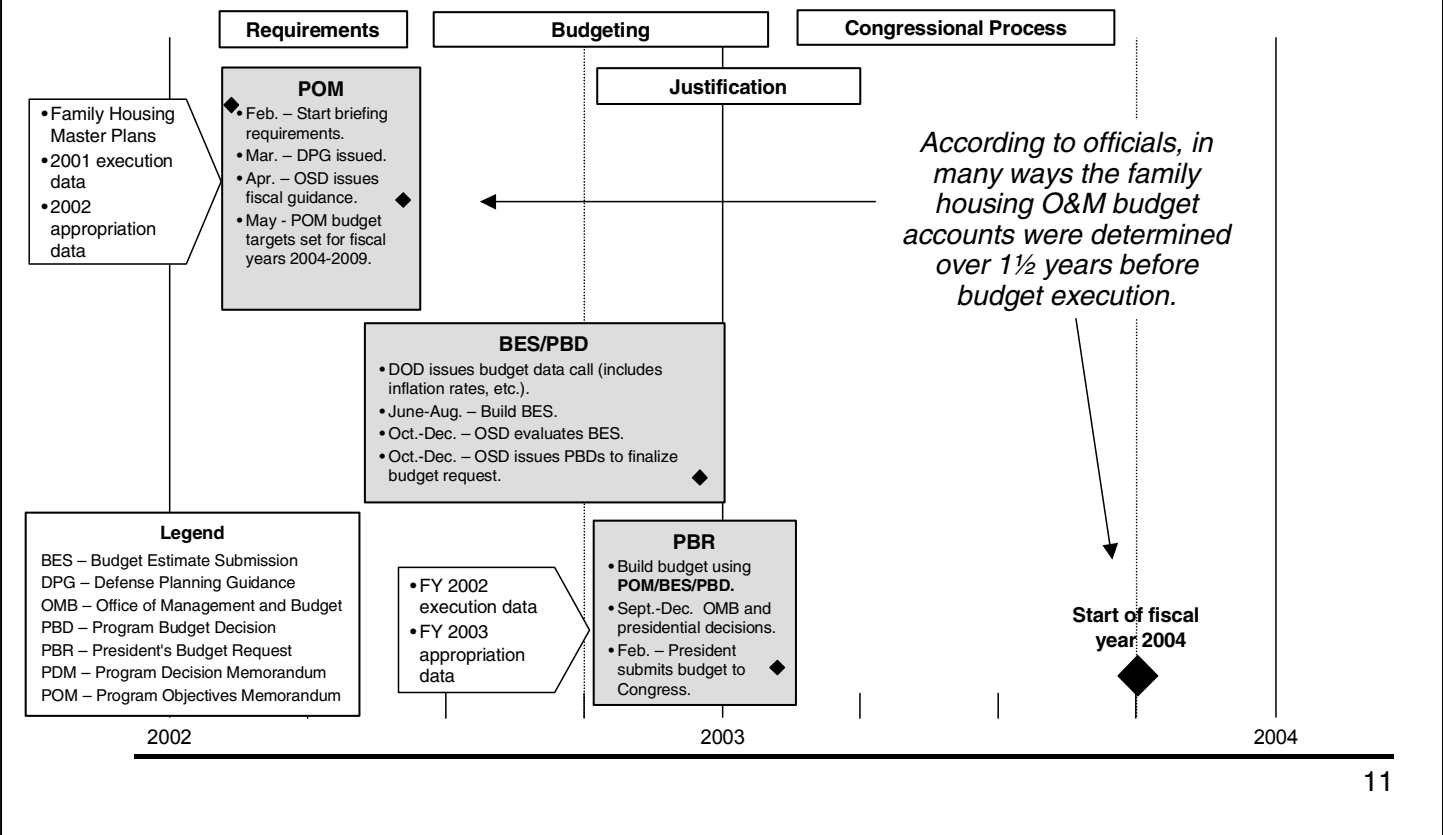


Conference Report

- Four family housing O&M appropriations.
- Conferees designate how funds are to be spent by the nine family housing O&M accounts and subaccounts.



