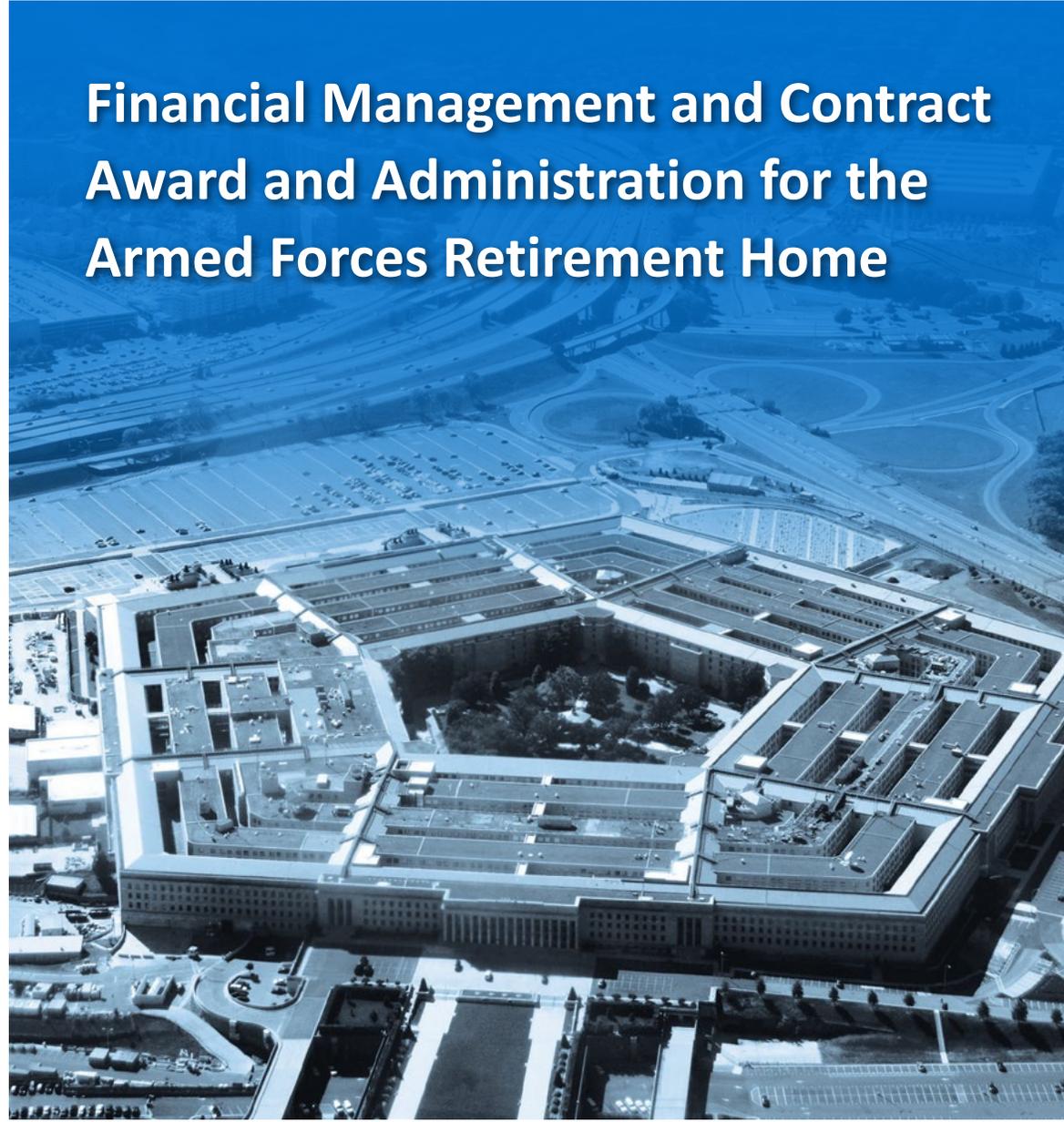




# INSPECTOR GENERAL

*U.S. Department of Defense*

FEBRUARY 21, 2018



## Financial Management and Contract Award and Administration for the Armed Forces Retirement Home

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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# Results in Brief

## *Financial Management and Contract Award and Administration for the Armed Forces Retirement Home*

February 21, 2018

### Objective

We determined whether officials conducted effective financial management and contract award and administration for the Armed Forces Retirement Home (AFRH). Section 418, title 24, United States Code, requires the DoD Office of Inspector General (DoD OIG) to perform a comprehensive inspection of the AFRH. This is the second report in a series that will collectively meet this requirement.

### Background

Section 411, title 24, United States Code, (24 U.S.C. § 411) establishes the AFRH as an independent executive agency with locations in Gulfport, Mississippi, and Washington, D.C. The purpose of the AFRH is to provide residences and medical services for retired and former members of the Armed Services.

The head of the AFRH is the Chief Operating Officer (COO) who is subject to the authority, direction, and control of the Secretary of Defense. On February 14, 2017, the Deputy Secretary of Defense transitioned the authority for the AFRH from the Under Secretary of Defense for Personnel and Readiness to the Deputy Chief Management Officer (DCMO).

The Department of the Treasury, Bureau of the Fiscal Service (BFS), provides financial management and contracting services for the AFRH through an interagency agreement (IAA).

### Findings

#### *Financial Management*

DoD and AFRH officials did not conduct effective financial management of the AFRH. Specifically, DoD and AFRH officials allowed the AFRH Trust Fund to substantially decline from \$186.5 million in FY 2010 to \$54.7 million in FY 2016 without identifying more reliable revenue sources. Based on its FY 2016 Long Range Financial Plan, the AFRH forecasted that the AFRH Trust Fund will have a negative trust fund balance by FY 2019 without supplemental funding. This occurred because:

- DoD and AFRH officials did not submit legislative proposals and administrative actions, as requested by Congress, that could be added to existing law to maintain a positive cash balance in the AFRH Trust Fund;
- other than a charter school lease executed in February 2015, DoD officials were unsuccessful in using the authority granted in 24 U.S.C. § 411(i) to generate additional revenue by leasing AFRH property to interested private developers;
- DoD officials did not generate additional revenue by raising the monthly amount withheld from the pay of enlisted members, warrant officers, and limited duty officers of the Armed Forces on active duty from \$0.50 to \$1.00; and
- the former AFRH COO and former Chief Financial Officer (CFO) overstated future revenue stability and expense reductions associated with the construction of a new residential building.

As a result, the AFRH is unable to financially sustain its day-to-day operations and meet its mission of taking care of the veterans without annual appropriated funds. According to AFRH officials, for the near future, the AFRH will need annual transfers of at least \$20 million from the U.S. Treasury to meet its yearly operating expenses and to increase the AFRH Trust Fund balance for its long-term financial obligations.



# Results in Brief

## *Financial Management and Contract Award and Administration for the Armed Forces Retirement Home*

### *Contract Award*

AFRH officials did not adequately perform acquisition planning for the six ongoing contracts and one contract in the award process that we reviewed. Specifically, AFRH officials did not:

- define the requirements in the performance work statement; or
- identify the sources and methodologies used to develop the independent Government cost estimate, as required by the IAA and AFRH guidance.

The AFRH faced procurement process challenges because AFRH officials did not:

- have sufficient contracting experience and did not rely on the expertise of BFS contracting officials; or
- segregate the duties of the CFO and the head of procurement or implement appropriate internal controls for financial and contracting decisions.

As a result, the AFRH needed to award replacement contracts because contractors could not provide required services.

### *Contract Administration*

AFRH contracting officer's representatives performed sufficient surveillance of contractor performance for 21 contracts and two food delivery agreements. Specifically, the CORs sufficiently:

- monitored contractor performance,
- verified that contractor services complied with contract requirements, and
- reviewed and verified invoices.

AFRH contracting officer's representatives performed contract surveillance in accordance with the requirements in the IAA between the BFS and the AFRH, the COR designation letter, and the contract performance work statement.

However, for 3 of 22 contracts, BFS contracting officers issued 94 modifications from FYs 2012 through 2016. The modifications occurred because AFRH officials did not perform sufficient planning for contract modifications, including identifying additional supplies needed on one contract and funding requirements on two contracts.

As a result, the AFRH had assurance that it received the goods and services for which it paid. However, the number of modifications affected the pricing on the IAA with the BFS. The AFRH paid the BFS \$80,222 to modify three contracts from FYs 2012 through 2016.

## **Recommendations**

We recommend that the DCMO, in coordination with the AFRH COO:

- establish and implement a long-term strategy for maintaining fiscal solvency at the AFRH, including quantifying impacts of major projects on the balance of funds and developing a plan of action to increase the balance of funds;
- review the performance of the CFO as the official responsible for procurement at the AFRH to determine whether administrative action is appropriate;
- follow section 813 of the National Defense Authorization Act for FY 2017 guidance on avoiding the lowest price technically acceptable selection criteria for knowledge-based acquisitions;



# Results in Brief

## *Financial Management and Contract Award and Administration for the Armed Forces Retirement Home*

- develop and implement an acquisition strategy to reduce the likelihood of future problems with the nursing contracts and determine whether the AFRH needs to change how it schedules Government nurses;
  - review the duties of the CFO and the head of procurement and design and implement appropriate internal controls or segregate the duties;
  - develop and implement a plan to regularly evaluate contract funding needs and prevent future unnecessary contract modifications; and
  - review contracts to identify areas needing improvement, including a review of the nursing contracts.
- will work together to identify performance requirements and establish the best solutions for contracting needs, including discussion of evaluation criteria and contract types.
  - will develop and implement an acquisition strategy to reduce the likelihood of future problems with the nursing contracts.
  - separated the financial and procurement duties and is in the process of evaluating internal controls and recently appointed a Chief Executive Officer to oversee the AFRH and hire a permanent AFRH COO.

Therefore, the recommendations are resolved but remain open. We will close the recommendations once we verify that the information provided and actions the DCMO and AFRH take fully address the recommendations.

## Management Comments and Our Response

The DCMO and Acting AFRH COO agreed with our findings and recommendations. Specifically, the DCMO and Acting AFRH COO:

- will develop a long-term solvency strategic plan that they expect to complete in July 2018.
- will work with industry to develop proposals for the underutilized property at the AFRH campus in Washington, D.C.
- opened a third party review of the CFO's actions in January 2018.
- will follow section 813 of the National Defense Authorization Act for FY 2017. The procurement (contracting) functions are transferring from the BFS to the Washington Headquarters Services during FY 2018, which will give DCMO more oversight of the AFRH procurement process.

The DCMO and Acting AFRH COO agreed with the recommendation to develop and implement a plan to regularly evaluate contract funding needs. The Acting AFRH COO stated that the AFRH will use its quarterly budget meeting with the CORs and the facility administrators to plan and evaluate funding needs. Therefore, the recommendation is closed.

The DCMO and Acting AFRH COO agreed with the recommendation to review contracts to identify and implement improvements. The AFRH CEO provided supplemental detailed comments for the DCMO and stated that contracting officials review commercial, Government, and historical data during market research and that the WHS is working with other contracting offices to identify best practices and lessons learned. Therefore, the recommendation is closed.

Please see the Recommendations Table on the next page for the status of the recommendations.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Deputy Chief Management Officer	None	A.1.a, A.1.b, A.1.c, B.1.a, B.1.b, B.1.c, B.1.d	C.1.a, C.1.b
Chief Operating Officer, Armed Forces Retirement Home	None	A.1.a, A.1.b, A.1.c, B.1.a, B.1.b, B.1.c, B.1.d	C.1.a, C.1.b

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

February 21, 2018

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE FOR PERSONNEL  
AND READINESS  
DEPUTY CHIEF MANAGEMENT OFFICER  
CHIEF OPERATING OFFICER, ARMED FORCES  
RETIREMENT HOME

SUBJECT: Financial Management and Contract Award and Administration for the  
Armed Forces Retirement Home (Report No. DODIG-2018-077)

We are providing this report for your information and use. DoD and Armed Forces Retirement Home officials did not conduct effective financial management of the Armed Forces Retirement Home. In addition, Armed Forces Retirement Home officials did not adequately perform acquisition planning, but officials conducted sufficient contract surveillance. We conducted this audit in accordance with generally accepted auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Deputy Chief Management Officer and the Acting Chief Operating Officer, Armed Forces Retirement Home, conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187 (DSN 664-9187).

A handwritten signature in black ink, reading "Michael J. Roark".

Michael J. Roark  
Assistant Inspector General  
Readiness and Global Operations

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# Introduction

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## Objective

We determined whether officials conducted effective financial management and contract award and administration for the Armed Forces Retirement Home (AFRH). Section 418, title 24, United States Code (24 U.S.C. § 418), as amended, requires the DoD Office of Inspector General (DoD OIG) to perform a comprehensive inspection of the AFRH at least once every three years.<sup>1</sup> See Appendix A for our scope, methodology, and prior coverage.

This is the second report in a series that will collectively meet the three-year inspection requirement. On December 14, 2017, the DoD OIG issued final report, “Armed Forces Retirement Home Healthcare Services.” The objective of the evaluation was to determine whether the AFRH provided healthcare services in accordance with applicable healthcare standards and met the related quality-of-life needs of the residents.

## Background

### *The Armed Forces Retirement Home*

Section 411, title 24, United States Code (24 U.S.C. § 411) establishes the AFRH as an independent establishment in the executive branch with locations in Gulfport, Mississippi (AFRH-G), and Washington, D.C. (AFRH-W).<sup>2</sup> The AFRH has corporate headquarters that are co-located at the AFRH-W. The AFRH is a continuing care retirement community that provides housing and medical services for retired and former service members of the Armed Forces.<sup>3</sup> The AFRH has five levels of care:

- **Independent Living.** Residents live independently and perform all activities of daily living without assistance.
- **Independent Living Plus.** Residents receive some assistance with activities of daily living, such as medication administration, hygiene, and housekeeping.
- **Assisted Living.** Residents receive regular assistance with activities of daily living and are supported by all-day nursing coverage.

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<sup>1</sup> Section 418, title 24, United States Code, “Periodic inspection of retirement home facilities by Department of Defense Inspector General and outside inspectors.”

<sup>2</sup> Section 411, title 24, United States Code, “Establishment of the Armed Forces Retirement Home.”

<sup>3</sup> At least half of the member’s service time must have been not active commissioned service (other than as a warrant officer or limited duty officer).

- **Long Term Care.** Residents receive total support care for their daily living because of chronic illness or disability. They receive all-day nursing coverage.
- **Memory Support.** Residents with cognitive deficiency receive supervision and all-day nursing coverage.

### ***Office of the Deputy Chief Management Officer***

On February 14, 2017, the Deputy Secretary of Defense transitioned the authority for the AFRH from the Under Secretary of Defense for Personnel and Readiness to the Deputy Chief Management Officer (DCMO).<sup>4</sup> According to 24 U.S.C. § 411, the head of the AFRH is the Chief Operating Officer (COO) who is under the authority, direction, and control of the Secretary of Defense. Additionally, the Secretary of Defense may support the AFRH through the DoD, on a non-reimbursable basis, to help the AFRH perform its responsibilities.

### ***The AFRH Trust Fund***

Congress established a U.S. Treasury trust fund account solely for the operation of the AFRH on November 5, 1990, under Public Law 101-510.<sup>5</sup> The U.S. Soldiers' and Airmen's (retirement) Home in Washington, D.C., originally funded the AFRH Trust Fund. Subsequently, funding from the Naval (retirement) Home was added to the AFRH Trust Fund on October 1, 1991. Beneficiaries of the AFRH Trust Fund originally included qualifying Army, Marine Corps, Navy, and Air Force service members. Public Law 111-281 granted the Coast Guard authority to participate in the AFRH on October 15, 2010.<sup>6</sup>

### ***The AFRH Solvency Strategy***

The Deputy Secretary of Defense memorandum that transitions authority of the AFRH to the DCMO also identifies several initiatives to help the AFRH be fiscally responsible and maintain solvency (the ability to pay debts as they become due) over the long term. Specifically, the memorandum states that the DCMO should:

- Consider establishing a finance committee to develop a financial strategy for near and long-term financial stability and solvency, monitor AFRH financial decisions and their impacts, and make recommendations for further actions to restore the sustainability of the AFRH Trust Fund.

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<sup>4</sup> Deputy Secretary of Defense memorandum "Armed Forces Retirement Home Solvency Strategy," February 14, 2017.

<sup>5</sup> Public Law 101-510, "National Defense Authorization Act for FY 1991," section 1519, "Retirement Home Trust Fund," November 5, 1990.

<sup>6</sup> Public Law 111-281, "Coast Guard Authorization Act of 2010," section 205, "Coast Guard Participation in the Armed Forces Retirement Home (AFRH) System," October 15, 2010.

- Work with the Assistant Secretary of Defense for Health Affairs to develop a plan for the DoD military medical system to take over responsibility for providing medical care. The AFRH has Federal and contract medical staff at both locations.
- Review all AFRH contracts for efficiency and potential consolidation with DoD contracts and implement a program for ongoing contract reviews.
- Determine whether DoD can provide administrative support on a non-reimbursable basis and develop an implementation plan to transition the support to the DoD. The AFRH receives administrative support from the Department of the Treasury, Bureau of the Fiscal Service (BFS).

### ***Services Provided by the Department of the Treasury***

The Department of the Treasury, BFS, has an interagency agreement (IAA) with the AFRH to provide financial management, human resources, procurement (contracting), and travel services.<sup>7</sup> Therefore, the BFS is the contracting office for the AFRH. BFS contracting officers award and administer AFRH contracts and designate contracting officer's representatives (CORs) at the AFRH. The AFRH CORs are responsible for overseeing contractor performance and monitoring contract funding.

The FY 2017 IAA has a fixed price of \$3.2 million. The fixed price is based on the:

- AFRH's average number of transactions in FYs 2014 and 2015;
- AFRH's share of transactions in proportion to all of BFS's customers who receive that specific type of service; and
- BFS fully recovering its costs for FY 2017.

In June 2017, the Office of DCMO notified the BFS of the decision to transition AFRH contracting services from the BFS to Washington Headquarters Services (WHS), a component of the Office of the DCMO. The WHS will award new contracts for the AFRH in FY 2018, and will perform all contract services by FY 2019.

## **Review of Internal Controls**

Office of Management and Budget Circular A-123 requires agency management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with the applicable laws and regulations.<sup>8</sup> DoD Instruction 5010.40 requires DoD organizations to

<sup>7</sup> The BFS provides procurement services through the Administrative Resource Center (ARC), which is part of the BFS. An interagency agreement is a written agreement between two Federal agencies that specifies the goods or services to be provided by one agency in support of the other.

<sup>8</sup> Office of Management and Budget Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," revised July 15, 2016.

implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.<sup>9</sup> For contract award and administration, we identified internal control weaknesses from a lack of contracting experience at the AFRH and with a lack of segregation of duties between the roles of the Chief Financial Officer (CFO) and the head of procurement. We will provide a copy of the report to the senior official responsible for internal controls in the DoD and at the AFRH.

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<sup>9</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding A

### AFRH Cannot Financially Sustain Operations

DoD and AFRH officials did not conduct effective financial management of the AFRH. Specifically, DoD and AFRH officials allowed the AFRH Trust Fund to substantially decline from an ending balance of \$186.5 million in FY 2010 to \$54.7 million in FY 2016. Based on its FY 2016 Long Range Financial Plan, the AFRH forecasted that the AFRH Trust Fund will have a negative trust fund balance by FY 2019 without supplemental funding. This occurred because:

- DoD and AFRH officials did not submit legislative proposals and administrative actions, as requested by Congress, that could be added to existing law to maintain a positive cash balance in the AFRH Trust Fund;
- other than a charter school lease executed in February 2015, DoD officials were unsuccessful in using the authority granted in 24 U.S.C. § 411(i) to generate additional revenue by leasing AFRH property to interested private developers;<sup>10</sup>
- DoD officials did not generate additional revenue by raising the monthly amount withheld from the pay of enlisted members, warrant officers, and limited duty officers of the Armed Forces on active duty from \$0.50 to \$1.00, as allowed by Public Law 103-337, the National Defense Authorization Act for FY 1995; and
- the former AFRH COO and former CFO overstated future revenue stability and expense reductions associated with the construction of a new residential building.<sup>11</sup>

As a result, the AFRH cannot financially sustain its day-to-day operations and meet its mission of taking care of veterans without annual appropriated funds. According to AFRH officials, for the near future, the AFRH will need annual fund transfers of at least \$20 million from the U.S. Treasury to meet its yearly operating expenses and to increase the AFRH Trust Fund balance for its long-term financial obligations.

