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[Department of Defense's Compliance with Public Law 92-545].
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Report to Secretary, Department of Defense; by Henry Eschwege,
Director, Community and Economic Development Div.

Issue Area: Domestic Housing and Community Development (2100).

Contact: Community and Economic Development Div.

Budget Function: National Defense: Department of Defense -
Military (except procurement & contracts) (051).

Organization Concerned: Department of the Air Force; Department
of the Army; Department of the Navy.

Congressional Relevance: House Committee on Armed Services;
Senate Committee on Armed Services.

Authority: (P.L. 92-545; 42 U.S.C. 1594j-1(a)). DOD Instruction
7220.16.

Under P.L. 92-545, DOD-owned family housing can be declared inadequate for public quarters and rented to military personnel with an appropriate reduction of basic allowance for quarters (BAQ). GAO performed a review of housing management at five DOD installations. Findings/Conclusions: The installations studied were not insuring that income from operating inadequate family housing covered expenses, as the law requires. Fiscal year 1975 and 1976 family housing expense reports for these installations showed that housing expenses allocated to inadequate housing exceeded rental income; however, only Fort Bragg raised the rental rate in the second quarter of fiscal year 1976 in an attempt to cover expenses. Even at the higher rate, which was 100 percent of the occupant's BAQ, expenses exceeded rental income for the last 8 months of the fiscal year. DOD's cost accounting system for family housing expenses did not require allocating administrative and some maintenance expenses to the individual housing categories. This precluded a valid comparison of income and expenses for inadequate housing. It appeared that Fort Bragg and MacDill Air Force Base had improperly declared some housing units as inadequate. Recommendations: An appropriate charge for inadequate family housing should be established when the expenses to operate and maintain the units exceed the income produced by the 75 percent forfeiture level. The issues involving retention of inadequate housing costing more than the total BAQ forfeiture should be studied and the resulting proposal should be discussed with the Armed Services and Appropriations Committees of Congress. DOD Instruction 7220.16 should be revised to require that all administrative, maintenance, equipment replacement and repair, and household furnishing expenses be allocated among the different housing categories. The justifications that the military services used to declare family housing units inadequate should be reviewed. Units improperly classified as

inadequate should be reclassified as adequate housing, and the occupants should be required to forfeit their entitlement to BAQ. (Author/SS)

00651



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

JAN 31 1977

B-133102

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

We have examined the Department of Defense's (DOD's) compliance with Public Law 92-545, enacted on October 25, 1972, under which DOD-owned family housing can be declared inadequate for public quarters and rented to military personnel with an appropriate reduction of basic allowance for quarters (BAQ). We performed our work at Fort Bragg, North Carolina; Oceana Naval Air Station, Virginia; Camp Lejeune Marine Corps Base, North Carolina; Cherry Point Marine Corps Air Station, North Carolina; and MacDill Air Force Base, Florida.

We found that the above installations were not insuring that income from operating inadequate family housing covered expenses as Public Law 92-545 requires. Fiscal year 1975 and 1976 family housing expense reports for these installations showed that housing expenses allocated to inadequate housing exceeded rental income; however, only Fort Bragg raised the rental rate in the second quarter of fiscal year 1976 in an attempt to cover expenses. Even at the higher rate, which was 100 percent of the occupant's BAQ, expenses exceeded rental income for the last 8 months of the fiscal year.

Further, DOD's cost accounting system for family housing expenses did not require allocating administrative and some maintenance expenses, which were significant at the installations visited, to the individual housing categories, such as inadequate housing. This precluded a valid comparison of income and expenses for inadequate housing, as the law requires.

Additionally, it appeared that Fort Bragg and MacDill Air Force Base had improperly declared some housing units as inadequate.

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BACKGROUND

Over the years the Congress has authorized the Secretary of Defense to build housing, usually on military installations, to meet the military's family housing needs. Since DOD cannot build enough housing for all its military families, those families unable to obtain onbase housing are paid BAQ to help defray the cost of obtaining housing in the civilian community. Military families living in adequate onbase housing forfeit their entitlement to BAQ.

Public Law 92-545 authorized the Secretary of Defense to designate as rental housing DOD-owned units that the Secretary determined to be inadequate public quarters and to lease such inadequate housing to military personnel and their families. The law provided that the occupants of inadequate housing were entitled to their BAQ but were required to pay a fair market rent which would not exceed 75 percent of the occupant's BAQ; if the expenses of operating and maintaining the units exceeded the rental income at the 75 percent level, a higher rent would be charged. The law provided, however, that the total rent an occupant could pay was the total amount of his BAQ.