Assumptions and Methods: Timeline for Fiscal Year 2004 Military Family Housing O&M Budget Request





Assumptions and Methods: Services Use Similar Assumptions and Methods to Develop Their Budget Request but Differ in Overall Approach

- Army emphasizes fully funding its must pay accounts to minimize reprogrammings from its maintenance account and prevent maintenance disruptions during budget execution year.
- Navy and Air Force said that to cover dollar shortfalls for must pay accounts, they would reprogram funds from the maintenance account during budget execution year.
- All services have different housing privatization rates that affect their budget estimates:
 - OSD expects to privatize over 60 percent of its military family housing inventory by the end of fiscal year 2007.



Assumptions and Methods: Budget Request Based Largely on Historical Costs Adjusted for Pricing and Program Assumptions

- Key pricing assumptions—OSD provides input for
 - inflation factors,
 - foreign currency rates,
 - pay adjustments, and
 - reductions through energy conservation initiatives.
- Key program assumptions—OSD and services provide input for anticipated pace of housing privatization:
 - Projects are being privatized at different pace by service.
 - Inventory of family housing units decreasing at different amounts by service.
- When assumptions used to build the budget request are not fully realized, reprogrammings are needed to adjust to reality during the budget year.



Assumptions and Methods: Services Use Similar Methods to Develop Budget Requests for the Various Nine Accounts and Subaccounts

Account/subaccount	Typical method to develop budget request
Operations	
Management	Anticipated costs for mostly salaries and special studies
Services	Unit cost average multiplied by inventory average
Furnishings	Unit cost average multiplied by inventory average
Miscellaneous	Specified anticipated costs for overseas housing and other reimbursements
Utilities	Unit cost average multiplied by inventory average
Maintenance of Real Property	Unit cost average multiplied by inventory average
Leasing	Specified anticipated costs per leased unit in the United States and overseas
Mortgage Insurance Premium	Specified anticipated costs
Privatization Support	Specified anticipated costs for consultants and other privatization expenses



Assumptions and Methods: Not All Military Family Housing O&M Accounts Decrease Proportionally to the Decrease in Inventory

Percent of 2004 appropriation	Account/subaccount	Proportionally related to reduced housing inventory	Not proportionally related to reduced housing inventory
Operations			
8	Management		✓
5	Services	✓	
4	Furnishings ^a	✓	
<1	Miscellaneous		✓
17	Utilities	✓	
44	Maintenance of Real Property ^b	✓	
19	Leasing		✓
<1	Mortgage Insurance Premium		✓
3	Privatization Support		✓

^a Excludes furnishings for foreign locations.

^b Although the military family housing inventory has been decreasing, service officials told us their maintenance accounts have not decreased proportionally—mostly in order to address unfunded maintenance backlogs.



Assumptions and Methods: Many Considerations Go into the Services' Justification Materials to Support Their Budget Requests

- As the services translate family housing master plans into requests for appropriations, the budget materials provided to Congress often rely on pricing and program assumptions made up to a year and a half before services execute their budgets.
- Acceleration of services' housing privatization plans is having a significant influence on estimating budget needs, (e.g., OSD moved up its goal of eliminating inadequate military family housing from fiscal year 2010 to 2007).
- Budget adjustments due to privatization schedule slippages could take 2 to 3 years to be remedied.
 - Services often use maintenance accounts to move funds with the least disruption because maintenance can be deferred.
- Any of these considerations can complicate the budget execution process if they are not estimated accurately.



Assumptions and Methods: Justification Materials Lack Clarity as to How Privatization Affects the Family Housing O&M Budget Request

- Justification materials are unclear as to how the services' privatization schedules affect O&M accounts and subaccounts:
 - Justification materials do not fully explain the impact of privatization on family housing O&M budget, particularly for management activities.
 - Material contains many inconsistencies when the budget data are analyzed from year to year for the same service or are analyzed for the same account across the services for the same year (e.g., showing how inventory reductions decreased the budget estimates one year, then showing no budget reductions the next year although inventory reductions occurred).
- Justification materials summarize the assumptions and methods used to develop the budget request:
 - Services have additional information that could help clarify the request.
 - For example, the Army added additional budget justification information in its fiscal year 2005 budget request to better explain privatization impacts.