<sup>10</sup> Section 411(i), title 24, United States Code, "Authority to lease non-excess property.

<sup>11</sup> The new Winfield Scott Building (Scott Building), completed in FY 2013, houses 60 residents who require a high-level of health care, along with administrative offices, dining facilities, and other resident services.

## Substantial Decline of the AFRH Trust Fund Balance

DoD and AFRH officials did not conduct effective financial management of the AFRH. DoD Instruction 1000.28 required the Principal Deputy Under Secretary of Defense for Personnel and Readiness to provide oversight of the AFRH Trust Fund.<sup>12</sup> The Instruction also states that the AFRH COO must ensure that the AFRH operates in a fiscally responsible manner, the AFRH Trust Fund remains solvent, and the AFRH receives annual unqualified audits of the financial accounts.<sup>13</sup> However, DoD and AFRH officials allowed the AFRH Trust Fund to substantially decline without identifying more reliable revenue sources. Between FYs 2010 and 2016, the AFRH Trust Fund substantially declined from \$186.5 million to \$54.7 million because revenues steadily declined and operating expenses moderately increased. AFRH officials also completed a major construction project in FY 2013, at a cost of \$88.1 million, which significantly depleted the AFRH Trust Fund.<sup>14</sup> Table 1 shows the reduction in the AFRH Trust Fund balance from FYs 2010 through 2016.

*Table 1. Reconciliation of AFRH Trust Fund Balance From FYs 2010 Through 2016 (in Millions)*

	2010	2011	2012	2013	2014	2015	2016
Beginning Trust Fund Balance	\$177.2	\$186.5	\$162.7	\$116.2	\$68.8	\$57.3	\$45.8
Revenue	62.4	64.0	60.3	52.7	52.1	47.8	67.5 <sup>1</sup>
Operating Expenses	52.0	63.9	63.6	65.6	59.3	58.5	58.0
Capital Expenses <sup>2</sup>	1.1	23.9	43.2	34.5	4.2	0.8	0.5
<b>Ending Trust Fund Balance</b>	<b>\$186.5</b>	<b>\$162.7</b>	<b>\$116.2</b>	<b>\$68.8</b>	<b>\$57.3</b>	<b>\$45.8</b>	<b>\$54.7</b>

<sup>1</sup> This amount includes a \$20.0 million appropriation the AFRH Trust Fund received in March 2016 from the U.S. Treasury General Fund. In FY 2016, AFRH receipts from normal revenue sources totaled \$47.5 million.

<sup>2</sup> The capital expenses for the Scott Building Project were incurred during FYs 2011, 2012, and 2013. Source: The AFRH.

Annual operating and capital expenses for the AFRH Trust Fund have exceeded revenues since FY 2011. In November 2015, DoD informed congressional committees that the AFRH Trust Fund balance was not sufficient to support the expenses of the AFRH. It is projected that AFRH Trust Fund will have a negative trust fund balance in FY 2019, based on a May 2016 AFRH Long Range

<sup>12</sup> DoD Instruction 1000.28, "Armed Forces Retirement Home," February 1, 2010.

<sup>13</sup> The AFRH has received unqualified or unmodified opinions from an independent public accounting firm on its financial statements from FYs 2010 through 2016.

<sup>14</sup> Major construction projects that cost \$3 million or more are considered capital expenditures, which are funds used by an entity to acquire or upgrade physical assets such as property, buildings, or equipment.

Financial Plan. Table 2 shows the projected AFRH Trust Fund balance from FYs 2017 through 2019.

*Table 2. Projected AFRH Trust Fund Balance From FYs 2017 Through 2019 (in Millions)<sup>15</sup>*

	2017	2018	2019
Beginning Trust Fund Balance	\$54.7	\$32.0	\$7.9
Revenue	41.6	41.7	42.2
Operating Expenses	63.3	64.8	66.2
Capital Expenses	1.0	1.0	1.0
<b>Ending Trust Fund Balance</b>	\$32.0	\$7.9	(\$17.1)

Source: The AFRH.

Therefore, the AFRH could not meet its current and long-term obligations without \$20 million in supplemental funding appropriated by Congress.

### ***AFRH Revenues Trending Downward***

AFRH revenue decreased from \$62.4 million in FY 2010 to \$47.5 million in FY 2016. According to 24 U.S.C. § 411(i) and 419(a), the AFRH Trust Fund receives funding from six revenue sources.<sup>16</sup>

1. Fines and Forfeitures. Misconduct charges deducted from the pay of military personnel. This is the largest revenue source for the trust fund.
2. Resident Fees. Monthly fees paid by AFRH residents for the services provided by the retirement homes.
3. Amounts Withheld from Service Member Pay. Deductions from the pay of enlisted members, warrant officers, and limited duty officers of the Armed Forces on active duty to support the AFRH.
4. Investment Interest. Income generated from investments in U.S. Treasury securities from the AFRH Trust Fund.
5. Property Leases. Money received from the rental of housing and underused buildings.
6. Gifts and Donations. Charitable donations and gifts provided to the AFRH from various sources.

<sup>15</sup> Based on the FY 2017 Performance and Accountability Report for the AFRH, the AFRH Trust Fund balance as of September 30, 2017, was \$66.0 million. The rise in AFRH Trust Fund balance is attributed to a \$22 million supplement from the U.S. Treasury General Fund. Total revenue from normal AFRH revenue sources totaled \$45.9 million, a continuation of the revenue decline from previously reported years shown in Table 3.

<sup>16</sup> Section 419, title 24, United States Code, "Armed Forces Retirement Home Trust Fund," section 419(a), "Establishment."

Table 3 shows the revenue amounts from the six sources of income from FYs 2010 through 2016, including the four primary revenue sources we discuss in further detail.

*Table 3. Revenue Detail Showing Sources of AFRH Income From FYs 2010 Through 2016 (in Millions)*

Revenue Source	2010	2011	2012	2013	2014	2015	2016
Fines and Forfeitures	\$37.2	\$36.6	\$35.3	\$29.7	\$28.2	\$22.8	\$21.8
Resident Fees	10.4	12.4	12.4	13.1	13.6	14.7	16.5
Withheld Pay	7.3	7.4	7.5	7.2	7.1	6.8	6.8
Investment Interest Income	6.6	6.8	4.8	2.3	2.2	2.3	1.8
Property Leases	0.9	0.7	0.2	0.3	0.3	0.4	0.5
Gifts and Donations	0.0	0.0	0.0	0.1	0.6	0.8	0.1
<b>Total</b>	<b>\$62.4</b>	<b>\$64.0</b>	<b>\$60.3</b>	<b>\$52.7</b>	<b>\$52.1</b>	<b>\$47.8</b>	<b>\$47.5*</b>

\*The AFRH Trust Fund also received a \$20 million appropriation directly from the U.S. Treasury General Fund to sustain its operating expenses and increase the AFRH Trust Fund balance.

Source: The AFRH.

The steady decline in revenue created a challenging financial management environment for the AFRH Trust Fund.

### *Substantial Decrease in Military Fines and Forfeitures*

From FYs 2010 through 2016, as active duty force levels declined, fines and forfeitures collected from military members declined by \$15.4 million (41.4 percent). The decrease in fines and forfeitures greatly contributed to the AFRH's declining financial position.

The AFRH's reduction in revenue from fines and forfeitures was directly attributed to the reduction in Uniform Code of Military Justice (UCMJ) court-martials



The decrease in fines and forfeitures greatly contributed to the AFRH's declining financial position.

and Article 15 disciplinary actions across all Military Services.<sup>17</sup> From FYs 2010 through 2016, UCMJ court-martials and Article 15 disciplinary actions in the Military Services decreased from 71,847 in FY 2010 to 45,260 in FY 2016, a 37 percent decrease.<sup>18</sup> Appendix B provides detailed information on these disciplinary actions by Military Service. Table 4 shows the corresponding decreases in fines and forfeitures and in military disciplinary actions.

*Table 4. Fines and Forfeitures Received by AFRH Compared to Total UCMJ and Article 15 Disciplinary Actions Across the Military Services from FYs 2010 Through 2016*

	2010	2011	2012	2013	2014	2015	2016
Fines and Forfeitures (in Millions)	\$37.2	\$36.8	\$35.3	\$29.8	\$28.2	\$22.8	\$21.8
Total UCMJ and Article 15 Actions	71,847	68,143	60,915	65,402	53,977	54,090	45,260

Sources: The AFRH and U.S. Military Justice.

If the number of disciplinary actions continues to decrease across the Military Services, fines and forfeitures paid to the AFRH will also continue to decline.

### *Increases to Resident Fees Were the Only Increase in Revenues Received*

Resident fees were the only revenue source to increase during FYs 2010 through 2016, rising from \$10.4 million to \$16.5 million, respectively. The increase in revenue occurred despite a decrease in residents at the AFRH. In FY 2011, after AFRH-G residents returned to Gulfport, the AFRH housed 1,018 residents at its two facilities.<sup>19</sup> By September 30, 2016, the population had decreased to 923 residents. AFRH collects monthly fees from its residents based on the level of care the resident receives.

In FY 2015, DoD and AFRH officials agreed to increase both the percentage of the resident's eligible annual income used to calculate the resident's fee and the maximum monthly amount that could be collected for each level of care.<sup>20</sup>

<sup>17</sup> The UCMJ is Federal law under 10 U.S.C. Chapter 47, enacted by Congress. The UCMJ defines the military justice system and lists criminal offenses under military law. An Article 15 disciplinary action is considered a non-judicial punishment, permitting commanders to resolve allegations of minor misconduct against a service member without resorting to higher forms of discipline, such as a court-martial. A Military Service member may refuse to accept the Article 15 action and instead demand trial by court-martial.

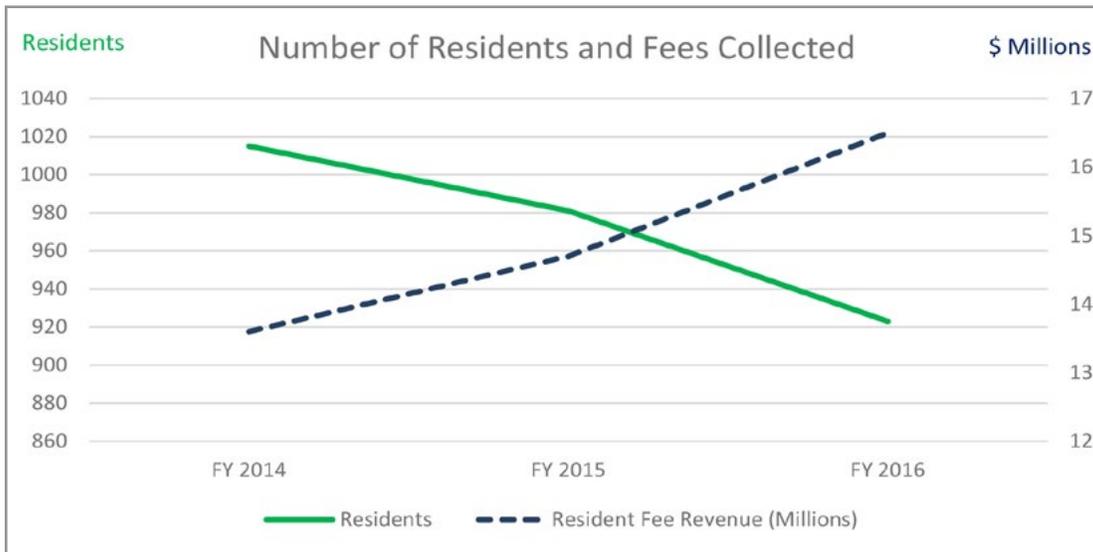
<sup>18</sup> Statistics reported in the FYs 2010 through 2016 Annual Reports submitted to the Committees on Armed Services of the U.S. Senate and U.S. House of Representatives and to the Secretary of Defense; Secretary of Homeland Security; and the Secretaries of the Army, Navy, and Air Force pursuant to the UCMJ.

<sup>19</sup> The AFRH-G temporarily closed in 2005 when it was destroyed during Hurricane Katrina.

<sup>20</sup> AFRH Agency Directive No. 3-3, titled "Resident Fees," dated October 29, 2015, establishes the policy and formula with which resident fees are calculated. The directive also establishes that resident monthly fees will be adjusted to ensure the resident retains a minimum of \$150.00 per month in personal income.

The amount AFRH can charge in resident fees is limited. The AFRH implemented the increase in two stages, the first occurring in September 2015 and the second in January 2016. Consequently, revenues increased from \$13.6 million in FY 2014 to \$16.5 million in FY 2016. As shown in Figure 1, revenues from resident fees increased despite the decrease in the number of residents at the AFRH.

*Figure 1. Residents of and Resident Fees Collected at the AFRH*



Source: The DoD OIG.

A resident's ability to pay is not part of the eligibility requirements for admittance to the AFRH. However, the incapability of earning a livelihood because of a service-connected disability incurred in the line of duty is one of the eligibility criteria in 24 U.S.C. §412. Independent living is the only level of care where more than half the residents pay the maximum monthly fee of \$1,429.<sup>21</sup> The majority of residents at all other levels of care pay less than the maximum fee.<sup>22</sup> Table 5 shows the numbers of residents at each level of care compared to the maximum and minimum fees paid in February 2017.

<sup>21</sup> All residents enter the AFRH at the independent living level of care.

<sup>22</sup> Maximum monthly fee is the most that the AFRH can charge a resident to live at the AFRH. The minimum fee is the lowest amount collected from a resident due to legal restrictions.

Table 5. Monthly Resident Fees and Total Revenue (as of February 2017)

Level of Care	Residents at Care Level	Percent of Residents Paying Max Fee	Maximum Fee	Minimum Fee Paid	Average Fee Paid	Total Revenue
Independent Living	700	52	\$1,429	\$42.51	\$1,241.63	\$869,141
Independent Living Plus	44	43	1,575	349.39	1,221.81	53,760
Assisted Living	72	36	2,558	856.75	2,014.30	145,230
Long-Term Care	56	9	4,664	640.84	2,815.06	157,643
Memory Support	34	26	4,664	319.72	3,004.41	102,150
<b>Total</b>	<b>906</b>	<b>47</b>			<b>\$1,465.48</b>	<b>\$1,327,924</b>

Source: The ARFH.

### *Total Amount Withheld From Military Pay Decreased Along With Active Duty Force Levels*

Amounts withheld from service member pay decreased from \$7.3 million in FY 2010 to \$6.8 million in FY 2016. Active duty enlisted members, warrant officers, and limited duty officers of the Armed Forces have \$0.50 withheld each month from their pay in accordance 37 U.S.C. § 1007(i).<sup>23</sup> The monthly deduction remained at \$0.50 since December 1990. Proportionate with the decrease in active duty force levels from FYs 2010 through 2016, there was a slight decline in AFRH revenues from military pay withholdings.

### *AFRH Trust Fund Investment Income Significantly Decreased*

The AFRH Trust Fund investment interest income decreased from \$6.6 million to \$1.8 million from FYs 2010 through 2016. According to 24 U.S.C. § 419, the AFRH is allowed to invest any money held by the AFRH Trust Fund that the COO determines is not needed for current operations in U.S. Government securities. AFRH Trust Fund balances may only be invested in interest bearing debt securities issued by the U.S. Treasury, BFS. These market-based Treasury securities consist of Treasury bills and notes. The amount of funds available for investment in the AFRH Trust Fund decreased from \$186.5 million in FY 2010 to \$54.7 million in FY 2016 because of the decline in income.<sup>24</sup>

<sup>23</sup> Section 1007, title 37, United States Code, "Deductions from pay."

<sup>24</sup> Invested funds are reported by the AFRH in their annual Performance and Accountability Report under Note 2 of the financial statements and comprise a portion of the Fund Balance with Treasury.

### ***Modest Increase in AFRH Operating Expenses***

The AFRH operating expenses gradually increased from \$52 million in FY 2010 to \$58 million in FY 2016. After the AFRH-G was destroyed during Hurricane Katrina, the AFRH operated only the AFRH-W during FYs 2005 through 2010. The closure of the AFRH-G campus reduced the number of AFRH residents from 1,559 to 977, leading the AFRH to reduce its operating costs. The closure resulted in an increase in the AFRH Trust Fund balance during this period from \$118.1 to \$186.5 million. The AFRH-G campus re-opened in July 2010, after which AFRH experienced an increase in expenses from operating both the AFRH-G and AFRH-W campuses.

Although the number of AFRH residents continued to decrease from 1,018 in FY 2011 to 923 in FY 2016, the associated reduction in operating expenses was offset by the increased expense of additional services needed for residents advancing out of the independent level of care. The number of residents in higher levels of care increased from 147 in FY 2010 to 168 in FY 2016. The higher the level of care a resident receives, the more it costs. Table 6 shows the average operating cost per resident for each of the five levels of care.

*Table 6. FY 2016 Average Cost per Resident by Level of Care*

Level of Care	Resident Average Cost per Level of Care
Independent Living	\$38,603
Independent Living Plus	\$42,696
Assisted Living	\$101,340
Long-Term Care	\$125,577
Memory Support	\$122,944

Source: The AFRH.

### ***Construction of New Resident Building Depleted the AFRH Trust Fund and Reduced Resident Capacity***

The new construction of the Scott Building at the AFRH-W significantly depleted the AFRH Trust Fund, reducing it from \$186.5 million in FY 2010 when construction began to \$68.8 million in FY 2013 when construction concluded. AFRH Trust Fund capital outlays (payments) during this period totaled \$102.7 million, including \$88.1 million associated with the construction of the new Scott Building. AFRH officials originally intended to renovate the Scott Building, which housed 600 residents; however, the renovation concept did not meet AFRH management plans to reduce the number of residents at the AFRH-W to control costs. Table 7 shows the significant reduction in resident capacity at the AFRH-W by residential building.

*Table 7. Change in Resident Capacity as a Result of the Scott Building Project at the AFRH-W*

Residential Buildings at the AFRH-W	Resident Capacity Before the Scott Building Project	Resident Capacity After the Scott Building Project
Scott	550 Independent Living/50 Assisted Living	36 Long-Term Care/24 Memory Support
Sheridan	508 Independent Living	448 Independent Living/60 Assisted Living
LaGarde	200 Long-Term Care/Memory Support	0 (Building Closed)
<b>Total Capacity</b>	<b>1308 Residents</b>	<b>568 Residents</b>

Source: The AFRH.

The AFRH also closed the LaGarde Building, in March 2013, as part of the “Washington Master Plan.”<sup>25</sup> Built in 1992, the LaGarde Building housed 200 long-term care and memory support AFRH residents, which are the most expensive levels of care at the AFRH. After the new Scott Building opened in FY 2013, the AFRH closed the LaGarde Building, which further reduced capacity for long-term care and memory support residents at AFRH-W.<sup>26</sup> Figure 2 shows pictures of the Scott Building Project.



Figure 2. The New Scott Building (Left) Replaced the Old Scott Building (Right), Which Was Demolished. Source: The AFRH.

## AFRH Trust Fund Solvency Jeopardized by Lack of Effective Planning

DoD and AFRH officials did not effectively coordinate a plan to maintain trust fund solvency or take other appropriate actions to ensure effective financial management of the AFRH. Specifically:

<sup>25</sup> As part of the AFRH-W’s “Washington Master Plan,” the LaGarde Building became part of 77 acres of underused land (called the redevelopment zone) and was made available to lease to increase AFRH revenue.

<sup>26</sup> The Sheridan Building occupancy levels at the AFRH-W did not change because of the Scott Building Project.

- DoD and AFRH officials did not submit legislative proposals and administrative actions, as requested by Congress, that could be added to existing law to maintain a positive cash balance in the AFRH Trust Fund;
- other than a charter school lease executed in February 2015, DoD officials were unsuccessful in using the authority granted in 24 U.S.C. § 411(i) to generate additional revenue by following through with private developers who were interested in leasing AFRH-controlled property;
- DoD officials did not generate additional revenue by raising the monthly amount withheld from the pay of enlisted members, warrant officers, and limited duty officers of the Armed Forces on active duty from \$0.50 to \$1.00; and
- the former AFRH COO and CFO overstated future revenue stability and expense reductions associated with the construction of new Scott Building.

