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

Human Resources Division

B-252788

November 3, 1993

The Honorable Earl M. Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

This is in response to your letters of December 10, 1992, and March 15, 1993, requesting that we review several issues related to the financing, operations, and management of the Armed Forces Retirement Home.[1] As agreed with your office, we focused on the Home's analysis of the status of the trust fund, including the projected balance to fiscal year 2000.[2] We also examined a Home resident's allegations of mismanagement of funds by senior Home staff at the Soldiers and Airmen's facility.

In conducting this work, we interviewed Department of Defense (DOD) and Home officials as well as Home residents. We also reviewed documentation supplied by the Home and residents, such as (1) prior studies of the Home's operations; (2) annual reports; (3) minutes of board meetings; (4) several historical, financial, and staffing analyses done by one of the residents; and (5) details of the Home's analysis of its future funding needs, including key assumptions, calculations, and data sources. As agreed with your office, we did not verify or assess the reasonableness of the Home's current expenses.

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[1]The Home consists of two facilities, the Soldiers and Airmen's Home in Washington, D.C., and the Naval Home in Gulfport, Mississippi, which provide permanent living arrangements, including medical care, for about 2,200 retired, disabled, or war-time veterans. The Home is an independent agency of the executive branch of the federal government.

[2]The Home is financed through a trust fund comprised of (1) pay withholdings, fines, and forfeitures from active-duty enlisted members; (2) monthly fees collected from residents; (3) interest on the securities held by the Department of the Treasury; and (4) miscellaneous gifts and bequests.

TRUST FUND ANALYSIS AND FORECAST

We believe the Home's analysis and forecast of the trust fund is reasonable. Home officials estimate that the trust fund's fiscal year 1992 balance of $146.3 million[3] will be depleted by the end of fiscal year 2000 because of (1) reduced revenue from active-duty forces and (2) increased spending for operations and capital improvements. In fact, by fiscal year 2000, Home officials estimate the trust fund will have an $8.9 million deficit balance due to a total shortfall of $155.2 million, or an average yearly shortfall of $19.4 million beginning in fiscal year 1993. The enclosure provides details on the current and projected revenues and expenses for fiscal years 1992 to 2000. Home officials have taken some steps to reduce expenses and increase revenues and plan to present other proposals on these matters to the Congress in time for the fiscal year 1995 budget deliberations.

From fiscal year 1993 through fiscal year 2000, the Home expects to receive a total of $62.2 million less in revenue than if the fiscal year 1992 levels were maintained. All categories of revenue will decrease except for monthly fees paid by residents. Revenues from active-duty personnel will decline $71.4 million due to expected reductions in the size of the military force. Income from interest on securities held by the Department of the Treasury will decline $26.5 million as money is removed from the fund to cover yearly shortfalls. Miscellaneous revenue from gifts and bequests will decline by $2.9 million. These losses would be partially offset by a $38.6 million increase in revenue from monthly fees paid by residents at the Home.

Expenses at the Home are expected to increase primarily due to personnel costs and several major capital improvement projects. From fiscal year 1993 through fiscal year 2000, the Home expects to incur a total of $93 million more in expenses than if the fiscal year 1992 levels were maintained. Operating costs, of which 72 percent are for salaries and related personnel expenses, such as medical coverage, retirement, and unemployment insurance, are expected to

[3]This represents the unappropriated balance or the amount of money in the fund that has not been committed to any project or activity. The total trust fund balance at the end of fiscal year 1992 was $171.2 million. Throughout this letter, references to the trust fund balance mean the unappropriated balance.

increase by $51.2 million. Expenses for capital improvements are expected to increase $41.8 million above fiscal year 1992 levels primarily because of planned renovations to two large dormitories at the Soldiers and Airmen's Home, construction of a new health care unit at the Naval Home, and other, smaller projects, such as repairing roofs and removing asbestos.