Assumptions and Methods: Services Remain Uncertain as to How Housing Privatization Will Affect Housing Management Costs

- Some costs for managing housing activities will remain regardless of privatization:
 - Housing management covers mostly salary costs for activities such as housing referrals, waiting lists, waivers for rental and utility deposits, tenant and landlord complaints, and basic housing allowance surveys.
- Army and Navy are currently conducting studies to better determine impact of housing privatization on their management costs (e.g., whether some of these activities could be contracted out or conducted by the housing privatization developer).
- OSD housing officials said more experience with housing privatization is needed to properly assess its impact on housing management activities.



Reprogramming of Funds: Services Reprogram Military Family Housing O&M Funds under Certain Controls

- DOD's financial management regulations state that services are to
 - seek congressional approval prior to reprogramming funds for specified accounts (e.g., Housing Privatization Support Costs) and items reduced by Congress in appropriation and
 - notify Congress when reprogrammings cumulatively reach or exceed 10 percent of the adjusted appropriated amount.
 - Reprogramming data generally reflect the sum of hundreds of small actions.
- DOD's financial management regulations do not allow the services to transfer funds between appropriations without OSD's involvement (i.e., foreign currency):
 - No evidence that unauthorized transfers were made.



Reprogramming of Funds: Congress Has Limited Visibility over the Reprogramming of Family Housing O&M Funds

- Under current controls, congressional notification is not required when
 - an account is increased by less than 10 percent or
 - an account is reduced by any amount.
- Services are not required to report to Congress the aggregate movement of military family housing O&M funds as they are for other accounts, such as procurement and regular O&M. This report is called a *Report of Programs*.
- Navy and Marine Corps provide even less information:
 - Unlike the other services, Navy and Marine Corps do not report obligations for the four operations subaccounts and, prior to fiscal year 2004 did not notify Congress of their reprogramming actions for these subaccounts.
 - Navy and Marine Corps family housing O&M obligation data does not always match comparable official obligation data produced by Defense Finance and Accounting Service for the last several years.



Reprogramming of Funds: No Distinct Pattern or Trend in Reprogramming Funds among the Family Housing O&M Accounts

- We found 33 examples where the military family housing O&M accounts had changed by more than 10 percent from fiscal years 2001 to 2003:
 - 19 showed fund increases of 10 percent or more, of which the services were required to notify Congress.
 - 14 showed fund decreases of 10 percent or more, of which the services were not required to notify Congress.
- Many reasons for reprogramming funds such as
 - fact-of-life changes (e.g., foreign currency, utility rates, and natural disasters) and
 - a lot of flux in the housing privatization program (e.g., the recent acceleration of the pace of privatization and housing privatization schedule slippages).
- Smaller accounts are more likely to have larger percentage changes.



Reprogramming of Funds: Army

Reprogramming as a Percentage of Military Family Housing Operation and Maintenance Adjusted Appropriation by Account and Subaccount

Dollars in thousands

Account/subaccount	FY2001		FY2002		FY2003	
Operations						
Management subaccount	(\$6,142)	(7.34%)	\$1,530	1.88%	(\$7,103)	(8.02%)
Services subaccount	(\$251)	(0.56%)	(\$4,612)	(9.42%)	\$3,083	7.42%
Furnishings subaccount	(\$3,537)	(7.97%)	\$1,360	3.02%	(\$3,857)	(8.03%)
Miscellaneous subaccount	\$300	35.09%	(\$31)	(2.45%)	(\$118)	(8.99%)
Utilities	\$23,907	12.07%	(\$48,512)	(19.80%)	(\$11,246)	(5.33%)
Maintenance of Real Property	\$17,078	4.43%	\$62,060	14.06%	\$22,605	4.69%
Leasing	(\$15,916)	(8.20%)	(\$15,314)	(7.86%)	(\$19,718)	(9.24%)
Mortgage Insurance Premium	\$0	0%	\$0	0%	\$0	0%
Housing Privatization Support Costs	N/A	N/A	\$0	0%	\$5,000	24.24%

Source: GAO analysis of the Defense Finance and Accounting Service's budget execution 1002 reports and service justification budget material.

