



June 2022

DEFENSE REAL PROPERTY

Developing Department-Wide Instructions and Adequate Internal Controls Should Help DOD Improve Recording of Transferred Assets

Accessible Version

Why GAO Did This Study

DOD manages one of the largest real property portfolios within the federal government. This engagement was initiated in connection with the statutory requirement for GAO to audit the U.S. government's consolidated financial statements.

DOD remains the only major federal agency that has been unable to obtain a financial audit opinion, partially because of its material weakness in internal control over financial reporting for real property assets.

To help the department move to an unmodified ("clean") audit opinion, DOD updated its policy, in March 2019, to assign the financial reporting responsibility for real property assets to the installation host, which is generally the military service or Washington Headquarters Services installation or base on which the asset is located.

This report examines the instructions, approaches, and internal controls that the DOD components used to identify and record the real property assets to be transferred. GAO interviewed Office of the Secretary of Defense (Comptroller) and component officials, reviewed instructions, and analyzed key data to determine the approaches and internal controls that the military services followed to identify and record the transfers.

What GAO Recommends

GAO is recommending that as DOD implements a department-wide real property strategy, it develop detailed instructions with adequate internal controls to fully implement the updated policy. DOD concurred.

View [GAO-22-104652](#). For more information, contact Kristen Kocielek at (202) 512-2989 or kocielek@gao.gov.

DEFENSE REAL PROPERTY

Developing Department-Wide Instructions and Adequate Internal Controls Should Help DOD Improve Recording of Transferred Assets

What GAO Found

The Department of Defense (DOD) did not issue department-wide instructions with actionable steps for the military services—the Air Force, Army, Navy, and Marine Corps—and other defense organizations (ODO) to follow in identifying and recording the real property reporting responsibility transfers to be made in accordance with DOD's updated policy. Without department-wide instructions, the military services independently developed written instructions and implemented inconsistent approaches for identifying and recording the asset transfers.

GAO previously reported on issues related to inconsistent approaches among military services when implementing a DOD-wide directive requiring existence and completeness verifications. GAO recommended that DOD develop and implement a department-wide strategy to remediate real property control issues.

For the real property transfers, DOD and the military services did not have adequately designed control activities, such as (1) performing reconciliations to help ensure that both the entity losing financial reporting responsibility for a real property asset and the entity gaining financial reporting responsibility accurately and completely recorded all transfers and (2) maintaining sufficient supporting documentation for all transfers. For example, the military services attempted, in some cases, to compare the ODO individual real property asset details to the information in the military services' real property systems for transferred assets and to identify differences. But the critical steps of researching and resolving the differences and recording any necessary adjustments were not fully completed.

Three Steps of the Reconciliation Process



Comparing two or more sets of records



Researching and resolving any differences



Recording adjustments if necessary

Source: GAO. | [GAO-22-104652](#)

Because the components did not complete all steps of the reconciliation process, GAO found discrepancies between the military services' and ODOs' listings of transferred assets. In addition, DOD did not design adequate control activities to help ensure that the gaining entities were provided with sufficient supporting documentation according to the updated policy.

Without comprehensive department-wide instructions and adequate internal control activities, the accuracy and completeness of the transactions that both the losing and gaining entities recorded in transferring financial reporting responsibility for real property assets cannot be reasonably assured.

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Abbreviations

DeCA	Defense Commissary Agency
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DOD	Department of Defense
DoDEA	Department of Defense Education Activity
FASAB	Federal Accounting Standards Advisory Board
GF	General Fund
GPP&E	general property, plant, and equipment
MDA	Missile Defense Agency
ODO	other defense organizations
OIG	Office of Inspector General
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
RPUID	Real Property Unique Identifier
WCF	Working Capital Fund
WHS	Washington Headquarters Services

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June 9, 2022

Congressional Committees

The Department of Defense (DOD) manages one of the largest real property portfolios within the federal government. In November 2021, DOD reported that at the beginning of fiscal year 2021, this portfolio included more than 620,000 assets (buildings, structures, and linear structures) and nearly 25.8 million acres on over 4,600 sites worldwide.¹ DOD real property includes mission-specific assets, such as runways, training areas, and industrial complexes, as well as facilities and operations like those within municipalities or on university campuses, such as hospitals and medical facilities, public safety facilities, housing and dormitories, dining facilities, utility systems, and roadways. As of the end of fiscal year 2021, DOD reported that the combined replacement value of its real property portfolio was \$1.3 trillion. As we reported in March 2021, DOD's infrastructure is critical for maintaining military readiness, and the cost to build and maintain it represents a significant financial commitment.²

DOD is the only major federal agency that has been unable to receive an audit opinion on its department-wide financial statements, in part because of reported material weaknesses in internal control over financial reporting of real property. The serious control issues that are common among the military services preclude DOD from having accurate and complete real property records and therefore reliable and auditable real property information. DOD's financial management has been on our High Risk List since 1995 largely because of ineffective processes, systems, and controls; incomplete corrective action plans; and the need for more effective monitoring and reporting. These long-standing issues affect the accounting for and reporting of real property and have prevented DOD from having auditable financial statements, which is one of the three major impediments preventing us from expressing an opinion on the

¹Linear structures pass across land and include real property assets such as runways, roads, rail lines, pipelines, fences, pavements, and electrical distribution lines.

²GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

accrual-based consolidated financial statements of the federal government.³

The National Defense Authorization Act for Fiscal Year 2014 required the Secretary of Defense to ensure that a full audit was performed on DOD's fiscal year 2018 financial statements.⁴ DOD underwent full audits in fiscal years 2018 through 2021 and received disclaimers of opinion for each year.⁵ The fiscal year 2018 audit identified 20 material weaknesses in internal control over financial reporting, one of which related to general property, plant, and equipment (G-PP&E), which includes real property.⁶

The DOD Office of Inspector General (OIG), in its audit of DOD's fiscal year 2019 financial statements, identified multiple material weaknesses, including a repeat, but modified, G-PP&E material weakness and a new material weakness specifically related to real property. The new material weakness identified for fiscal year 2019 related to DOD's inability to provide a universe of transactions for its real property. According to the OIG, DOD components did not have processes, or had not fully implemented the necessary corrective actions, to generate and reconcile real property populations to the information reported on the financial

³The other two impediments are the federal government's inability to adequately account for intragovernmental activity and balances between federal entities and weaknesses in the federal government's process for preparing the consolidated financial statements.

⁴Pub. L. No. 113-66, div. A, § 1003, 127 Stat. 672, 842 (2013). This provision was repealed by the National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, div. A, § 1002(b), 131 Stat. 1283, 1538 (2017), which instead enacted a permanent requirement for annual DOD financial statement audits, now codified as section 240a of Title 10, *United States Code*.

⁵A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive and accordingly does not express an opinion on the financial statements.

