Audit Report

OFFICE OF THE INSPECTOR GENERAL

AUDIT OF CLUB OPERATIONS AT HEIDELBERG, GERMANY

Report No. 94-016 November 18, 1993

20000417 081

Department of Defense

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

DTIC QUALITY INSPECTED 2

AQI00-07-1744

Additional Copies

Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303), Fax (703) 614-8542.

Acronyms

ASG	Area Support Group
DEH	Directorate of Engineering and Housing
EUD	U.S. Army Corps of Engineers, Europe District
HOCC	Heidelberg Officers' and Civilians' Club
MWR	Morale, Welfare, and Recreation
NAF	Nonappropriated Funds
SHBA	Staatliches Hochbauamt
USAREUR	U.S. Army, Europe
USRCB	U.S. Army, Europe Soldiers' Recreation Center, Berchtesgaden

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

November 18, 1993

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PERSONNEL AND READINESS)
COMMANDER IN CHIEF, U.S. EUROPEAN COMMAND
COMMANDER IN CHIEF, U.S. ARMY, EUROPE AND 7TH ARMY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on the Audit of Club Operations at Heidelberg, Germany (Report No. 94-016)

We are providing this report for your review and comments. The audit was performed in response to concerns of the Chairman, House Subcommittee on Readiness, Committee on Armed Services, regarding the renovations and operations at the Heidelberg Officers' and Civilians' Club, U.S. Army, Europe. The Chairman requested a report by November 30, 1993.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The addressees did not comment on a draft of this report. Therefore, the addressees of this report must provide final comments on the recommendations, material internal control weaknesses, and potential monetary benefits applicable to them by January 18, 1994.

The courtesies extended to the audit staff are appreciated. If you have questions on this audit, please contact Mr. Wayne Million, Program Director, at (703) 692-2991 (DSN 222-2991) or Ms. Judith I. Karas, Project Manager, at (703) 692-2994 (DSN 222-2994). The distribution of this report is in Appendix D. The audit team members are listed inside the back cover.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-016 **November 18, 1993**
(Project No. 3CG-5024)

REPORT ON THE AUDIT OF CLUB OPERATIONS AT HEIDELBERG, GERMANY

EXECUTIVE SUMMARY

Introduction. This audit was in response to concerns of the Chairman, House Subcommittee on Readiness, Committee on Armed Services, about the management of the Heidelberg Officers' and Civilians' Club, U.S. Army, Europe.

Objectives. Our overall audit objective was to evaluate the renovations and operations at the Heidelberg Officers' and Civilians' Club. The specific objectives were to determine whether renovations were adequately documented and properly funded; whether club operations were effectively managed; and whether the Heidelberg Officers' and Civilians' Club assumed the U.S. Army, Europe Soldiers' Recreation Center, Berchtesgaden, Germany, role as a conference center, contrary to established policy.

Audit Results. Generally the concerns were unfounded. The Heidelberg Officers' and Civilians' Club management funded renovations from appropriate sources and effectively managed club operations. The management offered the Heidelberg Officers' and Civilians' Club for conferences, which was consistent with management practices for U.S. military clubs throughout Germany. The U.S. Army, Europe Soldiers' Recreation Center, Berchtesgaden, when it was available for conferences, attracted different types of groups than the Heidelberg Officers' and Civilians' Club; therefore, one facility did not exclude the other from attracting conference business. Appendix A in Part III summarizes the Subcommittee's specific concerns and provides detailed results.

Part II provides additional results of the audit as follows:

o The engineering design for the $4.2 million FY 1993 Heidelberg Officers' and Civilians' Club construction project did not reflect recently completed and planned repair projects or increased requirements from an expanded customer base. As a result, the construction identified in the engineering design could duplicate other planned projects, costs could be increased, and the renovation could still not meet the increased customer base requirements (Finding A).

o The Heidelberg Officers' and Civilians' Club management did not adequately maintain the facility. As a result, management must either replace major utility systems or close the facility (Finding B).

o The Heidelberg Officers' and Civilians' Club management had not implemented adequate internal controls over $71,500 of change funds and $1.3 million in property. As a result, cash and property were not properly controlled and safeguarded to prevent loss, misuse, and misappropriation (Finding C).

Internal Controls. The internal controls of the Heidelberg Officers' and Civilians' Club operations were inadequate to control and safeguard cash and property. We

consider the internal control weaknesses to be material. See the internal controls section in Part I for details of the internal controls reviewed and Finding C, Part II, for details of the weaknesses.

Potential Benefits of Audit. If the Heidelberg Officers' and Civilians' Club management submits a comprehensive military construction project plan, duplicate construction could be avoided and potential future construction and repair costs could be reduced. If management implements internal controls over club operations, cash and property will be better controlled and safeguarded from loss or misuse. However, we cannot quantify the potential monetary benefits. Appendix B summarizes the potential benefits resulting from the audit.

