



June 2021

MILITARY LODGING

DOD Should Provide Congress with More Information on Army's Privatization and Better Guidance to the Military Services

Accessible Version



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GAO@100 Highlights

Highlights of [GAO-21-214](#), a report to congressional committees

Why GAO Did This Study

In 2009, the Army began to privatize its lodging with the goal of addressing the poor condition of facilities more quickly than could be achieved under continued Army operation. The Navy, Marine Corps, and Air Force currently have no plans to privatize their lodging programs.

The Senate Armed Services Committee report accompanying a bill for the Fiscal Year 2020 National Defense Authorization Act included a provision for GAO to review improvements made to Army lodging, among other things. This report examines the extent to which (1) the Army has improved its lodging facilities since privatizing; (2) OSD reported complete information about the Army's development plans to Congress; (3) the Army has reliably determined any cost savings or cost avoidance as a result of its privatized lodging program; and (4) there are limitations in OSD's oversight of the military services' lodging programs. GAO reviewed policies and guidance; analyzed lodging program data for fiscal years 2017 through 2019 (the 3 most recent years of complete and available information); and interviewed DOD officials.

What GAO Recommends

GAO is making four recommendations, including that DOD require OSD to include key information in reports to Congress, require the Army evaluate its cost avoidance methodology, establish consistent methodologies for lodging program data, and assess the extent to which off-base lodging is inappropriately used for official travel. DOD concurred with all four recommendations.

View [GAO-21-214](#). For more information, contact Elizabeth A. Field at (202) 512-2775 or fielde1@gao.gov.

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DOD Should Provide Congress with More Information on Army's Privatization and Better Guidance to the Military Services

What GAO Found

Since privatizing its domestic on-base hotels, referred to as lodging, the Army has made a variety of improvements, including the replacement of lodging facilities with newly constructed hotels (see fig.). However, improvements have taken longer than initially anticipated, development plans have changed, and the Office of the Secretary of Defense (OSD) has not included key information about these delays and changes in reports to Congress. If OSD were to provide this additional information, Congress would be better able to determine whether the Privatized Army Lodging (PAL) program has achieved its intended objectives or fully consider whether the other military services should privatize their respective lodging programs.

Room at an Army Lodging Facility before Privatizing and Room at the New Candlewood Suites Hotel Built at Yuma Proving Ground, AZ, in 2013



Source: (From left to right) © 2005 JLL and © 2013 IHG. | GAO-21-214

The Army does not estimate cost savings from the PAL program, but instead produces an annual cost avoidance estimate to demonstrate some of the financial benefits resulting from the privatization of its lodging program. Army officials stated that they calculate cost avoidance by comparing the room rate it charges for its lodging—which is limited to 75 percent of the average local lodging per diem rate across its installations—to the maximum lodging per diem that could be charged for that location. However, by using this approach, the Army is likely overstating its cost avoidance, because off-base hotels do not always charge 100 percent of per diem. Until the Army evaluates the methodology it uses to calculate its cost avoidance, decision makers in the Department of Defense (DOD) and Congress cannot be sure that the reported financial benefits of privatization have actually been achieved.

OSD's oversight of lodging programs has been limited in some cases. First, OSD and the military services lack standardized data that would be useful for making informed decisions about the lodging programs. Second, DOD requires both servicemembers and civilian employees to stay in on-base lodging when on official travel, with some exceptions. Yet, according to OSD, many travelers are staying in off-base lodging, and OSD has not done the in-depth analysis needed to determine why and how much it is costing the government. Without an analysis that assesses the extent to which travelers are inappropriately using off-base lodging and why it is occurring, as well as a plan to address any issues identified, neither DOD nor Congress can be sure that the department is making the most cost-effective use of taxpayer funds.