### ***DoD and AFRH Officials Did Not Comply With Congressional Direction***

Contrary to congressional direction, DoD and AFRH officials did not submit legislative proposals and administrative actions that could be added to existing law to achieve trust fund solvency. On December 17, 2015, the House Committee on Appropriations directed the AFRH to work with the DoD to develop an approach, along with legislative proposals, to replenish the AFRH Trust Fund in the FY 2017 budget request.<sup>27</sup> The committee also directed the AFRH to report its efforts regularly to stabilize the AFRH Trust Fund and to lease property at the AFRH-W campus to Congress.

The DoD contracted for an in-depth study to develop mid-term and long-term plans to improve AFRH Trust Fund solvency. The study group analyzed AFRH operations, which included benchmarking and identified potential legislative changes to revise AFRH's funding model.

In House Report 114-640, Congress noted that it had not received any information from the DoD or AFRH.<sup>28</sup> Congress requested that the DoD and AFRH provide a sustainable and reliable approach for increasing revenues along with legislative proposals within the AFRH budget request for FY 2018. In addition, Congress requested the results of the DoD's study to develop plans to improve AFRH Trust Fund solvency.

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<sup>27</sup> Congressional Record – House H10401, December 17, 2015.

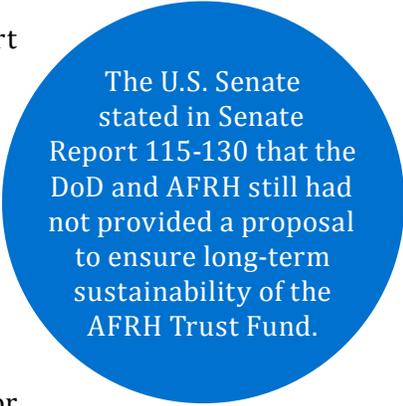
<sup>28</sup> House Report 114-640, "Departments of Transportation, and Housing and Urban Development, and Related Agencies for Fiscal Year Ending September 30, 2016, and for Other Purposes," accompanying H.R. 2577, June 22, 2016.

After reviewing the statement of work related to the contractor performing the study, Congress expressed concern that the study focused on replenishing the AFRH Trust Fund by cutting core AFRH operations to residents, rather than by increasing revenues. The results of the study, dated April 2016, were not released to Congress until September 2017. The study concluded that while operating efficiencies could be implemented by the AFRH, the primary concern jeopardizing AFRH Trust Fund solvency was a lack of revenue. AFRH revenue has reached historic lows according to the AFRH Congressional Report on Trust Fund Solvency.

As a first step toward stabilizing and replenishing the AFRH Trust Fund, the Deputy Secretary of Defense directed the DCMO to exercise authority, direction, and control of AFRH operations effective February 14, 2017. The Deputy Secretary of Defense also directed the AFRH to accomplish its mission with fiscal responsibility.

The Deputy Secretary of Defense approved a series of initiatives that resulted from the DoD study of AFRH operations. These initiatives included allowing payments from the Department of Veterans Affairs for qualified AFRH residents, eliminating the trust fund subsidy of the AFRH-W golf course, and exploring options for charitable funding such as the Combined Federal Campaign. Additionally, the DCMO was directed to conduct a formal reassessment of the financial position of the AFRH Trust Fund to determine whether the actions planned and proposed will be sufficient to restore the financial health of the trust fund. Although the DoD-approved initiatives could provide the AFRH with some additional revenue, they would likely have limited impact on the long-term solvency of the AFRH Trust Fund due to decreasing revenue from fines and forfeitures and rising costs of medical care for the aging.

On July 13, 2017, the U.S. Senate stated in Senate Report 115-130 that the DoD and AFRH still had not provided a proposal to ensure long-term sustainability of the AFRH Trust Fund and requested that the DoD and AFRH provide the proposal as soon as possible.<sup>29</sup> As of November 30, 2017, DoD and AFRH officials had not submitted the requested information.



The U.S. Senate stated in Senate Report 115-130 that the DoD and AFRH still had not provided a proposal to ensure long-term sustainability of the AFRH Trust Fund.

The DCMO, in coordination with the AFRH COO, should establish and implement a long-term strategy for maintaining fiscal solvency at the AFRH that uses supported estimates of future revenue streams, establishes a trust fund minimum balance, and updates the replenishment plan as additional revenues streams are realized.

<sup>29</sup> Senate Report 115-130, "Military Construction, Veterans Affairs, and Related Agencies Appropriation Bill, 2018," July 13, 2017.

## ***Uncertainty on Leasing Authority Denied Additional Revenue***

Other than a charter school lease executed in February 2015, DoD officials did not enter into leases of AFRH-controlled, non-excess real or personal property as authorized by Congress, which would have generated additional revenue for the AFRH Trust Fund.<sup>30</sup> This occurred because DoD and AFRH officials could not determine who had the appropriate decision-making authority necessary to lease AFRH-controlled property.

In FY 2008, former AFRH officials developed the Washington Master Plan, a strategy in which leasing AFRH property would provide sustained revenue and become the main component of its plan for long-term solvency. As part of the plan, the AFRH set aside 77 acres of its property, including the LaGarde Building, for private and institutional development and use. The AFRH called this area the redevelopment zone. AFRH plans for the redevelopment zone included leasing out buildings for the purposes of office and residential use including research and development, medical, retail, and hotels. The Washington Master Plan provided the conceptualized need for the AFRH to consolidate its operations around the Sherman, Sheridan, and Scott Buildings.

According to Public Law 111-84 § 2823, the Secretary of Defense may lease non-excess real and personal property, not subject to disposal, that is under the control of the AFRH, if the AFRH COO considers it advantageous to the AFRH. The leasing authority was delegated from the Secretary of Defense to Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD[P&R]) under DoD Directive 5124.09.<sup>31</sup> AFRH worked with the General Services Administration to develop the AFRH Washington Master Plan along with associated studies, to enter into Enhanced Use Leases that use In-Kind Lease agreements.<sup>32</sup>

From a General Services Administration Industry Day in November 2014, AFRH officials had private developers interested in leasing 77 acres of AFRH property. However, DoD officials would not sign the lease agreements because they considered the AFRH property as Federal property, not DoD property, causing uncertainty over which organization had authority. As a result, the 77 acres of AFRH properties were not leased. However, execution of the plan added

<sup>30</sup> National Defense Authorization Act for Fiscal Year 2010, Public Law 111-84 § 2823.

<sup>31</sup> DoD Directive 5124.09, June 12, 2014, "Assistant Secretary of Defense for Readiness and Force Management (ASD[R&FM])."

<sup>32</sup> DoD uses Enhanced Use Leases as a method for funding construction or renovations of Federal property by allowing a private developer to lease underused property, with rent paid by the developer in the form of cash or in-kind services. DoD's Enhanced Use Lease authority is specifically derived from 10 U.S.C. § 2667. In-kind lease agreements provide for renovation, alteration, repair, or improvement, by the lessee, of the property leased include as payment of part or all of the considerations for the lease. The DoD's In-Kind Lease authority, on behalf of AFRH COO, is specifically derived from 24 U.S.C. § 411(i).

considerable expenses to the AFRH Trust Fund while generating minimal revenue. This was primarily due to indecisiveness of DoD officials in identifying and arranging leasing authorities to work with the AFRH in developing leasing opportunities.

AFRH officials projected that the lease agreements would have resulted in \$1.5 to \$28.7 million in revenues annually from FYs 2013 through 2017.<sup>33</sup> Instead of providing revenue, the properties contributed to the AFRH's operating expenses. In April 2017, the AFRH proposed and submitted legislation to Congress that would return leasing authority to AFRH allowing for guidance and support from the DCMO while using the General Services Administration to facilitate the lease agreements. The DCMO, in coordination with the AFRH COO, should lease non-excess AFRH property in accordance with the authority granted in 24 U.S.C. § 411(i).

### ***DoD Did Not Increase Pay Withholdings in Response to the Financial Needs of the AFRH***

The DoD did not take necessary actions to increase military pay withholdings from \$0.50 to \$1.00 per month, despite the financial need of the AFRH and the Deputy Secretary of Defense's approval. The delay in raising the withholdings resulted in an annual loss of \$6.7 million in potential revenue for the AFRH. Public Law 103-337, the National Defense Authorization Act for FY 1995, authorizes, based upon the financial needs of the AFRH, the military to withhold up to \$1.00 each month from the pay of enlisted members, warrant officers, and limited duty officers of the Armed Forces on active duty for deposit in the AFRH Trust Fund.

On October 22, 2015, the former acting Under Secretary of Defense for Personnel and Readiness issued an action memorandum to the Deputy Secretary of Defense requesting approval to increase the amount withheld from the pay of the active duty enlisted members, warrant officers, and limited duty officers of the Armed Forces from \$0.50 per month to \$1.00 per month. In the memorandum, the former acting Under Secretary of Defense for Personnel and Readiness warned the Deputy Secretary of Defense that each month's delay in increasing the withholdings amount negatively impacted the AFRH's recovery effort by \$560,000.

The former acting Under Secretary of Defense for Personnel and Readiness also noted in the same memorandum that the Joint Staff and Service Senior Enlisted Advisors unanimously opposed the increase to the monthly withholding amount.

<sup>33</sup> It will take the AFRH several years to realize any substantial revenue due to the inability of AFRH to lease out buildings in the redevelopment zone. In-Kind leases are used as a hedge against expensive renovation of many of the idle buildings.

The former acting Under Secretary added that while the Joint Staff and Service Senior Enlisted Advisors agreed that the AFRH residents deserved to be treated with dignity and respect, they thought it was wrong to require the current active duty members to pay that bill “out of their own pockets.” According to the Senior Enlisted Advisors, the opposition to increase monthly withholdings was not so much a matter of the cost, but rather a matter of principle. AFRH officials stated that this opposition to the increase is the primary reason why it has not been implemented.

The Deputy Secretary of Defense approved the withholding increase request on October 29, 2015, requiring the OUSD(P&R) to first:

- conduct a bottom-up review of the AFRH;
- prepare a legislative proposal for FY 2017 to transfer funds from the DoD to AFRH; and
- explore the reprogramming of funds in FY 2016 to fully cover the cost of the anticipated revenue that the pay deduction increase would provide, without having to increase the pay deduction.

OUSD(P&R) officials stated that the requirements have been completed but no additional actions to increase the military pay withholdings have taken place. OUSD(P&R) should, based upon the financial needs of the AFRH, increase the withholding amount from \$0.50 to \$1.00, if other funding sources are not identified.

### ***Former COO and CFO Overstated Future Revenue Stability and Expense Reductions Before Starting a Major Construction Project***

The former COO and CFO of the AFRH did not properly plan for the replenishment of the AFRH Trust Fund before beginning the \$88.1 million Scott Building Project.<sup>34</sup> AFRH officials conducted a 10-year Financial Capital Plan and a Trust Fund Solvency study. In the 2008 AFRH Solvency Report, the AFRH forecasted AFRH Trust Fund revenues of \$111.3 million in FY 2016, primarily from increases in fines, forfeitures, and lease revenues. Table 8 shows a comparison of forecasted future revenues for the AFRH with actual revenues for FYs 2010 through 2016.

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<sup>34</sup> The same person held both the COO and CFO positions during this time.

*Table 8. Revenue Amounts Predicted by 2008 AFRH Solvency Report for FYs 2010 Through 2016 (in Millions)*

Revenue Source	2010	2011	2012	2013	2014	2015	2016
Fines and Forfeitures	\$43.7	\$44.7	\$45.7	\$46.7	\$47.8	\$48.9	\$50.0
Resident Fees	9.2	10.7	12.9	14.2	15.8	16.2	16.6
Withheld Pay	6.8	6.9	6.9	6.9	6.9	6.9	6.9
Investment Interest Income	7.9	6.2	4.9	4.9	5.4	6.4	7.9
Property Leases	1.0	1.0	1.1	2.6	15.2	25.6	29.9
Total Forecasted Revenue	\$68.6	\$69.5	\$71.4	\$75.3	\$91.1	103.9	\$111.3
<b>Total Actual Revenue</b>	<b>\$62.4</b>	<b>\$63.9</b>	<b>\$60.3</b>	<b>\$52.6</b>	<b>\$52.1</b>	<b>\$47.8</b>	<b>\$47.5</b>

Source: The AFRH.

The discrepancy between predicted revenues from the 2008 AFRH Solvency Report and actual revenues totaled \$204.5 million over the 7-year period. These revenue projections helped convince AFRH decision makers that the Washington Master Plan would achieve AFRH Trust Fund solvency and laid the groundwork for the construction of the new Scott Building. However, the former AFRH COO and CFO did not have the authority to lease the buildings, which was a major source of predicted revenues.<sup>35</sup> The former AFRH COO and CFO planned future expenditures based on revenue streams he had no control over. Consequently, the planned revenue of \$76.4 million in long-term leases was not realized.

The discrepancy between predicted revenues from the 2008 AFRH Solvency Report and actual revenues totaled \$204.5 million.

In FY 2010, while addressing questions from the U.S. Senate Military Construction and Veterans Affairs Committee, the former COO and CFO stated that future expenses would decrease, relative to pre-Hurricane Katrina levels of \$61 million. Overall expenses in FY 2016 decreased to \$59 million because there was a reduction in the number of residents.

<sup>35</sup> According to 24 U.S.C. § 411(i), AFRH leases are executed by the Secretary of Defense.

In May 2016, the AFRH developed a Long Range Financial Plan forecasting revenues and expenses through FY 2026. The forecast made several questionable assumptions, including that revenue from fines and forfeitures would stabilize at \$18 million annually until FY 2026 and that underused land leases would provide \$10 million annually to the AFRH Trust Fund starting in FY 2023. To maintain an AFRH Trust Fund annual balance of \$10 million from FY 2018 to FY 2026, the plan estimated that AFRH would need \$210.1 million in supplemental funding from Congress or the DoD.

In August 2016, the current AFRH CFO presented DoD with an AFRH Trust Fund Proposed Replenishment Plan. The Replenishment Plan's goal was to return the AFRH Trust Fund to self-sustainability by FY 2026. The Replenishment Plan identified a few cost efficiencies, but mainly focused on developing consistent revenue streams through FY 2026 that would help sustain the AFRH Trust Fund. These revenue streams factored in the ability to lease AFRH property, addressing AFRH lease authority issues, general fund transfers of \$22 million per year, and ability for DoD to transfer \$25 million in unobligated Military Construction Funds annually to AFRH through FY 2025. Additionally, the plan included a Department of Veterans Affairs subsidy that would provide the AFRH with between \$9 million and \$10.2 million annually through FY 2026. The AFRH Trust Fund Replenishment Plan showed that the AFRH Trust Fund balance would grow from \$43.7 million in FY 2018 to \$311.4 million in FY 2026, mainly from the \$376 million in supplemental funding from the U.S. Treasury General Fund and DoD Military Construction Funds.

The Office of Management and Budget Circular No. A-11 addresses the principles of budgeting for capital asset acquisitions.<sup>36</sup> Circular A-11 establishes that realistic goals are necessary for agency portfolio analysis to determine the viability of investments in capital asset acquisitions. For each major capital project, a risk analysis should include how risks will be isolated, minimized, monitored, and controlled to prevent problems associated with investment cost, schedule, and performance. For future planning purposes, the DCMO and AFRH should quantify the impact each major capital project has on the AFRH Trust Fund balance and describe the effects on the resident population of the AFRH. In addition, DCMO should establish a threshold for a major capital project and require that the AFRH detail how the major capital project risks will be isolated, minimized, monitored, and controlled to prevent problems associated with investment cost, schedule, and performance.

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<sup>36</sup> OMB Circular No. A-11 (2017), Appendix J – “Principle of Budgeting for Capital Asset Acquisitions.”

## AFRH Cannot Meet Obligations Without Supplemental Funding

The AFRH cannot financially sustain its day-to-day operations and meet its mission of taking care of the AFRH residents without supplemental U.S. Treasury General Funds. Congress asked DoD and AFRH officials to develop a strategy to sustain AFRH operations without an annual appropriation. That strategy should be realistic and identify reliable sources of revenue. As evidenced by the difficulty DoD officials have had in predicting AFRH revenue from fines, forfeitures, and leases; these revenue sources are difficult to forecast with precision, and create great financial risks when basing projections upon them.

The AFRH cannot financially sustain its day-to-day operations and meet its mission of taking care of the AFRH residents without supplemental U.S. Treasury General Funds.

The 2016 AFRH Long Range Financial Plan presents a way for the AFRH Trust Fund to remain solvent, but only if:

- Congress or the DoD provide additional funding,
- revenues from fines and forfeitures stabilize, and
- unforeseen expenditures do not materialize.

Current revenues do not provide the necessary funds for the AFRH Trust Fund to remain solvent. In FY 2018, the AFRH anticipated \$42.9 million in revenues and \$64.3 million for AFRH operational expenses, resulting in an additional reduction of \$21.4 million in the AFRH Trust Fund. According to AFRH officials, for the near future, the AFRH will need fund transfers of at least \$20 million per year from the U.S. Treasury to meet its annual operating expenses and to increase the balance of the AFRH Trust Fund for its long-term financial obligations.

To ensure the AFRH can fulfill its mission, the DoD and AFRH must work together to develop a long-term strategy for maintaining fiscal solvency of the AFRH and a plan of action with milestones to implement the approved initiatives from the study of AFRH operations. The DoD and AFRH should include realistic plans to establish sustainable revenue sources for the AFRH, including increased military pay withholdings and leasing of AFRH property. If the DoD and AFRH do not generate new revenue sources to cover the AFRH's immediate and future expenses, the AFRH will not be able to meet its mission of taking care of veterans.

## Management Comments on the Finding and Our Response

Although not required to comment, the Principal Deputy, Performing the Duties of the Assistant Secretary of Defense for Manpower and Reserve Affairs, provided comments on the finding. For the full text of the Principal Deputy's comments, see the Management Comments section of the report. The Principal Deputy stated that the accuracy and completeness of the report could benefit from additional information and editorial comments on specific sections of the finding.

### *Management Comments on DoD Officials Use of Leasing Authority*

The Principal Deputy stated that the Office of the Assistant Secretary of Defense for Manpower and Reserve Affairs did not agree with the statement that DoD officials did not use the authority granted in 24 U.S.C. § 411(i) to generate additional revenue. She stated that DoD officials leased space to a Washington, D.C., charter school in the historic Sherman Building but were unsuccessful in developing other leases. The Principal Deputy further stated that the 2008 stock market crash and the subsequent collapse of the real estate market in the Washington, D.C., area reduced the interest of developers for projects at the AFRH-W. The Principal Deputy also acknowledged that there was also a legal dispute over the lease authority. She stated that the dispute over the legal authority to execute leases of AFRH property blocked DoD from issuing its solicitation to invite bids.

### *Our Response*

We acknowledge that there was a successful lease to a Washington, D.C., charter school and added that wording in the report. However, we believe that the report appropriately attributes the lack of success in producing additional leases to the uncertainty within DoD over which DoD entity possessed the leasing authority for AFRH property. Although it is reasonable that the 2008 stock market crash did inhibit some developers from seeking leases on AFRH-W property, we do not believe that this would have eliminated all interest. In our discussions with AFRH officials, they cited the primary reasons for the lack of leasing revenue on troubles with leasing authorities and uncertainty over whom at the DoD they needed to work with to develop leases for available AFRH-W property. Consequently, we did not make many of the suggested wording changes suggested by the Principal Deputy.

### *Management Comments on the Substantial Decrease in Military Fines and Forfeitures*

The Principal Deputy stated that the decrease in active duty force levels contributed to the declining fines and forfeitures revenue. The Principal Deputy also stated that an increasing emphasis on quality force standards may have led to a propensity to separate offenders, rather than rehabilitate them, resulting in a reduction in court-martials and Article 15 disciplinary actions. In addition, the Principal Deputy stated that AFRH officials did not recognize the early declines in fines and forfeitures revenue as a signal of the impending trust fund solvency crisis. In addition, the AFRH officials did not inform the DoD until late 2014, when they realized that the declines in fines and forfeitures revenue exceeded historic norms.

### *Our Response*

We acknowledge that overall active duty force levels declined from FYs 2010 through 2016 and added that wording to the report. However, although we agree in principle with the statements made by the Principal Deputy, there is not a direct and clear correlation between the substantial decrease in military disciplinary actions and force levels. In addition, we disagree with the statement that AFRH officials did not recognize the early declines in fines and forfeitures as a signal of the impending trust fund solvency crisis. The FY 2013 AFRH Performance Accountability Report specifically identified the decline in fines and forfeitures as a risk to AFRH Trust Fund solvency and stated that AFRH must seek creative ways to contain costs and raise revenue. Additionally, OUSD(P&R) officials should have monitored the AFRH Trust Fund balance in accordance with DoD Instruction 1000.28 and identified concerns over AFRH Trust Fund solvency before FY 2014. Consequently, we did not make additional changes to the report content.

