Audit Report

OFFICE OF THE INSPECTOR GENERAL

PENTAGON RESERVATION MAINTENANCE REVOLVING FUND FINANCIAL STATEMENTS - FY 1992

Report No. 93-128 June 25, 1993

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Department of Defense

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202

June 25, 1993

MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER OF
THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Pentagon Reservation Maintenance Revolving Fund Financial Statements - FY 1992 (Report No. 93-128)

We are providing this audit report for your information and use, and for use by Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990 (the CFO Act). Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, which implements the CFO Act, requires the Inspector General to render an opinion on the fairness of financial statements. Also, we are required to report on the adequacy of internal controls and compliance with laws and regulations.

Although we were able to evaluate many of the internal controls and the compliance with laws and regulations, we were unable to express an opinion on the financial statements. We are disclaiming an opinion on the financial statements because of scope limitations for which we were unable to apply other auditing procedures. Specifically, there were no reconciliations of, or procedures for reconciling, the General Ledger Fund Balances with actual U.S. Treasury balances. Also, the Fund did not maintain accounting records in such a manner to enable us to verify disbursements and collections. Finally, management did not provide us with all necessary management and legal representation letters. The failure of management to provide the letters constitutes a limitation of scope sufficient to compel us to disclaim an opinion.

We also noted internal control weaknesses in reconciling the Fund Balances with Treasury account and the validity of the data bases supporting the General Ledger accounts for disbursements and collections. Our tests of compliance with laws and regulations disclosed that the Defense Finance and Accounting Service did not comply with DoD 7220.9-M, "DoD Accounting Manual," requirements for reconciling the Fund Balances with Treasury account with actual U.S. Treasury balances, depositing collections, recording capital assets, and accruing annual leave. Details of the weaknesses are discussed in Parts II and III of the report. This report contains no recommendations that are subject to resolution in accordance with DoD Directive 7650.3; accordingly, comments are not required.

The courtesies extended to the audit staff during the audit are appreciated. If you have any questions about this audit, please contact Mr. F. Jay Lane, Program Director, at (703) 693-0430 (DSN 223-0430) or Mr. Richard A. Levine, Project Manager, at (703) 693-0461 (DSN 223-0461). The distribution of this report is listed in Part IV, Appendix C.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Acronyms

GSA	General Services Administration
OMB	Office of Management and Budget
WHS	Washington Headquarters Services

Office of the Inspector General, Department of Defense

Report No. 93-128
Project No. 2FH-2011

June 25, 1993

AUDIT REPORT ON THE PENTAGON RESERVATION MAINTENANCE REVOLVING FUND FINANCIAL STATEMENTS - FY 1992

EXECUTIVE SUMMARY

Introduction. Financial statement audits are required by the Chief Financial Officers Act of 1990. The Pentagon Reservation Maintenance Revolving Fund (the Fund) was established as a revolving fund in 1990 by Public Law 101-510, which transferred responsibility for the operation, maintenance, protection, repair, and alteration of the Pentagon Reservation from the General Services Administration to the Office of the Secretary of Defense. Revolving funds are accounts authorized by specific provisions of law to finance a continuing cycle of operations and to fund receipts that are normally available for obligation and expenditure without further action by Congress. Washington Headquarters Services (WHS) was designated the operating agency and fund manager for the Fund. As of September 30, 1992, Fund assets of $227.5 million and liabilities of $3.2 million were reported. The Fund is resourced through direct appropriations and reimbursements from tenants of the Pentagon Reservation. For FY 1992, the reported total of revenues and financing sources was $212.5 million. The Fund had an operating surplus of $138.3 million.

Objectives. The primary objective of the audit was to determine whether the Fund's financial statements for FY 1992 were presented fairly in accordance with generally accepted accounting principles for Federal entities. We evaluated the internal control structure established for the Fund and assessed compliance with laws and regulations that could have a material effect on the financial statements. We also determined the reliability and usefulness of financial information reported to the Office of Management and Budget, and the Department of the Treasury of the United States (U.S. Treasury), the DoD, and Fund Management.

Independent Auditor's Opinion. We are issuing a Disclaimer of Opinion on the financial statements. Neither the Defense Finance and Accounting Service nor WHS performed adequate reconciliations between the General Ledger's Fund Balances with Treasury account and actual balances of the U.S. Treasury. No procedures for performing such reconciliations were in place. The General Ledger totals do not agree with totals and numbers for collections and disbursement on subsidiary records. The General Ledger Fund Balances with Treasury account showed $100.7 million, while the U.S. Treasury showed a Fund balance of $51.3 million, an unreconciled difference of $49.4 million. Also, the Fund did not uniquely reference all transactions to individual source records because the WHS inconsistently changed the eight-character voucher numbers to six-character numbers. As a result, we could not match the General Ledger transactions to those at the disbursing office, and insufficient evidence was obtained to verify the disbursements and collections balances reported in the financial statements. Since we were not able to apply other auditing procedures to satisfy ourselves as to the validity of either General Ledger or disbursement office data bases, the scope of our audit was not sufficient to enable us to express, and we do not express, an opinion on these financial statements. In addition, we are disclaiming an opinion on the financial statements because we were not provided all necessary representation letters.

Internal Controls. A material internal control weakness existed with regard to the Fund Balances with Treasury account. The General Ledger's Fund Balances with Treasury account was not reconciled with the actual balance of the U.S. Treasury. There were no procedures established for this reconciliation. Part II contains our report on the material internal control weakness identified in our audit.

Compliance with Laws and Regulations. Material instances of noncompliance with laws and regulations were disclosed. Neither WHS nor the Defense Finance and Accounting Service complied with requirements to reconcile the Fund Balances with Treasury. Also, WHS did not comply with requirements to make timely deposits of collections; accurately record the value of property transferred to the Fund; capitalize construction planning and design costs; and, accrue annual leave. Part III discusses the material instances of noncompliance. Appendix A of Part IV lists all laws and regulations tested.

Usefulness of Financial Statements. The reliability and usefulness of the financial statements are questionable. Although we could not ascertain the overall accuracy of the statements, we did note control problems that affected the reported numbers. Therefore, we suspect that the statements do not fairly present an accurate picture of the Fund's financial position. In any event, the audit will significantly improve the accuracy of future financial information and financial statements. Also, managers will have more accurate data for possible use in their decisionmaking processes.

Management Comments. No recommendations were made because actions taken by management should resolve the weaknesses in internal controls and compliance with laws and regulations. We provided draft reports of Parts II and III to management on May 14, 1993. Management comments were received on June 2, 1993. Management disagreed with some of the issues in the draft reports, and was either silent or provided additional information regarding other issues. The comments provided management's view regarding the reconciliation of General Ledger Fund balances and the Fund's balance according to the U.S. Treasury, clarified the existence of procedures for depreciating and transferring assets from other Federal agencies, provided data on the Transaction For Others cycle, and described the status of accounting adjustments regarding draft report items. Management comments are reproduced in Part VI of this report.

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This report was prepared by the Financial 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 - Independent Auditor's Opinion on the Financial Statements

Introduction

The Pentagon Reservation Maintenance Revolving Fund (the Fund) was established as a revolving fund in 1990 by Public Law 101-510, which transferred responsibility for the operation, maintenance, protection, repair, and alteration of the Pentagon Reservation to the Office of the Secretary of Defense. The Pentagon Reservation includes the area of land (approximately 280 acres) and improvements on which lie the Pentagon Office Building, Federal Building Number 2, the Pentagon heating and sewage treatment plants, various areas designated for vehicle parking, and other related facilities. Washington Headquarters Services (WHS) was designated the operating agency and manager for the Fund. As of September 30, 1992, the Fund reported assets of $227.5 million and liabilities of $3.2 million. The Fund is resourced through direct appropriations and reimbursements from Fund property users. For FY 1992 the revenue and financing sources for the Fund totaled $212.5 million. An operating surplus of $138.3 million existed. The Pentagon Reservation was maintained by approximately 1,280 people.

The Chief Financial Officers Act requires an annual audit of funds such as the Pentagon Reservation Maintenance Revolving Fund. The Defense Finance and Accounting Service is responsible for preparing the Fund financial statements. Our responsibility is to express an opinion on those Statements based on our audit.

Scope

We attempted to audit the Principal Statements and the Notes to the Principal Statements of the Pentagon Reservation Maintenance Revolving Fund as of and for the year ended September 30, 1992. The Principal Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. Also included are the Footnotes, Overview, and Supplemental information.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements, including the accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We developed a client profile for the Fund and developed revenue and disbursement cycle memorandums that assessed the internal control structure. We believe that our audit efforts provide a reasonable basis for our results. This financial statement audit was made during the period March 1992 through April 1993. See Appendix B of Part IV for the organizations visited or contacted.