DOD established the guidelines to comply with the law. Units would be considered inadequate if:

- Location and site condition were hazardous to the health or safety of the occupants.
- The living units (1) were not structurally sound, (2) had incomplete heating systems, (3) had rooms that were poorly arranged, such as a bathroom opening into the living room, (4) did not meet DOD's minimum size standards.
- Improvements to correct the above could not be made for \$10,000 or less per unit.

DOD delegated the responsibility of complying with the law to the military installation commanders, and required that income must cover expenses of operating and maintaining inadequate housing.

INSTALLATIONS WERE NOT
COMPLYING WITH THE LAW

For fiscal year 1975 all of the five installations visited charged occupants of inadequate housing 75 percent of their BAQ. Expenses of operating and maintaining the units exceeded income obtained under this arrangement by \$584,000. Four installations, however, did not raise the BAQ forfeiture rate for fiscal year 1976; consequently, expenses again exceeded income by \$1.1 million. (See enclosure.) Fort Bragg, in the second quarter of fiscal year 1976, recognized the problems and raised the forfeiture rate to 100 percent, attempting to cover expenses. However, even at this level, expenses exceeded income. (See enclosure.)

We did not attempt to determine if the same conditions occurred throughout the three military services. However, an Air Force study entitled "Rental Charges for Inadequate Quarters," dated June 10, 1976, showed that 11.4 percent of the rental rates the Air Force established for inadequate housing were too low to cover expenses.

Section 508(a) of Public Law 92-545 provided no guidance where 100 percent forfeiture of BAQ did not cover the expenses of operating and maintaining the units. A review of DOD and Army, Navy, and Air Force regulations indicated that, when the expenses of operating and maintaining inadequate housing exceeded 100 percent of forfeiture of BAQ, the units should be scheduled for disposition at the earliest practicable date, taking into consideration the degree of need for the units. We believe that even where there is a "critical need" for inadequate housing, 42 U.S.C. 1594j-1(a) prohibits DOD from indefinitely retaining the units.

However, the added expense of operating inadequate units at a loss may be a better course of action than destroying the units and programing for new onbase housing.

Conclusions

In fiscal year 1976, four of the five installations visited did not raise the BAQ forfeiture rate for inadequate family housing after experiencing a loss from operating such housing in fiscal year 1975; therefore, they did not properly comply with section 508(a) of Public Law 92-545.

Public Law 92-545 provides no guidance where 100 percent forfeiture of BAQ does not cover the expenses of operating and maintaining inadequate family housing. DOD instructions and 42 U.S.C. 1594j-1(a) prohibit indefinitely retaining the units. However, retaining the units reduces the need to build new onbase housing.

Recommendations

We recommend that the Secretary of Defense:

- Require that an appropriate charge for inadequate family housing be established--up to 100 percent forfeiture of BAQ--when the expenses to operate and maintain the units exceed the income produced by the 75 percent forfeiture level.
- Require that DOD study the issues involved in retaining inadequate housing costing more than the total BAQ forfeiture, and discuss with the Armed Services and Appropriations Committees DOD's proposed approach which could include (1) retaining the units, (2) disposing of the units, or (3) recommending a change in the law.

COST ACCOUNTING SYSTEM MASKS HOUSING EXPENSES

DOD Instruction 7220.16, dated December 7, 1971, established a uniform cost accounting and reporting system for military family housing expenses. The instruction did not require allocating administrative and some maintenance expenses to the individual housing categories, one of which is inadequate housing. The expenses for equipment replacement and repair and household furnishings were similarly not allocated. Consequently, total inadequate housing expenses were understated and precluded a valid comparison of income with expenses, as Public Law 92-545 requires. At the five installations visited, these unallocated expenses were significant ranging from 7 to 21 percent of total expenses.

We discussed this with Army, Air Force, and Marine Corps officials who agreed that to fully comply with Public Law 92-545 and to account for all housing expenses by the individual housing categories, these expenses should be allocated to inadequate housing. Navy officials disagreed, citing DOD Instruction 7220.16, which did not require allocating these

expenses. We noted that prior to fiscal year 1975 Oceana Naval Air Station allocated these expenses to inadequate housing, but beginning in fiscal year 1975 it ceased to do so when the procedures in the DOD instruction were followed. For fiscal years 1975 and 1976, Oceana reported to Navy headquarters that income exceeded expenses. Had Oceana allocated the expenses for the 2 fiscal years, expenses would have exceeded income. (Oceana made the allocation for their own records but reported to Navy headquarters housing expenses without the allocation.)

DOD Instruction 4165.39, dated September 22, 1964, required that nonroutine repairs and capital improvements to inadequate housing be limited to those expenses which can be amortized through income within a 2-year period. The five installations visited charged nonroutine repairs and capital improvement expenses to 1 year only which resulted in an overstatement of expenses for that year. The installations' housing directors said that they were not sure when to begin amortizing such expenses because the DOD instruction was unclear in this regard.