### *Management Comments on the Substantial Decline of AFRH Trust Fund Balance*

The Principal Deputy stated that the construction of the new Scott Building was the primary factor in the substantial decline in the trust fund balance from FYs 2010 through 2016, accounting for more than two-thirds of the decline. The Principal Deputy suggested a revision to the report to emphasize the \$88.1 million spent on the Scott Building construction as the main reason for the trust fund decline and the resulting decline in interest income.

### *Our Response*

While we agree with the Principal Deputy's statement that the construction of the new Scott Building played an important role in the decline of the AFRH Trust Fund balance, substantial decline in revenues is the most immediate and alarming concern for the AFRH Trust Fund to maintain solvency. AFRH operating expenses are projected to exceed revenues at least until 2026. In the report, we acknowledged that the construction of the new Scott Building impacted the solvency of the trust fund, but the AFRH Trust Fund would have faced fiscal uncertainty and become insolvent in later years due to the steady decline in revenues and the increase in expenses even without the construction of the new Scott Building. The construction of the new Scott Building sped up the decline of the AFRH Trust Fund. We believe that the report accurately attributes and prioritizes the causes behind the AFRH Trust Fund decline.

### *Management Comments on DoD and AFRH Submitting Legislative Proposals*

The Principal Deputy stated that DoD officials had worked with AFRH to identify solutions to improve trust fund solvency and had generated a number of legislative proposals that received careful consideration by the DoD. The Principal Deputy also stated that the search for a viable and effective long-term resolution has been complicated and taken longer than Congress requested.

### *Our Response*

We agree the DoD and AFRH were not successful in submitting legislative proposals and administrative actions that could be added to existing law to achieve trust fund solvency within the deadlines prescribed. We acknowledge that the DoD did internally seek solutions to achieve AFRH Trust Fund solvency; however, no legislative proposals were submitted to Congress. An OUSD(P&R) official told us that while the DoD worked on several proposals and solutions to achieve AFRH Trust Fund solvency, none of the proposals actually left the DoD. Our statement in the report that the DoD and AFRH did not submit legislative proposals to Congress is accurate and does not require any revision.

## **Recommendations, Management Comments, and Our Response**

### ***Recommendation A.1***

**We recommend that the Deputy Chief Management Officer, in coordination with the Armed Forces Retirement Home Chief Operating Officer:**

- a. Establish and implement a long-term strategy for maintaining fiscal solvency at the Armed Forces Retirement Home that uses supported**

estimates of future revenue streams, establishes a trust fund minimum balance, and updates the replenishment plan as additional revenues streams are realized.

- b. **Develop a plan of action with milestones to implement the approved initiatives from the study of Armed Forces Retirement Home operations that will replenish the trust fund to a level that will ensure long-term solvency and allow the Armed Forces Retirement Home to meet its responsibilities to veterans. Specific action should be taken to:**
  - **lease non-excess Armed Forces Retirement Home property; and**
  - **increase the amount withheld each month from the pay of active duty enlisted members, warrant officers, and limited duty officers of the Armed Forces from \$0.50 to \$1.00, if other funding sources are not identified.**
- c. **Quantify the impact each major capital project has on the Armed Forces Retirement Home Trust Fund balance and describe the effects on the resident population of the Armed Forces Retirement Home. In addition, Deputy Chief Management Officer should establish a threshold in which it considers a capital project to be a major capital project and require that the Armed Forces Retirement Home detail how the major capital project risks will be isolated, minimized, monitored, and controlled to prevent problems associated with investment cost, schedule, and performance.**

*Deputy Chief Management Officer and Acting Armed Forces Retirement Home Chief Operating Officer Comments*

The DCMO and Acting AFRH COO, who adopted as joint comments the responses submitted by the DCMO, agreed with the recommendations, stating that AFRH is developing a new strategic plan and is expected to complete the plan by July 1, 2018. The DCMO stated that the DoD is committed to putting forward a long-term solvency strategy, but establishing it will require ongoing close coordination and consent by the Congress. The DCMO also stated that he will continue to evaluate and, wherever possible, implement the recommendations of the operational study and working group, which formed the basis of the Deputy Secretary's February 2017 guidance. He also stated that due to the recent enactment of the FY 2018 National Defense Authorization Act, lease signing authority has been clarified and he looks forward to working with AFRH and industry partners early in 2018 to develop proposals that will put underutilized property on the AFRH-W campus to better use and provide long-term income for the AFRH.

The DCMO stated that the DoD will increase active duty withholdings if a long-term strategy, including revenue enhancements and operational efficiencies, cannot correct AFRH's fiscal solvency. Additionally, the DCMO stated that he does not

anticipate AFRH-funded major capital projects in the foreseeable future, but the DCMO is committed to carefully balancing the resources of the trust fund with appropriate capital investments to preserve AFRH working assets. In supplemental comments, the DCMO agreed that an appropriate threshold should be established but should be lower than the \$3 million threshold identified in the report. He said that a more rigorous review process based on conservative financial projections will need to be established to prevent poor capital investments and that all AFRH capital planning will be scrutinized.

### *Our Response*

Comments from the DCMO and Acting AFRH COO addressed all specifics of the recommendations; therefore, the recommendations are resolved but remain open. We will close the recommendations once we receive the comprehensive AFRH long-term solvency strategy scheduled for release on July 1, 2018, and receive confirmation when they will establish a threshold for major capital expenditures related to the aging infrastructure on the AFRH-W campus, describing how they will manage risks when using trust funds for major capital expenditures while maintaining AFRH Trust Fund solvency. We agree with the DCMO's approach to scrutinize all AFRH capital planning, but establishment of a durable process will need to take place.

## Finding B

### AFRH Officials Did Not Perform Adequate Acquisition Planning

AFRH officials did not perform adequate acquisition planning for six ongoing contracts and one contract in the award process that we reviewed. Specifically, AFRH officials did not:

- define the requirements in the performance work statement (PWS); or
- identify the sources and methodologies used to develop the independent Government cost estimate (IGCE), as required by the interagency agreement (IAA) and AFRH Contracting Officer's Representative Handbook (AFRH COR Handbook).<sup>37</sup>

The AFRH faced procurement process challenges because AFRH officials did not:

- rely on the expertise of BFS contracting officials and demonstrated a lack of contracting experience; or
- segregate the duties of the CFO and the head of procurement or implement appropriate internal controls for financial and contracting decisions.

As a result of AFRH officials not adequately defining the contract requirements in the PWS, contractors could not provide required consulting and nursing services.<sup>38</sup> Therefore, the AFRH needed to award replacement contracts for the nursing and consulting services.

### AFRH and BFS Responsibilities in the Contract Award Process

The BFS awards contracts for the AFRH in accordance with an IAA, which identifies the roles and responsibilities of each organization. The AFRH is responsible for performing acquisition planning including developing a PWS and an IGCE and submitting both to the BFS as part of the contract award process. The IAA also requires the AFRH to participate in award decisions by conducting technical evaluations of proposals, assisting in the price analysis of proposals, and making award recommendations to the BFS.

<sup>37</sup> AFRH COR Handbook, July 2012.

<sup>38</sup> The consulting contractor provided strategic business operations analysis and information technology support services.

The BFS is required to:

- support the AFRH’s acquisition planning;
- determine the best acquisition strategy based on Federal and Treasury regulations, AFRH input, and market conditions;
- review the PWS and IGCE;
- provide contracting advice to the AFRH;
- conduct price analysis;
- oversee the proposal evaluation process;
- conduct negotiations;
- make award decisions; and
- execute contracts for the AFRH.

See Appendix D for our review of BFS compliance with the IAA and Federal Acquisition Regulation for the six contracts that we reviewed for contract award. See Appendix A for a discussion of the scope and methodology.

## AFRH Officials Did Not Perform Adequate Acquisition Planning

For six contracts and one contract in the award process, AFRH officials did not perform adequate acquisition planning, such as defining the requirements in the PWSs or developing the IGCEs, as required by the IAA and the AFRH COR Handbook. Table 9 identifies which AFRH contracts had inadequate PWSs and IGCEs.

*Table 9. Summary of Inadequately Prepared PWSs and IGCEs*

Contract	Location	Contract Purpose	PWS Not Sufficiently Detailed	IGCE Not Supported
TFSA-AFRW-15-C-0003	AFRH-W	Dental Services		X
TFSA-AFRG-15-C-0008	AFRH-G	Pharmacy	X	X
TFSA-AFRG-16-C-0003	AFRH-G	Nursing	X	X
TFSA-AFRW-16-C-0003	AFRH-W	Nursing	X	X
TFSA-AFRW-17-C-0003	AFRH-W	Grounds Maintenance		X
TFSA-AFRW-BPA-1701	Corporate	Consulting	X	X
Replacement Contract	AFRH-W	Nursing	X	N/A*
<b>Total</b>			<b>5</b>	<b>6</b>

\* Not applicable. We did not review the IGCE for the in-process nursing contract at the AFRH-W.  
Source: DoD OIG.

The AFRH COR Handbook describes acquisition planning and defines requirements for the PWS and IGCE. The Handbook also provides systematic procedures for developing detailed IGCEs. Specifically, the Handbook states:

Planning for an acquisition is the best way of ensuring that a supply or service is acquired in the most efficient manner. This process should be coordinated with the Contracting Office as soon as a program need is identified . . . Planning helps . . . resolve potential problems early in the process.

The PWS . . . may be the single most important document in the acquisition process. It describes the work to be performed or the services to be rendered, defines the respective responsibilities of the Government and the contractor, and provides an objective measure so that both the Government and the contractor will know when the work is complete.

The PWS must be precisely worded because it will be read and interpreted by a variety of people. If it does not state precisely what the required outcomes are, it will generate contract administration problems.

The consulting contract for corporate and the nursing contracts at the AFRH-G and AFRH-W had the least descriptive requirements of the PWSs we reviewed.

### ***AFRH Officials Did Not Adequately Define the Requirements in the PWS for the Consulting Contract***

The CFO and COR did not adequately define the requirements in the PWS or support the IGCE for a consulting contract, as required by the IAA and AFRH COR Handbook.<sup>39</sup> The CFO stated that she used the PWS from the FY 2014 consulting contract to develop the initial PWS for the FY 2017 consulting contract. The FY 2014 PWS described the required consulting work in detail; however, the CFO did not keep those details when she developed the PWS for the FY 2017 consulting contract. Before BFS contracting officials posted the solicitation, they reviewed the PWS for the FY 2017 consulting contract and provided comments to the COR and the CFO. Based on the BFS comments, the COR added details to the PWS for the FY 2017 consulting contract, but there were still significantly fewer details than the PWS for the previous contract. For example, the FY 2014 PWS provided a detailed description of annual reports to Congress and the Office of Management and Budget. Figure 3 is the description of the external annual reports in the FY 2014 PWS.

<sup>39</sup> Contract TFSA-AFRW-BPA-1701 is a follow-on to contract TFSA-AFRW-BPA-1401 for consulting services.

*Figure 3. FY 2014 PWS Description of the Annual Reports to Congress and the Office of Management and Budget*

For the AFRH Strategic Plan, Corporate and Campus Business Plans, AFRH Performance Plan, and the Performance and Accountability Report (PAR). The Contractor shall assist AFRH to:

- a) Write and formulate the background, key components, concepts, goals, and objectives for AFRH's Strategic Plan (spanning 5 years), for annual Business Plans, for yearly PARs, and Performance Plans (as requested). Other plans and reports may also be written and produced as AFRH requests.
- b) Create the AFRH PAR, an annual legislative requirement required by OMB [Office of Management and Budget] via Circular A-136. Executive Branch departments, agencies, and entities are required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PARs) under the Chief Financial Officers (CFO) Act of 1990 and the Accountability of Tax Dollars Act (ATDA) of 2002. Review and update documents, as needed.
- c) Edit and design the final camera-ready documents, both for printed copies and electronic distribution.
- d) Manage publication and printing of printed and electronic copies.

The Contractor shall assist AFRH with supporting and parallel requirements that flow from the strategic documents:

- a) Develop Congressional Testimony, President's Budget Submission, and Briefing to Office of Management & Budget.
  - 1) Perform high level analysis and create charts and graphs and succinct bullets as well as written documents for submission.
  - 2) Write Congressional testimony for the Chief Operating Officer, based on these presentations, and a summary as speaking points.
- b) Analyze and develop Internal Controls.
  - 1) Management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the Federal Manager's Financial Integrity Act (FMFIA), the Federal Financial

Management Improvement Act (FFMIA) and the Federal Information Security Management Act (FISMA). AFRH conducts its annual assessment of internal controls and compliance, per the Management's Responsibility for Internal Control (OMB A-123). Managers continually monitor activities, gain insight into proper reporting and make corrective actions.

- 2) Perform analysis and create recommendations for Internal Controls as well as administer annual survey and quarterly minutes.
- c) Analyze and implement Performance plans that directly impact AFRH's accreditation and high performance goals and objectives
- d) Edit and design the final camera-ready documents where needed, both for printed copies and electronic distribution
- e) Manage publication and printing of printed and electronic copies.

However, the FY 2017 PWS includes less detail than the FY 2014 PWS. Figure 4 is the description of the external annual reports in the FY 2017 PWS.

*Figure 4. FY 2017 PWS Description of the Annual Reports to Congress and the Office of Management and Budget*

Develop external reports (Performance and Accountability Report, Congressional Budget Justification, Summary Performance and Financial Indicators, Annual Performance Plan, Annual Performance Report, OPM [Office of Personnel Management] Human Capital Report, Annual DoD Annual Report).

The description of the requirements for the external annual reports in the FY 2017 PWS (Figure 4) lacks the details of the FY 2014 PWS (Figure 3), because the FY 2017 PWS does not describe the parts of the external reports the contractor must develop or whether the contractor will:

- review and update documents used to create the reports;
- edit and design the report; or
- publish the reports, including printed and electronic copies.

Therefore, the FY 2017 PWS for the consulting contract does not comply with the AFRH COR Handbook because the PWS “does not state precisely what the required outcomes are,” as required by the Handbook.

### ***AFRH Officials Did Not Identify the Sources or Methodologies Used to Develop the IGCE for the Consulting Contract***

In addition to the lack of detail in the PWS, the IGCE did not identify the sources or methodologies used to develop the IGCE. Also, the CFO did not consider labor rates from the previous consulting contract when she developed the IGCE. The CFO stated that she based the initial IGCE on market research. However, the contract file did not contain market research and the BFS contracting officer could not find any evidence of market research in the contract file or in her e-mails. The previous consulting contractor's proposal included rates for 2017 and 2018. We compared the hourly rates in the IGCE for 2017 and 2018 to the previous contractor's rates in five labor categories to determine whether the previous contractor's rates were used to prepare the IGCE. The hourly rates in the IGCE were significantly less than the previous contractor's hourly rates, ranging from \$18 to \$94 per hour less than the previous contractor's rates for the five labor categories. Therefore, for the five labor categories, the hourly rates in the IGCE were not based on the previous contractor's rates.

### ***AFRH Officials Did Not Perform Effective Acquisition Planning for Nursing Contracts at the AFRH-G and AFRH-W***

AFRH officials did not perform effective acquisition planning or adequately define the requirements in the PWS for the nursing contracts at the AFRH-G and AFRH-W.<sup>40</sup> The PWSs for both nursing contracts stated that nurses would work 8 to 12-hour shifts and provided an estimated range of hours per year that the nurses in each category may work. For example, the PWS for the AFRH-W nursing contract states that the AFRH would need certified nursing assistants for an average of 20,000 to 25,000 hours each year. Both PWSs described the following scheduling process in the same way.

- The Government nurses generate their schedule on a monthly basis.
- An AFRH official provides the schedule to the contractor at least 2 weeks prior to the first day of the schedule.
- The contractor must respond within 3 business days with the names of the nurses who will fill the vacant shifts.

In addition to monthly scheduling, the PWS also required the contractor to fill shifts when Government nurses "call out" (meaning the Government nurses would not come in to work that day for personal reasons). The contractor must find a nurse to report to the AFRH within 2 hours for AFRH-G and within 3 hours for AFRH-W. The PWS also stated that the

The PWS did not provide the contractor with a set schedule or specific shifts.

<sup>40</sup> Contract TFSA-AFRG-16-C-0003 is for AFRH-G nursing and contract TFSA-AFRW-16-C-0003 is for AFRH-W nursing.

AFRH would charge the contractor a disincentive (penalty) fee if the contractor could not fill the vacant shifts. The disincentive fee was 3 hours of the labor rate for each shift the contractor did not fill for advanced scheduling and 2 hours of the labor rate for each shift the contractor did not fill for shifts when Government nurses were absent.

The PWS did not provide the contractor with a set schedule or specific shifts. Also, AFRH management did not require the Government nurses to work an established schedule or specific shifts. Without a set work schedule, the contractors could not fill 100 percent of the required shifts. For example, in January 2017, the AFRH-G contractor filled 66 percent of the shifts and the AFRH-W contractor filled 83.9 percent of the shifts.

In September 2016, the AFRH-W nursing contractor, a veteran-owned small business, requested release from the contract. One of the reasons the contractor requested release is that the schedule was not consistent—there was no set schedule or specific shifts. Specifically, the contractor stated, “On many occasions [contractor name] has recruited for what we were told were the customer’s needs only to be told those needs no longer exist.” The contractor also stated that the nursing contract caused “great financial difficulties.”<sup>41</sup> Because of the contractor’s request, AFRH and BFS officials began planning to award a new AFRH-W nursing contract. However, the draft PWS for the new contract still did not include a standard shift schedule.

## AFRH Officials Did Not Rely on the Expertise of the BFS and the AFRH Lacked Contracting Experience

The AFRH faced contract award challenges because AFRH officials did not:

- rely on the expertise of BFS contracting officials and lacked contracting experience; or
- segregate the duties of the CFO and the head of procurement or implement appropriate internal controls for financial and contracting decisions.



The CFO and COR did not follow BFS advice regarding the corporate consulting contract.

BFS contracting officials stated that the AFRH, unlike other BFS customers, did not accept contracting advice. A BFS contracting officer also stated that the CFO frequently excluded the contracting officials from contract decisions.

<sup>41</sup> The contractor requested assistance from the Senators from Virginia. Responding to the congressional inquiry, a BFS contracting officer stated that the Government was willing to discuss the possibility of terminating the contract.

For example, the CFO and COR did not follow BFS contracting office advice regarding the corporate consulting contract or during initial planning for the new nursing contract at the AFRH-W.

### ***The CFO and COR Demonstrated a Lack of Contracting Knowledge and Did Not Follow BFS Advice for the Consulting Contract***

The CFO demonstrated a lack of contracting experience by removing significant details from the PWS and not supporting the IGCE for the consulting contract. The CFO and COR also did not follow the advice of BFS on the acquisition strategy for the consulting contract, even though the IAA states that the BFS is responsible for determining the “best acquisition strategy, based on Federal and Treasury regulations, customer agency input, and market conditions.”

#### ***The CFO Removed Details From the PWS and Did Not Support the IGCE***

The CFO removed details from the PWS and did not support the IGCE for the consulting contract. The CFO stated that she removed the PWS details because the AFRH planned to use a labor-hour contract instead of a firm-fixed-price contract for the specific services.<sup>42</sup> However, whether the contractor provided the services on a labor-hour or firm-fixed-price contract, the contractor needed to know the specifics of the work that the AFRH required. In addition, the BFS contracting officer suggested both verbally and in writing that the AFRH add more details to the PWS. Although the CFO and COR added additional information to the PWS, it was still significantly less detailed than the previous PWS for the same work.

The CFO stated that she used market research as the basis for the IGCE. The CFO provided the market research to us on July 31, 2017. However:

- the market research was dated August 16, 2016, which was 4 months after the CFO submitted the IGCE to BFS contracting officials (April 25, 2016);
- the contract file did not contain the market research;
- the BFS contracting officer could not find evidence of the market research in her e-mails or outside of the contract file; and
- the COR told the Chief Compliance Officer that he had not seen the market research document before the CFO submitted it to us.

Therefore, the CFO could not provide support for the IGCE that she submitted to the BFS on April 25, 2016.

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<sup>42</sup> The contract is a blanket purchase agreement and the AFRH develops individual PWSs and then awards “calls” off of the contract for that specific work. Calls are similar to an order.