Our scope was limited since we were unable to trace the subsidiary records maintained by Bolling Air Force Base to the General Ledger summary account maintained by WHS. Disbursement and collection details in the General Ledger data base could not be matched with that information in the disbursing office

data base. There was no common field or combination of fields in the data bases that uniquely identified specific transactions. The disbursing office at Bolling Air Force Base assigned voucher numbers for both disbursements and collections. The eight-character voucher numbers created by the disbursing office were modified unsystematically into five- or six-character voucher numbers in the General Ledger data base maintained by the WHS. The WHS Fund managers failed to uniquely reference all transactions to individual source records. Therefore, we had no way to test the validity of the resulting amounts that were shown on the General Ledger as Fund Balances with Treasury. We could not use other auditing procedures to test the validity of the Fund Balances with Treasury. Also, we requested management and legal representation letters from managers of the Fund. Because management failed to provide all the letters, there was a further limitation on scope.

Auditing Standards

We conducted our audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free of material misstatements.

Accounting Principles

Accounting principles are currently being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Comptroller General of the United States; the Director, OMB; and the Department of the Treasury (the U.S. Treasury), based on advice from the Board. In the interim, Federal agencies are to follow the applicable accounting standards contained in agency accounting policy, procedures manuals, and related guidance. The summary of significant accounting policies included in the Notes to Principal Statements describes the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the Fund's significant assets, liabilities, net position, results of operations, cash flows, and reconciliation to budget.

Disclaimer of Opinion

Neither the Defense Finance and Accounting Service nor WHS performed adequate reconciliations between the General Ledger's Fund Balances with Treasury account and the actual balances shown by the U.S. Treasury. The

actual balances shown by the U.S Treasury are shown in records maintained by the U.S. Treasury. Although required by DoD regulations, there were no procedures for performing such reconciliations. The General Ledger Fund Balances with Treasury showed $100.7 million, while the Fund balance according to the U.S. Treasury showed $51.3 million, an unreconciled difference of $49.4 million. The Balance reported by the U.S. Treasury is the difference between receipts and disbursements reported on DD Form 1329, "Statement of Transactions," which would not take into account any deposits in transit or outstanding checks. As result, reconciliations are necessary to detect any errors or omissions in transactions that should have been reported by the U.S. Treasury. In addition, General Ledger totals do not agree with totals on subsidiary records as to dollar values and numbers of collections and disbursements. The Fund's accounting records at WHS and the Defense Finance and Accounting Service were not maintained in such a manner as to enable us to verify disbursements and collections. We were not able to apply other auditing procedures to satisfy ourselves as to those account balances. As a result, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

We also requested management and legal representation letters from the WHS and the Defense Finance and Accounting Service on April 8, 1993; however, we received only the management representation letter from the WHS. The representation letters are part of the evidential matter necessary to afford a reasonable basis for our opinion on the financial statements. The failure of management to provide the letters constitutes another scope limitation and further basis for disclaiming an opinion on the financial statements. In addition, other deficiencies in the internal control structure and noncompliance with required laws and regulations added to our inability to express an opinion on the financial statements.

Additional Information

We reviewed the financial information presented in management's Overview of the Pentagon Reservation Maintenance Revolving Fund for FY 1992. Such information has not been audited by us; accordingly, we do not express an opinion on this information.

Part II - Internal Controls

Introduction

We have audited the internal control structure of the Principal Statements of the Pentagon Reservation Maintenance Revolving Fund (the Fund) for the year ended September 30, 1992. Management of the Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that the following are met.

o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

o Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the consolidating statements, and any other laws and regulations that the Office of Management and Budget (OMB), entity management, or the Inspector General, Department of Defense, has identified as being significant for which compliance can be objectively measured and evaluated.

o Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Objectives and Scope

The objective of the audit was to determine whether material internal control weaknesses existed. In planning and performing our audit of the Fund for the year ending September 30, 1992, we evaluated the Fund's internal control structure. The purposes of this evaluation were:

o to determine our auditing procedures for expressing an opinion on the Financial Statements and

o to determine whether the internal control structure was established to ensure that the statements were free of material misstatements. This included obtaining an understanding of the internal control policies and procedures, as well as assessing the level of control risk relevant to all significant cycles, classes of transactions, and account balances.

For those significant control policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

For the purpose of this report, we have classified the significant internal controls, policies, and procedures into the following categories: cash, accounts receivable, collections, unearned revenue, capital assets, advances, accounts payable, accrued payroll, and other expenses. Our consideration on the internal control structure would not necessarily disclose all conditions that are considered to be material weaknesses. Conditions discussed will have a material effect on the FY 1992 Financial Statements. Washington Headquarters Services (WHS) did not report the weakness in reconciling Fund Balances with Treasury discussed under Results of Audit to the DoD in its Federal Managers' Financial Integrity Act Annual Statement of Assurance for FY 1992, dated October 15, 1992.

We conducted our audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free of material misstatements.

Prior Audit Coverage

There have been no prior audits of internal controls relating to the Pentagon Reservation Maintenance Revolving Fund.

Results of Audit

Internal control weaknesses existed that we consider to be material and reportable conditions under standards established by OMB Bulletin No. 93-06. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of the internal control structure does not reduce to relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts that would be material to the statements being audited, or material to a performance measure or aggregation of related performance measures, and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We found that procedures were not in place for reconciling the WHS Fund Balances with Treasury.

Reconciliation of Fund Balances with Treasury. Internal controls did not ensure that the $100.7 million in the Fund Balances with Treasury account shown on the Statement of Financial Position was reconciled with the actual balances in the U.S. Treasury. The General Ledger account showed $100.7 million, while the Fund's balance according to the U.S. Treasury showed $51.3 million, an unreconciled difference of $49.4 million. We also noted that during FY 1992, the U.S. Treasury had not been credited with FY 1991 collections totaling at least $68.5 million. The DoD Manual 7220.9-M, "DoD Accounting Manual," Chapters 14 and 31, as amended, February 1988, requires that those accounts be reconciled. The designated agent for reconciliation between the General Ledger accounts and the Fund's balance according to the U.S. Treasury is unclear. The Defense Finance and Accounting Service had not performed any reconciliations, and the reconciliations attempted by WHS were inadequate.

In addition, the detailed support for account balances in the Statement of Financial Position could not be matched with the balances maintained by the Fund's disbursing office at Bolling Air Force Base. While the General Ledger accounts showed 6,719 disbursements totaling $76.2 million, excluding payroll, the disbursing office's records showed 3,702 disbursements totaling $22.6 million. The General Ledger accounts showed 349 collections totaling $69.2 million, and records at the disbursing office showed 976 collections totaling $63.5 million. Because WHS changed the eight-character voucher numbers to five- or six-character numbers, we could not substantiate the validity of either data base.

Except for the matters noted above, we believe there is reasonable assurance that the control structure meets the internal control objectives.

Management Comments

We received comments on the draft of our report on internal controls from the Director, WHS, on June 2, 1993. The Director, WHS, did not agree with the issues presented in the draft report. Management comments are reproduced in their entirety in Part VI of this report.

The Director, WHS, maintained that the Fund Balances with Treasury account as reported in the financial statements for FY 1992 should be derived from the entity's records and that differences between the WHS Fund Balances with Treasury and the Fund Balance according to the U.S. Treasury are to be expected. The Director, WHS, further stated that the WHS Allotment Accounting System data base could be substantiated because the WHS Allotment Accounting System allows for a six-character voucher number that will accommodate the unique portion of the eight-character voucher number used by the Air Force. The Director, WHS, also pointed out that all supporting

documents, including vouchers, requested by the audit team during the audit were retrieved and made available.

The Director, WHS, also maintained that detailed guidance for the depreciation and transfer of assets is contained in the DoD Manual 7220.9-M, Chapters 31 and 36, and explained that the $94.2 million value placed on the Pentagon Reservation was based upon the best available data at the time. He added that additional data has been obtained since the preparation of the financial statements and will be considered as an adjusting entry to the WHS Allotment Accounting System general ledger during this fiscal year.

Audit Evaluation of Management Comments

The Director, WHS, is correct that the General Ledger Fund Balances with Treasury should be reported in the financial statements for FY 1992, and that differences may exist between the General Ledger and the Fund Balance according to the U.S. Treasury. This does not, however, reduce the importance of reconciling those accounts, especially given the proportionally very large $49.4 million unreconciled difference. Without such reconciliations, the WHS Allotment Accounting System Fund Balances with Treasury account could not be substantiated, and there was reduced assurance of the validity of the other General Ledger account balances as well as of the Principal Statements.