In developing its estimates of future revenues and expenses, the Home relied on data from several sources. For example, the Home calculated expected revenue from active-duty pay withholdings and fines and forfeitures based on DOD-supplied current estimates of future force strength, the current pay withholding rate of 50 cents per month, and the results of historical nonjudicial actions and court martials. Revenue projections from resident fees were based on (1) historical occupancy rates, (2) legislatively mandated increases in fees through fiscal year 1997, and (3) Home-approved increases in fees beginning in fiscal year 1998. Trust fund interest income projections were based on Office of Management and Budget (OMB) estimates of future yields on 91-day and 10-year Treasury securities and the fund's estimated balance each year. In estimating future operating expenses, the Home relied on figures supplied by OMB. The projections represent fiscal year 1992 actual operating expenses adjusted upward annually for inflation by an average of 2.7 percent a year. Estimates for capital improvement expenses represent the expected costs of the specific projects already approved at each facility.

ACTIONS TO IMPROVE FINANCIAL CONDITION

In our view, the Home appears to be taking prudent steps to address its projected financial problem. For example, to reduce its expenses, the Home has (1) decreased staffing levels at the Soldiers and Airmen's Home from 917 in fiscal year 1991 to 872 in fiscal year 1993, (2) postponed some maintenance and capital improvements, and (3) substantially redesigned and scaled-back the planned Naval Home health unit from a $21.5 million to a $3.5 million project. To obtain more revenue, the Home plans to increase, beginning in fiscal year 1998, the monthly fees paid by all residents and increase rates to those residents who reside in long-term care facilities at the Home[4].

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[4]Between fiscal years 1992 and 1997, the Home will receive increased income from monthly fees as mandated by P.L. 101-510.

Home officials have also been studying other alternatives with the intent of developing a strategic plan to achieve financial stability for the Home. These alternatives include (1) obtaining additional revenue from current sources, such as increasing the pay deduction for active-duty personnel, and other sources, such as veterans or directly from DOD; (2) identifying additional ways to cut expenses as a means of maintaining the Home if no additional funding can be found; and (3) determining the best mix of services that can be provided to Home members at various levels of funding, including yearly reductions in funding over a sustained period of time. These efforts are expected to result in a plan that will be presented to the Congress for consideration during the fiscal year 1995 budget deliberations.

ALLEGATIONS OF MISMANAGEMENT

A resident of the Soldiers and Airmen's facility has alleged that (1) the trust fund is being depleted due to excessive operating expenses and capital improvements, (2) the Home's purchasing procedures and fiscal controls are deficient, and (3) some Home employees are receiving improper perks. For the most part, these concerns have been addressed by the Home. Also, some are currently being examined by the Naval Audit Service and the DOD Inspector General (IG).

Regarding excessive operating expenses and capital improvements, since 1988 -- when revenues began decreasing -- the facility has been steadily reducing staff levels. The number of authorized personnel has declined from 1,015 in fiscal year 1988 to 872 in fiscal year 1993. The Home has also delayed most of the planned construction at the facility. In 1987, the facility planned to spend $93.6 million for six major capital improvement projects during fiscal years 1991 to 2000. Only two of the six projects are currently planned, while the others are being reevaluated in view of the trust fund's projected deficit.

The allegations about inappropriate purchasing procedures and fiscal controls stem from two 1990 IG reports, which found that the facility (1) did not follow federal acquisition guidelines pertaining to sole source contracting or prompt payment for goods and (2) did not have an accounting system that met the requirements established for accounting systems in federal agencies.[5] The Home, which had been exempt from

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[5]Audit Report: Financial Management of Armed Forces Retirement Homes, DOD Office of the Inspector General, No. 90-114 (Sept.26, 1990) and Inspection Report: Armed Forces

federal acquisition regulations, has since begun to follow all of these regulations, and has consolidated some purchasing functions. The Home has also improved fiscal controls by purchasing accounting services from the Department of the Treasury. The Naval Audit Service is completing a follow-up review of these issues and will report soon on its results.

One of the allegations of improper employee perks concerns employees who live on the retirement home grounds. This allegation also stems from the IG report. The IG found that the housing provided at below market rental rates for 12 of the 19 key employees living at the facility was a form of compensation, and recommended that Home officials (1) report this benefit to the Internal Revenue Service, the District of Columbia, and the Social Security Administration; and (2) establish a mechanism by which rents for the housing units were periodically increased. The Home now reports the benefit to the appropriate government agencies and has increased rental rates for the housing units. Future revisions in the rates will be made in accordance with guidelines from OMB. In fiscal year 1994, the IG will conduct a follow-up on the corrective actions taken at the facility since its last inspection in 1990.