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Abbreviations

DOD	Department of Defense
OSD	Office of the Secretary of Defense
OUSD(A&S)	Office of the Under Secretary of Defense for Acquisition and Sustainment
OUSD(P&R)	Office of the Under Secretary of Defense for Personnel and Readiness
PAL	Privatized Army Lodging

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June 8, 2021

Congressional Committees

In 2009, the Army began to privatize its on-base hotels—referred to in the military as lodging—with the goal of addressing the poor condition of the facilities more quickly than under continued Army operation. Specifically, the Army transferred responsibility for the management and maintenance of its lodging facilities to a private developer. Since 2009, the Army has completed the privatization of its domestic lodging—including 13,048 rooms at 75 hotels across 40 Army installations¹—through its Privatized Army Lodging (PAL) program, which serves official travelers on temporary duty or permanent change of station travel orders.² Currently, the Army is the only military service that has privatized its lodging.³ Although the Navy, the Marine Corps, and the Air Force currently have no plans to privatize their respective lodging programs, some members of Congress have recently proposed in a letter to the Department of Defense (DOD) that they consider doing so.

We have previously reported on the privatization of DOD lodging. In December 2006, we recommended that DOD clarify the roles for establishing policy and overseeing lodging programs and update its

¹Domestic lodging includes facilities throughout the continental United States, Alaska, Hawaii, and Puerto Rico. The Judge Advocate General's Legal Center and School in Charlottesville, Virginia, is the only Army domestic lodging facility that has not been privatized, and, according to officials, the Army has no plans to privatize that location. Overseas lodging facilities are not addressed in this report because they are not part of the PAL program.

²Temporary duty travelers are primarily military and civilian personnel temporarily traveling on official business, and permanent change of station travelers are primarily military personnel and their families who are moving to new duty locations.

³The Army is the only military service to privatize lodging under the Military Housing Privatization Initiative authorities. The Military Housing Privatization Initiative authorities do not allow for the privatization of lodging outside of the United States or its territories. According to DOD officials, there are a number of DOD lodging facilities that have been privatized to a certain extent using the authorities in Department of Defense Instruction 1015.13, *DoD Procedures for Implementing Public-Private Ventures (PPVs) for Morale, Welfare and Recreation (MWR), and Armed Services Exchange Category C Revenue-Generating Activities* (Mar. 11, 2004). For Military Housing Privatization Initiative authorities, see National Defense Authorization Act for Fiscal Year 1996, Pub. L. No. 104-106, § 2801 (1996) (*codified as amended* at 10 U.S.C. §§ 2871-2894a). Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, §2803(b) (2002) (*codified as amended* at 10 U.S.C. § 2871(11)).

lodging program strategic plan to include performance standards and measures.⁴ DOD concurred with our recommendations and subsequently issued a memorandum that clarified roles and included an updated plan. In July 2010, we found that an Army report to Congress described the implementation of the PAL program at the first group of installations that were privatized, but did not describe how the Army planned to incorporate lessons learned into future privatization efforts.⁵ We recommended, among other things, that the Army clarify how it will incorporate lessons learned into its privatization efforts. The Army concurred with and addressed our recommendation by collecting information on lessons learned from the private developer and incorporating them into key documents related to the transfer of lodging facilities.

The Senate Armed Services Committee report accompanying a bill for the National Defense Authorization Act for Fiscal Year 2020 included a provision for us to review improvements made to Army lodging, among other things.⁶ This report examines the extent to which (1) the Army made improvements to its lodging facilities since privatizing and the Office of the Secretary of Defense (OSD) reported complete information about the Army's development plans to Congress; (2) the Army has reliably determined any cost savings or cost avoidance as a result of its privatized lodging program; and (3) there are limitations in OSD's oversight of the military services' lodging programs.

For our first objective, we reviewed data from fiscal years 2009 through 2019 on the Army's development plans, branding of the lodging facilities, and timeframes for improvements. We chose these years because the Army privatized the first group of 10 installations in fiscal year 2009, and fiscal year 2019 was the most recent full year of data available at the time of our review. We determined that the data were sufficiently reliable for the purposes of reporting the number of Army lodging facilities upgraded since privatization to the brand standards of InterContinental Hotels Group, the hotelier responsible for PAL's day-to-day operations. We also compared initial plans from when the Army began to privatize its lodging

⁴GAO, *Defense Infrastructure: Continuing Challenges in Managing DOD Lodging Programs as Army Moves to Privatize Its Program*, [GAO-07-164](#) (Washington, D.C.: Dec. 15, 2006).

