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DOD
INFRASTRUCTURE

DOD Is Opening
Unneeded Finance and
Accounting Offices





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-271427

April 16, 1996

The Honorable William J. Perry
The Secretary of Defense

Dear Mr. Secretary:

We are currently evaluating the Department of Defense's (DOD) response to the recommendations included in our September 1995 report¹ and have a matter for your immediate attention. Specifically, DOD is opening new finance and accounting offices even though its recent analysis shows that they are not needed.

Background

Our September report evaluated both DOD's justification and its cost analysis for consolidating over 300 defense accounting offices into 5 large existing finance centers and 20 new sites called operating locations. The 20 sites are located in the continental United States. Our evaluation did not address the 21st site, which was opened in Hawaii to provide finance and accounting support for military services operating in the Pacific theater.

The report noted that DOD's plan to reduce the size of its finance and accounting operations was a necessary step toward reducing infrastructure and improving operational efficiency and effectiveness. However, we challenged the need for 20 operating locations because (1) DOD's analysis showed that finance and accounting operations could be consolidated into as few as 6; (2) some planned sites, particularly those that would be located on military bases that had been closed or realigned, would require about \$173 million in renovation costs; and (3) DOD, in its decision-making process, had not considered additional operational efficiencies that are expected from business process reengineering initiatives. In short, we believed the planned infrastructure would be larger and more costly than necessary. DOD generally concurred with our findings and recommendations and agreed to reassess the need for 20 operating locations and update the number of personnel needed to support future finance and accounting operations. The Defense Finance and Accounting Service (DFAS), the organization that has management control of the five finance centers and operating locations, was tasked to conduct the reassessment, which was completed on January 2, 1996.

¹DOD Infrastructure: DOD's Planned Finance and Accounting Structure Is Not Well Justified (GAO/NSIAD-95-127, Sept. 18, 1995).

DOD Is Planning to Open Facilities It Does Not Need

DFAS' reassessment concluded that 16 operating locations (15 in the continental United States and 1 in Hawaii) were needed to support DOD's consolidated finance and accounting operations. By limiting the number of locations to 16, DFAS states that it could maintain its projected annual savings of \$120 million in operations and maintenance costs and avoid spending about \$51 million in military construction costs.

The 16 operating locations that DFAS believes it needs include 14 opened during fiscal year 1995 plus 2 locations planned for Memphis and San Antonio. The five locations no longer needed would be located in or near Lawton, Oklahoma; Lexington, Kentucky; Newark, Ohio; Rantoul, Illinois; and Seaside, California. According to DFAS' reassessment, your decision to reduce military personnel, efficiencies expected from business process reengineering and systems improvement initiatives, and realignment of functions between DFAS and the military departments are factors that have reduced DOD's requirement from 21 operating locations to 16.

Nevertheless, on February 8, 1996, the Under Secretary of Defense (Comptroller) recommended to you that DOD continue the original plan (to open all 21 operating locations) subject to congressional approval. Although you had not yet concurred with the recommendation, DOD officially opened the Lawton facility on February 16, 1996, and the Seaside facility on March 29, 1996. During fiscal year 1996, operations will be limited at these facilities. Staffing, for example, will not be complete at Seaside until the end of fiscal year 1997 and at Lawton until 1999.

Both facilities also require military construction projects to bring them up to par. DFAS, for example, plans to spend about \$19 million in military construction funds to renovate the Seaside facility. Once completed, the facility will accommodate about 450 employees. Because of decreased requirements, however, DFAS no longer believes it needs any employees at Seaside. Yet it is adjusting its workload requirements at other locations and is planning to put about 225 employees there. DFAS officials were unsure what impact this reduced workforce would have on their renovation plans, but said the existing facilities would accommodate about 200 people without any major renovation or construction project.

The Lawton facility has a similar situation. Although DFAS no longer believes it needs an operating location at Lawton, it plans to spend about \$12.8 million in military construction funds on a facility to accommodate about 550 DFAS employees. DFAS officials said, however, that the existing

facilities at Lawton could be configured to house about 400 employees without the need for any military construction funds.

DFAS plans to spend an additional \$19.2 million on facilities in Lexington and Rantoul, which are scheduled to open in 1999 and 2001, respectively. No military construction funds are needed for the planned operating location in Newark.