### *BFS Advice for Acquisition Strategy Was Not Followed*

The CFO and COR did not follow the advice of BFS contracting officials when making acquisition strategy decisions. Specifically, the CFO and COR did not follow BFS advice to:

- make the performance and accountability report (one of the major deliverables that was an annual requirement with historical data) a fixed price deliverable; or
- compete the requirement among General Services Administration contract holders.

In response to the suggestion to compete among General Services Administration contract holders, the CFO stated in a June 10, 2016, email, “As previously requested, please make this an open market solicitation.”

In addition, BFS contracting officials advised the AFRH against awarding the consulting contract as lowest price technically acceptable (LPTA), because they did not think that LPTA would meet the AFRH’s needs. Specifically, in an August 29, 2016, e-mail, BFS contracting officials advised the CFO and COR not to use the LPTA technique for the consulting contract and in an August 30, 2016, e-mail described the pros and cons of best value analysis versus LPTA. We asked the CFO why the AFRH chose to award the contract as LPTA. The CFO stated that the COR made the decision to award the contract as LPTA and that she “was not aware we were using this method until the award was in place.” However, there were a series of e-mails from August 29 and August 30, 2016, between BFS contracting officials, the COR, and the CFO that discussed LPTA. In an August 30, 2016, e-mail the COR sent to the BFS contracting officials and the CFO, the COR stated that he and the CFO “agreed to go LPTA.” BFS awarded the contract on October 21, 2016. Therefore, the CFO was directly involved in the decision to use LPTA before contract award. The Defense Chief Management Officer (DCMO), in coordination with the AFRH Chief Operating Officer (COO), should review the actions of the CFO as the official responsible for procurement at the AFRH to determine whether management action is appropriate to hold the CFO accountable for the contracting problems experienced by the AFRH.



A BFS contracting officer advised the AFRH against awarding the contract as LPTA.

### *Contractor Cannot Perform and the AFRH Needs a New Contract for the Major Requirements*

According to the CFO and COR, the consulting contractor could not perform 60 to 70 percent of major consulting services that the AFRH required. As a result, the AFRH will need to award a new contract for the major requirements that the

current contractor cannot perform.<sup>43</sup> On October 3, 2017, the COR stated that the AFRH began the process for awarding a new contract. The COR developed a draft PWS and sent it to the AFRH corporate staff for input. The COR also stated that the AFRH plans to use standards from a General Services Administration contract to develop the requirement.

Congress recognized the shortfalls of using LPTA to award knowledge-based professional services, such as the services required in the AFRH consulting contract. Specifically, section 813 of the National Defense Authorization Act for FY 2017, December 23, 2016, states:

To the maximum extent practicable, the use of lowest price technically acceptable source selection criteria shall be avoided in the case of a procurement that is predominately for the acquisition of . . . knowledge-based professional services.

In FY 2018, WHS, an organization within the Office of the DCMO, will award new contracts on behalf of the AFRH.<sup>44</sup> Therefore, WHS contracting officials should follow the National Defense Authorization Act guidance when they award the new consulting services contract. The DCMO, in coordination with the AFRH COO, should follow the section 813, National Defense Authorization Act for FY 2017 guidance to avoid using LPTA source selection criteria when contracting officials re-compete the major requirements for the consulting contract.

### ***The CFO Did Not Follow BFS Advice When Planning the New AFRH-W Nursing Contract***

The CFO excluded the BFS contracting officials from key planning decisions and did not follow BFS advice for the acquisition strategy for the new nursing contract at the AFRH-W. To identify why nursing contractors historically had problems providing services to the AFRH-W, a BFS contracting officer suggested a brainstorming session and an industry day. Instead of meeting with BFS

AFRH officials decided not to use the multiple-award suggested by the BFS contracting officer.

contracting officials, the CFO stated in an e-mail to the BFS that AFRH personnel met to brainstorm issues and “made several key decisions,” one of which was the acquisition strategy. However, the CFO agreed to have an industry day.

Based on feedback from vendors during the January 25, 2017, industry day, the BFS contracting officer suggested using a multiple-award contract and giving

<sup>43</sup> The AFRH plans to continue to use the current consulting contract for the less complicated deliverables.

<sup>44</sup> On February 14, 2017, the Deputy Secretary of Defense transitioned authority of the AFRH to the DCMO.

the contractor more standardized schedules.<sup>45</sup> BFS and AFRH officials discussed the industry day results, but AFRH officials decided not to use a multiple-award. We asked the CFO to explain why the AFRH could not offer set schedules. The CFO stated that if the AFRH could offer set schedules, it would offer those schedules to the Government nurses and that allowing contractor employees to choose the shift they want to fill would force mandatory overtime for the Government nurses during peak holiday periods, and cause morale issues. However, the AFRH could write in the PWS that the contractor would work on holidays or during any shifts that the Government nurses do not desire. Without a set schedule in the PWS, it will be difficult for the contractor to hire nurses and fill shifts.

We asked AFRH officials how they considered the industry day suggestions, and the CFO stated “it’s an AFRH management decision on the best way to ensure all shifts are filled and have an accountable vendor.” However, the BFS contracting office has the expertise to make acquisition strategy decisions and the IAA states that the BFS is responsible for determining the “best acquisition strategy, based on Federal and Treasury regulations, customer agency input, and market conditions.” In addition, the AFRH COR Handbook states that the type of contract used is ultimately the contracting officer’s decision.

On April 18, 2017, the CFO requested input from a WHS contracting officer on the acquisition strategy for the nursing requirement. The CFO informed the WHS contracting officer of the multiple-award option and the AFRH’s concerns with that approach. On April 25, 2017, the WHS contracting officer stated, “AFRH has developed an overall solid strategy to procure these services” and that the original acquisition strategy “seems to be the best possible solution.” However, on June 13, 2017, the BFS contracting officer e-mailed AFRH officials and stated that she had “serious concerns with the approach for the acquisition.”<sup>46</sup> One of the BFS contracting officer’s concerns was that the suggested acquisition strategy did not work in the past for the AFRH and that a multiple-award contract was “the best chance for success.” On June 22, 2017, the Director, WHS, stated that her office received more information, agreed with the BFS contracting official, and further stated, “A normal multiple-award vehicle has the best chance of success.” The DCMO, in coordination with the AFRH COO, should develop and implement an acquisition strategy to reduce the likelihood of future problems with the nursing contracts. When developing the acquisition strategy, the DCMO and AFRH COO should also determine whether the AFRH needs to change how it schedules Government nurses.

<sup>45</sup> The FAR defines a multiple award contract as an indefinite delivery, indefinite quantity contract entered into with two or more sources under the same solicitation.

<sup>46</sup> From February through March 2017, the AFRH, BFS, and the current nursing contractor tried to re-negotiate terms for the contractor to continue on the contract. However, the negotiations were not successful. In March 2017, the CFO contacted the BFS contracting officials to restart the award process for the AFRH-W nursing requirement.

## ***The AFRH Did Not Have Proper Segregation of Duties or Internal Controls for Financial and Contracting Functions***

The AFRH did not properly segregate duties because the CFO was also the head of procurement. Therefore, the CFO was responsible for both the financial and contracting decisions at the AFRH. The CFO is involved in all aspects of the contracting process including reviewing and approving PWSs and IGCEs, developing the acquisition strategy, participating in or reviewing technical evaluations, making award decisions, and approving funding requests.

Government Accountability Office (GAO), “Standards for Internal Control in the Federal Government,” provides criteria for designing, implementing, and operating an effective internal control system.<sup>47</sup> The GAO standards identify segregation of duties as an example of a common category of control activities. The GAO states:

### *Segregation of duties*

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.<sup>48</sup>

The CFO controlled all financial and contracting decisions at the AFRH; specifically, the CFO controlled all AFRH funding and spending. The CFO stated that, because of the small size of the AFRH, it was necessary for her to perform both roles. The CFO also stated that other small agencies are structured similarly. The GAO states:

If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.<sup>49</sup>

The DCMO, in coordination with the AFRH COO, should review the duties of the CFO and the head of procurement and design and implement appropriate internal controls or segregate the duties.

## **AFRH Contractors Could Not Meet Consulting and Nursing Contract Needs**

As a result of AFRH officials not adequately defining the contract requirements in the PWS, contractors could not provide required consulting and nursing services. Specifically, the consulting contractor could not provide all the required services

<sup>47</sup> GAO-14-704G, “Standards for Internal Control in the Federal Government,” September 2014.

<sup>48</sup> GAO-14-704G, Section 10.03.

<sup>49</sup> GAO-14-704G, Section 10.14.

and the AFRH will need to award a new contract for the major requirements, which included preparing the Performance and Accountability Report and Congressional Budget Justification. In addition, the contractor for nursing at the AFRH-W requested to be released from the contract, requiring the AFRH to award a new contract. AFRH officials prepared a new PWS to begin the process of awarding a new contract. However, the new PWS did not offer a set schedule or standard shifts, which was one of the reasons the contractor requested to be released from the contract and was one of the suggestions from the industry day.

## Recommendations, Management Comments, and Our Response

### **Recommendation B.1**

We recommend that the Deputy Chief Management Officer, in coordination with the Armed Forces Retirement Home Chief Operating Officer:

- a. **Review the actions of the Chief Financial Officer as the official responsible for the procurement program at the Armed Forces Retirement Home to determine whether management action is appropriate to hold the Chief Financial Officer accountable for the contracting problems experienced by the AFRH.**

#### *Deputy Chief Management Officer and Acting Armed Forces Retirement Home Chief Operating Officer Comments*

The DCMO and Acting AFRH COO agreed with the recommendation, stating that the Acting AFRH COO would initiate a third party review of the CFO's actions.

#### *Our Response*

Comments from the DCMO and Acting AFRH COO addressed all specifics of the recommendation. The BFS began a review of the CFO's actions in January 2018; therefore, this recommendation is resolved but remains open. We will close the recommendation once we receive documentation that shows the review is complete.

- b. **Follow the section 813, National Defense Authorization Act for FY 2017 guidance to avoid using lowest price technically acceptable source selection criteria when contracting officials re-compete the major requirements for the consulting contract.**

#### *Deputy Chief Management Officer and Acting Armed Forces Retirement Home Chief Operating Officer Comments*

The DCMO and Acting AFRH COO agreed with the recommendation. The DCMO stated that the procurement (contracting) functions are transferring from the BFS to the WHS during FY 2018, which will give DCMO more oversight of the AFRH

procurement process. The DCMO stated that all follow-on contracts will comply with the Federal Acquisition Regulation and DoD standards including the Defense Financial Acquisition Regulation Supplement. The transition of contracting services will be completed by October 1, 2018. The AFRH Chief Executive Officer (CEO) provided detailed comments to supplement the DCMO comments.<sup>50</sup> The AFRH CEO stated that WHS and BFS officials are having a monthly teleconference to ensure a smooth transition. He stated that the WHS and AFRH are working together to identify performance requirements and establish the best solutions for contracting needs, including discussion of evaluation criteria and contract types.

### *Our Response*

Comments from the DCMO and Acting AFRH COO and supplemental comments from the AFRH CEO addressed the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation when we receive the contract documentation for the consulting contract awarded by the WHS showing that the contract was awarded using source selection criteria other than lowest price technically acceptable or with a justification explaining why lowest price technically acceptable was the best contracting approach.

- c. Develop and implement an acquisition strategy to reduce the likelihood of future problems with the nursing contracts. When developing the acquisition strategy, also determine whether the Armed Forces Retirement Home needs to change how it schedules Government nurses.**

### *Deputy Chief Management Officer and Acting Armed Forces Retirement Home Chief Operating Officer Comments*

The DCMO and Acting AFRH COO agreed with the recommendation. The DCMO stated that the procurement (contracting) functions are transferring from the BFS to the WHS during FY 2018. The transition of contracting services from the BFS to the WHS will give DCMO more oversight of the AFRH procurement process. The DCMO stated that all follow-on contracts will comply with the Federal Acquisition Regulation and DoD standards including the Defense Financial Acquisition Regulation Supplement. The new nursing contract is expected to be awarded in March 2018.

### *Our Response*

Comments from the DCMO and Acting AFRH COO addressed the recommendation; therefore, the recommendation is resolved but remains open. We will close the

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<sup>50</sup> Effective November 14, 2017, the DCMO established a CEO for the AFRH. The DCMO delegated the responsibilities of the Secretary of Defense to control and administer the AFRH to the CEO.

recommendation when we receive a copy of the new nursing contract and an explanation for how the issues identified with the Government nurse schedules were addressed.

- d. Review the duties of the Chief Financial Officer and the head of procurement and design and implement appropriate internal controls or segregate the duties.**

*Deputy Chief Management Officer and Acting Armed Forces Retirement Home Chief Operating Officer Comments*

The DCMO and Acting AFRH COO agreed with the recommendation. The DCMO stated that the Acting AFRH COO separated the financial and procurement duties and is in the process of evaluating internal controls. In addition, the DCMO stated that he recently appointed a CEO to oversee the AFRH and hire a permanent AFRH COO. One of the first tasks of the new AFRH COO will be to review staff positions, functions performed by staff, and internal controls. The new AFRH COO will implement the changes in coordination with the AFRH CEO. The AFRH CEO provided detailed comments to supplement the DCMO comments. The AFRH CEO stated that the AFRH will reinstate the Deputy COO position, whose duties may include serving as the head of procurement.

*Our Response*

Comments from the DCMO and Acting AFRH COO and supplemental comments from the AFRH CEO addressed the recommendation. However, on January 10, 2018, after we reviewed a draft of the management comments, we asked the DCMO and the Acting AFRH COO to explain how the financial and procurement duties were separated, as stated in the comments. A DCMO official stated that the Acting AFRH COO is performing the procurement function with the support of the AFRH corporate facilities manager to separate the duties from the CFO position. Therefore, the recommendation is resolved but remains open. We will close the recommendation when we receive documentation that shows that the new AFRH COO implemented the changes to staffing, functions, and internal controls for the procurement and finance duties.

## Finding C

### **AFRH Officials Conducted Sufficient Contract Surveillance but Need to Improve Process for Modifying Contracts**

AFRH contracting officer's representatives (CORs) performed sufficient surveillance of contractor performance for 21 contracts and two food delivery agreements.<sup>51</sup> Specifically, the CORs:

- monitored contractor performance,
- verified that contractor services complied with PWS requirements, and
- reviewed and verified invoices in accordance with the requirements in the IAA between the BFS and the AFRH, the COR designation letter, and the contract PWS.

However, for 3 of 22 contracts, BFS contracting officers issued 94 modifications from FYs 2012 through 2016.<sup>52</sup> The modifications occurred because AFRH officials did not perform sufficient planning for contract modifications, including identifying additional supplies needed on one contract and funding requirements on two contracts.

As a result, the AFRH had assurance that it received the goods and services for which it paid. However, the number of modifications affected the pricing on the IAA with the BFS. The AFRH paid the BFS \$80,222 to modify three contracts from FYs 2012 through 2016.<sup>53</sup> See Appendix E for a summary of potential monetary benefits.

<sup>51</sup> The AFRH has IAAs (food agreements), one with the Department of Veterans Affairs and one with Fort Sam Houston, to purchase food, valued at \$3.6 million. See Appendix A for the complete scope and methodology. See Appendix C for a complete list of the contracts and food agreements we reviewed.

<sup>52</sup> In addition to the 21 contracts we reviewed for surveillance, we reviewed a contract for mailroom services because of the quantity of contract modifications.

<sup>53</sup> We calculated the \$80,221.81 that the AFRH paid for modifications based on the methodology described in the note to Table 11.

## AFRH and BFS Responsibilities for Contract Surveillance

The IAA between the BFS and the AFRH identifies the roles and responsibilities of each organization for contract surveillance. According to the IAA, the AFRH is responsible for providing certified CORs to monitor invoicing and document the contractor's performance.

In addition, BFS contracting officers use designation letters to designate AFRH officials as their representatives—the CORs. The designation letters define COR responsibilities for contract surveillance and require the CORs to:

- monitor the contractor's performance in accordance with the scope of the contract;
- inspect and verify that the contractor provided services in accordance with contract requirements; and
- review and verify the contractor's invoices, including attachments, to ensure the invoices accurately reflect the services provided.

The BFS delegates the primary responsibility for contract surveillance to the CORs. However, the COR designation letter requires the COR to notify the contracting officer if the COR identifies problems with the contractor's performance.

## AFRH CORs Performed Sufficient Surveillance of Contractor Performance

AFRH CORs performed sufficient surveillance to ensure that the contractors performed in accordance with contract requirements for the 21 contracts and two food delivery agreements that we reviewed.<sup>54</sup> Specifically, the CORs sufficiently:

- monitored contractor performance,
- verified that contracted goods and services complied with contract requirements, and
- reviewed and verified invoices.

The AFRH CORs performed contract surveillance in accordance with the requirements of the IAA between the BFS and the AFRH, the COR designation letter, and the contract PWS.

<sup>54</sup> The AFRH has contracts for various services to support the overall well-being of the residents and to maintain the facilities in which the residents live. We reviewed two food delivery agreements and contracts for medical services (nursing, pharmaceutical, and dental); facilities and grounds maintenance; food preparation and delivery; transportation; security; and consulting.

The CORs prepared monthly reports to document contractor performance. Beginning in October 2016, the Chief Operating Officer required the CFO to develop and implement a standard monthly surveillance form that the CORs were required to complete and submit to the Office of the CFO for review. The CORs began completing and submitting these forms in November 2016, in addition to the contractor surveillance they already conducted. The following examples for the dental contract at the AFRH-W, the food service contract at the AFRH-W, and the facilities maintenance contract at the AFRH-G demonstrate how the CORs performed contract surveillance in accordance with requirements.

### ***The AFRH COR Performed Surveillance of the Dental Contract at the AFRH-W***

The COR performed surveillance of the dental contract at the AFRH-W, based on our review of the COR file and an interview with the COR.<sup>55</sup> The COR file contained monthly surveillance reports, invoices, a checklist the COR developed to document contractor performance, and a COR contract file review by the BFS contracting officer.

The COR used the checklist each month to verify that each resident's insurance was billed and that the insurance payments were deducted from the contractor's invoice. The COR also reported insurance problems to the contractor when she identified discrepancies. The COR completed these tasks for April 2016 through January 2017 according to the checklist contained in the file. The COR also stated that she reviewed invoices each month and identified at random three residents on the invoice who received dental services. The COR stated that she met with the three residents to verify that the dental services the residents received matched what the contractor invoiced.

### ***The AFRH COR Performed Surveillance of the Food Service Contract at the AFRH-W***

The COR performed surveillance of the food services contract at the AFRH-W based on our review of the COR file and interview with the COR.<sup>56</sup> The COR file contained:

- contractor monthly status reports,
- monthly surveillance reports,
- quality assurance inspection documents,
- monthly dining service committee meeting minutes,

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<sup>55</sup> Contract TFSA-AFRW-15-C-0003.

<sup>56</sup> Contract TFSA-AFRW-17-C-0004.

- food tasting evaluation forms,
- e-mails from the contractor stating the actions taken to correct deficiencies, and
- invoices.

The COR stated that he used the PWS as a basis for performing his surveillance of the contractor. The COR stated that he regularly visited the kitchen during lunch and dinner to observe meal preparation from beginning to end. The COR also stated that he conducted random food tasting to ensure that the meals were an appropriate quality. The COR file contained the food tasting evaluation forms.

The COR's documentation of surveillance was very detailed. For example, in his quality assurance inspection document for November 23, 2016, the COR stated:

At approximately 1600 on November 23, 2016, COR performed . . . inspection of the Scott Dining Main Serving Lines during the Presidential visit for Pre-Thanksgiving Meal. Main serving line food presentation was great, all food items on steam table were [above] 140 degrees F [Fahrenheit] . . . Overall the hot foods were hot and the cold foods were cold.

The COR's documentation of surveillance was very detailed.

### ***The AFRH COR Performed Surveillance of the Facilities Maintenance Contract at the AFRH-G***

The COR performed surveillance of the facilities maintenance contract at the AFRH-G based on our review of the COR file, interview with the COR, and walk-through of the facility.<sup>57</sup> The COR file contained the following reports: monthly contract surveillance, room refurbishment, monthly service call tracking, and monthly preventative maintenance. The COR stated that the contractor's primary task was refurbishing rooms based on the PWS. The COR developed a checklist to verify that the contractor refurbished each room in accordance with the PWS. For example, the PWS required the contractor to check all plumbing for proper operation and leaks. To verify that the contractor performed this task during the room refurbishment, the COR's checklist included a step to verify that the toilet, shower sprayer, and bathroom sink functioned properly. We reviewed checklists for 15 room refurbishments and the COR identified whether the plumbing operated properly.