Summary of Recommendations. We recommended that Heidelberg Officers' and Civilians' Club management update information related to maintenance, repair, and renovation; establish a preventive maintenance program at the Heidelberg Officers' and Civilians' Club; and institute internal controls over change funds and property.

Management Comments. As of November 15, 1993, we had not received management comments to a draft of this report. We request comments on the final report from the Commander in Chief, U.S. Army, Europe and 7th Army, by January 18, 1994.

Table of Contents

Executive Summary i

Part I - Introduction

Background 2
Objectives 2
Scope and Methodology 2
Internal Controls 3
Prior Audits and Other Reviews 3

Part II - Findings and Recommendations

Finding A. Engineering Design 6
Finding B. Preventive Maintenance Program 9
Finding C. Asset Management Procedures 12

Part III - Additional Information

Appendix A. House Subcommittee on Readiness, Committee on Armed Services, Concerns 18
Appendix B. Summary of Potential Benefits Resulting From Audit 23
Appendix C. Organizations Visited or Contacted 24
Appendix D. Report Distribution 26

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

Part I - Introduction

Background

The Chairman of the House Subcommittee on Readiness, Committee on Armed Services, requested this audit as the result of concerns that the Army may have been improperly financing and ineffectively managing the Heidelberg Officers' and Civilians' Club (HOCC) renovations and operations. The HOCC renovations and operations were thought to be similar to those reported by the Inspector General, DoD, in Report No. 89-117, "Club Operations at Ramstein Air Base, Federal Republic of Germany," September 27, 1989. In addition, the chairman expressed concern that the U.S. Army, Europe (USAREUR) had established a cooks' school and a conference center at the HOCC contrary to policy and as a means to justify expanding and improving the HOCC.

Objectives

The overall audit objective was to evaluate the renovations and operations at the HOCC. The specific objectives were to determine whether renovations were adequately documented and properly funded; whether HOCC operations were effectively managed; and whether the HOCC, contrary to established policy, assumed the USAREUR Soldiers' Recreation Center, Berchtesgaden (USRCB), Germany, role as a conference center. The specific concerns of the subcommittee and the detailed results of review of the concerns are at Appendix A. The finding in Part II discusses additional results related to the review.

Scope

For FYs 1989 through 1993, the HOCC spent approximately $1.5 million operations and maintenance funds and $0.6 million nonappropriated funds (NAF) for maintenance, repair, and renovation. For FYs 1989 through 1992, the HOCC generated average annual revenue of $2.1 million from operations. In FY 1993, USAREUR submitted a NAF construction project for the upgrade of HOCC utility lines and kitchen that is estimated to cost $4.2 million. We reviewed documentation related to the $2.1 million of maintenance, repair, and renovation projects and the $4.2 million construction project. We also reviewed documentation related to all club operations of the HOCC for FYs 1989 through 1993. Specifically, we reviewed facility project files and maintenance-, repair-, and renovation-type construction contract files. We analyzed financial statements, along with the supporting accounts, and examined basic purchase

agreements, purchase requests, invoices, daily activity reports, and inventory and property records. We did not rely on computer-processed data to conduct this review.

We obtained Army and local policy and procedure documents for NAF management and for morale, welfare, and recreation (MWR) activities; we toured facilities; and we interviewed HOCC managerial and operational personnel. We also reviewed selected conference-related documents dated FYs 1988 through 1993, interviewed staff at the USRCB, and contacted staff at similar German conference facilities in the Heidelberg area.

This economy and efficiency audit was made from June to September 1993 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of internal controls that were considered necessary. Appendix C lists the organizations visited or contacted during the audit.

Internal Controls

Internal Controls Reviewed. We evaluated the Army, command, and local internal controls for the HOCC related to maintenance, repair, renovation, and construction projects and to operations. We evaluated documentation, planning, and approval procedures for maintenance, repair, renovation, and construction projects. We identified and tested cash, inventory, and property management practices.

Internal Control Weaknesses Identified. We identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not established or effective to safeguard cash and property from loss, misuse, and misappropriation. Details of the weaknesses are discussed in Finding C, Part II. The recommendations in Finding C, if implemented, will correct the weaknesses. The monetary benefits that can be realized by implementing the internal control related recommendations are described in Appendix B. A copy of the report will be provided to the senior official in charge of internal controls for the Department of the Army.

Prior Audits and Other Reviews

The Inspector General, DoD, Report No. 89-117 stated that the Air Force submitted misleading and incomplete cost proposals to obtain approval for the Ramstein Air Base Officers' Club construction and renovation. Also, the Air Force did not report that costs escalated from $4.5 million to $12.8 million. The report identified improper use of appropriated funds and internal control deficiencies related to inventory and fixed assets. The internal control

deficiencies of the Ramstein Air Base Noncommissioned Officers' Open Mess included improperly adjusted accounting records, unauthorized activities, distorted operating statements, and misspent resources. Air Force management concurred with all recommendations. Management implemented construction and renovation cost-reporting procedures, reimbursed accounts improperly used, and implemented operational internal controls.