DOD's Actions Are Not Required by Congressional Direction

There is considerable evidence that Congress wanted DOD to reassess its requirements and to open only those operating locations needed to perform finance and accounting operations. Both the Senate Committee on Armed Services and the Senate Committee on Appropriations asked DFAS to reexamine its requirements before establishing additional operating locations. The House Committee on National Security, while not requiring a reassessment, reported that the DFAS consolidation plan would result in a larger infrastructure than necessary. Finally, the National Defense Authorization Act for Fiscal Year 1996, enacted on February 10, 1996, restricts DOD's opening of new operating locations. DOD must report the need for any new operating location to Congress and allow at least 30 days to elapse before they are established. As permitted by this statute, DFAS plans to prepare and submit an analysis supporting the need for the Newark, Lexington, and Rantoul operating locations. According to DFAS officials, these three facilities may still be opened on the schedule previously approved by you, unless Congress takes action during the 30-day waiting period called for in the Authorization Act.

As for the Lawton and Seaside facilities, section 353 (c)(3) of the Authorization Act allows DFAS to continue with plans to open an operating location if by February 10, 1996, a date for commencing operation had been established and funds had been expended for that purpose. Because it had already announced plans to open these locations and had expended some funds for that purpose, DFAS and the Under Secretary of Defense (Comptroller) interpreted this provision of the act as congressional direction to open Lawton and Seaside. We believe they have misinterpreted the language in the Authorization Act. While the act does allow DOD to open Lawton and Seaside without the reporting requirement and 30-day waiting period, it does not direct DOD to open them.

Recommendation

We recommend that you direct the Under Secretary of Defense (Comptroller) to terminate plans to open the five facilities that DFAS

determined are no longer needed to effectively carry out DOD's finance and accounting operations.

Agency Comments and Our Evaluation

On March 27, 1996, we met with representatives from DFAS and DOD's Comptroller's Office to get official oral comments on a draft of this report. They did not dispute the fact that five locations are no longer needed. They remain convinced, however, that two of the locations—Lawton and Seaside—should be opened in accordance with language in the National Defense Authorization Act of 1996. They said that section 353 (c)(3) of the act was crafted specifically for the Lawton facility and its interpretation extends coverage to Seaside. Not opening them, in their view, would violate the intent of Congress. Accordingly, DOD will proceed with the consolidation of finance and accounting operations at these two locations. With respect to the other facilities at Lexington, Newark, and Rantoul, the DOD representatives agreed that a report justifying their need would have to be submitted to Congress before they are opened.

As discussed above, section 353 (c)(3) of the act gives DOD the authority to open the Lawton and Seaside facilities but does not mandate it to do so. Consequently, we continue to believe you have the discretion to cancel the opening of any new finance and accounting location that DOD no longer believes is necessary to perform finance and accounting operations. Therefore, we made no revision to our draft report and are sending copies of our final report to the congressional committees that have jurisdiction in this area.

Scope and Methodology

We are in the process of examining the documentation and support behind DFAS' reassessment of the number of sites required to perform finance and accounting functions. As part of this effort, we discussed results of the reassessment with officials at DFAS Headquarters and the Cleveland, Columbus, Denver, and Indianapolis centers. We also reviewed language in the reports prepared by the Senate Committee on Armed Services, Senate Committee on Appropriations, House Committee on National Security, and the House Committee on Appropriations and the National Defense Authorization Act for Fiscal Year 1996 to determine congressional intent related to the size of the DFAS infrastructure.

Based on this preliminary work, we found that DOD was planning to open five facilities it no longer believes are needed and decided to bring this to the Secretary's attention before the decision became final. We plan to

continue our review to determine if DOD's analysis supports the need for 16 operating locations and will report on the results of that work at a later date.

We performed our review from November 1995 through March 1996 in accordance with generally accepted government auditing standards.

As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on this recommendation to the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight within 60 days of the date of this report. You must also send a written statement to the Senate and House Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of this report.

We are sending copies of this letter to the Chairmen and Ranking Minority Members of the Senate and House Appropriations Committees, Senate Armed Services Committee, House National Security Committee, Senate Governmental Affairs Committee, House Government Reform and Oversight Committee, and the Director, Office of Management and Budget. If you have any questions on this matter, please call me on (202) 512-8412. Major contributors to this report are listed in appendix I.

Sincerely yours,



David R. Warren
Director, Defense Management Issues

Major Contributors to This Report

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