The COR developed a checklist to verify the quality of every room the contractor refurbished.

<sup>57</sup> Contract GS-06F-0022T, order TPD-AFRG-13-K-0002.

The PWS also required the contractor to perform preventive maintenance, routinely inspect specific systems and equipment, and respond to service requests. During a walk-through of the facility, the COR showed us the systems and equipment that the contractor was required to inspect and maintain. The COR showed us the air circulators, heating and cooling equipment, and generators. He showed us how he reviewed safety checklists and preventive maintenance sheets to make sure the contractor performed routine duties in accordance with the PWS. In addition, the COR reviewed the invoices to ensure the contractor accurately billed for services.

## **AFRH and BFS Responsibilities for Contract Administration**

The IAA between the BFS and the AFRH identifies the roles and responsibilities of each organization for contract administration. According to the IAA, the AFRH is responsible for providing certified CORs to coordinate with the BFS on all actions relating to funding or changes in the scope of work that will result in contract modifications, including submitting requests for changes in funding. According to the IAA, the BFS is responsible for:

- resolving contractual issues that occur after contract award,
- executing contract modifications, and
- closing out contracts.

## **AFRH Officials Requested Contract Modifications Because They Did Not Perform Sufficient Planning**

AFRH officials requested and BFS issued 94 modifications on 3 of the 22 contracts we reviewed from FYs 2012 through 2016. The IAA states that CORs should coordinate with the BFS to issue contract modifications. The COR designation letter states that the COR should monitor financial management for the contract, ensure sufficient funds are available for use on the contract, and request additional funding or deobligation, when appropriate. Table 10 shows the three contracts with the number of modifications issued as of March 1, 2017. Not all modifications to these contracts were unnecessary, but proper planning could have reduced the number of modifications.

Table 10. Summary of Modifications to Contracts

Contract	Location	Contract Purpose	Modifications		
			Total	Before FY 2017	Cost
TPD-AFRW-12-K-00006	AFRH-W	Facilities Maintenance	49	42	\$35,618.36
TPD-AFRH-13-C-0002	AFRH-G and AFRH-W	Medical Supplies	36	34	28,968.39
TPD-AFRW-13-C-0007	AFRH-W	Mailroom	23	18	15,635.06
<b>Total</b>			<b>108</b>	<b>94</b>	<b>\$80,221.81</b>

Note: The pricing in the IAA is a fixed price based on the average number of transactions from the previous 2 fully completed fiscal years. For example, the FY 2017 IAA is based on FY 2014 and 2015 transactions. We calculated the cost for the modifications by identifying the IAAs that the modifications affected and using the average on the two IAAs. For example, modifications effective in FY 2014 affected the pricing of the FY 2016 and 2017 IAAs, so we used the average price of those two IAAs. The FY 2016 IAA price for contract modifications was \$787.26 and the FY 2017 IAA price for contract modifications was \$835.60. The average was \$811.43. Therefore, we determined that FY 2014 modifications cost the AFRH \$811.43. Contract services for contract administration will transition to the WHS in FY 2019, so the AFRH will not have to pay the BFS for the cost of the FY 2017 modifications, which would have affected the pricing on the FY 2019 IAA. See the Background of this report for an additional discussion of the IAA pricing.

Source: The DoD OIG and BFS.

The CORs prepared purchase requests (the document used to obligate and deobligate funds on AFRH contracts) for approval through the chain of command within their respective site (AFRH-G or AFRH-W) and ultimately for CFO approval. The CFO approved all purchase requests; therefore, the CFO determined the contract funding. After the CFO approved the purchase request, BFS contracting officials issued a modification to obligate, deobligate, or change accounting codes on the contract. When the CFO did not fund the contracts at the levels requested by the COR, the COR requested that the BFS issue additional modifications to add funding to the contract. The large number of contract modifications affected the pricing on the IAA with BFS.

### ***AFRH Officials Did Not Plan Modifications for the Medical Supplies Contract at the AFRH-G and AFRH-W***

AFRH officials did not plan contract modifications for the medical supplies contract at the AFRH-G and the AFRH-W. AFRH officials requested that BFS contracting officials modify the contract 18 times to add additional medical supplies that AFRH officials could order from the contract. The AFRH-W COR stated that most of the modifications added dental supplies. The COR further stated that to help reduce the number of modifications, she met with the dental office and asked for a list of the primary and most common supplies used.

## ***AFRH Officials Did Not Plan Modifications for the Facilities Maintenance Contract at the AFRH-W***

AFRH officials did not monitor funding or plan contract modifications for the facilities maintenance contract at the AFRH-W.<sup>58</sup> AFRH officials directed BFS contracting officials to modify the contract four times from May 2 through July 1, 2014, to add funding. Table 11 shows the modifications for one task from May 2, 2014, through July 1, 2014.

*Table 11. Modifications to the AFRH-W Facilities Contract for One Task From May 2, 2014, Through July 1, 2014*

<b>Modification</b>	<b>Date</b>	<b>Purpose of Modification</b>	<b>Cost of Modification</b>
0013	5/2/2014	Obligated \$69,223.27	\$811.43
0015	6/6/2014	Obligated \$23,936.02	811.43
0016	6/19/2014	Obligated \$47,000.00	811.43
0017	7/1/2014	Obligated \$91,800.00	811.43
<b>Total</b>			<b>\$3,245.72</b>

Source: The DoD OIG.

A similar pattern of modifying the contract multiple times within a short time period occurred the following year on the same contract. From May 6 through July 23, 2015, AFRH officials directed BFS contracting officials to modify the contract eight times. Five modifications occurred from May 6 through May 21, 2015. Table 12 shows the modifications to obligate and deobligate funding from May 6, 2015, through July 23, 2015.

<sup>58</sup> Contract GS-06F-0022T, order TPD-AFRW-12-K-00006.

*Table 12. Modifications to the AFRH-W Facilities Contract to Obligate and Deobligate Funding From May 6, 2015, Through July 23, 2015*

Modification	Date	Purpose of Modification	Cost of Modification
0023	5/6/2015	Corrected a deobligation made on Modification 18	\$873.47
0024	5/7/2015	Obligated \$4,238.40	873.47
0025	5/7/2015	Deobligated \$98,000.00	873.47
0026	5/15/2015	Obligated \$4,507.25	873.47
0027	5/21/2015	Obligated \$6,045.16	873.47
0028	6/4/2015	Obligated \$18,000.00	873.47
0029	6/29/2015	Obligated \$26,561.15	873.47
0030	7/23/2015	Obligated \$34,729.23	873.47
<b>Total</b>			<b>\$6,987.76</b>

Source: The DoD OIG.

The COR stated that the reason for multiple modifications was that the CFO would not allow him to request that BFS obligate funds until the specific need was identified. Because this was an ongoing requirement, the COR had a historical basis for estimating the amount of work needed for these types of services.

The COR stated that even if he could foresee future projects, the CFO would not allow him to request that BFS obligate funding for the projects until he identified the need and specific costs. The COR stated that, as a result, the BFS issued multiple modifications funding individual projects instead of obligating a larger amount to cover multiple projects. The 12 modifications to obligate and deobligate funding, as shown in Tables 11 and 12, cost \$10,233.

Additional problems with financial management on this contract include the CFO directing the COR to request that BFS deobligate \$29,000 from this contract so those funds could be obligated on the dental contract. The BFS contracting officer issued modification 22 on April 21, 2015, to deobligate the funds. The COR stated that he knew that the contract would need more funds, but the CFO told him to request funds when he could define a specific requirement. The COR stated that the BFS contracting officer needed to issue modifications 29 and 30 to add funds back onto the contract. Had the CFO relied on the COR's knowledge of the historical amount spent for this type of service or the COR's estimates for foreseen projects, some of the modifications could have been avoided.

## ***AFRH Officials Did Not Plan Modifications for the Mailroom Contract at the AFRH-W***

AFRH officials did not monitor funding or plan contract modifications for the mailroom contract at the AFRH-W.<sup>59</sup> AFRH officials requested the BFS contracting officer to modify the contract five times from October 1, 2016, through February 22, 2017. All five modifications added funding for metered mail. Table 13 shows each modification and the amount obligated.

*Table 13. Modifications to the AFRH-W Mailroom Contract for Metered Mail in FY 2017*

Modification	Date	Purpose of Modification
0017	10/1/2016	Exercised option year 4 and obligated funding of \$1,000 for metered mail
0019	12/1/2016	Obligated \$500 for metered mail
0020	12/20/2016	Obligated \$2,000 for metered mail
0021	1/31/2017	Obligated \$500 for metered mail
0022	2/22/2017	Obligated \$500 for metered mail

Note: Contract services for contract administration will transition to the WHS in FY 2019, so the AFRH will not have to pay the BFS for the cost of the FY 2017 modifications, which would have affected the pricing on the FY 2019 IAA.

Source: The DoD OIG.

The CFO stated that the intent was for the AFRH-W staff to stop using the contractor for metered mail by November 1, 2016. However, AFRH-W officials continued to use the metered mail services provided by the contractor. The CFO stated that the AFRH-W officials did not stop using the metered mail services until she stopped providing funding for that service. FY 2017 contract modifications would affect IAA pricing in FYs 2019 and 2020. However, contracting services for the AFRH transition to the Washington Headquarters Services (WHS) in FY 2019.

## ***CFO Did Not Approve Funding at Levels Requested by CORs for Two Contracts***

Excessive contract modifications occurred for the AFRH-W facilities maintenance and mailroom contracts because the CFO did not approve funding at levels requested by the CORs. In addition, the CFO did not meet with the CORs frequently enough to properly plan contract modifications. The CFO stated that she met with the CORs about twice per year to plan funding on contracts. The CORs stated that, when they requested the amount of funding they believed they would need, based on prior experience with the type of work, the CFO would not approve that amount. Instead, the CORs were required to request multiple modifications to add funding.

<sup>59</sup> Contract number TPD-AFRW-13-C-0007.

The DCMO, in coordination with the AFRH COO, should develop and implement a plan to regularly evaluate contract funding needs and prevent future unnecessary contract modifications.

## Surveillance Ensured the AFRH Received Goods and Services, but Unnecessary Modifications Were Inefficient and Wasted Funds

The AFRH had assurance that it received the goods and services for which it paid, but requested excessive modifications to the contracts, which affected the pricing on the IAA with the BFS. The AFRH paid \$80,222 to modify 3 contracts 94 times from FYs 2012 through 2016.<sup>60</sup> Modifications that the BFS issued from FYs 2012 through 2016 affected the price per modification on the FY 2014 through 2018 IAAs. Modifications that the BFS issued in FY 2017 would affect pricing on the FY 2019 IAA; however, contract services will transition to the WHS in FY 2019. Therefore, the AFRH will not be charged by BFS for their FY 2017 and FY 2018 modifications. Better planning of contract funding could have reduced the number of contract modifications, saving the AFRH some of the \$80,222 it paid.

The AFRH paid \$80,222 to modify 3 contracts 94 times from FYs 2012 through 2016.

## Management Actions Taken

The AFRH had independent studies of food services, custodial services, and grounds maintenance conducted to identify potential efficiencies and cost savings for those contracts. These studies complied with the Deputy Secretary of Defense memorandum that transitions authority of the AFRH to the DCMO, which suggests implementing a program for ongoing contract reviews.<sup>61</sup>

The food services study identified that PWSs for food services at the AFRH-G and the AFRH-W did not require the contractors to track leftover food. Because of the study, the AFRH updated the PWSs for both locations to require the contractors to track leftover food. The study stated that the tracked information about leftover food could be useful to identify which menu items the residents like more than others, which would help reduce food waste. The DCMO, in coordination with the AFRH COO, should continue to review AFRH contracts with values more than \$250,000 to identify areas that need improvement, identify lessons-learned, and identify efficiencies and use that information to improve future contracts.

<sup>60</sup> We calculated the \$80,221.81 that the AFRH paid for modifications based on the methodology described in the note to Table 10.

<sup>61</sup> Deputy Secretary of Defense memorandum, "Armed Forces Retirement Home Solvency Strategy," February 14, 2017.

## Recommendations, Management Comments, and Our Response

### **Recommendation C.1**

**We recommend that the Deputy Chief Management Officer, in coordination with the Armed Forces Retirement Home Chief Operating Officer:**

- a. Develop and implement a plan to regularly evaluate contract funding needs and prevent future unnecessary contract modifications.**

#### *Deputy Chief Management Officer and Acting Armed Forces Retirement Home Chief Operating Officer Comments*

The DCMO and Acting AFRH COO agreed with the recommendation. The DCMO stated that the procurement (contracting) functions are transferring from the BFS to the WHS during FY 2018, which will give DCMO more oversight of the AFRH procurement process. The DCMO stated that all follow-on contracts would comply with the Federal Acquisition Regulation and DoD standards including the Defense Financial Acquisition Regulation Supplement. The AFRH CEO provided detailed comments to supplement the DCMO comments. The AFRH CEO stated that WHS and BFS officials are having a monthly teleconference to ensure a smooth transition. He stated that the WHS and AFRH are working together to identify performance requirements and establish the best solutions for contracting needs.

#### *Our Response*

Comments from the DCMO and Acting AFRH COO and supplemental comments from the AFRH CEO addressed the recommendation. However, on January 10, 2018, after we reviewed a draft of the management comments, we asked the DCMO and the Acting AFRH COO for more specific information about how they would evaluate contract funding needs and prevent future unnecessary contract modifications. In response to that request, the Acting AFRH COO stated that the AFRH will use its quarterly budget meeting with the CORs and the AFRH-W and AFRH-G facility administrators to plan and evaluate funding needs to prevent unnecessary contract modification. Therefore, the recommendation is closed.

- b. Review Armed Forces Retirement Home contracts with values more than \$250,000 to identify areas that need improvement, identify lessons-learned, and identify efficiencies and use that information to improve future contracts.**

### *Deputy Chief Management Officer and Acting Armed Forces Retirement Home Chief Operating Officer Comments*

The DCMO and Acting AFRH COO agreed with the recommendation. The DCMO stated that the procurement (contracting) functions are transferring from the BFS to the WHS during FY 2018, which will give DCMO more oversight of the AFRH procurement process. The DCMO stated that all follow-on contracts will comply with the Federal Acquisition Regulation and DoD standards including the Defense Financial Acquisition Regulation Supplement. The AFRH CEO provided detailed comments to supplement the DCMO comments. The AFRH CEO stated that WHS and BFS officials are having a monthly teleconference to ensure a smooth transition. He stated that the WHS and AFRH are working together to identify performance requirements and establish the best solutions for contracting needs, including discussion of evaluation criteria and contract types. The AFRH CEO stated that contracting officials review commercial, Government, and historical data during market research and that the WHS is working with other contracting offices, including the Defense Health Agency (because of the similar type of requirements) to identify best practices and lessons learned.

### *Our Response*

Comments from the DCMO and Acting AFRH COO and supplemental comments from the AFRH CEO addressed the recommendation. WHS contracting officials will review every contract, regardless of dollar value, during FY 2018 and are working with other contracting offices that have similar requirements; therefore, the recommendation is closed.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from January through December 2017 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.

### **Financial Management**

We reviewed the following regulations and guidance related to financial management of the AFRH and AFRH Trust Fund.

- Armed Forces Retirement Home Act of 1991
- 24 U.S.C. §§ 401-423, “Establishment and Operation of Retirement Home”
- 10 U.S.C. § 2772, “Share of Fines and Forfeitures to Benefit Armed Forces Retirement Homes”
- 37 U.S.C. § 1007, “Pay and Allowance of the Uniformed Services”
- DoD Instruction 1000.28, “Armed Forces Retirement Home,” February 1, 2010
- DoD Directive Number 5124.09, “Assistant Secretary of Defense For Readiness and Force Management,” June 12, 2014
- DoD Financial Management Regulation, volume 7A, chapter 46, “Deductions for the Armed Forces Retirement Homes”
- DoD Financial Management Regulation, volume 7A, chapter 48, “Court-Martial Sentences”

### *Review of Solvency of the AFRH Trust Fund*

We reviewed the Performance and Accountability Reports from FYs 2010 through 2016 and the Congressional Budget Justifications from FYs 2010 through 2018 to analyze the status of the AFRH Trust Fund. To determine the solvency status of the AFRH Trust Fund and plans for sustaining operations, we reviewed the following guidance.

- House Congressional Record, H1040, Armed Forces Retirement Home Trust Fund, December 17, 2015
- House Report 114-640, “Military Construction, Veterans Affairs, and Related Agencies Appropriation Act, 2017”

- AFRH Trust Fund Proposed Replenishment Plan, August 2016
- AFRH Long Range Financial Plan FY 2016-2026, May 2016
- AFRH Congressional Report on Trust Fund Solvency and Long Term Sustainability of Operations, August 2016 (draft)
- Deputy Secretary of Defense Memorandum, “Armed Forces Retirement Home Solvency Strategy,” February 14, 2017

We also considered information in the following documents to determine a historical perspective on AFRH Trust Fund plans and operations.

- Armed Forces Retirement Home Trust Fund Solvency Analysis, July 24, 2008
- Armed Forces Retirement Home – Washington Master Plan, Final Environmental Impact Statement, November 2007
- Master Site Plan, “Armed Forces Retirement Home, Residents Interests and Activities Study,” July 22, 2008
- AFRH Long Range Financial Plan, FY 2009 to FY 2018

### *Review of AFRH Revenue and Expenses*

We determined the reasonableness of the amounts the AFRH received from withholdings from military pay designated for the AFRH, and fines and forfeitures related to military personnel misconduct for FY 2010 through the first quarter of FY 2017. We calculated the amounts the AFRH anticipated would be withheld from military personnel on force levels and compared those amounts to monies sent to AFRH by the Defense Finance and Accounting Service.

We reviewed Defense Joint Military System transactions that showed collections of fines and forfeitures due to court-martials for FY 2016 for Army, Navy, Marine Corps, and Air Force service members. For both the withholdings and fines and forfeitures, we reviewed Intergovernmental Payment and Collection transactions provided by the Defense Finance and Accounting Service for Army, Navy, Marine Corps, and Air Force enlisted members, warrant officers, and limited duty officers for FY 2016.

We also reviewed data for FYs 2010 through 2016 on the number of UCMJ court-martials and Article 15 disciplinary actions based on Judge Advocate General statistics for the Army, Navy, Marine Corps, Air Force, and Coast Guard. For the same fiscal years, we compared trends in this data and in the average active duty strength levels for each Military Service with the amounts the AFRH received from the Defense Finance and Accounting Service for fines and forfeitures to determine the consistency in trends of this revenue category.

To determine trends in other AFRH revenues, we reviewed summary revenue data for FYs 2010 through 2016 and first quarter FY 2017. We also obtained the Fund Balance with Treasury reconciliation as of March 31, 2017, and June 30, 2017, to determine the cash available and amounts the AFRH held in investments. We determined the number of residents served from FYs 2010 through 2016 and how resident fees were set and collected. We also reviewed detailed expenditure data for FY 2016 and the first quarter of FY 2017 to evaluate the reasonableness of expenses incurred by the AFRH.

### ***Contract Management***

We reviewed a nonstatistical sample of 22 contracts and two food delivery agreements, valued at \$95.5 million, and determined whether AFRH and BFS officials properly awarded, administered, and conducted surveillance.<sup>62</sup> The AFRH has two food delivery agreements (IAAs) to purchase food, one with the Department of Veterans Affairs and one with Fort Sam Houston.

#### *Contract Universe and Sample*

We identified a contract universe of 88 contracts and two food delivery agreements, valued at \$123.4 million, which were active as of February 7, 2017. We selected contracts and food delivery agreements with values greater than \$1 million and we excluded contracts for utilities. We excluded contracts for utilities because the General Services Administration establishes long-term Government-wide contracts with public utility companies across the United States. We also chose not to review a contract for satellite television service. We added a contract (for mailroom services) valued at less than \$1 million because BFS contracting officials identified this contract as one with potentially excessive modifications. This resulted in a nonstatistical sample of 22 contracts and two food delivery agreements, valued at \$95.5 million.

We reviewed 21 contracts and two food delivery agreements, valued at \$94.7 million, for contract surveillance. We did not review the mailroom contract for surveillance. We reviewed 22 contracts, valued at \$91.9 million, for contract administration. Of the 22 contracts, we chose 6 contracts, valued at \$14.7 million, to determine whether officials awarded the contracts and prepared contract documentation in accordance with guidance. We also reviewed the initial planning for a replacement contract for nursing at the AFRH-W. We chose these six contracts (and the replacement contract) based on:

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<sup>62</sup> The contract and agreement value of \$95.5 million was based on information we obtained from the BFS at the beginning of the audit. We used the contracts and agreements to identify the values shown in Appendix C.