Within the last 5 years, no independent agency has conducted a review of the HOCC renovations or operations.

Part II - Findings and Recommendations

Finding A. Engineering Design

The U.S. Army Corps of Engineers, Europe District (EUD), engineering design for the HOCC NAF construction project did not incorporate maintenance, repair, and renovation projects recently planned or completed by Directorate of Engineering and Housing (DEH), USAREUR, staff. The EUD engineering design also did not include critical improvements that could evolve from an increased customer base and use rate resulting from the transfer of U.S. military and civilian personnel to Heidelberg. The EUD engineering design was not complete because the DEH staff did not routinely inform EUD about maintenance, repair, and renovation projects accomplished through local initiative. As a result, the planned facility improvements could result in duplicate work, could cost more than originally estimated, and could be inadequate for the customer base served.

Background

HOCC Health, Safety, and Building Code Deficiencies. In 1989, the German government organization Staatliches Hochbauamt (SHBA) surveyed the HOCC facility and found health, safety, and building code deficiencies. In response to the SHBA survey, in October 1990, DEH developed a NAF construction project to fix all the SHBA-identified health, safety, and building code deficiencies and to make other interior design improvements recommended by the SHBA. The estimated cost of the project was $10.5 million.

NAF Construction Project Documentation Requirements. Army Regulation 415-19, "NonAppropriated-Funded Construction Project Development and Approval," June 29, 1990, paragraph 2-6, requires the installation commander to submit a certification, "Determination and Certification of Actual Need," as part of a NAF construction project justification and documentation. The regulation requires the certification to include:

o a market research and analysis study (project validity assessment) that documents the need for the project;

o a statement that the selected facility design is the most economical solution to satisfy the essential functional requirements; and

o a statement that known base closures, reductions, and military strength projections were considered in determining the scope of the requested facility.

HOCC Construction Project Validity Assessment. As required by Army Regulation 415-19, the Community and Family Support Center, Office of the Deputy Chief of Staff of the Army (Personnel), Alexandria, Virginia,

contracted for a project validity assessment to analyze the market feasibility of the October 1990 DEH-proposed NAF construction project for HOCC renovation. Based on a projected-cash-flow analysis, the December 1990 project validity assessment recommended that the construction project be limited to only those items necessary to correct the SHBA health, safety, and building code deficiencies. The project validity assessment estimated the cost of the revised construction project to be $4.2 million. The project validity assessment's market research also found that the military community would not support the HOCC without implementing SHBA-recommended interior design improvements to the facilities.

As a result of the project validity assessment, HOCC management decided to decrease the scope of the construction project to include only those items necessary to satisfy the health, safety, and building code deficiencies identified by SHBA.

As a separate action, HOCC management decided to repair and renovate the HOCC areas that would have the greatest impact on military community support. The improvements included renovating Mama Leone's Restaurant and the Keller Bar, repairing the ballroom floor and chandeliers, replacing the lobby tile floor, and repairing the kitchen roof.

HOCC Construction Project Design Coordination

EUD and DEH Planning. EUD, as construction agent for USAREUR, designed the HOCC construction project. As a separate action, DEH designed the repair and renovation projects that HOCC management decided to implement to increase community support.

EUD and DEH Coordination. Neither DEH nor the HOCC management coordinated the plans for the repair and renovation projects with EUD. As a result, the EUD construction project design did not include the most optimum solutions to the HOCC deficiencies. For example, the EUD design included a ventilation system that required a cooling tower over the kitchen. A new kitchen roof, installed as the result of a DEH-initiated repair project, made that design unexecutable. EUD had to redesign that portion of the project. In another example, DEH replaced the ballroom wood parquet floor at a cost of $154,170. To fix all the SHBA safety, health, and building code deficiencies, the floor may need to be removed to upgrade utility lines, a project planned by the EUD designers.

Potential Increase in Customer Support Requirements

In July 1993, DoD announced the twelfth round of overseas base closures and reduced operations. The closures and reductions terminated U.S. Army

operations in Frankfurt and relocated the Army V Corps from Frankfurt to Heidelberg. USAREUR officials estimated that approximately 1,200 military and 200 civilian personnel would transfer to the Heidelberg area.