⁵GAO, *Defense Infrastructure: Army's Privatized Lodging Program Could Benefit from More Effective Planning*, [GAO-10-771](#) (Washington, D.C.: July 30, 2010).

⁶S. Rep. No. 116-48 (2019).

in 2009 to the most recent updates included in the development plan provided to us. In addition, we obtained photos that show lodging conditions before and after privatization and met with Army officials to discuss these improvements. We also analyzed congressionally mandated annual reports on DOD's privatized military housing and lodging projects to determine what information OSD included related to the Army's lodging development plans and timeframes.⁷ We determined that the information and communication component of internal control was significant to this objective.⁸ Specifically, we identified as significant to this objective the underlying principles that management use quality information to support the internal control system and should externally communicate the necessary quality information to achieve the entity's objectives. We assessed the extent to which the previously mentioned reports to Congress adhere to these principles and communicate necessary quality information.

For our second objective, we analyzed data and documentation from the Army related to the financial benefits associated with its privatized lodging program. Army officials stated that they do not have the data needed to calculate cost savings and instead calculate cost avoidance.⁹ The Army provided us a spreadsheet of data it uses to calculate cost avoidance. We reviewed this spreadsheet, but because it did not identify the sources of the data or describe how the estimate was calculated, we requested additional information. The Army provided follow-up documentation with additional data and information, which we then used to conduct our work. We analyzed Army cost avoidance data from fiscal years 2009 through 2019 and determined through analysis and interviews with Army officials that the data were sufficiently reliable to report the Army's cost avoidance estimates as calculated. Specifically, we reviewed the underlying data to check the validity of the Army's cost avoidance calculations, and we interviewed Army officials to ensure that we understood how they were

⁷Department of Defense, Office of the Assistant Secretary of Defense for Sustainment, *Military Housing Privatization Initiative Program Evaluation Report for the Reporting Period: October 1, 2016–September 30, 2017* (May 2019), and *Military Housing Privatization Initiative Program Evaluation Report for Reporting Periods: October 1, 2014–September 30, 2015, and October 1, 2015–September 30, 2016* (Aug. 13, 2018).

⁸GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

⁹DOD defines cost avoidance as the reduced need to incur funding increases in the future (above current funding levels) that would otherwise occur if management practices were not changed.

making their calculations. We also assessed the Army's method for calculating cost avoidance against best practices for economic analysis to determine the extent to which the Army used the appropriate methods to calculate its cost avoidance estimate.¹⁰ As part of this work, we met with officials from the Defense Travel Management Office to understand how they calculate cost avoidance estimates, and we interviewed Army officials to determine whether they have considered any other methods for calculating cost avoidance.

For our third objective, we reviewed the extent to which there are limitations in OSD's oversight of the military services' lodging programs. We also analyzed data that OSD uses to perform its oversight responsibilities, such as daily room rates and occupancy rates. We compared data from all of the military services for fiscal years 2017 through 2019 to determine the extent to which they and OSD are able to use the data for comparisons among the lodging programs. We selected this timeframe because it was the 3 most recent years of complete and available information at the time of our review. The differences in how the military services define these data and their methods for collecting them prevented us from independently verifying their reliability, with the exception of the Army's cost avoidance data, as described above. Therefore, we do not present the other military services' data in our report. We also reviewed DOD guidance on oversight, including DOD lodging policies and the Army's Portfolio and Asset Management Handbook and major decisions memorandum.¹¹ We interviewed relevant OSD officials regarding oversight of the lodging programs, including officials in the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD(A&S)) and the Office of the Under Secretary of Defense for Personnel and Readiness (OUSD(P&R)).

¹⁰GAO, *Assessment Methodology for Economic Analysis*, [GAO-18-151SP](#) (Washington, D.C.: Apr. 10, 2018).