Regarding the WHS Allotment Accounting System, the design structure will only accommodate six of the eight-character voucher numbers assigned by the disbursing office at Bolling Air Force Base. Although the unique portion of the voucher number, in many instances, consists of six characters, WHS inconsistently recorded various combinations of the eight characters in arriving at the five- or six-character representations in its data base. Therefore, we could not match an eight-character voucher number with one of five or six characters. The inability to perform timely matches for Fund disbursements and collections recorded at Bolling Air Force Base and at WHS rendered the General Ledger accounts unauditable.

Although the documents we requested to support the General Ledger were provided by WHS personnel, we were unable to consistently track or obtain supporting documentation for Fund transactions because of the voucher number problem.

We agree that guidance for the depreciation and transfer of assets is contained in the DoD Accounting Manual. Based on management comments on depreciation and transfer of assets, we have addressed those issues in Part III of this report. The Director, WHS, agreed that the value of the assets transferred from the General Services Administration could have been more accurate. The value of the Pentagon Reservation shown on the March 31, 1993, financial statements was $82.7 million. The $94.2 million asset valuation referenced in the Management Comments section related to data shown in financial statements we have not audited.

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Part III - Compliance with Laws and Regulations

Introduction

We tested the Pentagon Reservation Revolving Fund (the Fund) for material instances of noncompliance with laws and regulations for the year ended September 30, 1992. Such tests are required by the Chief Financial Officers Act of 1990.

Objective and Scope

The objective of the audit was to determine whether material instances of noncompliance with laws and regulations existed. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions in laws or regulations. Such failures or violations are those that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Principal Statements, or those whose sensitive nature would cause them to be perceived as significant by others.

Compliance with laws and regulations is the responsibility of the Fund managers. As part of obtaining reasonable assurance about whether the Principal Statements are free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements and other laws and regulations designated by the Office of Management and Budget (OMB) and the Department of Defense. (See Part IV, Appendix A, for a complete list of laws and regulations we tested.) As part of our audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act. We also compared the most recent Federal Managers' Financial Integrity Act reports with our evaluation of the Fund's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented to us in the Overview to the Fund's Principal Statements, and supplemental financial and management information. Our objective, however, was not to provide an opinion on overall compliance with such provisions.

We conducted our audit in accordance with generally accepted Government auditing standards, issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and with OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Fund's Principal Statements are free of material misstatements.

Prior Audit Coverage

There was no prior audit coverage of compliance with laws and regulations for the Pentagon Reservation Maintenance Revolving Fund.

Results of Audit

Our tests of compliance disclosed the following instances of noncompliance that materially affected the reliability of the Fund's Principal Statements.

Reconciliations of Fund Balances with Treasury. The DoD Manual 7220.9-M, "DoD Accounting Manual," Chapters 14 and 31, requires that the Fund Balances with Treasury account shown on the financial records of an entity be reconciled with records of the Department of the Treasury (the U.S. Treasury). Washington Headquarters Services (WHS) and the Defense Finance and Accounting Service had not done an adequate reconciliation. We found an unreconciled difference of $49.4 million between the U.S. Treasury's records, which showed $51.3 million, and the General Ledger accounts of the Pentagon Reservation Maintenance Revolving Fund, which showed $100.7 million.

Depositing of Collections. Procedures for depositing cash receipts were not followed. The DoD Manual 7220.9-M, Chapter 32, requires checks to be deposited no later than the next business day. Deposits totaling at least $28.7 million were made as much as 6 weeks after receipt. For example, check no. 60818098, dated December 19, 1991, for $17.9 million, was received by the WHS on or before January 24, 1992, and was sent to the disbursing office at Bolling Air Force Base for deposit on March 11, 1992. The check was not posted to the General Ledger collection account until August 27, 1992.

Depreciation and Transfer of Assets. Established controls to fully depreciate and record the value of property transferred from other Federal agencies were not followed. According to Footnote 9 of the FY 1992 Principal Statements, the Pentagon is 50 years old and has been fully depreciated; therefore, no depreciation was taken. According to the General Services Administration (GSA) Comptroller's Handbook, "Accounting Policy and Procedures Manual," April 1985, Federal buildings acquired before July 1, 1974, such as the Pentagon, were to be given a useful life of 30 years (from July 1, 1974) and depreciated until 2004. Therefore, at the time of transfer, the Pentagon was not considered fully depreciated. For FY 1990, the GSA reported depreciation of $3.8 million for the Pentagon and other related property transferred. The DoD did not request the accumulated depreciation schedules prior to the transfer, and the GSA did not provide them. As a result, the FY 1992 Principal Statements understated the value of the property transferred from the GSA by $19.6 million, and did not show $46.7 million in accumulated depreciation on the properties. Therefore, the value of the transferred assets was overstated by $27.1 million. Because the transferred assets were not fully depreciated, depreciation should have been charged during FY 1992. Since the FY 1992

Principal Statements showed no depreciation expense, an overstatement of the Fund's net income resulted.

Recording of Capital Assets. Procedures for recording the values of property transferred into the Fund and for capitalizing the costs of construction planning and design were not being followed. The Pentagon and associated real property were transferred to the DoD in November 1990, and the maintenance function was transferred in April 1991. The DoD did not request records of the accumulated depreciation prior to the transfer, and the GSA did not provide the records. At the time of the transfer, the GSA accounting records showed a value of $102.3 million for real property and related accumulated depreciation of $46.7 million. As a result, no value for accumulated depreciation and depreciation expense was shown on the FY 1992 Principal Statements. The Principal Statements also omitted $11.7 million in heating plant improvements that was shown in the GSA accounting records at the time of the transfer. The DoD Manual 7220.9-M, Chapter 36, requires that transfers of assets be recorded using the value shown in the transferring Federal agency's accounting system (historical value).

The DoD Manual 7220.9-M requires that the costs of construction in process be capitalized until the work is completed or terminated. Construction and design costs of $11.7 million for the renovation and enhancement of real property met construction-in-process criteria, but were expensed rather than capitalized. As a result, current expenses were overstated, and the asset value of construction in process was understated.

Accrued Annual Leave. Estimated costs of $1.9 million for employees' annual leave were not accrued or recorded on the Principal Statements. The DoD Manual 7220.9-M, Chapter 43, states, "The accrual of annual leave within the Department of Defense is material and shall be recognized annually in the DoD Component accounting records and financial statements." To the extent that such liabilities are unfunded, DoD Components must maintain records of the unfunded portions of leave; this information must be disclosed in the footnotes to the financial statements when necessary.

The results of our tests of compliance indicated that, with respect to the items tested, the WHS did not comply with the provisions of the "DoD Accounting Manual." The resulting conditions could materially affect the Principal Statements and will affect our opinion on the statements. With respect to items not tested, nothing came to our attention that caused us to believe that WHS had not complied, in all material respects, with those provisions.

Management Comments

We received management comments on our draft report on compliance with laws and regulations on June 2, 1993, from the Director, WHS. The Director, WHS, partially agreed with the issues in the draft report. Management comments are reproduced in their entirety in Part VI of this report.

The Director, WHS, maintained that WHS made efforts to reconcile differences in the General Ledger Fund Balances with Treasury account with the U.S. Treasury, and asserted that the unreconciled difference of $49.4 million between those accounts was due to timing differences and errors outside the control of WHS.

The Director, WHS, maintained that most of the delay between the receipt of the check (no. 60818098) for collection at the WHS and posting the collection to the General Ledger resulted from the usual time lag in the Transactions For Others cycle.

The Director stated that the capitalized amount for the heating plant was obtained from the GSA after the official financial statements were issued. He also pointed out that the financial statements were corrected and that this information was sent to the Defense Finance and Accounting Service-Indianapolis Center for use in publishing a revised version of the statements.

Audit Evaluation of Management Comments

While efforts by WHS personnel to reconcile Fund balances are acknowledged, differences of about $49.4 million remain unreconciled. Follow-up attempts by WHS personnel to account for funds were untimely and unsuccessful. Adequate reconciliations could have established how much of the unreconciled differences were the result of timing differences or other causes, detected errors, and allowed for timely corrections.

We agree that some, but not all, of the delay between the receipt of the check for collection at WHS and its posting as a collection in the General Ledger may have resulted from time lags in the Transactions For Others cycle. The DoD Manual 7220.9-M, Chapter 32, provides that receipts of $1,000 or more shall be deposited not later than the day after receipt. In our example, the check was not deposited until 6 weeks after receipt.

We cannot comment on the value of the heating plant that was added to the revised financial statements. A memorandum to the Comptroller of the Department of Defense, April 15, 1993, from the Deputy Assistant Inspector General for Auditing, prescribed a May 15, 1993, cut-off for submission of updated financial statements for audit consideration. Updated financial statements were not received by that date. Therefore, our comments in this report relate to the financial statements prepared March 31, 1993.