The absence of clear instructions hindered an accurate matching of yearly expense to income. For fiscal years 1975 and 1976, we amortized nonroutine repairs and capital improvement expenses that had been charged to a 1-year period over a 2-year period and found that expenses still exceeded income in both periods.

Conclusions

DOD's cost accounting system for family housing expenses should require allocating administrative expenses, all maintenance expenses, equipment replacement and repairs, and household furnishings among the different housing categories to permit a valid comparison of income and expenses.

Recommendations

We recommend that the Secretary of Defense:

- Revise DOD Instruction 7220.16 to require that all administrative, maintenance, equipment replacement and repair, and household furnishing expenses be allocated among the different housing categories.

--Clarify DOD Instruction 4165.39 to require that the amortization period for nonroutine repairs and capital improvement expenses should begin when the contracting officer, or other appropriate official, certifies that the nonroutine repair or capital improvement work is substantially complete.

UNITS MAY HAVE BEEN IMPROPERLY
DECLARED INADEQUATE

Public Law 92-545 authorized the Secretary of Defense to designate as rental housing DOD-owned units that the Secretary determined to be inadequate as public quarters and to lease such inadequate housing to military personnel and their families. The House Subcommittee on Military Construction Appropriations indicated to DOD that the intent of Public Law 92-545 was to declare as inadequate those units whose useful life precluded the economical upgrading of the units to adequate standards.

Fort Bragg declared 312 units inadequate because of a poor functional arrangement--kitchens were considered too small and the washer and dryer outlets were in the dining room. Fort Bragg estimated that these deficiencies could have been corrected for \$7,500 a unit. Although Fort Bragg declared the units inadequate, it is now considering remodeling the units at a cost of \$9,000 each.

MacDill Air Force Base declared 635 units inadequate because the units were too small. However, 418 units exceeded DOD's prescribed square footage requirements and, therefore, should not have been considered inadequate based on square footage.

Conclusions

Declaring 730 units inadequate at Fort Bragg and MacDill Air Force Base appears improper. The 312 units at Fort Bragg could have been renovated within DOD's cost limitation, and the 418 units at MacDill exceeded DOD's minimum square footage standards for adequate housing.

Recommendations

We recommend that the Secretary of Defense review the justifications that the military services used to declare family housing units inadequate. Units improperly classified

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as inadequate should be reclassified as adequate housing, and the occupants should be required to forfeit their entitlement to BAQ.

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On September 22, 1976, we sent a draft of this report to DOD for comments. Since the normal 60 days imposed on DOD to respond to our draft report expired on November 22, 1976, we are issuing the report to you without DOD comments.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of Federal agencies to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of the report are being sent to the House Committees on Appropriations, Government Operations, and Armed Services; the Senate Committees on Government Operations and Armed Services and Subcommittee on Defense of the Senate Committee on Appropriations; the Director, Office of Management and Budget; and the Secretaries of the Army, Navy, and Air Force.

Sincerely yours,



Henry Eschwege
Director

Enclosure

COMPARISON OF INCOME AND EXPENSES
FOR INADEQUATE HOUSING
AT THE INSTALLATIONS LISTED

Service	Installation	BAQ forfeiture rate (note a)	Number of inadequate family housing units	Actual expense income data available	Comparison of income and actual expenses					
					Fiscal year 1975 OAH	Income	Expense	Loss	Fiscal year 1976 OAH	Income
Marine Corps	Camp Lejeune	75%	1,650	Yes	\$1,847,070	\$2,011,983	\$164,913	\$1,943,239	\$2,127,118	\$183,879
Marine Corps	Cherry Point	75%	1,854	Yes	2,237,111	b/2,422,848	189,414	2,276,974	b/2,977,661	700,587
Army	Fort Bragg	5/100%	312	d/ No	324,056	b/497,965	173,919	522,616	b/563,350	40,734
Air Force	MacDill Air Force Base	75%	635	d/ No	850,105	b/878,922	28,813	868,112	b/1,047,741	179,629
Navy	Oceana Naval Air Station	75%	208	d/ No	638,359	665,677	27,318	645,831	b/670,243	24,412
Total							\$594,377			\$1,129,341

a/ Rates in effect at the time of our visit.

b/ Includes a pro rata share of the account used to accumulate expenses applicable to all active Government housing. These costs are not routinely allocated to substandard quarters in reports to headquarters.

c/ Raised from 75 percent to 100 percent in November 1975.

d/ Income data was based on extrapolation of quarters occupancy and rank mix for a 1-day period each 6 months for the Air Force and each quarter for the Navy and Army.