Key: Shaded areas represent movements of funds greater than 10 percent of the adjusted appropriated amount.

Notes: N/A means not applicable.

Numbers in parentheses are negatives.



Reprogramming of Funds: Navy and Marine Corps

Reprogramming as a Percentage of Military Family Housing Operation and Maintenance Adjusted Appropriation by Account and Subaccount

Dollars in thousands

Account/subaccount	FY2001		FY2002		FY2003	
Operations						
Management subaccount	\$1,141	1.34%	\$20,281	23.98%	\$16,063	19.70%
Services subaccount	\$2,594	4.06%	\$7,092	10.90%	\$7,276	11.71%
Furnishings subaccount	(\$6,729)	(21.79%)	(\$6,119)	(18.93%)	(\$8,059)	(26.74%)
Miscellaneous subaccount	(\$713)	(57.55%)	(\$435)	(36.65%)	(\$196)	(21.63%)
Utilities	\$37,066	22.46%	\$9,419	5.09%	\$8,602	4.97%
Maintenance of Real Property	(\$1,963)	(0.50%)	(\$36,433)	(9.00%)	(\$9,926)	(2.65%)
Leasing	(\$23,467)	(16.45%)	(\$7,529)	(6.14%)	\$0	0.00%
Mortgage Insurance Premium	(\$69)	(97.18%)	(\$2)	(2.94%)	\$0	0.00%
Housing Privatization Support Costs	N/A	N/A	\$6,517	160.75%	\$3,087	27.3%

Source: GAO analysis of the Defense Finance and Accounting Service's budget execution 1002 reports and service justification budget material.

Key: Shaded areas represent movements of funds greater than 10 percent of the adjusted appropriated amount.

Notes: N/A means not applicable.

Numbers in parentheses are negatives.



Reprogramming of Funds: Air Force

Reprogramming as a Percentage of Military Family Housing Operation and Maintenance Adjusted Appropriation by Account and Subaccount

Dollars in thousands

Account/subaccount	FY2001		FY2002		FY2003	
Operations						
Management subaccount	\$15,771	28.58%	\$4,362	7.58%	\$19,434	40.37%
Services subaccount	\$1,727	6.22%	\$1,374	4.90%	\$5,380	21.52%
Furnishings subaccount	(\$4,195)	(11.07%)	\$551	1.52%	\$2,155	6.09%
Miscellaneous subaccount	(\$710)	(30.67%)	(\$574)	(24.35%)	\$441	29.38%
Utilities	\$19,712	12.49%	\$2,653	1.70%	\$28,029	21.23%
Maintenance of Real Property	(\$4,165)	(0.98%)	(\$16,405)	(3.80%)	(\$75,000)	(14.92%)
Leasing	(\$11,945)	(10.42%)	\$1,314	1.29%	\$3,773	3.66%
Mortgage Insurance Premium	\$0	0%	\$0	0%	\$0	0%
Housing Privatization Support Costs	N/A	N/A	\$6,871	28.83%	\$9,200	59.97%

Source: GAO analysis of the Defense Finance and Accounting Service's budget execution 1002 reports and service justification budget material.

Key: Shaded areas represent movements of funds greater than 10 percent of the adjusted appropriated amount.

Notes: N/A means not applicable.

Numbers in parentheses are negatives.