The Frankfurt community club management stated that the clubs in the Frankfurt area offered services that the HOCC did not, such as dinner theaters and country-western nights. Demand for services similar to those offered by Frankfurt clubs could potentially develop for the HOCC when V Corps personnel transfer to Heidelberg. New demand at the HOCC could impact the HOCC NAF construction design. The HOCC management should update the project validity assessment market study to reflect the potential demand generated by the transfer of personnel to Heidelberg.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Community and Family Support Division, U.S. Army, Europe and 7th Army, update the project validity assessment market study to reflect the impact of U.S. military and civilian personnel transferring from Frankfurt to Heidelberg.

2. We recommend that the Directorate of Engineering and Housing, U.S. Army, Europe and 7th Army, provide U.S. Army Corps of Engineers, Europe District, with:

a. the details of all ongoing and planned repair projects at the Heidelberg Officers' and Civilians' Club.

b. necessary design adjustments to reflect the updated Heidelberg Officers' and Civilians' Club project validity assessment.

Management Comments. As of November 15, 1993, we had not received management comments on a draft of this report.

Audit Response. We request that the Commander in Chief, U.S. Army, Europe and 7th Army, provide final comments to this report by January 18, 1994.

Finding B. Preventive Maintenance Program

The HOCC management did not adequately maintain the HOCC to allow the Army community to use the HOCC effectively for its designated purpose. Since its construction, the HOCC received only decorative alterations and improvements. The mechanical, electrical, and sanitary systems of the facility have deteriorated to the point of failure. This deterioration resulted because HOCC management had not initiated a preventive maintenance program for the facility as required by Army Regulation 420-10, "Management of Installation Directorates of Engineering and Housing," July 2, 1987. As a result, HOCC management must either replace the mechanical, electrical, and sanitary systems at a cost of at least $4.2 million or close the HOCC.

Background

The HOCC was built in 1957. Property records for the facility indicate that since 1957 the HOCC received minor repairs, alterations, and decorative improvements. The facility infrastructure (exterior shell and utility systems) received no major renovations since construction.

Army Regulation 420-10 establishes maintenance and repair standards for real property facilities on Army installations. The regulation stipulates that maintenance and repair should:

o justify the cost over the useful life of the facility,

o prevent deterioration that results in major repair or replacement of the facility,

o provide adequate living and working environments for patrons and staff of the facility, and

o preserve conditions so the facility may be effectively used for its designated functional purpose.

Facility Deficiencies

In 1987, HOCC management requested DEH to consolidate all the facility work orders for the HOCC, including health, safety, and building code violation work orders. The HOCC management requested DEH to prepare a comprehensive renovation plan to identify all the HOCC facility deficiencies and to find

corrective actions as part of a "fix or close" decision. In 1988, the DEH awarded SHBA a contract for identifying the HOCC facility repair requirements. The SHBA study found serious life safety deficiencies including defective trusses, a leaky kitchen roof, deficient electrical wiring, defective plumbing, and fire code violations including the lack of a sprinkler system. SHBA considered the deficiencies so significant that they recommended the HOCC be closed. As discussed in Finding A, the planned NAF construction project to correct all deficiencies was too expensive and HOCC management decided to proceed with a limited renovation, costing $4.2 million, that would correct only the health, safety, and building code deficiencies.

Preventive Maintenance Program

The DEH had no record of establishing a preventive maintenance program for the HOCC in compliance with Army Regulation 420-10. In 1990, the HOCC general manager complained about the DEH lack of action on facility work requests for the HOCC. Both the SHBA study and the project validity assessment concluded that the facility had not received adequate maintenance during its lifetime. The SHBA study concluded that

> . . . many modifications, additions and repair measures have been performed at the building. In our opinion, these measures can be characterized as a procedure providing repair work only at the very special points requiring urgent repair without including the connected problems or the causes. On the other hand, the important optic view of the building has been of great importance for measures performed during the past years, the construction or mechanical systems have not sufficiently been taken into account. As an example we quote, that the Williamsburg Room has been upgraded on a very high level, however, the roof above the Williamsburg Room is no longer structurally proof [sound] as shows by the latest structural studies. [German contractor's English translation of German text.]

We reviewed the DEH records of HOCC service repair calls made since 1991. The service work orders requested work to unclog drains or fix toilets. The records did not show any preventive maintenance projects established to maintain facility mechanical, electrical, or sanitary systems. The DEH personnel stated that a scheduled preventive maintenance program was not established for the HOCC facility. If HOCC management had established a preventive maintenance program for the HOCC, the major repairs to the facility would not be required now.

Recommendation, Management Comments, and Audit Response

We recommend that the Heidelberg Officers' and Civilians' Club management establish a preventive maintenance program for the Heidelberg Officers' and Civilians' Club facility as required by Army Regulation 420-10, "Management of Installation Directorates of Engineering and Housing," July 2, 1987.

Management Comments. As of November 15, 1993, we had not received management comments on a draft of this report.

Audit Response. We request that the Commander in Chief, U.S. Army, Europe and 7th Army, provide final comments to this report by January 18, 1994.