⁶A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

statements.⁷ In reporting real property as a material weakness for fiscal year 2021, the OIG stated that the components did not have evidence supporting the real property balances in their financial statements. In addition, the OIG reported that the components could not show that all of the real property assets in their real property systems existed and that all existing real property assets were recorded in the real property systems.

DOD officials recognized that to move closer to an unmodified audit opinion, the department needed a real property financial reporting policy that conformed to generally accepted accounting principles, which the Federal Accounting Standards Advisory Board (FASAB) promulgates for the federal government. The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) updated its real property financial reporting policy in March 2019 by changing the financial reporting responsibilities for some real property assets from certain DOD components to the installation host for that specific asset.⁸ The installation host is generally the military service or the Washington Headquarters Services (WHS) installation or base on which the real property asset is located.

To implement the updated policy, the OUSD(C) required each other defense organization (ODO),⁹ that is, the losing entity, that was using real property assets already in service located on a military installation to transfer the financial reporting responsibilities for those assets during fiscal year 2020 to the military service that is the installation host (the gaining entity).¹⁰ For purposes of this report, we have defined the military services as the Air Force, Army, Navy, and Marine Corps. In implementing the updated policy, military services could also be losing entities to another military service. For example, military services using

⁷Department of Defense, Inspector General, *Understanding the Results of the Audit of the DoD FY 2019 Financial Statements* (Alexandria, Va.: Jan. 28, 2020).

⁸Department of Defense, Office of the Under Secretary of Defense (Comptroller), *Real Property Financial Reporting Responsibilities Update (FMP #19-05)* (Washington, D.C.: Mar. 15, 2019). This updated policy has been incorporated into the *Real Property* chapter of DOD's Financial Management Regulation.

⁹ODOs are entities authorized by the Secretary of Defense to perform select consolidated support and service functions for DOD on a department-wide basis. These support and service functions include providing military intelligence to the warfighter, defending the United States against enemy ballistic missiles, providing the DOD enterprise infrastructure, and maintaining the technological superiority of the U.S. military.

¹⁰DOD officials stated that WHS was not a losing or gaining entity for any real property assets.

real property assets on another military service's installation were to transfer financial reporting responsibility for the assets to the military service that is the installation host. Finally, implementing the updated policy required DOD to make some financial reporting responsibility transfers between the working capital and general funds within the same military service,¹¹ depending on which type of fund was the installation host.¹² We use the term transfers throughout this report to refer to transfers of financial reporting responsibilities, rather than physical transfers of assets or transfers of budget authority.

We initiated this engagement in connection with the statutory requirement for GAO to audit the U.S. government's consolidated financial statements, which cover all accounts and associated activities of executive branch agencies, including DOD.¹³ Our objective was to determine the extent to which DOD and its components established and implemented policies and procedures to help ensure that the transfers made to change the entities responsible for real property financial reporting were accurately, completely, and properly recorded based on sufficient supporting documentation.

To address our objective, we reviewed the three types of transfers made to implement the updated policy: (1) from the ODOs to the military services; (2) between military services (for example, an asset the Air Force uses, located on an Army installation, for which the Air Force is the losing entity and the Army the gaining entity); and (3) between the Working Capital Fund (WCF) and the General Fund (GF) within the same military service. We interviewed OUSD(C) and military service officials and requested and analyzed each military service's instructions for identifying and recording the transferred assets. Although DOD was unable to provide us with a complete population of the assets transferred as a result of implementing the updated policy, it provided statistics

¹¹A working capital fund is a type of revolving fund that is intended to operate as a self-supporting entity to fund businesslike activities (e.g., acquiring parts and supplies and maintaining equipment).

¹²According to the updated policy, for real property already in service, real property is generally reported on the military department general fund financial statements. However, a military department working capital fund can report real property on its financial statements if it has been given jurisdiction over a specific installation.

¹³The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, is required to annually prepare and submit audited financial statements covering the executive branch of the U.S. government to the President and Congress, and GAO is required to audit these statements. 31 U.S.C. § 331(e).

indicating that 17,168 assets, valued at \$15.8 billion, had been identified as needing to be transferred. However, we were unable to verify that information.

Additionally, we asked DOD officials to provide us with all of the available supporting documentation for each of the three types of transfers. We received numerous documents, including journal entries with supporting information, detailed listings of individual assets transferred, and memorandums with totals of transferred assets. We analyzed the journal entries and supporting detail with the detailed listings of individual assets transferred to understand how the asset transfers were recorded. To assess the reliability of the transfer information, we traced the total transfer information on the journal vouchers to the detailed listings of individual assets. We determined that the data were sufficiently reliable for our purposes of understanding how the assets transferred were identified and recorded.

For the first type of transfers, we reviewed the journal entries and the detailed listings of individual assets transferred from five ODOs to the military services. These five ODOs represented nearly all assets DOD identified as transferred from the ODOs to the military services. The five ODOs we selected were the Defense Commissary Agency (DeCA), Defense Information Systems Agency (DISA), Defense Logistics Agency (DLA), Department of Defense Education Activity (DoDEA), and Missile Defense Agency (MDA). We also compared the detailed listings of individual assets transferred to determine if the assets were both on the gaining and losing entities' listings. To assess the sufficiency of the supporting documentation for the asset transfers, we also selected a nongeneralizable sample of 15 assets that were transferred from four of the five ODOs.¹⁴

For both the second type of transfers (between the military services) and the third type of transfer (between a military service's WCF and GF), we inquired as to how the services recorded these transfers. Additionally, we requested all available documentation supporting the services' identifying of assets, reconciling of records, and recording of accounting entries, as necessary. We also inquired about and also received and reviewed

¹⁴We excluded DISA from our nongeneralizable sample because it represented less than 1 percent of the total assets that all of the ODOs transferred.

available supporting documentation from the military services for the third type of transfers, between a military service's WCF and GF.

For further details about our scope and methodology, see appendix I.

We conducted this performance audit from November 2020 to May 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

DOD real property is critical to operations and support of the warfighter and extremely diverse. DOD operates hundreds of military bases—the largest share of DOD's real property—and similar installations that host military units and support their daily operations, providing services such as housing, utilities, and grounds maintenance, similar to those that would be found in a town or city. These bases and installations are an important part of the military-support infrastructure that prepares combat and noncombat units to fulfill their missions. Military service base real property includes buildings, communication lines, perimeter fencing, parking areas, parade fields, golf courses, retaining walls, sidewalks, transformers, memorials and monuments, and playgrounds. The range of diverse, unique, and often complex real property assets presents distinctively challenging requirements to the military services in accountability and reporting.

DOD requires that the military services maintain an accurate and complete inventory of their real property.¹⁵ Each military service maintains its real property data system that includes records with information about each real property asset.¹⁶ The military services are to have real property

¹⁵Defense-wide documents that address real property and related installation management activities include DOD Directive 4165.06, *Real Property*, and the 4165 series of DOD instructions, including DOD Instruction 4165.14, *Real Property Inventory (RPI) and Forecasting*, at enc. 2, § 4c. (revised Aug. 31, 2018), and DOD Instruction 4165.70, *Real Property Management* (Apr. 6, 2005).