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Part IV- Additional Information

Appendix A. Laws and Regulations Reviewed

Federal Managers' Financial Integrity Act of 1982, Public Law (P.L.) 97-255

Chief Financial Officers Act of 1990, P.L. 101-576

Defense Authorization Act of 1991, P.L. 101-510

Office of Management and Budget Bulletin 93-02, "Form and Content of Agency Financial Statements," October 22, 1992

DoD Manual 7220.9-M, "DoD Accounting Manual," as amended, February 1988

Appendix B. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Comptroller of the Department of Defense, Washington, DC

Department of the Air Force

Air Force District of Washington Accounting and Finance Office, Bolling Air Force Base, Washington, DC

Defense Agencies

Headquarters, Defense Finance and Accounting Service, Washington DC
- Defense Finance and Accounting Service Center, Cleveland, OH
  - Defense Accounting Office, Arlington, VA
- Defense Finance and Accounting Service Center, Denver, CO

Washington Headquarters Services, Arlington, VA

Non-Defense Federal Organizations

Financial Management Services, Department of the Treasury, Hyattsville, MD

Appendix C. Report Distribution

Office of the Secretary of Defense

Assistant Secretary of Defense (Public Affairs)
Comptroller and Chief Financial Officer of the Department of Defense
Deputy Chief Financial Officer of the Department of Defense

Department of the Army

Secretary of the Army
Inspector General, Department of the Army
Auditor General, Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy
Comptroller of the Navy
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency

Defense Agencies

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
NSIAD Technical Information Center

Non-Defense Federal Organizations, (cont'd)

Chairman and Ranking Minority Member of each of the Following Congressional Committees:

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

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Part V - Pentagon Reservation Maintenance Revolving Fund Financial Statements - FY 1992

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301 1100

APR 8 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD

SUBJECT: Transmittal of Printed Financial Statements on FY 1992 Financial Activity

Attached are printed financial statements on FY 1992 financial activity for the Department of Defense reporting entities listed below. The printed copies are bound, have a common typeset and have been edited by the Defense Finance and Accounting Service - Indianapolis Center. The attached statements encompass the following reporting entities:

- Department of the Army (all funds and accounts)
- Department of the Navy (revolving and trust funds)
- Department of the Air Force (all funds and accounts)
- Defense Logistics Agency Revolving Funds
- Pentagon Reservation Maintenance Revolving Fund
- Defense Revolving Funds (Army as Executive Agent)
- DoD Military Retirement Trust Fund
- DoD Education Benefits Fund
- National Security Education Trust Fund
- Defense Commissary Surcharge Collections Account
- Defense Security Assistance Agency

My staff is available to provide additional assistance and information, if needed. Additionally, the Department will continue to work with your staff to make such adjustments or improvements as may be identified, and appropriate, to enhance, explain, or more fairly present the assets, liabilities, and net financial position shown in the attached unaudited financial statements.

Alvin Tucker
Acting Chief Financial Officer

Attachments

SECTION 1

OVERVIEW OF THE PENTAGON RESERVATION MAINTENANCE REVOLVING FUND

1. Message from the Component Head

Enclosed are the financial statements for Fiscal Year 1992 for the Pentagon Reservation Maintenance Revolving Fund (PRMRF). Fiscal Year 1992 was the first full year of operation for the PRMRF which has provided a viable financing alternative for the operation of the Pentagon Reservation. The statements that follow are more than traditional financial statements; they include an overview of the PRMRF mission, structure, financial analysis and appropriate footnotes.

2. Description of the Reporting Entity

a. The reporting entity for the PRMRF is:

Department of Defense
Washington Headquarters Services
Directorate for Budget and Finance
Room 3B287, Pentagon
Washington, DC 20301-1155

b. The function of the PRMRF is to provide financial management for the operation, maintenance, renovation and management of the Pentagon Reservation.

c. The mission and major goals of the PRMRF:

The FY 1991 Defense Authorization Act transferred responsibility for the operation, maintenance, renovation and management of the Pentagon Reservation from the General Services Administration to the Secretary of Defense. The Act also established the Pentagon Reservation Maintenance Revolving Fund (PRMRF) which will finance the operation, maintenance and renovation of the Pentagon Reservation. Deposits into the PRMRF are to consist of funds collected for space, services, and other items provided to tenants using the facility. Funds in the PRMRF have no fiscal year limitation and can be used for real property maintenance, operation, construction, repair, protection, and related activities for the Pentagon Reservation. The PRMRF is an industrial fund activity (IFA) within the Department of Defense and is managed by the Washington Headquarters Services.

d. Individuals served or benefiting from the PRMRF:

A total population of approximately 25,000 military and civilian personnel are currently benefiting from the PRMRF.

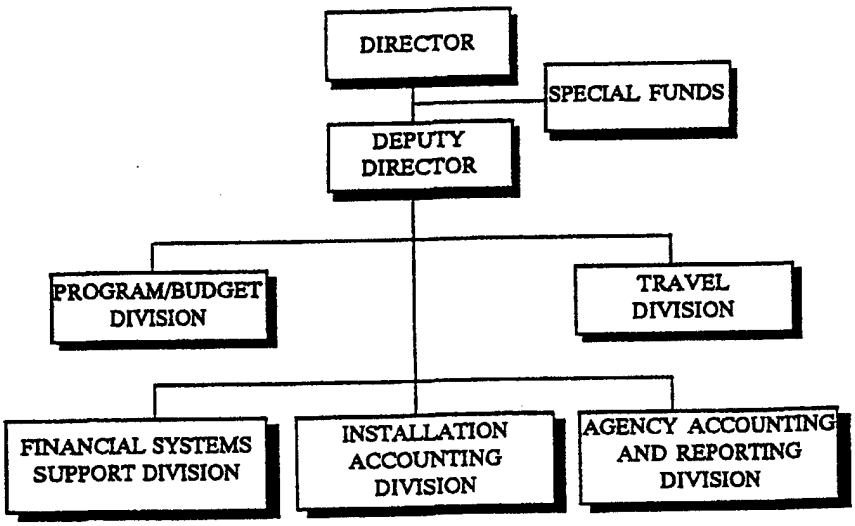
4 Overview

e. Size of the PRMRF:

	FY 92	FY 91
Dollars expended:		
Building Operations	$36,602,784	$38,751,252
Renovation Projects	11,005,088	851,184
Tenant Reimbursable	26,553,625	3,424,676
Total	$74,161,487	$43,027,112
Population served	25,000	25,000
PRMRF Employees	1,271	1,271

f. Organization of the reporting entity:

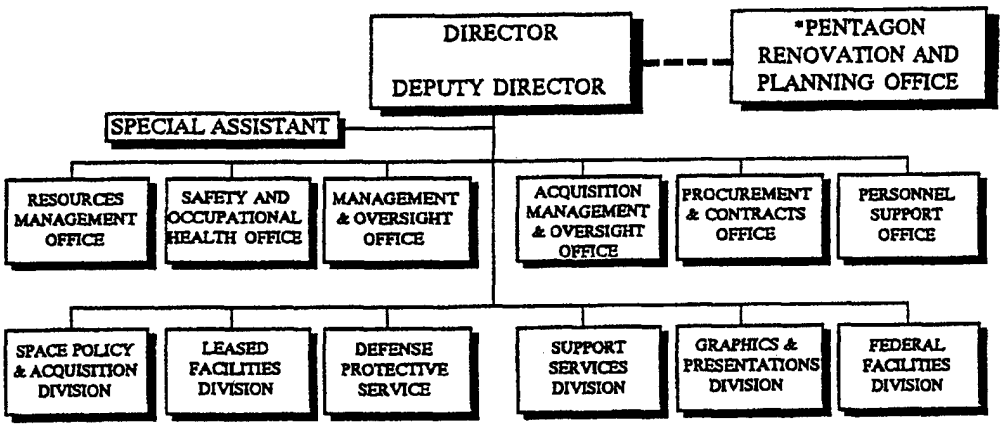
DIRECTORATE FOR BUDGET AND FINANCE



Mission: Formulate, present, and execute the Program Objective Memoranda (POM), President's Budgets, and Five-Year Defense Plans (FYDP) for OSD, WHS, and certain DoD Field Activities; administer the Official Representation Program for the Office of the Secretary of Defense including the development of policies for use of these funds throughout the Department; provide complete travel and transportation services for DoD officials,

military and civilian employees, consultants and experts, and others authorized to travel on official business at Government expense under the auspices of OSD; provide information system technology and management; provide installation level accounting support for appropriations allocated or allotted to various DoD Components; develop, establish and administer control procedures for apportionments and allocations at the intermediate level for OSD; develop, implement, and assist the accounting and reporting systems for the DoD Trust Funds and appropriation level reporting for OSD; manage the Treasury Index 97 debt collection and cash management programs and the OSD Diners Club Government Travel Card Program.