Finding C. Asset Management Procedures

The HOCC management did not adequately control cash and property related to HOCC operations because HOCC personnel had not implemented internal control procedures that are required by Army regulations. As a result, the HOCC had excess cash on hand of approximately $57,550. The excess cash on hand caused the HOCC to lose approximately $2,600 in interest annually. Also, the lack of controls exposed cash and property to possible loss and misuse.

Background

The procedures for asset management in NAF activities can be found in numerous sources. Asset management procedures described in Army Regulation 215-5, "Nonappropriated Funds Accounting Policy and Reporting Procedures," October 10, 1990, chapter 4, establish the types of cash funds a NAF activity may maintain, the specific uses of the cash funds, and property controls. Army Regulation 215-2, "The Management and Operation of Army Morale, Welfare, and Recreation Programs and Nonappropriated Fund Instrumentalities," October 10, 1990, chapter 3, also provides guidance on cash funds and property management. Army Regulation 215-1, "The Administration of Army Morale, Welfare, and Recreation Activities and Nonappropriated Fund Instrumentalities," October 10, 1990, chapter 12, describes in detail property management requirements such as record keeping; transaction processing; and inventory receiving, storage, and issue.

Cash Management

According to Army Regulation 215-2, change funds are authorized to provide money for daily operations such as check cashing, foreign currency exchange, and banks for cashier operations. Each change fund should be for a specific recommended amount, approved in writing, in order to maintain accountability. USAREUR authorized the HOCC to have a change fund totaling $71,500.

Cash Counts. The 26th Area Support Group (ASG) established an internal control program that assigned responsibility to the financial management division for scheduling and conducting quarterly surprise cash counts at 26th ASG activities such as the HOCC. Cash counts are also required by Army Regulation 215-2. However, the 26th ASG personnel and HOCC management had not conducted a surprise cash count in 8 months. At our request, the 26th ASG conducted a surprise cash count on July 30, 1993. The 26th ASG

found a cash shortage that resulted from numerous record keeping errors. The record keeping errors were resolved. However, a $150 shortage was identified and attributed to a net loss from converting foreign currency.

Foreign Currency Conversion. Army Regulation 215-5 states that foreign currency conversion funds will be used to convert dollars to foreign currency. However, the regulation specifically states, "The fund will not be used to convert foreign currency to dollars." The 26th ASG had not established a separate foreign currency conversion fund. The HOCC personnel used the change fund to convert dollars to foreign currency. In addition, the change fund was used to convert foreign currency to dollars, which is prohibited by Army Regulation 215-5. During the 3-month period June through August 1993, the HOCC converted foreign currency (Deutschmarks to dollars) totaling $11,600.

Change Fund Requirements. The HOCC management had not analyzed cash requirements for the change fund in more than 2 years. As a result, the HOCC had excess cash on hand in the change funds and lost potential interest revenue. We analyzed cash requirements based on the HOCC requests for reimbursement for the 24-month period from May 1991 to May 1993. Eighty-four percent of the daily transactions were for less than $6,000. Sixty-five percent of the daily transactions were less than $4,000. Since the change fund can be reimbursed the same or the next day, the fund should be authorized no more than $6,000 for check cashing purposes.

Cash Register Change Funds. Cash register change is authorized at $250 per cashier according to Army Regulation 37-103, "Disbursing Operations for Finance and Accounting Offices," December 4, 1987. The HOCC had 11 cash boxes with a total of $3,720 to make change. The cash boxes should have $2,750 total to make change.

Recreation Machine and Game Room Change Funds. The HOCC management established the requirements for the Army recreation machine change fund at $4,000 and for the game room coin change machines fund at $2,000. According to Army Regulation 215-2, MWR activity managers must establish and maintain machine change funds sufficient to sustain play for at least 1 week. During the 3-month period from June to August 1993, the Army recreation machines funds and the game room change machines funds averaged weekly activity of approximately $3,200.

Conclusion. Cash on hand for the change funds and foreign currency conversion could be reduced by $57,550, leaving an HOCC change fund of $13,950, as shown in the following table. Investment of the $57,550 released from the change funds can earn approximately $2,600 annually, based on the 1993 rate of 4.5 percent that other NAF investments earned.

HOCC Change Funds Requirements

Use of Funds	Amount	Recommended Amount
Replenishment cycle	$30,000*	$ 0
Check cashing and foreign currency conversion	31,780	6,000
Cash register change	3,720	2,750
Army recreation machines change	4,000	3,200
Coin machines change	2,000	2,000
Total	$71,500	$13,950

*This amount fluctuated between $20,000 and $30,000. The replenishment cycle represents funds in transit between the HOCC and central accounting.