¹⁶The Navy and the Marine Corps both use the same real property system, the internet Navy Facilities Asset Data Store.

assets on their installations recorded in their real property systems, with information on how the assets were being used, to aid space management planning and other real estate functions. In addition, this information is used to account for and report real property assets included in the military service financial statements and in the DOD consolidated financial statements.

Real property was one of DOD's reported material weaknesses in internal control over financial reporting for fiscal years 2019 through 2021, for reasons including the components' inability to support the property balances reported in their basic financial statements and the existence and completeness of their real property assets. According to the OIG, in order to achieve 100 percent accounting of real property, DOD leadership should design, implement, and monitor reconciliation controls between their real property systems and general ledger accounting systems and complete regular validation of the existence and completeness of its real property assets. In addition, the OIG stated that DOD should complete a full reconciliation of all real property asset transfers and identify the complete population of real property assets.¹⁷

For several years, DOD was seeking a way to report real property financially that would comply with accounting standards and be practical for DOD components to implement. Prior to the March 2019 policy, the DOD component that was to financially report an asset was the one that occupied 90 percent or more of the asset's square footage and was responsible for the asset's sustainment.¹⁸ However, multiple DOD reporting entities frequently funded and simultaneously used DOD real property assets. Therefore, DOD officials stated that this policy, based on control and economic benefit, was impractical to implement. Further, the OIG found that this former policy understated operations, overstated costs, and did not comply with federal accounting standards.

FASAB's issuance of Technical Bulletin 2017-2 in November 2017 provided DOD with the flexibility needed to revise its policy.¹⁹ According to

¹⁷Department of Defense Inspector General, *Understanding the Results of the Audit of the DoD FY 2020 Financial Statements* (Alexandria, Va.: Feb. 23, 2021).

¹⁸Department of Defense, Office of the Under Secretary of Defense (Comptroller), *Accounting Policy Update for Financial Statement Reporting for Real Property Assets* (Washington, D.C.: Sept. 30, 2015).

¹⁹Federal Accounting Standards Advisory Board, *Assigning Assets to Component Reporting Entities*, Technical Bulletin 2017-2 (Washington, D.C.: Nov. 1, 2017).

the technical bulletin, an asset may be assigned to the component reporting entity holding legal title, funding the asset, using the asset in its operations, or may be assigned on another rational and consistent basis. The United States, and not any DOD component—including the military services—holds legal title to all DOD real property assets. However, the military services and the Secretary of Defense have statutory jurisdiction over DOD real property under sections 2674(a) and 2682(b) of title 10 of the *United States Code*, with the Secretary's jurisdiction authority delegated to WHS by DOD policy.²⁰ Therefore, DOD, in order to implement Technical Bulletin 2017-2, uses jurisdiction in place of holding legal title.²¹ DOD, based on this bulletin, concluded that because the entities with jurisdiction over real property assets (generally the military services and WHS) have existing requirements for managing the asset data required for financial reporting, it is rational and consistent that those same entities financially report those assets.

In March 2019, the OUSD(C) issued its updated policy on financial reporting responsibilities for real property, assigning the financial reporting to the installation host for the asset.²² Under the updated policy, for assets already in service, the installation host is generally the military service or WHS installation or base on which the real property asset is located.²³ The updated policy is not applicable to real property assets in the possession of DOD's Intelligence Community entities and those that foreign partners constructed.

To implement this updated policy, the ODOs and the military services needed to transfer some real property assets to the military service that is the installation host responsible for financial reporting of the asset based on where the asset was located. DOD was to have completed the transfers from the ODOs (losing entities) to each military service that is

²⁰WHS has jurisdiction and operates and maintains the Pentagon Reservation and designated defense facilities in the National Capital Region. DOD Directive 5110.04, *Washington Headquarters Service (WHS)* (Mar. 27, 2013).

²¹DOD's Office of General Counsel considers DOD jurisdiction over real property to be the "equivalent concept" to holding legal title.

²²Department of Defense, Office of the Under Secretary of Defense (Comptroller), *Real Property Financial Reporting Responsibilities Update (FMP #19-05)* and Department of Defense, "Real Property," ch. 24 of *Financial Management Regulation*, vol. 4 (Oct. 2019).

²³The updated policy also addressed construction in progress and capitalized improvements to real property, but these real property assets were excluded from the scope of our engagement.

the installation host (gaining entity) by September 30, 2020. The losing entity, according to the updated policy, was to provide to the gaining entity adequate and appropriate supporting documentation for financial statement reporting. The updated policy lists key data elements that are included in financial reporting information, but does not provide an exhaustive list.²⁴ In addition, the updated policy included formatted general ledger entries that the gaining and losing entities were to have recorded.²⁵

The OIG reported for fiscal year 2020 that not all of the components were able to fully transfer real property assets to the installation hosts (the military services) by the September 30, 2020, deadline.²⁶ Moreover, the OIG reported that multiple DOD components made transfers without first resolving outstanding audit findings that directly related to unsupported valuations and incomplete listings of real property assets. Therefore, the OIG reported that the real property amounts transferred to the military services were at risk of being unsupported, incomplete, or incorrectly valued.

DOD's implementation of the updated policy had the positive effect of identifying some assets that two entities were simultaneously reporting. The OIG reported that the Army detected and corrected an overstatement of \$2.4 billion in its GF fiscal year 2019 financial statements.²⁷ Specifically, Army officials told us that under the former policy, the Army reported assets located on its installations even when an ODO or military service was to report the asset financially because the two criteria had

²⁴Real property data elements that the gaining entity is to provide as financial statement information include Project/Work Order Number, Real Property Unique Identifier, Real Property Site Unique Identifier, Contract Number(s), Placed In Service Date, and other transaction details, such as the Acquisition Fund Source Code and the Acquisition Method Code. The financial reporting information is to be maintained with the asset throughout the asset life cycle.

²⁵A general ledger is the master set of accounts that summarize all transactions occurring within an entity. The general ledger contains a debit and credit entry for every transaction recorded within it, so that the total of all debit balances in the general ledger should always match the total of all credit balances.

²⁶Department of Defense, Inspector General, *Independent Auditor's Report on the Department of Defense FY 2020 and FY 2019 Basic Financial Statements*, DODIG-2021-028 (Alexandria, Va.: Nov. 16, 2020).

²⁷Department of Defense, Inspector General, *Understanding the Results of the Audit of the DoD FY 2020 Financial Statements*.

been met—deriving primary economic benefit and being responsible for the property’s sustainment.