DIRECTORATE FOR REAL ESTATE AND FACILITIES



* Reports to the Director RE&F in his additional duty position as the Executive Director of the National Capital Region Administrative Space Steering Committee.

Mission: To provide administrative and operational support to specified DoD activities in the National Capital Region (NCR), including space management, law enforcement, maintenance, repair and alteration of assigned buildings, custodial, physical security, building administration, graphics services, acquisition, property management, and other support services.

g. Major source of funds for the PRMRF:

Sources of funds for Fiscal Year 1992 and future years are comprised of non-expenditure transfers between Federal Government accounts, unobligated balances brought forward from the previous year, anticipated reimbursements and direct appropriations.

SECTION 2

PRINCIPAL STATEMENTS

Department/Agency: Pentagon Reservation Maintenance Revolving Fund
Reporting Entity: Principal Statements
Statement of Financial Position
as of September 30, 1992
(Dollars)

ASSETS	1992
1. Financial Resources:	
a. Fund Balances with Treasury (Note 2)	$100,691,272
b. Cash (Note 2)	
c. Foreign Currency (Note 2)	
d. Other Monetary Assets (Note 3)	
e. Investments, Non-Federal (Note 4)	
f. Accounts Receivable, Net - Non-Federal	
g. Inventories Held for Sale, Net (Note 5)	
h. Loans Receivable, Net - Non-Federal (Note 6)	
i. Advances and Prepayments, Non-Federal	18,921
j. Property Held for Sale (Note 7)	
k. Other, Non-Federal (Note 8)	
l. Intragovernmental Items:	
(1) Accounts Receivable, Federal	44,068,146
(2) Loans Receivable, Federal	
(3) Investments, Federal (Note 4)	
(4) Other, Federal	
m. Total Financial Resources	$144,778,339
2. Non-Financial Resources:	
a. Resources Transferable to Treasury	
b. Inventories Not Held for Sale (Note 5)	
c. Property, Plant and Equipment, Net (Note 9)	82,750,000
d. Other (Note 10)	
e. Total Non-Financial Resources	$82,750,000
3. Total Assets	$227,528,339
LIABILITIES	
4. Funded Liabilities	
a. Accounts Payable, Non-Federal	1,096,695
b. Accrued Interest Payable	
c. Accrued Payroll and Benefits	1,301,045
d. Accrued Entilement Benefits	
e. Lease Liabilities (Note 11)	
f. Debt (Note 12)	
g. Guarantees Payable (Note 6)	
h. Other Funded Liabilities, Non-Federal (Note 13)	

The accompanying notes are an integral part of these statements.

10 Principal Statements

Department/Agency: Pentagon Reservation Maintenance Revolving Fund
Reporting Entity: Principal Statements
Statement of Financial Position
as of September 30, 1992
(Dollars)

LIABILITIES Continued	1992
i. Intragovernmental Liabilities	
(1) Accounts Payable, Federal	$801,036
(2) Debt (Note 12)	
(3) Deferred Revenue (All G)	34,930
(4) Other Funded Liabilities, Federal (Note 13)	
j. **Total Funded Liabilities**	3,233,706
5. **Unfunded Liabilities:**	
a. Accrued Leave	
b. Lease Liabilities (Note 11)	
c. Pensions and Other Actuarial Liabilities (Note 14)	
d. Other Unfunded Liabilities (Note 15)	
e. **Total Unfunded Liabilities**	
6. TOTAL LIABILITIES	$3,233,706
NET POSITION	
7. **Fund Balances: (Note 16)**	
a. Revolving Fund Balances	224,294,633
b. Trust Fund Balances	
c. Appropriated Fund Balances	
d. **Total Fund Balances**	$224,294,633
8. **Less Future Funding Requirements (Note 17)**	
9. **Net Position (Note 16)**	$224,294,633
10. **Total Liabilities and Net Position**	$227,528,339

The accompanying notes are an integral part of these statements.

Department/Agency: Pentagon Reservation Maintenance Revolving Fund
Reporting Entity: Principal Statements
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Dollars)

REVENUES AND FINANCING SOURCES	1992
1. Appropriations Expensed	$108,725,329
2. Revenues from Sales of Goods	
a. To the Public	
b. Intragovernmental	103,774,274
3. Interest and Penalties, Non-Federal	
4. Interest, Federal	
5. Taxes (Note 18)	
6. Other Revenues and Financing Sources (Note 19)	
7. Less: Taxes and Receipts Returned to the Treasury	
8. Total Revenues and Financing Sources	$212,499,603
EXPENSES	
9. Cost of Goods or Services Sold	
a. To the Public	
b. Intragovernmental	
10. Program or Operation Expenses (Note 20)	74,161,498
11. Depreciation	
12. Bad Debts and Write-offs	
13. Interest	
a. Federal Financing Bank/Treasury Borrowing	
b. Federal Securities	
c. Other	
14. Other Expenses (Note 21)	
15. Total Expenses	74,161,498
16. Excess (Shortage) of revenues and Financing Sources Over Total Expenses Before Adjustments	138,338,105
17. Plus (Minus) Adjustments:	
a. Extraordinary Items (Note 22)	
b. Prior Period Adjustments (Note 22)	
18. Excess (Shortage) of Revenues and Financing Sources over Total Expenses	138,228,105
19. Plus: Unfunded Expenses	
20. Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	$138,338,105

The accompanying notes are an integral part of these statements.

12 Principal Statements

Department/Agency: Pentagon Reservation Maintenance Revolving Fund
Reporting Entity: Principal Statements
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Dollars)

EXPENSES Continued	1992
21. Net Position, Beginning Balance	$51,931,857
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	138,338,105
23. Plus (Minus) Equity Transfers	34,024,671
24. Net Position, Ending Balance	$224,294,633

The accompanying notes are an integral part of these statements.

Department/Agency: Pentagon Reservation Maintenance Revolving Fund
Reporting Entity: Principal Statements
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1992
(Dollars)

	1992
Cash Flows from Operating Activities:	
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	$138,338,105
Adjustments affecting Cash Flow:	
2. Appropriations Expensed	(108,725,329)
3. Decrease (Increase) in Accounts Receivable	(34,591,311)
4. Decrease (Increase) in Loans Receivable	
5. Decrease (Increase) in Other Assets	
6. Increase (Decrease) in Accounts Payable	(31,330,126)
7. Increase (Decrease) in Debt	
8. Increase (Decrease) in Other Liabilities	
9. Depreciation and Amortization	
10. Other Unfunded Expenses	
11. Other Adjustments	
12. **Total Adjustments**	($174,646,766)
13. **Net Cash Provided (Used) by Operating Activities**	($36,308,661)
Cash Flows from Non-Operating Activities:	
14. Proceeds from Sales of Investments	
15. Proceeds from Sales of Property, Plant and Equipment	
16. Purchases of Investments	
17. Purchases of Property, Plant and Equipment	
18. **Net Cash Provided (Used) by Non-Operating Activities**	
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES	
19. Appropriations (Current Warrants)	$60,000,000
20. Add:	
a. Restorations	
b. Transfers of Cash from Others	
21. Deduct:	
a. Withdrawals	
b. Transfers of Cash to Others	
22. Net Appropriations	60,000,000

The accompanying notes are an integral part of these statements.

14 Principal Statements

Department/Agency: Pentagon Reservation Maintenance Revolving Fund
Reporting Entity: Principal Statements
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1992
(Dollars)

CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES Continued	1992
23. Borrowing from the Public	
24. Repayments on Loans	
25. Borrowing from the Treasury and the Federal Financing Bank	
26. Repayments on Loans from the Treasury and the Federal Financing Bank	
27. Other Borrowings and Repayments	
28. Net Cash Provided (Used) by Financing Activities	60,000,000
29. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities	$23,691,339
30. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	76,999,933
31. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	$100,691,272

The accompanying notes are an integral part of these statements.