Property Accountability

HOCC property accountability was inadequate to properly identify property assets. A 26th ASG letter of instruction, "Nonappropriated Fund Instrumentalities Serviced by the 26th ASG Property Section," January 1, 1993, stated that property identification numbers would be assigned to each line item of NAF property maintained. In addition, a tag with the corresponding number should be affixed to the item identifying it as NAF property. The HOCC was accountable for property worth approximately $1.3 million. The property ranged from kitchen utensils to computer equipment. Although the property control branch assigned identification numbers, HOCC personnel did not attach identification tags to the property. The HOCC management could not reconcile property on-hand to the official property records and could not determine whether property assigned to the HOCC was adequately maintained, utilized, and safeguarded.

Recommendations, Management Comments, and Audit Response

We recommend that the Commander, 26th Area Support Group:

1. Reduce the Heidelberg Officers' and Civilians' Club cash change funds by $57,550 to $13,950.

2. Implement quarterly surprise cash counts of the Heidelberg Officers' and Civilians' Club change funds.

3. Establish a foreign currency conversion fund separate from the change fund, discontinue using the change fund for foreign currency transactions, and discontinue converting foreign currency to dollars.

4. Implement Army property accountability identification procedures for the Heidelberg Officers' and Civilians' Club by attaching approved tags to assigned assets.

Management Comments. As of November 15, 1993, we had not received management comments on a draft of this report.

Audit Response. We request that the Commander in Chief, U.S. Army, Europe and 7th Army, provide final comments to this report by January 18, 1994.

This page was left out of orignial document

Part III - Additional Information

Appendix A. House Subcommittee on Readiness, Committee on Armed Services, Concerns

Background

The House Subcommittee on Readiness, Committee on Armed Services (the Subcommittee) requested that the Inspector General, DoD, perform a review of the HOCC. The Subcommittee expressed concern in four areas: functions, participants, renovations, and operations. The concerns and the results of our review are summarized below and are independent of the findings and recommendations in Part II of this report.

Functions

Concern 1. Cooks' School. USAREUR had established a long-term cooks' school at the HOCC even though the House Committee on Armed Services had specifically prohibited it.

Audit Results. Concern 1 was not substantiated. Neither the Heidelberg community nor the HOCC was the site of a long-term cooks' school. The Heidelberg Noncommissioned Officers' Club (the Old Dominion Club) and the HOCC were the sites of two short-term schools that included cooking as part of the curriculum.

Short Term Training. The MWR Training Center, Community and Family Support Division, offered two short-term training courses that included some food preparation elements. The two courses were offered to NAF managers and were conducted in the Heidelberg community. USAREUR NAF personnel also obtained food preparation and food management training at a 5-day course and a 2-week course offered by the U.S. Air Forces in Europe Food and Service Training Center in Germany.

Food Management Training I. The MWR Training Center conducted this intensive 2-week course for food and beverage operations managers at the Old Dominion Club, Heidelberg. The course included segments of hands-on

cooking as well as segments on nutrition, presentation, sanitation, and service. The MWR Training Center offered one session of Food Management Training I during FY 1993.

Business Management Training I. The MWR Training Center conducted this 3-week course for entry-level managers at the HOCC. The course included segments on financial management, program planning, marketing, personnel management, and food management. The food management segment included production, presentation, and customer service. The MWR Training Center offered three sessions of Business Management Training I in 1993.

Concern 2. Conference Center. USAREUR had established, contrary to established policy, a conference center at the HOCC that interfered with the USRCB operations as a conference center.

Audit Results. Concern 2 was not substantiated. Use of the HOCC for conference business was not contrary to written policy and did not interfere with current USRCB or former Armed Forces Recreation Center, Berchtesgaden, business. Conference business was a normal income-producing activity for the HOCC as well as other DoD clubs and facilities throughout Germany.

The HOCC generated approximately 20 percent of its business from conferences and served as one of several sites used for conferences in the Heidelberg community. The Heidelberg community conference coordinator also scheduled conferences into the Old Dominion Club, the Heidelberg community movie theatre, the Mannheim clubs, and the Karlsruhe clubs.

USRCB Operations. The Armed Forces Recreation Center, Berchtesgaden, accepted conference center business until 1991 when it became the USRCB. As the USRCB, the mission changed and the facilities were dedicated to providing short-term accommodations and leisure activities for Army personnel under the Soldier's Appreciation Program. When it operated as the USRCB, the Armed Forces Recreation Center, Berchtesgaden, conference center did not usually attract training and business-related conferences. More than 50 percent of the former Armed Forces Recreation Center, Berchtesgaden, conferences were religious retreats. The USRCB recreation manager and hotel managers pointed out that Berchtesgaden was a good site for retreats because Berchtesgaden was not located within commuter distance of any USAREUR operational activity or duty station.