DOD Does Not Have Adequate Assurance That the Military Services Properly Identified and Recorded Transferred Real Property Financial Reporting Responsibilities

DOD did not issue department-wide instructions, with consistent approaches and actionable steps, for the ODOs and the military services to use to identify and record the real property transfers uniformly in order to implement the March 2019 updated policy. Because there were no department-wide instructions, the military services independently developed their own written instructions and approaches, which differed in how they identified and recorded the transferred assets. These inconsistent approaches did not include adequate control activities, such as performing (1) reconciliations to help ensure that both the losing and the gaining entities accurately and completely recorded all real property transfers and (2) activities to help ensure that the entities maintained sufficient supporting documentation for all transfers. Therefore, DOD does not have adequate assurance that both the losing and gaining entities properly identified, and accurately and consistently recorded, all of the real property assets to be transferred based on adequate supporting documentation, increasing the risk of misstatements in the military service and DOD consolidated real property asset balances. For example, we found discrepancies between those detailed listings of individual transferred assets that the ODOs and military services were able to provide us.

Approaches the Military Services Followed Were Inconsistent

The military services’ individual approaches as implemented were inconsistent with each other, particularly in relation to how real property assets to be transferred were identified. For example, according to officials, the Navy and the Marine Corps used the information in its system to identify and record the assets for which they would have financial reporting responsibility, as they concluded that their own records were more complete and accurate than those of the ODOs. Based on the Navy’s detailed written instructions, which also applied to the Marine

Corps, the Navy's approach was to rely on the information in its real property system, which it had checked through the existence and completeness verifications, to identify those real property assets on its installations for which the Navy and the Marine Corps would now have financial reporting responsibility.²⁸ The Navy and Marine Corps completed existence and completeness verifications of real property assets located on their installations in fiscal years 2019 and 2020.

The Air Force, according to officials, searched its real property systems to identify the assets that the ODOs and military services occupied on its installations.²⁹ According to Air Force officials, each Air Force installation was provided spreadsheets of the assets that the ODOs and military services occupied on that installation. If Air Force installation officials confirmed that an asset an ODO or another military service occupied physically existed on one of its installations, they worked with the ODO or military service officials to obtain the information needed to update the Air Force real property systems and changed the financial reporting organization code, which designates the entity responsible for the financial reporting, to that for the Air Force.

However, unlike the Navy and Marine Corps, which relied on their real property information to record transferred assets, the Air Force used the asset information from the ODOs and did not validate the completeness and accuracy of the underlying information. While the Air Force included information on the updated policy in its real property Air Force Guidance Memorandum included in its December 2020 real property Air Force Instruction, the instruction did not include specific guidance on its approach, such as how installations were to identify and record those assets that the Air Force would financially report.³⁰

The Army's memorandum announcing the updated policy for real property financial reporting responsibilities described its approach. According to the memorandum, the Army would be financially reporting real property if

²⁸Department of the Navy, Assistant Secretary of the Navy (Financial Management & Comptroller), *Accounting for Real Property Financial Reporting Policy Implementation* (Apr. 2020).

²⁹The Air Force was using the Automated Civil Engineering System-Real Property, but is in the process of transitioning to a new data system known as NexGen IT/TRIRIGA.

³⁰Department of the Air Force, Air Force Guidance Memorandum to AFI 32-9005, *Real Property Accountability*, DAFI 32-9005 AFGM 2020-01 (Washington, D.C.: Dec. 23, 2020).

(1) an Army installation was reporting an asset on its financial statements and the Army was to remain the financial reporting organization and (2) a non-Army entity had been reporting an asset and the Army is the financial reporting organization under the updated policy. The Army, according to the memorandum, would not be financially reporting real property assets on another military service's installation.³¹

The Army also issued guidance on how to restate prior-year Army GF financial statement balances to correct errors, identified while implementing the updated policy, for those assets that had been previously reported by both the Army and an ODO.³² To identify those assets that it would now be responsible for financial reporting, the Army compared asset listings that the ODOs provided with the information in its real property systems.³³ Officials found that the Army already had real property records in its systems for most of the approximately 3,000 ODO assets for which the Army was the gaining entity.

Since DOD did not provide department-wide instructions specifying an approach for entities to follow for implementing the updated policy, the military services developed inconsistent approaches, which differed in how they identified and recorded the transferred assets. Without clear and complete department-wide instructions and consistent military service approaches for carrying out those instructions, there is an increased risk that DOD components did not properly identify and record the transfers in accordance with DOD's updated policy. Specifically, there is an increased risk that more than one DOD entity could record and financially report the same real property asset or that no DOD entity could record and financially report some real property assets.

³¹Department of the Army, Office of the Deputy Chief of Staff, G-9, *Change to Financial Reporting Organization Responsibility Policy Guidance* (Apr. 7, 2020).

³²Department of the Army, *Army General Fund – Change in Accounting Policy and Correction of Accounting Errors: Real Property Financial Reporting* (Washington, D.C.: Sept. 18, 2020).

³³The Army primarily financially accounts for its real property assets in its General Fund Enterprise Business System, which is both the Army's financial system and its real property management system. The Planning Resource for Infrastructure Development and Evaluation (PRIDE) system is the Army National Guard's real property database. PRIDE is not a financial system, so real property information recorded in PRIDE is reported on the Army's financial statements through a quarterly journal voucher.

We have previously reported on issues related to inconsistent approaches among the military services when implementing a DOD-wide directive that did not include clear instructions.³⁴ Specifically, we found inconsistencies in the military services' approaches to implementing the Acting Secretary's requirement that entities perform existence and completeness verifications of all real property during fiscal year 2019. Existence and completeness verifications provide key information and assurance that all recorded real property assets physically existed on an installation and that all real property assets located on an installation have been recorded in the real property system.

These inconsistent approaches affected how and what assets entities verified. As a result, DOD and the military services did not obtain the complete and consistent information needed to create a DOD real property baseline or to reasonably assure that the department's real property records were reliable. We concluded that DOD-wide instructions would help DOD obtain complete and comparable existence and completeness verification results, helping DOD achieve an auditable real property baseline and its ultimate objective of an unmodified ("clean") audit opinion.³⁵ We recommended that DOD develop department-wide instructions for performing the existence and completeness verifications. In December 2021, DOD officials stated that the department had analyzed the different existence and completeness verification methodologies that each military service implemented to determine which method produced the best auditability results.

We have also reported that DOD has not yet developed a comprehensive, department-wide strategy—an element of leading practices for enterprise-wide real property management—to address the real property control issues that its independent public accountants have long reported.³⁶ These continuing control issues demonstrate that the military services, working individually over time, have been unsuccessful in providing the department with auditable real property information. This

³⁴GAO, *Defense Real Property: DOD-Wide Strategy Needed to Address Control Issues and Improve Reliability of Records*, [GAO-20-615](#) (Washington, D.C.: Sept. 9, 2020).