Department/Agency: Pentagon Reservation Maintenance Revolving Fund
Reporting Entity: Principal Statements
Statement of Budget and Actual Expenses
for the Period Ended September 30, 1992
(Dollars)

Program Name (s)	BUDGET Resources	BUDGET Obligations Direct	BUDGET Obligations Reimbursed	ACTUAL Expenses
	$184,064,592	$76,500,000	$107,564,592	$74,161,498
Totals	$184,064,592	$76,500,000	$107,564,592	$74,161,498

Budget Reconciliation

A. Total Expenses	$74,161,498
B. Add:	
(1) Capital Acquisitions	
(2) Loans Disbursed	
(3) Other Expended Budget Authority	
C. Less:	
(1) Depreciation and Amortization	
(2) Unfunded Annual Leave Expense	
(3) Other Unfunded Expenses	
D. Expended Appropriations	105,491,624
E. Less Reimbursements	69,236,814
F. Expended Appropriations, Direct	$36,254,810

The accompanying notes are an integral part of these statements.

SECTION 3

FOOTNOTES TO THE PRINCIPAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Overview of the Reporting Entity

The Pentagon Reservation Maintenance Revolving Fund (PRMRF) was established by the Fiscal Year 1991 Defense Authorization Act to account for the operation, maintenance and renovation of the Pentagon Reservation. The Washington Headquarters Services (WHS), Real Estate and Facilities Directorate is responsible for the operation and management of the facilities, and the Directorate for Budget and Finance is responsible for the finance and accounting functions. Fiscal Year 1992 was the first full year of operation for the PRMRF.

B. Accounting Standards

The financial statements for the Pentagon Reservation Maintenance Revolving Fund are presented in accordance with the DoD Accounting Manual, which prescribes that the accrual basis of accounting be used by DoD Components. To the extent that guidance is not provided in the DoD Accounting Manual, other guidance promulgated by the General Accounting Office, the Office of Management and Budget, the Department of the Treasury or the Federal Accounting Standards Advisory Board (FASAB), is followed, as appropriate.

The accounting records for the PRMRF are maintained in the WHS Allotment Accounting System (WAAS), using the DoD standard general ledger chart of accounts. The cost accounting system includes work in process accounts to accumulate reimbursable costs of industrial fund operations. The work in process accounts contain subsidiary accounts as necessary to meet management requirements.

C. Budgets and Budgetary Accounting

The PRMRF was established to satisfy the finance and accounting requirements by using a businesslike buyer-and-seller approach. The requiring activities justify their need for funds to the Congress, and reimburse the PRMRF for rent and other supplies and services. The customers and the PRMRF operate under business-type financial management principles. The PRMRF provides the best financial structure for the operation and maintenance of the Pentagon Reservation.

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of both appropriated and reimbursable funds.

20 Footnotes

E. Revenues and Other Financing Sources

Revenue for the PRMRF is recognized at the time the service is rendered and is billed on a percentage of completion basis. The WHS provides certain services for the tenants of the Pentagon Reservation. These services are initially financed through the DoD Component's appropriated funds and subsequently reimbursed to the PRMRF upon delivery of the service. Reimbursements are recognized as revenue at the time the services are rendered and/or billed.

Budgetary resources for the PRMRF consist of non-expenditure transfers between Federal Government accounts, unobligated balances for the previous fiscal year, reimbursable customer orders accepted, and direct appropriations received from Congress.

F. Funds with the U.S. Treasury and Cash

The cash balances for the PRMRF are maintained in the Treasury Index 97 appropriation, 97X4950.2020, in general ledger account 1010. Cash receipts and disbursements are processed by Bolling AFB, and the balance with the Treasury represents the aggregate of all unexpended balances. As of September 30, 1992, the PRMRF had $100,691,272.00 of Funds with the Treasury.

G. Accounts Receivable

As presented in the Statement of Financial Position, the only accounts receivable currently in the PRMRF are from other Federal Agencies. The WAAS system ages the accounts receivable to ensure prompt collection and/or follow-up on receivables.

H. Property and Equipment

Audits of FY 1991 financial statements have shown that documentation to support the recorded acquisition cost of many older properties is no longer available. Obtaining appraisals for older property is not cost effective, especially considering the number and variety of capital improvements made over the years to the Pentagon Reservation.

The entry of $82,750,000.00 on the SF220, Report on Financial Position, line 7a, represents the capitalized value of the Pentagon Reservation at the time of transfer from GSA to the DoD. This value was obtained form the GSA Income Statement for Direct Operations for the period ending September 30, 1989.

No capitalized equipment was purchased by the PRMRF during Fiscal Year 1992. The accounting system has a property accounting module which is capable of recording capitalized property and computes depreciation on a straight line method. Routine maintenance and repair costs are expenses when incurred and are recorded in the appropriate general ledger expense account.

I. Contingencies

The PRMRF is obligated for goods and services which have been ordered but not yet received (undelivered orders) as of September 30, 1992. Aggregate undelivered orders amounted to $117,874,770.54 as of September 30, 1992. There are currently no other contingencies for the PRMRF.

J. Equity

Equity consists of invested capital, cumulative result of operations, and unexpended appropriations. Invested capital represents the value of capital assets as reported at standard prices/costs, except for land and buildings. The portion of invested capital attributable to land and buildings represents their undepreciated cost. Increases to invested capital are recorded when capital assets are acquired or constructed or when asset valuations increase as a result of increases in standard prices/costs.

Note 2. Fund Balances with Treasury:

A. Fund Balances with Treasury:

(1) Trust Funds	
(2) Revolving Funds	$100,691,272
(3) Appropriated Funds	
(4) Other Fund Types	
Total	$100,691,272

B. Cash:

(1) Restricted Cash	
(2) Unrestricted Cash	
Total Cash	

C. Foreign Currency

D. Other Information:

22 Footnotes

NOTE 9. Property, Plant and Equipment, Net:

	(1) Depr Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
Classes of Fixed Assets					
B. Structures, Facilities, & Leasehold Improvements	SL	>20	UNKNOWN	UNKNOWN	$82,750,000

J. Other Information: No records are available for acquisition value and accumulated depreciation. The building is 50 years old and fully depreciated. The net book value represents the capitalized value of the building at the time ownership was transferred from the General Services Administration to the Department of Defense. All future capital improvements to the building will be accounted for in this revolving fund.

Note 16. Fund Balances:

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations				
B. Invested Capital				
C. Cumulative Results of Operations	$29,612,776			$29,612,776
D. Donations				
E. Transfers				
F. Total	$29,612,776			$29,612,776

G. Other Information: There is no entry for "Appropriated Capital" for Revolving Fund Equity. For this report, the amount is $194,681,857.

Note 20. Program or Operating Expenses:

	1992	1991
A. Operating Expenses by Object Classification:		
(1) Personal Services and Benefits	$28,515,714	$9,281,664
(2) Travel and Transportation	88,072	
(3) Rent, Communication and Utilities	6,369,445	2,306,573
(4) Printing and Reproduction	39,580	
(5) Contractual Services	35,853,961	31,425 531
(6) Supplies and Materials	3,124,864	7,410
(7) Equipment not Capitalized	169,862	5,934
(8) Grants, Subsidies and Contributions		
(9) Insurance Claims and Indemnities		
(10) Other (describe):		
(11) Total Expenses by Object Class	$74,161,498	$43,027,112

SECTION 4

FINANCIAL ATTRIBUTES

FINANCIAL ATTRIBUTES OF DOD ENTITIES

WHS - PENTAGON RESERVATION MAINTENANCE REVOLVING FUND

OPERATING COSTS ATTRIBUTE

(THOUSANDS)

	FY 91	FY 92	Average
Current Dollars:			
Total Costs and Expense	$43,027	$74,161	
Revenues and Reimbursements	(94,959)	(103,774)	
Net Operating Costs	($51,932)	($29,613)	$22,319
Annual Percentage Change		42.9%	42.9%
1990 Constant Dollars:			
Net Operating Costs	($51,932)	($30,531)	$21,401
Annual Percentage Change		(41.2)%	(41.2)%

28 Supplemental

FINANCIAL ATTRIBUTES OF DOD ENTITIES

WHS - PENTAGON RESERVATION MAINTENANCE REVOLVING FUND

OPERATING RESULTS

(THOUSANDS)

	FY 91	FY 92
Revenues:		
Federal Sources	$94,959	$103,774
Public Sources		
Other		
Total Revenue	$94,959	$103,774
Expenses and Losses	43,027	74,161
Net Operating Income (Deficit)	$51,932	$29,613
Additional Appropriations		108,725
Operating Surplus (Deficit)	$51,932	$138,338

FINANCIAL ATTRIBUTES OF DOD ENTITIES

WHS - PENTAGON RESERVATION MAINTENANCE REVOLVING FUND

FINANCIAL OBLIGATIONS ATTRIBUTE

(THOUSANDS)

	FY 91	FY 92
Total Current Assets	$86,496	$144,759
Total Current Liabilities	$34,564	$3,234
Current Ratio	2.50	44.76
Total Quick Assets:	$86,496	$144,759
Total Current Liabilities	$34,564	$3,234
Acid Test Ratio	2.50	44.76