Another allegation of improper perks concerns employees of the Home who make use of its athletic and recreational facilities, such as fitness equipment and the golf course located on the grounds. Home officials said that employees were granted the right to use the exercise equipment in 1992 as part of a campaign to promote employee health and fitness. Employees can only use the equipment during lunch and dinner periods, when residents generally do not use the equipment. Employees are also permitted to apply for approval to use the golf course. If approved, the employees pay $150 for annual playing privileges, plus fees, which are deposited in a fund to support resident morale. Home officials said about 150 nonresidents are allowed to use the golf course. Golfing privileges are also granted to guests of the Home. Home officials also said that residents of the Home are accorded priority in the use of all facilities.

We discussed a draft of this letter with officials at the Home, who agreed with the information presented. We hope this information is responsive to your request. If you have

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Retirement Homes, DOD Office of the Inspector General, 90-INS-23 (Sept. 28, 1990).

any questions, please call me at (202) 512-7101 or Stephen Backhus of my staff at (202) 512-7120.

Sincerely yours,

David P. Baine

David P. Baine
Director, Federal Health Care
Delivery Issues

Enclosure

Table 1: Estimated Income and Expenses for Fiscal Years 1992 to 2000
(Dollars in millions)

	1992 (actual)	1993	1994	1995	1996	1997	1998	1999	2000	Total (93-00)
Expenses										
Operations	$51.4	$52.9	$54.3	$55.1	$56.7	$58.2	$59.9	$61.7	$63.6	$462.4
Capital	5.5	6.4	5.4	25.8	8.9	3.2	28.8	2.5	4.8	85.8
Total expenses	56.9	59.3	59.7	80.9	65.6	61.4	88.7	64.2	68.4	548.2
Income										
Fines	28.8	26.5	25.1	23.6	22.5	21.3	20.8	20.8	20.8	181.4
Pay withholding	10.6	9.0	8.6	8.1	7.7	7.4	7.2	7.2	7.2	62.4
User fees	6.9	8.3	9.0	9.5	9.9	10.4	12.8	15.4	18.5	93.8
Other[a]	0.8	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	3.5
Interest	9.8	8.6	8.9	9.1	7.9	6.6	5.3	3.5	2.0	51.9
Total income	56.9	52.8	52.0	50.7	48.4	46.1	46.6	47.4	49.0	393.0
Yearly outcome	0.0	-6.5	-7.7	-30.2	-17.2	-15.3	-42.1	-16.8	-19.4	-155.2
Trust fund balance	$146.3	$139.8	$132.1	$101.9	$84.7	$69.4	$27.3	$10.5	$-8.9	

[a]Includes bequests, estates, and miscellaneous receipts.

Table 2: Estimated Yearly Changes in Income and Expenses Compared to Fiscal Year 1992
(Dollars in millions)

	1993	1994	1995	1996	1997	1998	1999	2000	Total
Expenses									
Operations	$1.5	$2.9	$3.7	$5.3	$6.8	$8.5	$10.3	$12.2	$51.2
Capital	0.9	-0.1	20.3	3.4	-2.3	23.3	-3.0	-0.7	41.8
Total expenses	2.4	2.8	24.0	8.7	4.5	31.8	7.3	11.5	93.0
Income									
Fines	-2.3	-3.7	-5.2	-6.3	-7.5	-8.0	-8.0	-8.0	-49.0
Pay withholding	-1.6	-2.0	-2.5	-2.9	-3.2	-3.4	-3.4	-3.4	-22.4
User fees	1.4	2.1	2.6	3.0	3.5	5.9	8.5	11.6	38.6
Other[a]	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-2.9
Interest	-1.2	-0.9	-0.7	-1.9	-3.2	-4.5	-6.3	-7.8	-26.5
Total income	$-4.1	$-4.9	$-6.2	$-8.5	$-10.8	$-10.3	$-9.5	$-7.9	$-62.2

[a]Includes bequests, estates, and miscellaneous receipts.

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