³⁵According to the OUSD(C), as stated in *DOD Financial Management Functional Strategy Fiscal Years 2020–2024*, DOD's ultimate objective is to receive a sustainable unmodified audit opinion. Complete and accurate accounting and financial reporting of real property will be a necessary step to achieve this ultimate objective.

³⁶[GAO-20-615](#).

contributes to audit disclaimers on the services' and DOD's consolidated annual financial statements. We reported that a department-wide real property strategy will enable DOD to identify common control issues and then develop solutions that are not limited to an individual military service. In addition, a department-wide strategy could help in resolving other control issues that are contributing to DOD's inability to obtain an unmodified ("clean") audit opinion. Therefore, in that report, we also recommended that DOD develop and implement a DOD-wide strategy to remediate real property issues.³⁷ DOD concurred with both of our recommendations. DOD officials subsequently stated in December 2021 that transferring real property financial reporting responsibilities to the military services and WHS is part of its remediation efforts.

Finally, the OIG has reported that DOD should move away from a component-driven approach to a department-wide approach. In March 2020, the Principal Deputy Inspector General Performing the Duties of the Inspector General wrote that auditors continually hear about each component's way of doing things, but not a "DoD way."³⁸ Instead, DOD components and leadership in key functional areas, such as financial management, acquisition, and cyber, need to work together to develop a "DoD way" that builds a foundation of sustainable practices. The OIG suggested the department develop such a way of doing business and enforce it, which would preclude permitting each component to develop separate, nonintegrated processes. Moreover, the OIG suggested that DOD develop consistent department-wide internal controls for business practices that are common across the department.³⁹ After its review of DOD real property management, the Defense Business Board also noted that in the absence of enterprise-level governance, the military services made real property decisions, and the culture of the military services largely influenced these decisions.⁴⁰

³⁷[GAO-20-615](#).

³⁸Department of Defense, Inspector General, *Understanding the Results of the Audit of the DoD FY 2020 Financial Statements*.

³⁹Department of Defense, Inspector General, *Understanding the Results of the Audit of the DoD FY 2020 Financial Statements*.

⁴⁰The Defense Business Board is an advisory committee established by the Secretary of Defense to provide the Secretary and Deputy Secretary of Defense with independent advice and recommendations on how to apply certain best practices from the private sector's corporate management to overall management of DOD. Defense Business Board, *Best Practices for Real Property Management*, DBBFY16-02 (Washington, D.C.: Apr. 21, 2016).

Military Services Did Not Have Adequate Controls over Recording Real Property Transfers and Maintaining Sufficient Documentation

The approaches that the military services used to identify and record the real property transfers did not have adequate control activities, including performing (1) reconciliations to help ensure that both the losing and the gaining entities accurately and completely recorded all real property transfers and (2) activities to ensure that sufficient supporting documentation existed for all transfers. The updated policy did not require control activities to help ensure that entities properly recorded all real property transfers and maintained sufficient supporting documentation. Therefore, DOD does not have adequate assurance that entities properly recorded all of the real property asset transfers with adequate supporting documentation. As a result, military service and consolidated real property asset balances may be at increased risk of being incomplete and inaccurate, which increases the risk of misstatements in the military service and DOD consolidated real property asset balances. For example, we found discrepancies between the detailed listings of individual transferred assets that the ODOs and military services provided us.

Reconciliation Procedures for Real Property Transfers Were Inadequate

The extent to which DOD performed reconciliation procedures to help ensure that entities accurately and completely recorded all real property transfers was inadequate. We found that none of the military services has fully reconciled all of the real property assets gained from the ODOs and the other military services to the losing entities' records. While the military services attempted, in some cases, to compare the ODO individual real property asset details with the information in the military services' real property systems and identify differences, they had not fully completed the critical steps of researching and resolving differences and recording any necessary adjustments. As a result, discrepancies existed between the military services' and ODOs' detailed individual asset listings of what assets had been transferred.

In addition, the military services recorded the transfers among them by simply changing the real property records. The military services generally made these changes without developing and maintaining sufficient supporting documentation necessary to perform a full reconciliation,

including making necessary adjustments and providing evidence that the adjustments have been properly made.

Similarly, the OIG reported that components did not complete full reconciliations to ensure that they had accounted for all real property and only once.⁴¹ For example, the OIG reported that while the Air Force transferred all of its real property from its WCF to its GF, the Air Force could not support the transfers with adequate documentation. Further, the OIG reported that the department should complete a full reconciliation of all real property transfers and identify the complete population of all real property assets.

According to *Standards for Internal Control in the Federal Government*, management should design control activities to achieve objectives and respond to risks. Transaction control activities are actions management may build directly into operational processes to help the entity achieve its objectives and address related risks.⁴² A reconciliation is a type of a transaction control activity. As shown in figure 1, a reconciliation consists of comparing two or more sets of records, researching and resolving any differences, and recording adjustments if necessary. Organizations are to perform reconciliations routinely to detect and correct any problems promptly and to not allow differences to age, thereby becoming increasingly difficult to research.

Figure 1: Three Steps of the Reconciliation Process



Source: GAO. | GAO-22-104652

Further, a reconciliation, according to DOD's Financial Management Regulation chapter on Accounting for Cash and Fund Balances with

⁴¹Department of Defense, Inspector General, *Understanding the Results of the Audit of the DoD FY 2020 Financial Statements*.

⁴²GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 2014).

Treasury, is not complete until an entity identifies all differences, assigns accountability, explains differences, and makes appropriate adjustments to the records. When making adjustments, entities must ensure that all adjustments are researched and traceable to supporting documents. In addition, when resolving differences, entities maintain detailed reconciliation documentation that an appropriate official reviewed and approved and that is readily available for management and auditors to review.⁴³

Military Services Did Not Fully and Consistently Reconcile Assets That the ODOs Transferred

The military services did not fully and consistently complete or document all three steps of the reconciliation process, shown in figure 1, for assets transferred from the ODOs. Further, because key data were missing from the detailed listings of individual assets transferred, it would have been difficult for the military services to complete full reconciliations of assets transferred from the ODOs because the data are needed to help uniquely identify real property assets. Officials from one military service stated that they did not perform reconciliation procedures for such assets. Officials from another military service stated that they primarily used the financial reporting organization code to confirm whether an ODO occupied a real property asset.

Navy officials told us that the Navy did not reconcile information on the transfers from the ODOs to it because, as previously noted, it relied on the information already recorded in its real property system. According to a Navy official, the Navy relied on the information in its real property system and did not perform its own reconciliations for two reasons: (1) the military services had not previously been able to reconcile real property information with one another and (2) Navy officials viewed their real property records as accurate based on the book-to-floor checks done as part of the existence and completeness verifications.⁴⁴

According to officials, the Army reconciled information for all assets the ODOs transferred that met its capitalization threshold of \$250,000, as part

⁴³Department of Defense, "Accounting for Cash and Fund Balances With Treasury," ch. 2 of *Financial Management Regulation*, vol. 4 (Apr. 2020).