- concerns identified during the evaluation of the AFRH performed by the DoD OIG concurrently with this audit;
- discussions with BFS contracting officials during our site visit;
- exclusions of awards made through the AbilityOne program;<sup>63</sup>
- reviews of awards for the AFRH-G, AFRH-W, and AFRH corporate.

See Appendix C for a list of the contracts and food delivery agreements we reviewed.

### *Documentation and Interviews*

We reviewed contracts from BFS personnel and obtained a list of contracts from the AFRH. We reviewed the COR files from COR personnel at AFRH-W, AFRH corporate, and AFRH-G. We interviewed contracting officials at the BFS, who awarded and administered contracts for the AFRH; AFRH CORs; and the CFO, who is also the head of procurement at the AFRH. Specifically, we obtained and reviewed:

- contracts, calls, orders, and modifications;
- food delivery agreements with the Department of Veterans Affairs and Fort Sam Houston to purchase food;
- acquisition plans;
- market research;
- IGCEs;
- PWSs;
- technical evaluations;
- fair and reasonable price determinations;
- award recommendation memorandums;
- COR designation letters;
- COR surveillance records; and
- contractor invoices

<sup>63</sup> The AbilityOne Program provides people who are blind or have significant disabilities with employment opportunities in the manufacture and delivery of products and services to the Federal Government. FAR Part 8, "Required Sources of Supplies and Services," Subpart 8.7, "Acquisition from Nonprofit Agencies Employing People Who Are Blind or Severely Disabled," 8.704, requires the government to purchase supplies and services from AbilityOne participants, when available.

### *Criteria Reviewed*

We compared documentation and interview responses to the requirements identified in the FAR, the Department of the Treasury's Independent Government Cost Estimate (IGCE) Guide, and the AFRH COR Handbook. Specifically, we determined whether officials complied with the following criteria.

- **FAR 7.105, "Contents of Written Acquisition Plans."** Provides direction for the preparation of the acquisition plan and the elements to include.
- **FAR 10.001, "Policy."** States that agencies shall conduct market research before developing new requirements documents for an acquisition.
- **FAR 15.304, "Evaluation Factors and Significant Subfactors."** States that the award decision is based on evaluation factors and significant subfactors that are tailored to the acquisition.
- **FAR 15.305, "Proposal Evaluation."** States proposal evaluation is an assessment of the proposal and the offeror's ability to perform the prospective contract successfully.
- **FAR 15.404-1, "Proposal Analysis Techniques."** Describes methods for determining price reasonableness, including comparing:
  - the proposed prices received in response to the solicitation;
  - proposed prices to historical prices paid for the same or similar items; or
  - proposed prices to the IGCE.
- **FAR 37.602, "Performance Work Statement."** Describes the purpose of a PWS;
- **AFRH COR Handbook, July 2012.** Establishes standards, describes the assignment of responsibilities, and prescribes procedures for evaluating contract proposals and negotiating, awarding, and administering AFRH contracts;
- **FYs 2013 Through 2018 IAAs Between the AFRH and the BFS.** Describes the roles and responsibilities of the BFS and the AFRH; and
- **Department of the Treasury's Independent Government Cost Estimate (IGCE) Guide, March 2016.** Provides general information on roles and responsibilities, types of estimates, and methodologies for developing an estimate along with examples that can be used to create an IGCE.

We reviewed documentation dated from November 1990 through July 2017.

## **Site Visits**

We conducted site visits from February through June 2017 at:

- AFRH corporate, Washington, D.C.;
- AFRH-W, Washington, D.C.;
- AFRH-G, Gulfport, Mississippi;
- Department of the Treasury, BFS, Parkersburg, West Virginia; and
- Defense Finance and Accounting Service, Indianapolis, Indiana.

In addition, we held a teleconference with the Office of the Under Secretary of Defense (Comptroller) in February 2017 and General Services Administration – Washington, D.C., in May 2017. Also, throughout the audit, we met with Office of the DCMO officials to brief them on our findings.

## **Use of Computer-Processed Data**

We used computer-processed data for our audit. Specifically, we used the Master Military Pay Account database file from the Defense Joint Military System for FY 2016 and first quarter FY 2017 to verify the dollar amounts reported by the AFRH for service members' payroll withholdings and fines and forfeitures. The Master Military Pay Account file contains current and historical data pertaining to a service member's pay and the pay status. We reviewed service members' monthly deductions of \$0.50 for AFRH for FYs 2016 through 2017 to determine if the amounts collected by the Defense Finance and Accounting Service agreed with the amounts that the AFRH reported as revenue. For the same time, we used information from the Master Military Pay Account file to compare deductions for imposed fines and forfeitures from service members' payroll with AFRH reported revenue for fines and forfeitures by Service. However, we did not review deductions from U.S. Coast Guard service member's for either payroll withholdings or fines and forfeitures. We determined the data were sufficiently reliable for the purpose of this audit.

## Prior Coverage

During the last 5 years, the DoD Office of Inspector General (DoD OIG) issued two final reports discussing Armed Forces Retirement Home. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

### ***DoD OIG***

Report No. DODIG-2018-034, “Armed Forces Retirement Home Healthcare Services,” December 14, 2017

AFRH medical staff generally provided healthcare services that met national healthcare standards and the quality-of-life needs of residents. However, AFRH medical providers did not conduct visits to residents in long-term care units at the frequency required by national healthcare standards. Additionally, AFRH medical administrators did not effectively implement all facility-level controls to identify deficiencies in healthcare practices, such as documenting medication and treatment administration, documenting infection-control rounds, and recording temperatures for refrigerators where resident medications were stored. AFRH Wellness Centers demonstrated adequate physical controls over controlled substances handled and stored by Wellness Center personnel. However, the Wellness Centers did not have adequate administrative controls to demonstrate accountability of controlled substances transported, handled, and stored by Wellness Center personnel. Additionally, the Wellness Centers did not have adequate administrative controls to ensure that access to medication-storage areas was limited to authorized personnel only.

Report No. DODIG-2014-093, “Inspection of the Armed Forces Retirement Home,” July 23, 2014

An AFRH employee used convenience checks for prohibited purposes and AFRH-W personnel did not conduct required audits of AFRH funds. In addition, AFRH and Department of the Treasury, Bureau of Public Debt officials did not prepare or maintain adequate contract documentation, such as award memorandums, IGCEs, market research, or quality assurance surveillance plans.

## Appendix B

### Disciplinary Actions by Armed Service

The AFRH receives most of its revenue from fines and forfeitures resulting from UCMJ court-martials and Article 15 disciplinary actions involving military personnel for misconduct across all the Armed Forces. The UCMJ court-martials and Article 15 disciplinary actions declined in the Military Services from 71,847 in FY 2010 to 45,260 in FY 2016, reflecting a 37-percent decrease. The table below shows a detailed list of the disciplinary actions by Armed Service for FYs 2010 through 2016.

Type of Action	2010	2011	2012	2013	2014	2015	2016
Army							
General Court-Martials	572	580	656	642	592	566	486
BCD Special Court-Martials	425	442	444	347	287	202	224
Non-BCD Special Court-Martials	8	0	0	0	0	1	1
Summary Court-Martials	819	619	463	380	456	148	161
Article 15, UCMJ	36,624	36,942	34,772	42,407	31,689	33,708	29,707
Article 15, UCMJ Average per 1000	65	65	63	80	62	69	62
Average Active Duty Strength	566,045	569,139	550,064	530,506	510,002	491,365	475,400
Navy							
General Court-Martials	108	105	115	103	101	93	96
BCD Special Court-Martials	133	133	127	159	164	140	123
Non-BCD Special Court-Martials	0	0	0	0	0	0	0
Summary Court-Martials	152	130	108	30	43	29	29

Type of Action	2010	2011	2012	2013	2014	2015	2016
Article 15, UCMJ*	21,840	18,426	15,237	12,525	13,307	13,042	8,921
Article 15, UCMJ Average per 1000*	41	35	28	24	26	25	17
Average Active Duty Strength*	532,135	530,800	527,800	515,400	511,847	511,664	511,856
<b>Air Force</b>							
General Court-Martials	180	233	166	205	164	144	159
BCD Special Court-Martials	139	121	111	81	88	85	82
Non-BCD Special Court-Martials	209	234	242	239	169	114	118
Summary Court-Martials	162	143	137	139	92	95	89
Article 15, UCMJ	6,756	6,911	6,318	6,247	5,256	4,516	3,954
Article 15, UCMJ Average per 1000	20	21	19	19	16	15	13
Average Active Duty Strength	333,494	333,321	327,285	328,089	323,894	307,361	308,190
<b>Marine Corps</b>							
General Court-Martials	178	154	115	115	100	115	128
BCD Special Court-Martials	623	413	285	252	199	178	184
Non-BCD Special Court-Martials	0	0	0	0	0	0	0
Summary Court-Martials	1,680	1,261	606	522	501	334	298
Article 15, UCMJ*							
Article 15, UCMJ Average per 1000*	-	-	-	-	-	-	-
Average Active Duty Strength*	-	-	-	-	-	-	-

Type of Action	2010	2011	2012	2013	2014	2015	2016
Coast Guard							
General Court-Martials	10	6	13	8	22	15	15
BCD Special Court-Martials	20	12	14	12	18	16	13
Non-BCD Special Court-Martials	0	20	0	0	0	0	0
Summary Court-Martials	9	19	17	20	30	23	22
Article 15, UCMJ	1,200	1,239	969	969	699	526	450
Article 15, UCMJ Average per 1000	28	29	23	24	17	13	11
Average Active Duty Strength	43,288	43,139	42,932	40,757	40,179	39,649	40,992
<b>Total Cases</b>	<b>71,847</b>	<b>68,143</b>	<b>60,915</b>	<b>65,402</b>	<b>53,977</b>	<b>54,090</b>	<b>45,260</b>

\* The Navy's Article 15, UCMJ data includes both the Navy and Marine Corps data. The Navy reported the Article 15, UCMJ data for the Navy and Marine Corps as a combined amount.

Legend

BCD Bad Conduct Discharge

Non-BCD Non-Bad Conduct Discharge

Article 15 A non-judicial punishment which allows commanders to resolve allegations of minor misconduct charged against military personnel without resorting to higher forms of discipline, such as a court-martial.

UCMJ The Uniform Code of Military Justice (UCMJ) is Federal law enacted by Congress. The UCMJ defines the military justice system and lists criminal offenses under military law.

Source: We obtained the information from the Judge Advocate General statistics reported in the FYs 2010 through 2016 Annual Reports Submitted to the Committees on Armed Services of the U.S. Senate and U.S. House of Representatives and to the Secretary of Defense; Secretary of Homeland Security; and the Secretaries of the Army, Navy, and Air Force in accordance with the UCMJ.

## Appendix C

### Contracts and Food Delivery Agreements Reviewed

Contract or Agreement Number	Order Number	Reviewed for Award	Effective	Contract or Agreement Value
AFRH-G				
GS-06F-0022T	TPD-AFRG-13-K-0002		1/1/13	\$5,616,737
TFSA-AFRG-14-C-0002			3/30/14	2,944,222
TFSA-AFRG-15-C-0002			10/1/14	12,784,785
TFSA-AFRG-15-C-0006			10/1/14	1,446,758
TFSA-AFRG-15-C-0008		X	8/14/15	1,374,900
TFSA-AFRG-16-C-0003		X	10/1/15	1,413,991
TFSA-AFRG-17-C-0001			12/31/16	5,668,161
	TFSA-AFRG-17-IA-0001		10/1/16	1,800,000
AFRH-W				
GS-06F-0022T	TPD-AFRW-12-K-00006		4/1/12	12,307,886
TPD-AFRH-13-C-0002			4/1/13	5,878,899
TPD-AFRW-13-C-0007			5/1/13	792,436
TFSA-AFRW-14-C-0002			10/1/13	1,386,657
TFSA-AFRW-14-C-0004			10/1/13	1,340,000
GS-33F-0014T	TFSA-AFRW-14-K-0012		7/24/14	2,245,736
TFSA-AFRW-15-C-0003		X	5/29/15	2,862,000
TFSA-AFRW-15-D-0001			5/1/15	2,190,000
TFSA-AFRW-16-C-0003		X	10/9/15	1,905,230
TFSA-AFRW-17-C-0003		X	12/8/16	3,203,048
TFSA-AFRW-17-C-0004			12/31/16	13,328,318
TFSA-AFRW-17-C-0006			12/31/16	6,346,272
	TFSA-AFRW-17-IA-0001		10/1/16	1,800,000
AFRH Corporate				
TFSA-AFRW-14-C-0013			4/3/14	1,094,953
TFSA-AFRW-BPA-1401			4/3/14	3,000,000
TFSA-AFRW-BPA-1701		X	10/21/16	4,500,000
<b>Total Contract Value</b>				<b>\$97,230,987*</b>

\* The values in this table are based on the contract documents and not the values in BFS's records. The value in Appendix A was based on information we obtained from BFS records. The total value in this table (\$97.2 million) differs from the total value in Appendix A (\$95.5 million) because of the BFS contracting officials' numerical errors that we discuss in Appendix D.

Source: The DoD OIG and BFS.

## Appendix D

### BFS Contracting Officials Properly Awarded Five of Six Contracts

The BFS contracting officials, who perform contract services for AFRH as part of an IAA:

- reviewed AFRH-prepared PWSs and provided feedback in accordance with the IAA;
- prepared acquisition plans in accordance with the FAR;
- maintained complete contract files as required by the FAR; and
- prepared an award memorandum as required by the IAA.<sup>64</sup>

For five of six contracts, BFS contracting officials performed and documented price analysis in accordance with the FAR and the IAA.<sup>65</sup> See Appendix C for a list of the six contracts we reviewed for award. According to the IAA, BFS contracting officials are responsible for reviewing AFRH-prepared documentation, conducting price analysis, overseeing the evaluation process, and making award decisions. The FAR requires that acquisition plans address all the technical, business, management, and other significant considerations that will control the acquisition. For price analyses and award decisions, the FAR requires the Government to purchase supplies and services at fair and reasonable prices and document the rationale for the source selection decision.

However, BFS contracting officials prepared contract documentation with numerical errors and used improper terminology in the contract documentation. The BFS officials recognized the inaccuracies we identified and stated that they would train contracting staff. The following example explains the inadequate fair and reasonable price determination for the corporate consulting contract.

#### ***Fair and Reasonable Price for Consulting Contract Not Adequately Supported***

BFS contracting officials did not adequately support the fair and reasonable price determination for the consulting contract, as required by the FAR.<sup>66</sup>

<sup>64</sup> FAR Part 7, "Acquisition Planning," FAR subpart, 7.1, "Acquisition Plans," section 7.105, "Contents of written acquisition plans;" and FAR Part 15, "Contracting by Negotiation," subpart 15.3, "Source Selection," section 15.308, "Source Selection Decision."

<sup>65</sup> FAR Subpart 15.4, "Contract Pricing," section 15.402, "Pricing Policy," 15.402(a).

<sup>66</sup> Contract number TFSA-AFRW-BPA-1701.

The award memorandum states, “Price analysis was conducted in accordance with FAR 15.404(b)(2)(i),” which states:

- (2) The Government may use various price analysis techniques and procedures to ensure a fair and reasonable price. Examples of such techniques include, but are not limited to, the following:
  - (i) Comparison of proposed prices received in response to the solicitation. Normally, adequate price competition establishes a fair and reasonable price.<sup>67</sup>

Because the BFS received six proposals, there was price competition. However, the range of proposed prices and the difference between the IGCE and the awardee’s price was significant. Furthermore, the difference in hourly labor rates between the awardee’s proposal and the previous contractors’ proposal were significant. The award memorandum identified the discrepancy between the proposed price and the IGCE, but it did not explain how the price was fair and reasonable with the discrepancy.

The award memorandum identified the six proposals and the range in prices from \$1.1 million to \$3.0 million. We compared the prices, as described in the FAR, and determined that the awardee’s price was:

- \$412,855.78 (27.8 percent) less than the next contractor’s proposed price;
- \$958,423.97 (47.2 percent) less than the average price of the six proposals; and
- \$1,948,212.70 (64.5 percent) less than the highest proposal.

Therefore, although there was adequate price competition, the differences in the prices were significant.

The FAR states that, in addition to comparing the proposed prices to each other, contracting officers can determine price reasonableness by comparing the proposed price to historical prices paid for the same or similar items.<sup>68</sup> Because this was a follow-on contract, the BFS had the previous contractor’s pricing for some of the same labor categories. We compared the awardee and previous contractor’s hourly rates in five labor categories. Table 14 identifies the significant differences between the awardee and previous contractor’s hourly rates for 2017 and 2018.

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<sup>67</sup> FAR 15.404-1(b), “Price Analysis for Commercial and Non-Commercial Items,” 15.404-1(b)(2)(i).

<sup>68</sup> FAR 15.404-1(a)(1) and FAR 15.404-1(b)(2)(ii).

*Table 14. Differences Between the Awardee and Previous Contractor's Hourly Rates in 2017 and 2018*

Labor Category	Difference in Hourly Rates	
	2017	2018
Program Manager	\$162.37	\$167.43
Senior Consultant	118.81	122.70
Senior Financial Consultant	114.22	117.92
Consultant	128.90	132.83
Graphic Designer	106.18	109.45

Source: The DoD OIG and BFS.

Therefore, the current contractor's hourly rates ranged from \$106 to \$167 less per hour than the previous contractor's rates for the five labor categories.

The FAR also states that contracting officers can determine fair and reasonable prices by comparing the proposed price to the IGCE.<sup>69</sup> There was a discrepancy of nearly \$1.8 million between the awardee's price and the IGCE that the BFS contracting official documented in the memorandum. However, the BFS contracting official did not explain in the award memorandum why the \$1.8 million difference did not affect the fair and reasonable price determination. The BFS contracting officer stated that she could not provide additional support to show that the price was fair and reasonable.

Contracting services will transition from the BFS to Washington Headquarters Services (WHS), with a planned effective date of October 1, 2018, for new contract awards. Therefore, we are not making a recommendation related to the BFS's contracting operations.

<sup>69</sup> FAR 15.404-1(b)(2)(v).

## Appendix E

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### Potential Monetary Benefits

This table identifies the amount potentially wasted by the AFRH from FY 2012 through 2016 by modifying three contracts 94 times. Not all contract modifications were unnecessary.

Recommendation	Type of Benefit	Amount of Benefit	Account
C.1.a	Funds put to better use	\$80,222	84X8522

# Management Comments

## Deputy Chief Management Officer



**DEPUTY CHIEF MANAGEMENT OFFICER**  
9010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-9010

January 10, 2018

MEMORANDUM FOR PROGRAM MANAGER, CONTRACT MANAGEMENT AND  
PAYMENTS, OFFICE OF THE INSPECTOR GENERAL OF  
THE DEPARTMENT OF DEFENSE

SUBJECT: Comments on Draft Audit Report "Financial Management and Contract Award and  
Administration for the Armed Forces Retirement Home" (Project No. D-2017-  
D000CF-0070.000)

This memorandum responds to your request for comments on the recommendations made to the Deputy Chief Management Officer (DCMO) in the subject draft audit report. I concur with all recommendations, and the attachment provides specific management comments and corrective actions both planned and underway.

I appreciate the opportunity to comment on the subject draft report. Thank you and your colleagues for the exceptional level of support since this inspection began early last year.