Appendix II: Family Housing Operation and Maintenance Budget Definitions

Department of Defense's Financial Management Regulation¹ defines the accounts and subaccounts that Congress uses to designate its understanding of funds within the family housing operation and maintenance appropriation as follows:

Operations account. This is a summary account for consolidating costs accumulated in the following subordinate accounts:

- Management account. Accumulates costs of management, administrative, and support type services at installation level involving (1) administration costs for installation housing offices including management office personnel, supplies, equipment, and utilities pertaining to the functions of a family housing office and costs for administrative support services provided in supply, comptroller, maintenance, and other installation offices when the costs for such services are attributable to family housing; (2) costs for housing referral administration pertaining to private housing, including rental guarantee projects and the provision of referral services, and assistance in locating and inspecting privately owned family housing for DOD personnel; (3) requirements surveys and preliminary family housing studies or engineering construction plans made before Secretary of Defense project approval, which also includes planning for improvement and rental guarantee projects and inspection of construction of rental guarantee housing; and (4) other identifiable management costs that directly support the family housing program.
- Services account. Accumulates costs for authorized services such as (1) refuse collection and disposal—includes costs of family housing for collecting garbage, trash, ashes and debris, and for refuse disposal, such as the operation and maintenance of incinerators, sanitary fill, and regulated dumps. Also included are costs for acquisition, maintenance and repair of garbage and trash containers, and operation of can washing facilities; (2) fire protection—includes costs for protection and prevention of family housing facilities; (3) police protection—includes costs for law enforcement, traffic control, and protection of family housing facilities, (4) entomological services—includes costs of all control measures against fungi, insects, and rodents within family housing dwellings, facilities, and areas; (5) custodial services—includes

¹ DOD Financial Management Regulation 7000-14R, Volume 6, Chapter 9.

costs of janitorial and custodial services performed in common service areas and the cost of elevator operation in family housing facilities; (6) snow removal—includes costs of removing, hauling, and disposal of snow, the cost of ice alleviation, and erection, maintenance, repairs and removal of snow fences for family housing areas; (7) street cleaning—includes costs of cleaning streets comprised of sweeping, flushing, and picking up litter; (8) municipal type services—includes costs of miscellaneous municipal type services not identifiable to other listed accounts; and (9) other services—includes costs of all other authorized services for family housing.

- Furnishings account. Accumulates costs for initial acquisition, maintenance, repair, and replacement of furnishings, furniture, movable household equipment, and authorized miscellaneous items. Also includes control, handling, record keeping, moving of government-owned furnishings into and out of dwelling units and charges for connecting and disconnecting equipment, as well as handling costs incident to storage.
- Miscellaneous account. Accumulates costs for (1) lease rents and permit payments for housing and trailer spaces leased by the government from private sources or provided by the Federal Housing Administration or the Department of Veterans Affairs as well as reimbursement costs for dwellings provided by state, municipal, or foreign governments or by other federal agencies, (2) German land taxes paid to the Federal Republic of Germany under the North Atlantic Treaty Organization Status of Forces Agreement for local taxes on land and improvements of family housing property, (3) fire insurance charges paid to the Federal Republic of Germany to cover fire damage to family housing dwelling units, (4) United Kingdom accommodation charges paid in accordance with the country-to-country agreement for housing provided to U.S. Forces, (5) other miscellaneous operations costs not covered elsewhere.

Utility operations account. This is a summary account for accumulating costs for utilities consumed in family housing. This account excludes the costs of maintenance and repair of utility systems identified to the family housing property covered under the Maintenance of Real Property Facilities Account. Electricity, water, sewage, gas fuel oil or other heating fuels are the types of utilities reported in this account.