⁴⁴Book-to-floor tests, used to verify the existence and reported characteristics of assets recorded in the real property system, compare the real property assets recorded to the physical assets on an installation.

of implementing the updated policy.⁴⁵ For example, Army officials stated that Army personnel worked with DLA officials to match the real property assets that DLA transferred with the assets recorded in the Army's real property system. While the Army used information DLA provided to identify assets that were (1) transferred from DLA's property system but not recorded in Army's system and (2) duplicated in both DLA's and the Army's property systems, the documentation the Army provided did not include evidence that it had performed complete reconciliation procedures, including resolving identified differences and recording necessary adjusting entries. Moreover, some of the detailed listings of ODO individual assets transferred, such as those from DoDEA and DISA, were missing critical data, such as cost information, necessary to fully perform reconciliation procedures.

Air Force officials, in responding to our requests to obtain documentation of any reconciliations that the Air Force performed for the ODO transfers, said they performed certain procedures to match data from its real property systems for transferred assets, including the financial reporting organization code, to information the ODOs provided. However, the documentation that the Air Force provided did not include the results of these procedures or evidence of other reconciliation procedures, such as identifying potentially unmatched data, researching and resolving differences, and recording and documenting any necessary accounting adjustments in both the losing and gaining entities' records.

Marine Corps officials told us they compared information for assets transferred from DeCA, DLA, and DoDEA that met the \$250,000 capitalization threshold. In making these comparisons, Marine Corps officials stated that they matched key data from the Marine Corps real property system with the information the ODOs provided, including the real property unique identifiers (RPUID), quantity measurements, financial reporting organization codes, and placed-in-service dates.⁴⁶

As the military services did not prepare full reconciliations to determine if discrepancies may have existed in the recorded transfers, we compared the detailed listings of individual transferred assets that the ODOs and

⁴⁵In general accounting concepts, the capitalization threshold is the dollar amount that determines whether the cost of an asset is expensed to operations or recorded as an asset of a reporting entity in its financial statements. Asset acquisition costs that are below the threshold are to be expensed. Asset acquisition costs that are greater than the threshold are to be capitalized and depreciated over an asset's useful life.

⁴⁶The placed-in-service date is the date on which the facility is available for DOD's use.

military services provided. We used these detailed listings to determine the extent to which any real property assets were (1) only on the ODOs' listings or (2) only on the military services' listings. We used the RPUIDs, when available, to make these comparisons. If an RPUID was missing from a listing, we attempted to use other data, such as asset description, facility number, or other identifiers, to perform the comparisons. However, because these other identifiers are not designed to be unique to an individual real property asset, as is the RPUID, it is difficult to ensure that the real property assets being matched from the two sources are the same. In addition, both the ODO and military service detailed listings of individual assets transferred were sometimes missing key information, such as asset descriptions and the total cost and accumulated depreciation of the assets.

Based on our comparisons, we identified hundreds of real property assets that were on the ODOs' detailed listings of individual assets transferred but were not on the military services' detailed listings of individual assets received. Additionally, the military services' detailed listings included hundreds of transferred assets received that were not on the ODOs' detailed listings of transferred assets. We were unable to determine if the military services researched and corrected these discrepancies. A robust and fully documented reconciliation process would have (1) identified potential differences; (2) researched, resolved, and documented differences; and (3) supported any necessary accounting adjustments made to correct differences.

In addition to the matches and comparisons that the military services performed with the ODOs' information, OUSD(C) officials matched ODOs' transferred assets to military services' records using two key elements: the RPUID and the financial reporting organization code in the real property system. While OUSD(C) performed the matches, the components were to conduct the research needed to evaluate the causes of any unmatched assets.⁴⁷ The ODOs and military services classified matches into three groups: (1) matched explained (the asset matched between the ODO and the service), (2) unmatched explained (the asset did not match exactly, but the reason was known), and (3) unmatched unexplained (the asset did not match, and the reason was not known).

⁴⁷Department of Defense, Office of the Under Secretary of Defense (Comptroller), *Component to Service Reconciliation SOP: The Department of Defense (DOD) Components to Military Services* (Washington, D.C.: Nov. 13, 2020).

Those matches identified as unmatched unexplained were those for which the components were to conduct further research to resolve the differences. However, the documentation OUSD(C) provided did not include evidence of such differences having been resolved by any of the ODOs or military services. The OUSD(C) officials told us that they recommended actions to be taken, but the responsibility for the actions remained with the financial reporting entities. Further, OUSD(C) officials stated that OUSD(C) workbooks, prepared as part of its matching process, are not considered a comprehensive source of the transfers because there were transfers that occurred directly between the gaining and the losing entities. Additionally, there were transfers that occurred outside the time period for which OUSD(C) performed the matches.

Military Services Did Not Fully and Consistently Reconcile Assets Transferred between Services

The way the military services recorded asset transfers between one another did not provide the clear documentation needed for reconciliations. According to military service officials, the military services generally recorded these transfers by changing the financial reporting organization codes in their real property systems. However, by changing the financial reporting organization code without receiving or maintaining sufficient documentation of a change, the military service does not have sufficient information needed to perform reconciliations and to document that both the gaining and losing entities properly accounted for the transfer.

The Air Force, working with the other services, has an ongoing effort to identify and properly resolve certain assets that more than one military service has simultaneously financially reported after the completion of the real property asset transfers. As part of this ongoing effort, the Air Force is comparing assets recorded in its real property systems with those of the other military services using key data elements, such as the RPUID. According to an Air Force official, one reason these reconciliations have proven to be very time-consuming is because reconciliations of recorded real property assets between the military services have not previously been done. A full reconciliation could help to identify any assets reported more than once.

DOD Did Not Design Adequate Control Activities to Help Ensure That Sufficient Supporting Documentation for the Real Property Transfers Was Developed and Maintained

DOD did not design adequate controls to help ensure that entities developed and maintained sufficient supporting documentation for all real property transfers. For example, there was no mechanism to help ensure that the losing entities provided gaining entities with sufficient supporting documentation for transferred real property assets. Instead, according to the updated policy, the losing entities are to provide the gaining entity with a minimum of eight required data elements, including the RPUID and the placed-in-service date. Documentation for these data, along with other data elements in a military service's real property system, is critical to support the accuracy and auditability of real property assets for financial reporting purposes, and the entity is required to maintain it with the real property asset throughout the asset's life cycle.