GIBSON.JOHN.H  
..|| [REDACTED] Digitally signed by  
GIBSON.JOHN.H  
Date: 2018.01.10 19:01:37  
-05'00'

John H. Gibson II

Attachment:  
As stated

cc:  
Director, Washington Headquarters Services  
Chief Executive Officer, Armed Forces Retirement Home

## Deputy Chief Management Officer (cont'd)

### DCMO Comments

Draft Report-Financial Management & Contract Award and Administration for the Armed Forces Retirement Home

Project No. D2017-D000CF-0070.000

Dated January 2, 2018

<u>Rec. #</u>	<u>Recommendation</u>	<u>Concur, Non-Concur, Concur with Comments</u>	<u>Management Comments</u>	<u>Target Date</u>
<b>A.1. That the DCMO, in coordination with the AFRH COO:</b>				
A.1.a	Establish and implement a long-term strategy for maintaining fiscal solvency at the Armed Forces Retirement Home that uses supported estimates of future revenue streams, establishes a trust fund minimum balance, and updates the replenishment plan as additional revenue streams are realized.	Concur	DCMO agrees that the management metrics listed in this recommendation are key to AFRH's future success, and in fact that of any organization. DoD is committed to putting forward a long-term solvency strategy, but establishing it will require ongoing close coordination with and consent by the Congress. Following recent leadership changes and the appointment of a Chief Executive Officer for the AFRH, a strategic plan is being developed and is expected by July 1, 2018.	7/1/2018
A.1.b	Develop a plan of action with milestones to implement the approved initiatives from the study of Armed Forces Retirement Home Operations that will replenish the trust fund to a level that will ensure long-term solvency and allow the Armed Forces Retirement Home to meet its responsibilities to veterans. Specific actions should be taken to:	Concur	DCMO will continue to evaluate and, wherever possible, implement the recommendations of the operational study and working group, which formed the basis of the Deputy Secretary's February 2017 guidance. A strategic plan is being developed and is expected by July 1, 2018.	7/1/2018
	*lease non-excess Armed Forces Retirement Home Property; and		Congress supported a legislative change clarifying lease-signing authority and it was enacted with the recent signing of the FY 2018 NDAA. DCMO looks forward to working with AFRH and industry partners early in 2018 to develop proposals that will put underutilized property on the Washington campus to better use for the advantage of AFRH residents and the surrounding community and provide long-term income for AFRH.	Industry day 2/2018, proposals due 6/2018, selection 12/2018

## Deputy Chief Management Officer (cont'd)

<u>Rec. #</u>	<u>Recommendation</u>	<u>Concur, Non-Concur, Concur with Comments</u>	<u>Management Comments</u>	<u>Target Date</u>
A.1.b cont'd	*increase the amount withheld each month from the pay of active duty enlisted members, warrant officers and limited duty officers of the Armed Forces from \$0.50 to \$1.00, if other funding sources are not identified.		DoD will increase active duty withholding only if a long-term strategy including revenue enhancements and operational efficiencies cannot correct AFRH's fiscal solvency.	
A.1.c	Quantify the impact each major capital project has on the Armed Forces Retirement Home Trust Fund balance and describes the effects on the resident population of the Armed Forces Retirement Home. In addition, Deputy Chief Management Officer should establish a threshold in which it considers a capital project to be a major capital and require that the Armed Forces Retirement Home detail how the major capital project risks will be isolated, minimized, monitored and controlled to prevent problems associated with investment costs, schedule and performance.	Concur	DCMO does not anticipate AFRH-funded major capital projects in the foreseeable future. Aging infrastructure on the Washington campus requires ongoing review and action. DCMO is committed to carefully balancing the resources of the trust fund with appropriate capital investments to preserve AFRH working assets.	
<b>B.1. That the DCMO, in coordination with the AFRH COO:</b>				
B.1.a	Review the actions of the Chief Financial Officer as the official responsible for the procurement program at the Armed Forces Retirement Home to determine whether management action is appropriate to hold the Chief Financial Officer accountable for the contracting problems experienced by the AFRH.	Concur	The Acting AFRH COO will initiate a third-party review.	

## Deputy Chief Management Officer (cont'd)

<u>Rec. #</u>	<u>Recommendation</u>	<u>Concur, Non-Concur, Concur with Comments</u>	<u>Management Comments</u>	<u>Target Date</u>
B.1.b.	Follow the section 813, National Defense Authorization Act for FY 2017 guidance to avoid using lowest price technically acceptable source selection criteria when contracting officials re-complete the major requirements for the consulting contract.	Concur	As the report notes, DCMO directed the transfer of procurement functions from BFS to WHS over the course of FY 2018. This will provide DCMO with substantially more oversight of AFRH procurement, with enhanced support at lower cost to AFRH. Processes and controls are being adopted as the transition occurs and will continue to be refined; however, all follow-on contracts will comport with standard DoD, FAR, and DFAR contracting principles. WHS contract officers are in the process of developing a new nursing contract which is expected to be issued in March 2018.	Nursing contract 3/31/2018, procurement services transition 10/1/2018
B.1.c.	Develop and implement an acquisition strategy to reduce the likelihood of future problems with the nursing contracts. When developing the acquisition strategy, also determine whether the Armed Forces Retirement Home needs to change how it schedules Government nurses.	Concur		
B.1.d.	Review the duties of the Chief Financial Officer and the head of procurement and design and implement appropriate internal controls or segregate the duties.	Concur	The Acting COO has separated financial and procurement duties and is evaluating internal controls. The DCMO recently appointed a Chief Executive Officer to oversee the AFRH who is in the process of hiring a permanent COO. One of the first tasks of the new COO will be to review agency staff positions and assignment of functions, as well as internal controls, and make appropriate changes in coordination with the CEO.	3/31/2018
<b>C.1. That the DCMO, in coordination with the AFRH COO:</b>				
C.1.a.	Develop and implement a plan to regularly evaluate contract funding needs and prevent future unnecessary contract modifications.	Concur	See response to B.1.b and B.1.c.	10/1/2018
C.1.b.	Review Armed Forces Retirement Home contracts with values more than \$250,000 to identify areas that need improvement, identify lessons learned, and identify efficiencies and use that information to improve future contracts.	Concur	See response to B.1.b and B.1.c.	10/1/2018

## Assistant Secretary of Defense for Manpower and Reserve Affairs



MANPOWER AND  
RESERVE AFFAIRS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
1500 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1500

JAN 8 2018

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Response to the DoD Office of the Inspector General Draft Report, *Financial Management and Contract Award Administration for the Armed Forces Retirement Home (Project No. D2017-D000CF-0070.000)*

The Office of the Assistant Secretary of Defense for Manpower and Reserve Affairs has reviewed the draft DoD Office of the Inspector General report entitled *Financial Management and Contract Award Administration for the Armed Forces Retirement Home*. We appreciate the opportunity to provide additional information relevant to this draft report.

Although we do not offer any comments regarding the recommendations set forth in the draft report, we believe that the accuracy and completeness of the report could benefit from the inclusion of additional information. Our recommended clarifying edits and additions to the draft report are reflected in the attachment to this memorandum.

Thank you again for affording us the opportunity to review and comment on this important report. Should you have any question regarding our submission, please do not hesitate to contact me personally. In the alternative, [REDACTED] who serves as my point of contact on Armed Forces Retirement Home matters, may be reached by telephone at [REDACTED] or by email at [REDACTED].

A handwritten signature in cursive script that reads "Stephanie Barna".

Stephanie Barna  
Principal Deputy, Performing the Duties of the  
Assistant Secretary of Defense for Manpower  
and Reserve Affairs

Attachment:  
As stated

## Assistant Secretary of Defense for Manpower and Reserve Affairs (cont'd)

Final  
Report Reference

OASD(M&RA) Suggested Edits to the DoD Office of the Inspector General Draft Report,  
*Financial Management and Contract Award Administration for the  
Armed Forces Retirement Home (Project No. D2017-D000CF-0070.000)*

Key:	Retain material	<del>Delete material</del>	Add material
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**Page i. Findings, Financial Management:**

The first paragraph introduces the causes for the substantial decline in the trust fund. We recommend that these bullets be amended as follows:

- DoD ~~and AFRH officials~~ did not submit legislative proposals and administrative actions, as requested by Congress, that could be added to existing law to maintain a positive cash balance in the AFRH Trust Fund;
- *Other than the charter school lease executed in February 2015*, DoD officials ~~did not use~~ *were not been successful in using* the authority granted in 24 U.S.C. S411(i) to generate additional revenue by leasing AFRH property to interested private developers;
- DoD officials did not generate additional revenue by raising the monthly amount withheld from the pay of enlisted members, warrant officers, and limited duty officers of the Armed Forces on active duty from \$0.50 to \$1.00, as allowed by Public Law 103-337, the National Defense Authorization Act for FY 1995; and
- The former AFRH Chief Operating Officer and former Chief Financial Officer (CFO) overstated future revenue stability and expense reductions associated with the construction of a new residential building, *and did not recognize the early declines in fines and forfeitures revenue as a signal of the impending trust fund solvency crisis.*
- *AFRH did not bring the impending trust fund crisis to the attention of DoD officials until late 2014, when they realized that the declines in fines and forfeitures revenue fell outside of historic norms.*

Revised pages  
i, 5, 14, and 16

**Page 5. Finding A:**

We recommend that the same modifications recommended for page I, as set forth above, be made to the Finding A text box.

**Pages 6. Substantial Decline of AFRH Trust Fund Balance, beginning on the 5<sup>th</sup> line from the top of the page:**

Use of Trust Fund monies to fund the construction of the new Scott Building, an \$88.1 million major construction project, was the primary factor in the substantial decline in the trust fund balance between 2010 and 2016, accounting for more than two-thirds of the decline. We therefore recommend the paragraph be revised as follows:

... Between FYs 2010 and 2016, the AFRH Trust Fund substantially declined from \$186.5 million to \$54.7 million ~~because due to use of the Trust Fund to pay for a major \$88.1 million construction project completed in 2013; revenues steadily declined declining revenues; and moderately increasing operating expenses moderately increased.~~ *AFRH officials also completed a major construction project in FY 2013, at a cost of \$88.1 million, which significantly depleted the AFRH Trust Fund.* Table I shows . . .

Attachment

## Assistant Secretary of Defense for Manpower and Reserve Affairs (cont'd)

Final  
Report Reference

OASD(M&RA) Suggested Edits to the DoD Office of the Inspector General Draft Report,  
*Financial Management and Contract Award Administration for the  
Armed Forces Retirement Home (Project No. D2017-D000CF-0070.000)*

Key:	Retain material	<del>Delete material</del>	Add material
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### Pages 8-9. Substantial Decrease in Military Fines and Forfeitures:

This section discusses the substantial decrease in military fines and forfeitures, citing a reduction in courts martial and Article 15 non-judicial punishment. Increasing emphasis on quality force standards may have led to a propensity to separate offenders, rather than rehabilitate them. However, the overall decrease in active duty force levels should be noted as a contributing factor. We recommend the first paragraph in this section, on page 8, be revised as follows:

From FYs 2010 through 2016, *as active duty force levels declined*, fines and forfeitures collected from military members; declined by \$15.4 million (41.4 percent). The decrease in fines and forfeitures greatly contributed to . . . .

Revised

### Page 11. AFRH Trust Fund Investment Income Significantly Decreased:

This paragraph attributes the significant reduction in AFRH Trust Funds available for investment, to the decline in interest income. However, the \$88.1 million capital outlay in 2011, 2012, and 2013 for a major construction project was far more significant, accounting for more than two-thirds of the decline in available funds. We recommend the last sentence of the paragraph be revised as follows:

. . . The amount of funds available for investment in the AFRH Trust Fund decreased from \$186.5 million in FY 2010 to \$54.7 million in FY 2016 because of *the \$88.1 million in capital outlays for a major construction project, operating expense withdrawals that exceeded deposits, and* the decline in income.

### Page 13. AFRH Trust Fund Solvency Jeopardized by Lack of Effective Planning:

We recommend that the same corrections made to page i, as set forth above on page 1 of this enclosure, be made to these bullets.

Pages 13-14

### Page 14. DoD and AFRH Officials Did Not Comply with Congressional Direction:

We recommend that the title of this section be changed to, "DoD ~~and AFRH~~ Officials Did Not Comply with Congressional Direction *within Prescribed Deadlines*." Officials in DoD had worked with AFRH to identify solutions to improve trust fund solvency, and had generated a number of legislative proposals that received careful consideration by the Department. The search for viable and effective long-term resolution has been complicated and taken longer than Congress requested. Accordingly, we also recommend the first sentence of this section be changed as follows:

Contrary to congressional direction, DoD ~~and AFRH officials did~~ *was* not *successful in* submitting legislative proposals and administrative actions that could be added to existing law to achieve trust fund solvency *within the deadlines prescribed*.

## Assistant Secretary of Defense for Manpower and Reserve Affairs (cont'd)

OASD(M&RA) Suggested Edits to the DoD Office of the Inspector General Draft Report,  
*Financial Management and Contract Award Administration for the  
Armed Forces Retirement Home (Project No. D2017-D000CF-0070.000)*

Key:	Retain material	<del>Delete material</del>	<i>Add material</i>
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### Pages 15-16. Uncertainty on Leasing Authority Denied Additional Revenue:

We recommend that the title of this section be changed to, “~~Uncertainty~~ *Limited Success on-in Commercial* Leasing-~~Authority~~ Denied Additional Revenue.” While the continued debate among the legal community concerning the leasing authority was one factor in the Department’s limited success in leasing AFRH-controlled property, commercial interest in developing the property evaporated after the 2008 stock market crash. We recommend the following changes be made to this section:

DoD officials did not . . . . This occurred, *in part*, because ~~DoD and AFRH officials could not determine who had the appropriate decision-making of continued disagreement within the legal community concerning the~~ authority necessary to lease AFRH-controlled property. *More to the point, aside from a small lease of space to a charter school, there has not been viable commercial interest in the AFRH property since the 2008 stock market crash caused interested developers to pull back from developing projects.*

In FY 2008, . . . .

According to Public Law 111-84 § 2823, the Secretary of Defense may lease non-excess real and personal property, not subject to disposal, that is under the control of the AFRH, if the AFRH COO considers it advantageous to the AFRH. The leasing authority was delegated from the Secretary of Defense to Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD[P&R]) under DoD Directive 5124.09.<sup>29</sup> AFRH worked with the General Services Administration to develop the AFRH Washington Master Plan along with associated studies, to enter into Enhanced Use Leases that use In-Kind Lease agreements.<sup>30</sup> *However, the developer of the master plan ceased operations in 2009, just as the real estate market collapsed.*

*A District of Columbia charter school later expressed interest in leasing space in the historic Sherman Building. While those arrangements were being negotiated, the From a General Services Administration held an Industry Day in November 2014, AFRH officials had with private developers who might be interested in leasing 77 acres of AFRH property. However, neither the OUSD(P&R), which was responsible for leasing, nor the U.S. Army Corps of Engineers officials, would sign the lease agreements. OUSD(P&R) and U.S. Army Corps of Engineers officials considered the AFRH as Federal property, not DoD property, causing uncertainty over which organization had authority. As a result, the 77 acres of AFRH properties were not leased. Based on the results of the Industry Day, AFRH prepared a solicitation to invite bids for the lease of the property. However, a dispute over the legal authority to execute such a lease blocked DoD from issuing its solicitation, and no viable offers came from this effort. Meanwhile, the charter school lease was approved by OUSD(P&R) and signed by the U.S. Army Corps of Engineers in February 2015. However, execution of the plan added considerable*

Revised pages  
i, 5, 14, and 16

## Assistant Secretary of Defense for Manpower and Reserve Affairs (cont'd)

OASD(M&RA) Suggested Edits to the DoD Office of the Inspector General Draft Report,  
*Financial Management and Contract Award Administration for the  
 Armed Forces Retirement Home (Project No. D2017-D000CF-0070.000)*

Key:	Retain material	<del>Delete material</del>	Add material
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~~expenses to the AFRH Trust Fund while generating minimal revenue. This was primarily due to indecisiveness of DoD officials in identifying and arranging leasing authorities to work with the AFRH in developing leasing opportunities.~~

AFRH officials *originally* projected that the lease agreements would have resulted in \$1.5 to \$28.7 million in revenues annually from FYs 2013 through 2017. *AFRH tabled the execution of the master plan following the stock market crash in 2008 and the subsequent collapse of the real estate market; when they reconsidered the situation in 2010, projected lease revenues were \$1.0 to \$1.1 million annually from FYs 2013 through 2020.* Instead of providing revenue . . . .

**Pages 18-19. Former COO and CFO Overstated Future Revenue Stability and Expense Reductions Before Starting a Major Construction Project:**

Regardless of who had the authority to execute a lease, the expected opportunity to generate revenue evaporated when the stock market crash caused developers to lose interest in potential projects at AFRH. We recommend that this section be changed as follows, beginning with the last line of text on page 18:

. . . However, ~~the former AFRH COO and CFO did not have the authority to lease the buildings~~*the stock market crash in late 2008 reduced the interest of developers in potential projects at AFRH, eliminating which was* a major source of predicted revenues. The former AFRH COO and CFO planned . . . .

## Armed Forces Retirement Home, Chief Operating Officer



January 8, 2018

MEMORANDUM FOR THE OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Armed Forces Retirement Home Comments on the Financial Management and Contract Award and Administration for the Armed Forces Retirement Home (Project No. D-2017-D000CF-0070.000) Draft Audit Report

As requested, I have reviewed the findings and recommendations in the subject draft audit report dated 7 December 2017 and offer the following management comments:

The Armed Forces Retirement Home (AFRH) concurs with all recommendations and adopts as joint comments the responses being submitted by the Deputy Chief Management Officer. Additionally, AFRH concurs with the "potential monetary benefit" found in Appendix E of the subject document.

My point of contact for these comments is the AFRH Inspector General, [REDACTED] who can be reached at [REDACTED] or by email at [REDACTED]

Respectfully,

Maurice Swinton  
Acting Chief Operating Officer

## Armed Forces Retirement Home, Chief Operating Officer (cont'd)



CHIEF EXECUTIVE OFFICER

ARMED FORCES RETIREMENT HOME  
140 ROCK CREEK CHURCH ROAD, NW  
WASHINGTON, DC 20011



January 23, 2018

MEMORANDUM FOR PROGRAM MANAGER, CONTRACT MANAGEMENT AND PAYMENTS,  
OFFICE OF THE INSPECTOR GENERAL OF THE DEPARTMENT  
OF DEFENSE

SUBJECT: Detailed Comments on Draft Audit Report "Financial Management and Administration for the Armed Forces Retirement Home" (Project No. D-2017-D000CF-0070.000)

This memorandum provides additional details to support the comments from the Deputy Chief Management Officer's memorandum dated January 10, 2018.

Recommendation A.1.c. The Department agrees an appropriate threshold should be established to trigger a more rigorous review and approval process when considering future capital investments at the AFRH. The \$3 million threshold referenced in the draft report is higher than we believe appropriate for AFRH capital investments. While AFRH's capital improvement plan focuses on deferred maintenance and does not envision new or replacement projects in the near term, the Department shares the DoDIG's concern, future capital planning should follow a rigorous review process based on conservative financial projections to prevent poor investments. Until a durable process is established, the Department will carefully scrutinize all AFRH capital planning.

Recommendation B.1.d. The Department is in the process of hiring a permanent AFRH Chief Operating Officer, whose first task(s) will include a thorough review of the corporate staff structure and recommendations to realign functions and positions. AFRH will reinstate the Deputy COO position, whose duties may include serving as the head of procurement.

Recommendations C.1.a. and C.1.b. WHS is diligently working with BFS on a smooth transition for all future requirements and has scheduled a monthly teleconference until all actions are assumed by WHS. WHS, together with AFRH, will identify proper performance requirements and is working to establish the best solution for all needs to include discussions of evaluation criteria and contract types. During the market research phase, commercial and government market data as well as historical data to include past contract efforts will be reviewed. WHS will leverage relationships with other contracting agencies (including the Defense Health Agency) performing similar requirements to capture best practices and lessons learned.

I appreciate the efforts of you and your colleagues in conducting this inspection and look forward to receiving the final report.

  
Stephen T. Rippe

cc:  
Director, WHS  
Chief Operating Officer, AFRH

## Acronyms and Abbreviations

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<b>AFRH</b>	Armed Forces Retirement Home
<b>AFRH-G</b>	Armed Force Retirement Home–Gulfport, Mississippi
<b>AFRH-W</b>	Armed Forces Retirement Home–Washington, D.C.
<b>BCD</b>	Bad Conduct Discharged
<b>BFS</b>	Bureau of the Fiscal Service
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>COO</b>	Chief Operating Officer
<b>COR</b>	Contracting Officer’s Representative
<b>DCMO</b>	Deputy Chief Management Officer
<b>GAO</b>	Government Accountability Office
<b>IAA</b>	Interagency Agreement
<b>IGCE</b>	Independent Government Cost Estimate
<b>LPTA</b>	Lowest Price Technically Acceptable
<b>OUSD(P&amp;R)</b>	Office of the Under Secretary of Defense (Personnel and Readiness)
<b>UCMJ</b>	Uniform Code of Military Justice
<b>U.S.C.</b>	United States Code
<b>WHS</b>	Washington Headquarters Services

# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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