30 Supplemental

FINANCIAL ATTRIBUTES OF DOD ENTITIES

WHS - PENTAGON RESERVATION MAINTENANCE REVOLVING FUND

FINANCIAL CONDITION ATTRIBUTE

(THOUSANDS)

	FY 91	FY 92
Available Sources of Cash	$77,000	$100,691
Future Requirements for Cash	34,564	3,234
Cash Surplus (Shortfall)	$42,436	$97,457
Total Assets	$86,496	$227,528
Total Liabilities	$34,564	$3,234
Debt to Asset Ratio	2.50	70.36

REPAIRS (Standard Level)
PROJECT INVENTORY
AS OF 12/31/92
(56 Projects)

				ESTIMATED PROJECT COST					
				-INCREMENTAL-			-CUMULATIVE-		
PROJECT #	BUILDING	ORG. RESP	PROJECT DESCRIPTION	CONSTRUCTION	DESIGN	TOTAL	CONSTRUCTION	DESIGN	TOTAL
	PENTAGON BUILDING	PRPO	HANDICAPPED ACCESSIBILITY	74,000	0	74,000	74,000	0	74,000
	PENTAGON BUILDING	PRPO	NEW CHILLED WATER LINES - LIFESAFETY	1,050,000	0	1,050,000	1,050,000	0	1,050,000
	PENTAGON BUILDING	PRPO	NEW TERRACE APPROACHES - LIFESAFETY	3,500,000	0	3,500,000	4,250,000	0	4,250,000
	FEDERAL BUILDING II	PRPO	SEWER LINE REPLACEMENTS - LIFESAFETY	300,000	0	300,000	4,650,000	0	4,650,000
	FEDERAL BUILDING II	PRPO	STEAM LINE REPLACEMENTS - LIFESAFETY	2,350,000	0	2,350,000	7,000,000	0	7,000,000
	FEDERAL BUILDING II	FPD	Sub. Contractor administration - SPARCO	300,000		300,000	7,300,000	0	7,300,000
	PENTAGON BUILDING	FPD	REPAIR WALL SAFE LOAD - SPARCPRO	15,000		15,000	7,300,000	0	7,300,000
	PENTAGON BUILDING	FPD	STEAM REPAIR JOINT - SPARCPRO	25,000		25,000	7,300,000	0	7,300,000
	PENTAGON BUILDING	FPD	TRAFFIC & PEDESTRIAN CONTROL	300,000		300,000	7,600,000	0	7,600,000
	PENTAGON BUILDING	FPD	STONE & CONCRETE RESTORATION	150,000		150,000	7,750,000	0	7,750,000
	PENTAGON BUILDING	FPD	INSTALL TRIBOT SAVING LIGHT FIXTURES	100,000		100,000	8,050,000	0	8,050,000
	PENTAGON BUILDING	FPD	REPLACE DOORS 1 & 3 ENTRANCE SURROUNDS	20,000		20,000	8,070,000	0	8,070,000
PROJECTS IN PROCESS									
7006	PENTAGON BUILDING	FPD	REPLACE STEAM COILS ELKS	26,640		26,640	8,096,640	0	8,096,640
7003	PENTAGON BUILDING	FPD	TOP LAYER ASPHALT CTR COURT	35,000		35,000	8,146,640	0	8,146,640
7025	PENTAGON BUILDING	FPD	Concrete Parking Structure	14,750		14,750	8,161,370	0	8,161,370
7007	FEDERAL BUILDING II	FPD	ROOF REPAIR	2,333		2,333	8,157,981	0	8,157,981
7008	PENTAGON BUILDING	FPD	ASBESTOS ABATEMENT	61,472		61,472	8,219,453	0	8,219,453
7020	PENTAGON BUILDING	FPD	WATERPROOF MANHOLE	40,000		40,000	8,259,453	0	8,259,453
7021	PENTAGON BUILDING	FPD	DRINKING WATER CHILLER REPAIR	122,000		122,000	8,381,453	0	8,381,453
7022	PENTAGON BUILDING	FPD	UNSEALED BLDG. SURVEY, PHASE.	75,000		75,000	8,456,453	0	8,456,453
7023	PENTAGON BUILDING	FPD	CYCLIC PAINTING PENTAGON	34,477		34,477	8,490,930	0	8,490,930
7024	PENTAGON BUILDING	FPD	PARKING LOT LIGHT BRACING	20,000		20,000	8,510,930	0	8,510,930
7032	PENTAGON UTILITIES PLNT	FPD	REPLACE EXPANSION JOINTS	39,115		39,115	8,550,045	0	8,550,045
7002	FEDERAL BUILDING II	FPD	ENTRANCE DOORS MC	8,815		8,815	8,558,860	0	8,558,860
7026	PENTAGON BUILDING	FPD	VENT SLIND REPLACEMENT	22,774		22,774	8,580,634	0	8,580,634
7006	PENTAGON BUILDING	FPD	ARA KITCHEN HOOD	60,384		60,384	8,640,118	0	8,640,118
7029	PENTAGON BUILDING	FPD	REPAIRS NOT SO SHORT CHANNEL.	7,056		7,056	8,654,154	0	8,654,154
7028	PENTAGON BUILDING	FPD	INST 200 AVE CTR COURTYARD	(200)		(200)	8,653,954	0	8,653,954
7030	PENTAGON BUILDING	FPD	REPL MTL DRS WINCOND FIRE DRS	2,900		2,900	8,656,854	0	8,656,854
7009	FEDERAL BUILDING II	FPD	REMOVE UNSAFE STAIRS	0	15,000	15,000	8,656,854	15,000	8,671,854
7005	PENTAGON BUILDING	FPD	FPS OT Sub & equipment rm.	35,000		35,000	8,691,854	15,000	8,706,854
7033	FEDERAL BUILDING II	FPD	Automatic Fire Det Sys	94,000		94,000	8,785,854	15,000	8,800,854
7004	PENTAGON BUILDING	FPD	DESIGN		200,000	200,000	8,785,854	200,000	8,985,854
7005	PENTAGON BUILDING	FPD	Testing/FOAC	2,477		2,477	8,788,397	200,000	8,988,397
7005	FEDERAL BUILDING II	FPD	Automatic rem. Fire ANSI II T mech rm	20,000		20,000	8,808,397	200,000	9,008,397
7007	FEDERAL BUILDING II	FPD	Sub.AirFlow meth., replace HVE	8,320		8,320	8,816,716	200,000	9,016,716
7007	PENTAGON BUILDING	FPD	Centrifugal Refrigerant Reclaimer	128,000		128,000	8,944,716	200,000	9,144,716
7007	PENTAGON BUILDING	FPD	Add Sound attenuation equipment	126,000		126,000	9,070,716	200,000	9,270,716
7013	TECH SERVICES	FPD	Improve EPM/Endurance	2,500		2,500	9,073,216	200,000	9,273,216
7014	PENTAGON BUILDING	FPD	FOAC, rem. ceiling panels, panel	1,854		1,854	9,075,070	200,000	9,275,070
7017	PENTAGON BUILDING	FPD	Automatic SEMP & Alarm Systems	19,397		19,397	9,094,467	200,000	9,294,467
7018	PENTAGON BUILDING	FPD	Replace Dome Skylight, 1,2,3	206,000		206,000	9,300,467	200,000	9,500,467
7019	PENTAGON BUILDING	FPD	Install Dir AA, Cont, Alt drive	35,100		35,100	9,335,567	200,000	9,535,567
7020	PENTAGON BUILDING	FPD	DES. FOND - LOWER PERIO LOUDERMILK MONIT. PHPRC		7,971	7,971	9,335,567	200,000	9,535,567
7026CH4	FEDERAL BUILDING II	SPAD	DES. FOND - LOWER PERIO LOUDERMILK MONIT. PHPRC	65,000		65,000	9,400,567	200,000	9,600,567
7026CH4->	PENTAGON BUILDING	SPAD	UNSEALED OF YOUR WATERS AREA	300,407		300,407	9,700,974	200,000	9,900,974
7006	PENTAGON BUILDING	FPD	Pentagon Bldg. Antenna Alterations	64,800		64,800	9,765,774	200,000	9,965,774
7015	PENTAGON BUILDING	FPD	Pentagon Bldg. Remove PB valves	378,500		378,500	10,144,274	200,000	10,344,274
7016	PENTAGON BUILDING	FPD	Pentagon, Clean Plenum	118,000		118,000	10,262,274	200,000	10,462,274
7020	FEDERAL BUILDING II	FPD	Rem. 1 fm. 1 & 3 ramp	7,300		7,300	10,269,574	200,000	10,469,574
7021	PENTAGON BUILDING	FPD	Sub. Asst during Acceptance	35,000		35,000	10,304,574	200,000	10,504,574
7023	PENTAGON BUILDING	FPD	Sub. repr. cond 3-6, 7-8 rm rm	1,700		1,700	10,306,274	200,000	10,506,274
7022	PENTAGON BUILDING	FPD	Sub. Repair, Tenn 46 rd. 42.	13,000		13,000	10,319,274	200,000	10,519,274
7041	PENTAGON UTILITY PLNT	FPD	FOR[illegible]	63,000		63,000	10,382,274	200,000	10,582,274
7042	PENTAGON UTILITY PLNT	FPD	Rpr Steam Line in PUP	30,000		30,000	10,412,274	200,000	10,612,274
7047	PENTAGON BUILDING	FPD	Repair, Correct Minor	30,000		30,000	10,442,274	200,000	10,642,274
7044	PENTAGON UTILITY PLNT	FPD	Remove/Repair cracked concrete pipe	200,000		200,000	10,642,274	200,000	10,842,274
TOTAL FUNDING REQUIRED TO COMPLETE				10,642,274	200,000	10,842,274			