The Soldier's Appreciation Program ended September 15, 1993, and the Berchtesgaden operations and facilities again became an Armed Forces Recreation Center. Whether or not Armed Forces Recreation Center, Berchtesgaden, facilities would be used for conferences again depended on their capacity and configuration after renovation and on the requirements for facility usage after base closures. Many facilities, including the General McNair Hotel, were closed during FY 1993. The USRCB managers expressed the opinion that conferences would be part of future Armed Forces Recreation Center, Berchtesgaden business, but that groups would be smaller and of a type, such as religious retreats, not affected by distance from duty station.

Established Policy. No documentation supported the concept that USAREUR designated Armed Forces Recreation Center, Berchtesgaden, or any location as an official or major conference center. Marketing materials, position descriptions, and facility names used the terminology "conference center," but the regulations did not define conference center operations or establish criteria for them. Conference business was a normal income-producing activity that was also accepted by DoD facilities and clubs in Garmisch, Wiesbaden, and Frankfurt.

Participants

Concern 3. Membership. HOCC benefitted relatively few personnel, which resulted in unfairly distributed NAF and appropriated funds for DoD members' morale, welfare, and recreation.

Audit Results. Concern 3 was not substantiated. Concessionaire services were available to the entire Heidelberg community and were widely used. Other HOCC services previously limited by membership requirements will be generally available when membership dues are eliminated.

HOCC membership ranged from 1,519 members in December 1991 to 1,190 members in June 1993. According to the minutes of the Board of Directors meeting, March 25, 1993, an average of 60 to 70 members per week used the HOCC benefits. However, an average of 400 members attended Sunday brunch, according to an HOCC brunch program analysis, presented to the HOCC Board of Directors.

Nonmember Use. Nonmembers could buy Sunday brunch at the HOCC for a higher price. Nonmembers could also attend special events, such as bazaars, and patronize the concessionaires, such as Mama Leone's Restaurant, located in the HOCC.

Membership Dues. USAREUR proposed eliminating membership dues throughout Europe as of October 1, 1993. The HOCC services would then be available to U.S. military and civilians without the restrictions of membership.

Concern 4. Sponsorship. Privately sponsored functions were the bulk of HOCC business and the justification for operating the HOCC.

Audit Results. Concern 4 could not be conclusively substantiated. The functions at the HOCC were sponsored by Government and non-Government sources and were consistent with functions sponsored at other clubs in Europe. The people who benefitted from the functions held at the HOCC belonged to the Army community and participated in both Government and non-Government programs and functions. The following functions took place at the HOCC.

Catered Events. From January through July 1993, the HOCC catering manager scheduled 188 catered events at the HOCC. Catered events required

food and beverage service ranging from snacks and drinks to sit-down dinners. Examples of these events included members' birthday parties, weddings, promotion parties, organization meetings, awards dinners, and holiday balls.

Conferences. From January through July 1993, the Heidelberg community conference coordinator scheduled 95 conferences at the HOCC. Overall, 200 conferences were scheduled in three Heidelberg community facilities for the period. Conference length ranged from 1 day to 2 weeks. Food and beverage service were optional. Examples of these events included a Judge Advocate Generals' conference (2 days), a Red Cross conference (3 days), and a 7th Army Medical Command conference (5 days).

Concessions. HOCC management scheduled concession events called bazaars. During the bazaars, the HOCC provided facility space to numerous vendors in exchange for a percentage of their sales. The HOCC also had two resident concessionaires, a restaurant, and a gift shop, that also paid a percentage of sales.

Promotional Events. The HOCC management scheduled four to five promotional events each month. The promotional events offered members discounted meal prices and different themes, such as family buffet night, single soldier night, Indian dinner extravaganza, and taco buffet.

Dining Room and Lounge Service. Weekly, the HOCC management offered breakfast, lunch, and dinner service Tuesday through Friday, dinner service Saturday, and brunch Sunday. The HOCC also had two cocktail lounges that were open Tuesday through Saturday.

Renovations

Concern 5. Maintenance, Repair, and Renovation Projects. HOCC management did not properly control and fund maintenance, repair, and renovation projects for the HOCC.

Audit Results. The HOCC management controlled and funded maintenance, repair, and renovation projects in accordance with Army regulations. However, the HOCC management could improve project definition and maintenance and repair practices. The improvements are discussed in detail in Part II.

Concern 6. Facility Improvements. HOCC management was investing in extravagant facility improvements such as a new marble floor, elaborate gold chandeliers, and a new dining room.

Audit Results. Concern 6 was not substantiated. The facility improvements were more modest than those reported. The floors in the HOCC lobby and hallway were overlaid with granite tiles, not marble, at a cost of $97,000 and $42,000, respectively. After a chandelier in the ballroom fell and the wiring was identified as a safety hazard, all ballroom chandeliers were removed,

rewired, refurbished, and reinstalled at a total cost of $26,000. The new dining room, which was called the pavilion, was a hard-sided tent structure that was used while the Williamsburg Dining Room roof was repaired. The pavilion was dismantled as of July 6, 1993.