Maintenance of real property facilities account. This is a summary account for accumulating costs for the following: (1) Dwellings—costs of maintenance and repair of all family housing buildings as defined in DOD Instruction 4165.3 including all interior utilities and installed equipment (typically this involves (a) service calls for minor work including emergency and temporary repairs normally not in excess of 16 work hours, (b) routine maintenance for occupancy work and other maintenance usually scheduled annually or more frequently, (c) repairs and replacements for rehabilitations and replacement of major components and installed equipment, (d) interior and exterior painting and the necessary preparation, and (e) contract cleaning between occupancy, where authorized); (2) exterior utilities—costs of maintenance and repair of electric, gas, water, sewage and other utility distribution, collection, or service systems assigned to family housing (street and area lighting systems are included in exterior utilities beginning at a point 5 feet from the house line and ending at a point where the utility system joins a common use main or terminates); (3) other real property—costs for (a) maintenance, care, and repair of improved and unimproved grounds, storm sewerage, and drainage structures and costs of acquisition, maintenance, and repair of government-owned minor equipment, such as hand-operated lawn mowers used for grounds maintenance by occupants, (b) maintenance and repair of paved or stabilized streets, roads, walks, driveways, utility, service, and parking areas, as well as curbs, gutters, signs, and other road appurtenances, and (c) maintenance and repair of facilities other than dwellings, such as fences when the facility is dedicated to housing, athletic and recreation facilities, community buildings, and service facilities (also included are the costs of maintenance of trailer sites including outlets); and (4) alterations and additions—costs for incidental additions, expansions, extensions, and alterations to the existing real property (also includes the payments made to military personnel for telephone reconnection charges when maintenance or repair work necessitates government-directed nonpermanent change of station moves and charges resulting from improvement or repair projects funded in part from the family housing construction account).

Leased housing account. This is a summary account for accumulating costs for the following: (1) lease cost—foreign account; costs for charges and other payments specified in the lease agreement for housing in foreign countries; (2) lease cost—foreign account government rental guarantee program; costs for charges and other payments specified in the lease agreement for housing in Europe under the Army's foreign account government rental guarantee program; (3) lease cost—domestic account; costs for charges and other payments specified in the lease agreement for

housing in the United States including U.S. possessions and territories; (4) lease cost—section 801 account; costs for charges and other payments specified in the lease agreement for section 801-type housing; (5) other operation and maintenance cost—foreign account; costs for maintenance, utilities, and contracted services not provided by the lessor for housing in foreign countries (also includes initial make-ready costs, costs of government-owned furnishings, any pro rata share of the costs of installation services, and administrative costs such as assignment, travel, and inspection by installation personnel, and reimbursements to the Department of State for foreign affairs administrative support costs); (6) other operation and maintenance cost—foreign account government rental guarantee program; costs for maintenance, utilities, and contracted services not provided by the lessor for housing in foreign countries (also includes initial make-ready costs, costs of government-owned furnishings, any pro rata share of the costs of installation services, and administrative costs such as assignment, travel, and inspection by installation personnel, and reimbursements to the Department of State for foreign affairs administrative support costs); (7) other operation and maintenance cost—domestic account; costs for maintenance, utilities, and contracted services not provided by the lessor for housing in the United States (also includes initial make ready costs, costs of government-owned furnishings, any pro rata share of the costs of installation services, and administrative costs such as assignment, travel, and inspection by installation personnel); and (8) other operation and maintenance cost—Section 801 account; costs for maintenance, utilities, and contracted services not provided by the lessor for Section 801-type housing (also includes initial make ready costs, costs of government-owned furnishings, any pro rata share of the costs of installation services, and administrative costs such as assignment, travel, and inspection by installation personnel).

Servicemen's mortgage insurance premiums account. This is a summary account for accumulating the costs for servicemen's mortgage insurance premium payments.

Privatization support cost account.² This account is for accumulating the costs that the government incurs in direct support of the family housing

² DOD has better defined costs for privatization support in response to a prior GAO recommendation (U.S. General Accounting Office, *Military Housing: Better Reporting Needed of the Status of the Privatization Program and the Costs of Its Consultants*, [GAO-04-111](#) (Washington, D.C.: Oct. 9, 2003). At the time of this report, DOD's definition of privatization support costs had not been incorporated into DOD's Financial Management Regulation.