Officials from the OUSD(C) and some of the military services told us that the losing entities did not always include the supporting documentation necessary for properly recording the assets. According to OUSD(C) officials, in some cases, the gaining entity received little or no supporting documentation. Army officials told us that they received spreadsheets with no additional supporting documentation from the losing entities. Air Force officials said they did not receive sufficient supporting documents or all of the required data elements from the other military services for many of the real property assets transferred to it. Air Force officials stated that they had been working with officials from the other military services for more than a year to obtain supporting documents because, in many instances, the documents provided were incomplete, inaccurate, or missing important information about the transferred asset necessary to record it properly. According to a Navy official, most of the ODOs did not have supporting documentation to provide the Navy, the gaining entity. However, because the Navy had been the construction agent for most of the real property for which it was the gaining entity, the Navy already had the supporting documentation. Marine Corps officials stated that they received values for assets transferred from two ODOs with no documentation supporting those amounts.

We requested supporting documentation for the agreements to transfer and each of the eight data elements required by the policy from both the ODOs and the military services for a nongeneralizable sample of 15 individual real property assets that four ODOs (DeCA, DLA, DoDEA, and MDA) transferred to the military services. We excluded DISA from our

nongeneralizable sample because it represented less than 1 percent of the total assets that all of the ODOs transferred. The ODOs and the military services provided documentation that included some but not all of the required data elements for each of the 15 assets. Documentation for these data elements and other critical data are required for financial statement reporting purposes.

As previously mentioned, federal internal control standards state that management should design control activities to achieve objectives and respond to risks. One of the types of control activities is appropriate documentation of transactions, which means that management is to clearly document all transactions and other significant events in a manner that allows the documentation to be readily available for examination.⁴⁸ Moreover, the DOD Financial Management Regulation chapter, Real Property, requires the transferring DOD entity to provide financial reporting information to the gaining DOD entity whenever an asset is transferred throughout the asset's life cycle.⁴⁹ However, neither DOD nor the services implemented sufficient internal controls to help ensure that adequate documentation was obtained and maintained. The lack of complete supporting documentation necessary to record and maintain property records properly increases the risk of potential misstatements of real property assets.

Conclusions

DOD did not develop department-wide instructions, with actionable steps, or design adequate internal control activities to help ensure the proper and full implementation of its updated real property financial reporting policy. Because of inadequate control activities, which resulted in differences between the losing and gaining entities, DOD does not have adequate assurance that all transferred real property assets were properly identified and accurately and consistently recorded. Without comprehensive department-wide instructions and adequate internal control activities, most notably, completing and documenting full reconciliations of data between the losing and gaining entities, the accuracy and completeness of the transactions recorded to transfer financial reporting responsibility for real property assets cannot be reasonably assured. These full reconciliations would include (1)

⁴⁸[GAO-14-704G](#).

⁴⁹Department of Defense, "Real Property," ch. 24 of *Financial Management Regulation*.

identifying potential differences; (2) researching, resolving, and documenting differences; and (3) supporting any necessary accounting adjustments made to correct differences.

As we have previously reported, serious control issues that are common among the military services preclude DOD from having accurate and complete real property records and therefore reliable and auditable real property information. A department-wide strategy for remediating control issues, such as those we identified related to existence and completeness verifications and financial reporting responsibility transfers, would better position DOD to develop sustainable, routine processes that help ensure accurate real property records and, ultimately, auditable information for financial reporting for the department.

Recommendation for Executive Action

We are making the following recommendation to DOD:

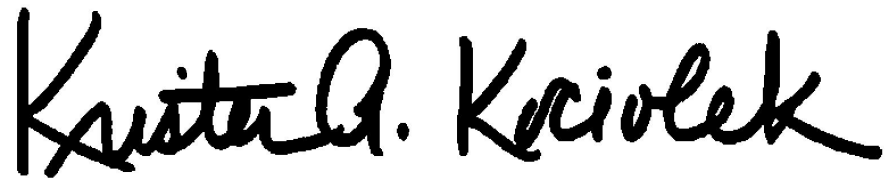
The Under Secretary of Defense (Comptroller) should, as part of DOD's ongoing efforts to develop and implement a DOD-wide strategy to remediate real property internal control issues, develop appropriate DOD-wide instructions detailing actionable steps for completing the remaining work to fully implement the March 2019 updated policy on real property financial reporting responsibilities, including completing all reconciliation steps as appropriate and obtaining and maintaining sufficient supporting documentation. (Recommendation 1)

Agency Comments

We provided a draft of this report to DOD for comment. In its comments reproduced in appendix II, DOD concurred with our recommendation. Specifically, DOD officials stated that the OUSD(C) will develop and implement DOD-level provisional guidance to support remediation of real property internal control issues for existence and completeness, reconciliations for intra-DOD real property asset transfers, and the sufficiency of supporting documentation. As we stated in our recommendation, this guidance needs to detail the actionable steps for full and consistent implementation among the military services of the March 2019 updated policy.

We are sending copies of this report to the Secretary of Defense; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; the Deputy Chief Financial Officer; the Under Secretary of Defense (Acquisition and Sustainment); the Offices of the Assistant Secretaries of the Air Force, Army, and Navy (Financial Management & Comptroller); the Marine Corps Installation Command; the Director of the Office of Management and Budget; and appropriate congressional committees. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2989 or kociolekk@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

A handwritten signature in black ink that reads "Kristen A. Kociolek". The signature is written in a cursive, flowing style.

Kristen A. Kociolek
Director, Financial Management and Assurance

List of Committees

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The Honorable James M. Inhofe
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Gary C. Peters
Chairman
The Honorable Rob Portman
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Adam Smith
Chairman
The Honorable Mike Rogers
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable Carolyn Maloney
Chairwoman
The Honorable James Comer
Ranking Member
Committee on Oversight and Reform
House of Representatives

Appendix I: Objective, Scope, and Methodology

To address our objective, we reviewed the three types of transfers made to implement the updated policy: (1) from the other defense organizations (ODO)¹ to the military services; (2) between military services (for example, an asset the Air Force uses, located on an Army installation, for which the Air Force is the losing entity and the Army the gaining entity); and (3) between the Working Capital Fund (WCF) and the General Fund (GF) within the same military service.² For purposes of this report, we have defined the military services as the Air Force, Army, Navy, and Marine Corps. Department of Defense (DOD) officials referred to the entities involved in the real property asset transfers as gaining entities and losing entities.

DOD did not have a complete population of the transfers made to implement the updated policy. We asked DOD officials to provide us with all of the available supporting documentation for each of the three types of transfers. We received numerous documents, including journal entries with supporting information, detailed listings of individual assets transferred, and memorandums with totals of transferred assets. We analyzed the journal entries and supporting detail with the detailed listings of individual assets transferred to understand how the asset transfers were recorded. While DOD did not have a complete population of transfers, we determined that the documentation provided was sufficient for us to understand how the real property assets to be transferred were identified and reported for the three types of transfers.