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OFFICE SPACE UTILIZATION RATE
PENTAGON RESERVATION
BY MAJOR COMPONENT

DOD COMPONENT OCCUPIABLE SQUARE FEET - OFFICE

	FB#2	Pentagon Bldg.	Total
OSD	4,585	655,938	660,523
ARMY	945	768,759	769,704
NAVY	621,303	287,257	908,560
AIR FORCE		610,768	610,768
OJCS		240,207	240,207
DODCC		35,193	35,193
DCA		61,667	61,667
DIA		210,218	210,218
DMA		400	400
NSA		1,879	1,879
TOTAL PENTAGON RESERVATION	626,833	2,872,286	3,499,119

SOURCE: Real Estate & Facilities Directorate (SPAD)

AUTHORIZED PERSONNEL
ASSIGNED TO OFFICE SPACE

	FB#2	Pentagon Bldg.	Total
OSD	28	4,111	4,139
ARMY	9	6,515	6,524
NAVY	5,349	2,326	7,675
AIR FORCE		5,149	5,149
OJCS		1,777	1,777
DODCC		503	503
DCA		527	527
DIA		1,145	1,145
DMA		4	4
NSA		15	15
TOTAL PENTAGON RESERVATION	5,386	22,072	27,458

SOURCE: Real Estate & Facilities Directorate (SPAD)

UTILIZATION RATE - OFFICE
(Occ.Sq.Ft./Auth pers)

	FB#2	Pentagon Bldg.	Total
OSD	163.7	159.6	159.6
ARMY	105.0	118.0	118.0
NAVY	116.2	123.5	118.4
AIR FORCE		118.6	118.6
OJCS		135.2	135.2
DODCC		70.0	70.0
DCA		117.0	117.0
DIA		183.6	183.6
DMA		100.0	100.0
NSA		125.3	125.3
TOTAL PENTAGON RESERVATION	116.4	130.1	127.4

SOURCE: Real Estate & Facilities Directorate (SPAD)

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REPLACEMENT VALUE
PENTAGON RESERVATION
($ in Millions)

Facility	Plant Replacement Value
Pentagon Building	$1,070
Federal Building #2	198
Heating Plant	70
Site and Utilities	105
Total-Pentagon Reservation	$1,443

Source: Real Estate & Facilities Directorate (PRPO)

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Part VI - Management Comments

Director, Washington Headquarters Services Comments

DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
WASHINGTON, DC 20301-1155

01 JUL 1993

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, DODIG

SUBJECT: Draft Report on Internal Controls and Compliance with Laws and Regulations for the Pentagon Reservation Maintenance Revolving Fund's Financial Statements for FY 1992 (Project 2FH-2011)

The subject draft report has been reviewed and the following comments are provided per your request.

Cover Memorandum

The cover memorandum states, "Also, the validity of the data bases supporting the General Ledger accounts and the Fund's balance according to the U.S. Treasury could not be substantiated."

Comment: All accounting transactions in the WHS Allotment Accounting System (WAAS) are fully supported through the general ledger accounts. This was validated to the audit team on several occasions by listing all detailed transactions for each general ledger account.

The "Fund's balance according to the U.S. Treasury" is the balance as reported in the books of the Treasury. This balance is not under the general ledger control of the WAAS, and will differ from the WAAS balance due to timing differences and possible errors within the finance network reporting this activity. The statement is not a fair comparison, because it attempts to equate the WAAS general ledger accounts, which are the original book of entry, to a Treasury balance which is not under general ledger control.

The cover memorandum also states, "Written procedures did not exist for depreciating and transferring assets from other Federal agencies."

Comment: Detailed guidance for the depreciation and transfer of assets is contained in the DoD Accounting Manual, in Chapters 31 and 36. What did not exist at the time the financial statements were prepared was current data and adequate documentation from GSA on the capital assets being transferred.

1

The following comments address the specific findings under each section of the Results of Audit.

Reconciliation of Fund Balances with Treasury (Encl 1, p.4 of 5)

The DoD guidance on form and content of financial statements for FY 1992 financial activity states on page 3-32, "Fund Balances with Treasury is the total of all undisbursed account balances with the U.S. Treasury, as reflected in the entity's records." The balance of $100,691,123.11 in the WHS general ledger is fully supported by disbursement and collection documents, as was clearly demonstrated to the auditors on numerous occasions.

The major reason why the WHS Fund Balance with Treasury differs from the Funds with Treasury as reported in the Treasury records is the timing differences in recording disbursements and collections. For instance, a check received by WHS for collection is reported by Bolling AFB at the time of deposit on its statement of transactions which is not under general ledger control. This data is then reported to Treasury and increases the Funds with Treasury balance as stated on the Treasury books. It then takes from 3-6 months for the collection voucher to go through the Transactions for Others (TFO) cycle through DFAS-Denver and back to WHS for actual recording in the WHS accounting system, which then increases the WAAS Fund balance with Treasury. There is a detailed explanation under Footnote 2 to the financial statements that addresses this difference.

Paragraph two of this section states that WHS "changed" voucher numbers. The WAAS design structure allows for a six-position voucher number, which will accommodate the "unique" portion of the eight-character voucher number used by the Air Force. The differences in the voucher numbers used by Bolling AFB, DFAS-Denver, and this office may have complicated the matching effort of the audit team. However, to state "that the validity of either database could not be substantiated" is not supported. All requests for supporting documents, including vouchers, requested by the audit team were retrieved and made available during the audit.

Depreciation and Transfer of Assets (Encl 1, p.5 of 5)

Chapter 31 of the DoD Accounting Manual states in paragraph k, page 31-7, "property transferred to the DoD will be recorded in the DoD's records as the amount recorded on the transferor's books." At the time the financial statements were prepared, extensive coordination was held with GSA in order to obtain this amount. GSA produced documents that showed the capitalized value of the Pentagon Reservation as of September 30, 1989. The value of $94,234,366 placed on the Pentagon Reservation was based on the best available data at the time. Additional data has been obtained since the preparation of the reports and will be considered as an adjusting entry to the WAAS general ledger during this fiscal year.

2

Reconciliations of Fund Balances with Treasury (Encl 2, p.4 of 5)

The report states, "WHS and DFAS had not made an adequate reconciliation." WHS accounting personnel spent numerous hours reconciling this balance and identified collections totaling $68.5 million that were reported by Treasury in the wrong appropriation. WHS personnel processed the correction documents that transferred these amounts to the proper appropriation. The amount of $100,691,272, as reported in the WAAS general ledger, is the correct amount and is fully supported by accounting transactions. The unreconciled difference of $49.4 million is due to timing differences and errors outside the control of WHS.

Depositing of Collections (Encl 2, p.4 of 5)

The draft report states, "The check was not posted to the General Ledger accounts until August 27, 1992."

Comment: This is a result of the current TFO cycle which results in a time lag of up to six months before the collection voucher is received at WHS for posting to the accounting system. This is a well-known deficiency in the cross-disbursing mechanics of the DoD and outside of the direct control of WHS.

Recording of Capital Assets

The draft report states, "The Principal Statements also omitted $11.7 million in heating plant improvements that were shown in the GSA accounting records at the time of transfer."

Comment: Subsequent to the issuance of the official financial statements, the capitalized amount for the heating plant was obtained from GSA. The financial statements were corrected and this information was sent to DFAS-Indianapolis for publishing of a revised version of the statements.

My point of contact for this matter is Mr. William Bader, who can be reached at 703-614-0971.

The opportunity to comment is appreciated.

D. O. Cooke
Director

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