Operations

Concern 7. Management and Finance. USAREUR's management and financing of the HOCC operations was unsound and similar to the Ramstein Air Base Noncommissioned Officers' Club conditions that were reported by the Inspector General, DoD, in September 1989.

Audit Results. Concern 7 was not substantiated. Although HOCC management implemented many effective internal controls, they could improve management and control of cash funds and property. The management and controls of these assets are discussed in detail in Part II.

General Manager. The HOCC management did experience some difficulties in hiring and retaining a general manager. In January 1992, the general manager resigned. In April 1992, the HOCC management hired a permanent general manager from the U.S. private sector. The new general manager proved to be unsatisfactory and resigned within 6 months. The assistant general manager was then promoted to general manager after a 6-month probationary period.

Financial Controls. The HOCC management maintained effective separation of duties so the general manager could not improperly adjust accounting records or distort operating statements. The HOCC Board of Directors approved special programs and promotional events and monitored the HOCC financial condition. The HOCC general manager reported, and HOCC records supported, that losses since 1992 have been due to renovations, which caused the HOCC to be partially or fully closed for several short periods of time; to currency exchange rate fluctuations; and to staffing and overtime requirements.

Appendix B. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.	Economy and Efficiency. Reflects the conditions the construction project must satisfy.	Undeterminable.*
A.2.	Economy and Efficiency. Avoids duplication of work and further deterioration of facility.	Undeterminable.*
B.	Economy and Efficiency. Reduces the likelihood of major costly repair requirements and interruptions in service.	Undeterminable.*
C.1.	Internal Controls. Reduces risk and puts funds into investments on which they can earn interest.	Funds put to better use of $2,600 of interest earned annually.
C.2, C.3, C.4.	Internal Controls. Reduces the risk of loss, misuse, and misappropriation of assets.	Undeterminable.*

*We could not quantify the monetary benefits that could be realized from consolidating projects, designing the construction to current conditions, and improving facility maintenance because the benefits depend on future actions.

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Personnel and Readiness), Washington, DC

Department of the Army

Office of the Inspector General, Department of the Army, Washington, DC
Commanding General, U.S. Army Community and Family Support Center, Alexandria, VA
Chief of Staff, U.S. Army, Europe and Seventh Army, Heidelberg, Germany
- V Corps, Frankfurt, Germany
  - Personnel and Community Activities Directorate, 418th Base Support Battalion, 103rd Area Support Group, Frankfurt, Germany
- Community and Family Support Division, Deputy Chief of Staff, Personnel, Heidelberg, Germany
  - 26th Area Support Group, Heidelberg, Germany
  - U.S. Army, Europe Soldiers' Recreation Center, Berchtesgaden, Germany
- Commander, 266th Theater Finance Command, Europe, Liemen, Germany

U.S. Army Corps of Engineers, Europe District, Frankfurt, Germany
Regional Contracting Office, U.S. Army Contracting Command, Europe, Seckenheim, Germany

Department of the Air Force

U.S. Air Force Contracting Center, Europe, Rhine Ordnance Barracks, Kaiserslautern, Germany

Non-Defense Federal Organization

House Subcommittee on Readiness, Committee on Armed Services, Washington, DC

Non-Federal Organizations

ALT Heidelberg Hotel, Heidelberg, Germany
Heidelberg Penta Hotel, Heidelberg, Germany
Holiday Inn Crowne Plaza, Heidelberg, Germany
Hotel Europa, Heidelberg, Germany
IGS Heidelberg Hotel, Heidelberg, Germany
Prinz Hotel, Heidelberg, Germany
Rega Hotel, Heidelberg, Germany

Appendix D. Report Distribution

Office of the Secretary of Defense

Assistant Secretary of Defense (Personnel and Readiness)

Department of the Army

Secretary of the Army
Commander in Chief, U.S. European Command
Commander in Chief, U.S. Army, Europe and Seventh Army
  Commander, 26th Area Support Group
Commanding General, U.S. Army Community and Family Support Center
Auditor General, Department of the Army

Non-Defense Federal Organizations

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

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

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

Audit Team Members

David K. Steensma	Director, Contract Management Directorate
Wayne K. Million	Audit Program Director
Judith I. Karas	Audit Project Manager
John Delaware	Audit Team Leader
Joe Richardson	Audit Team Leader
Kevin Richardson	Auditor
Charles Johnson	Auditor
Christopher Johnson	Auditor
Doris M. Reese	Administrative Support

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Audit of Club Operations at Heidelberg, Germany

B. DATE Report Downloaded From the Internet: 04/17/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): **OAIG-AUD (ATTN: AFTS Audit Suggestions)**
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ **Preparation Date 04/17/99**

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.