For the first type of transfers, we reviewed the journal entries and the detailed listings of individual assets transferred from five ODOs to the military services. These five ODOs represented nearly all of assets DOD

¹ODOs are entities authorized by the Secretary of Defense to perform select consolidated support and service functions for the Department of Defense (DOD) on a department-wide basis. These support and service functions include providing military intelligence to the warfighter, defending the United States against enemy ballistic missiles, providing the DOD enterprise infrastructure, and maintaining the technological superiority of the U.S. military.

²A working capital fund is a type of revolving fund that is intended to operate as a self-supporting entity to fund businesslike activities (e.g., acquiring parts and supplies and maintaining equipment).

identified as transferred from the ODOs to the military services. The five ODOs we selected were the Defense Commissary Agency (DeCA), Defense Information Systems Agency (DISA), Defense Logistics Agency (DLA), Department of Defense Education Activity (DoDEA), and Missile Defense Agency (MDA).


We also compared the detailed listings of individual assets transferred from the ODOs to the military service to determine the extent to which any real property assets were (1) only on the ODOs' listings or (2) only on the military services' listings. We used the real property unique identifiers (RPUID) to make these comparisons, when they were provided. If the RPUID was missing from a listing, we attempted to use other data, such as asset description, facility number, or other identifiers, to perform the comparisons. To assess the sufficiency of the supporting documentation for the asset transfers, we also selected a nongeneralizable sample of 15 assets that were transferred from four of the five ODOs.³ We requested supporting documentation for the agreements to transfer and each of the eight policy-required data elements from both the ODOs and the military services for a nongeneralizable sample of 15 individual real property assets that four ODOs (DeCA, DLA, DoDEA, and MDA) transferred to the military services.

For both the second type of transfers (between the military services) and the third type of transfer (between a military service's WCF and GF), we inquired as to how the services recorded these transfers. Additionally, we requested all available documentation supporting the services' identifying of assets, reconciling of records, and recording of accounting entries, as necessary. We also inquired and also received and reviewed available supporting documentation from the military services for the third type of transfers.

We conducted this performance audit from November 2020 to May 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

³We excluded DISA from our nongeneralizable sample because it represented less than 1 percent of the total assets that all of the ODOs transferred.

Appendix II: Comments from the Department of Defense

	<p>OFFICE OF THE UNDER SECRETARY OF DEFENSE 1100 DEFENSE PENTAGON WASHINGTON, DC 20301-1100</p>
<p>COMPTROLLER</p>	
<p>Ms. Kristen Kociolek Director, Financial Management and Assurance U.S. Government Accountability Office 441 G Street, NW Washington, DC 20548</p>	
<p>Dear Ms. Kociolek,</p>	
<p>This is the Department of Defense (DoD) response to the GAO Draft Report GAO-22-104652, "Defense Real Property: Developing Department-Wide Instructions and Adequate Internal Controls should help DoD Improve Recording of Transferred Assets," dated April 12, 2022 (GAO Code 104652).</p>	
<p>Enclosed is DoD's proposed response to the subject report. My point of contact is Mr. Robert Smith, at robert.k.smith4.civ@mail.mil or 703-695-3526.</p>	
<p>Sincerely, LAYNE CALAN <small>Digitally signed by LAYNE CALANDRA DIXON N: 1299392399</small> DRA.DIXON.12 99392399 <small>Date: 2022.05.19 14:57:46 -0400</small></p> <p>for Thomas C. Steffens Deputy Chief Financial Officer</p>	
<p>Enclosure: As stated</p>	

**GAO DRAFT REPORT DATED APRIL 12, 2022
GAO-22-104652 (GAO CODE 103591)**

**“DEFENSE REAL PROPERTY: DEVELOPING DEPARTMENT-WIDE
INSTRUCTIONS AND ADEQUATE INTERNAL CONTROLS SHOULD HELP DOD
IMPROVE RECORDING OF TRANSFERRED ASSETS”**

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSDC)
RESPONSE TO THE GAO RECOMMENDATION**

RECOMMENDATION 1: The Under Secretary of Defense (Comptroller) should, as part of DOD’s ongoing efforts to develop and implement a DOD-wide strategy to remediate real property internal control issues, develop appropriate DOD-wide instructions detailing actionable steps for completing the remaining work to fully implement the March 2019 updated policy on real property financial reporting responsibilities, including completing reconciliation steps as appropriate, and obtaining and maintaining sufficient supporting documentation.

OUSDC RESPONSE: Concur. The OUSDC will develop and implement Department-level provisional guidance to support remediation of real property internal control issues for existence and completeness, reconciliations for intra-departmental real property asset transfers, and the sufficiency of supporting documentation.

Enclosure

Text of Appendix II: Comments from the Department of Defense

Ms. Kristen Kociolek

Director, Financial Management and Assurance

U.S. Government Accountability Office 441 G Street, NW

Washington, DC 20548 Dear Ms. Kociolek,

This is the Department of Defense (DoD) response to the GAO Draft Report

GAO-22-104652, "Defense Real Property: Developing Department-Wide Instructions and Adequate Internal Controls should help DoD Improve Recording of Transferred Assets," dated April 12, 2022 (GAO Code 104652).

Enclosed is DoD's proposed response to the subject report. My point of contact is Mr. Robert Smith, at robert.k.smith4.civ@mail.mil or 703-695-3526.

Sincerely,

Thomas C. Steffens

Deputy Chief Financial Officer

Enclosure: As stated

**GAO DRAFT REPORT DATED APRIL 12, 2022 GAO-22-104652
(GAO CODE 103591) "DEFENSE REAL PROPERTY:
DEVELOPING DEPARTMENT-WIDE INSTRUCTIONS AND
ADEQUATE INTERNAL CONTROLS SHOULD HELP DOD
IMPROVE RECORDING OF TRANSFERRED ASSETS"**

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)
(OUSD(C)) RESPONSETO THE GAO RECOMMENDATION**

RECOMMENDATION 1: The Under Secretary of Defense (Comptroller) should, as part of DOD's ongoing efforts to develop and implement a DOD-wide strategy to remediate real property internal control issues, develop appropriate

DOD-wide instructions detailing actionable steps for completing the remaining work to fully implement the March 2019 updated policy on real property financial reporting responsibilities, including completing reconciliation steps as appropriate, and obtaining and maintaining sufficient supporting documentation.

OUSD(C) RESPONSE: Concur. The OUSD(C) will develop and implement Department-level provisional guidance to support remediation of real property internal control issues for existence and completeness, reconciliations for intra-departmental real property asset transfers, and the sufficiency of supporting documentation.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Kristen A. Kocielek, (202) 512-2989 or kociolekk@gao.gov

Staff Acknowledgments

In addition to the contact named above, the following individuals made key contributions to this report: Paul Kinney (Assistant Director), Sandra Silzer (Auditor in Charge), Marcia Carlsen, Anthony Clark, Eric Essig, Patrick Frey, Maxine Hattery, Brad Johnson, Jason Kelly, Jason Kirwan, John Lopez, and Anne Rhodes-Kline.

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