privatization program with the exception of those costs that will be included as part of the privatization project. These costs include all administrative, planning, development, solicitation, award, transition, construction oversight, and portfolio management activities associated with military housing privatization and specifically for: (1) site assessment costs which includes the costs in direct support of the family housing privatization program for environmental baseline assessments, environmental assessments, environmental impact statements, and any efforts required to be accomplished by the government prior to privatization for environmental mitigation, site surveys, or real estate costs; (2) project costs which includes all costs in direct support of the family housing privatization program for project feasibility studies, concept development, consultant fees, solicitation, procurement, contracting, execution, transition, construction management (supervision, inspection, and overhead), post award management and monitoring, and portfolio management, and (3) administrative costs which includes all costs in direct support of the family housing privatization program for civilian pay, travel, training, supplies, equipment, and for any services provided by a defense agency in support of the privatization program.

Appendix III: Comments from the Department of Defense



COMPTROLLER
(Program/Budget)

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

MAY 14 2004

Mr. Barry Holman
Director, Defense Capabilities and Management
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Holman:

This is the Department of Defense (DOD) response to the General Accounting Office (GAO) report GAO-04-583, "MILITARY HOUSING: Opportunities Exist to Better Explain Family Housing O&M Budget Requests and Increase Visibility Over Reprogramming of Funds," dated April 14, 2004 (GAO Code 350474).

Thank you for allowing the DOD to comment on your draft report. I concur with each of your recommendations.

I concur with comment on the suggestion contained in the report that the Congress may wish to consider requiring the Secretary of Defense to provide Congress with information covering the movement of funds for the family housing O&M appropriations in a report at the end of the fiscal year, similar to what DOD now provides to Congress on other appropriations. I have no objection to providing such report. I propose that for each of the nine family housing O&M accounts and subaccounts that the report would include: appropriated amounts, adjustments reflecting enacted rescissions, general reductions and supplemental appropriations, reprogrammings approved by the Secretary of Defense and the congressional committees, the total of below threshold reprogrammings not requiring approval by the Secretary of Defense or the congressional committees, and the revised ending year program. A brief description would be included for each account or subaccount outlining the reasons for the below threshold reprogramming totals for the year. Detailed comments regarding each of the reports recommendations and suggestion to Congress are enclosed.

Sincerely,

A handwritten signature in black ink, appearing to read "John P. Roth".

John P. Roth
Deputy Comptroller

Enclosures:
As stated

GAO-04-583/GAO CODE 350474

**“MILITARY HOUSING: OPPORTUNITIES EXIST TO BETTER EXPLAIN
FAMILY HOUSING O&M BUDGET REQUESTS AND INCREASE
VISIBILITY OVER REPROGRAMMING OF FUNDS”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to work with the Services to better explain the impacts of the housing privatization initiative on the budget requests for each of the nine family housing O&M accounts and subaccounts. (Page 17/Draft Report)

DOD RESPONSE: Concur. This direction has been incorporated in the update to the Department of Defense, Financial Management Regulations, Volume 2B, Chapter 6, that is due to be released within the next 90 days.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Secretary of the Navy to work with the Defense Finance and Accounting Service (DFAS) to report obligation data using the same budget structure that congressional conferees use to designate how funds are used for the four operations subaccounts, similar to reporting done by the other Military Services. (Page 17/Draft Report)

DOD RESPONSE: Concur. Within 30 days of the release of the final report, written direction will be provided to the Secretary of the Navy and DFAS to report obligation data on the monthly DD-1002 (Appropriation Status Report), by account and subaccount, similar to how the DFAS reports the other Military Department’s obligation data for family housing O&M accounts.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense direct the Secretary of the Navy to work with DFAS to resolve long-standing data inconsistencies to ensure that obligation data reported by the DFAS match obligation data reported by the Navy and the Marine Corps. (Page 17/Draft Report)

DOD RESPONSE: Concur. Within 30 days of the release of the final report, written direction will be provided to the Secretary of the Navy to work with DFAS to ensure that the obligation data reported by DFAS in the monthly DD-1002 (Appropriation Status Report), for the Department of the Navy family housing account matches the obligation data provided to DFAS by the Navy and Marine Corps.

Enclosure (1)

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