¹¹Department of Defense Instruction 1015.15, *Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources* (Oct. 31, 2007)(Incorporating Change 1, Mar. 20, 2008); Department of Defense Instruction 1015.11, *Lodging Policy* (Oct. 6, 2006)(Incorporating Change 1, Nov. 15, 2011); and Department of Defense Instruction 1015.12, *Lodging Program Resource Management* (Oct. 30, 1996); Department of the Army, *Portfolio and Asset Management Handbook* (Version 5.0, September 2014), and Assistant Secretary of the Army (Installations, Energy and Environment) Memorandum, *Privatization of Army Lodging (PAL) Major Decisions Authority – Policy Memorandum #2* (May 7, 2012).

We determined that the control environment and information and communication components of internal control were significant to this objective.¹² Specifically, we identified as being significant to this objective the underlying principles that the oversight body should oversee the entity's internal control system and management should use quality information to achieve the entity's objectives, and that management should analyze and discuss information relating to the entity's achievement of objectives and should obtain relevant data from reliable sources. We assessed the previously mentioned information we received from OSD and the military services against these principles to determine the extent to which DOD has the quality information and relevant data needed to conduct oversight of its lodging programs.

We also met with the Defense Travel Management Office to discuss the different requirements surrounding official travel and multiple OSD and military service officials to discuss oversight of DOD official travelers' use of off-base lodging. Further, we obtained information from the Office of the Under Secretary of Defense (Comptroller) on the ability of DOD travel systems to track whether lodging stays are in accordance with DOD travel policy, including the Joint Travel Regulations.¹³ We also reviewed Office of Management and Budget guidance that states agencies are to identify and address the root causes of improper payments.¹⁴ Further details on our scope and methodology can be found in appendix I.

We conducted this performance audit from January 2020 to June 2021 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.

¹²[GAO-14-704G](#).

¹³DOD, *The Joint Travel Regulations (JTR)* (May 1, 2021) and Under Secretary of Defense for Personnel and Readiness Memorandum, *Maximum Use of DOD Lodging Facilities on DOD Installations* (Apr. 27, 2018).

¹⁴Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix C, Requirements for Payment Integrity Improvement (June 26, 2018).

Background

Privatized Army Lodging (PAL) Program Overview

The PAL program operates as a single project under the terms of a 50-year lease with the private real estate developer Lendlease. Leveraging the authorities under the Military Housing Privatization Initiative, this arrangement allows the Army to retain ownership of the land but conveys temporary ownership of the buildings to Lendlease.¹⁵ At the end of the lease term, the buildings, along with any improvements, return to the Army. Lendlease constructs new hotels to meet the standards of InterContinental Hotels Group's extended stay hotel brands—Candlewood Suites and Staybridge Suites—and renovates some existing facilities to meet the standards of the Holiday Inn Express brand (see InterContinental Hotels Group's brands in figure 1). Specifically, InterContinental Hotels Group establishes standards for features, such as room sizes and amenities, associated with each brand of the hotel chain. According to the Army, the use of nationally recognized brand standards helps to ensure its facilities adhere to hospitality industry best practices and standardized levels of guest service, while also ensuring that facilities are appropriately maintained.

¹⁵In 1996, Congress enacted the Military Housing Privatization Initiative authority, which allowed DOD to privatize its family housing, and, in 2002, that authority was expanded to specifically include lodging facilities. This act provided DOD with a variety of authorities to obtain private sector financing and management to operate, repair, and construct lodging facilities. For Military Housing Privatization Initiative authorities, see National Defense Authorization Act for Fiscal Year 1996, Pub. L. No. 104-106, § 2801 (1996) (*codified as amended* at 10 U.S.C. §§ 2871-2894a). Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, §2803(b) (2002) (*codified as amended* at 10 U.S.C. § 2871(11)).

Figure 1: InterContinental Hotels Group’s Hotel Brands in the Privatized Army Lodging (PAL) Program



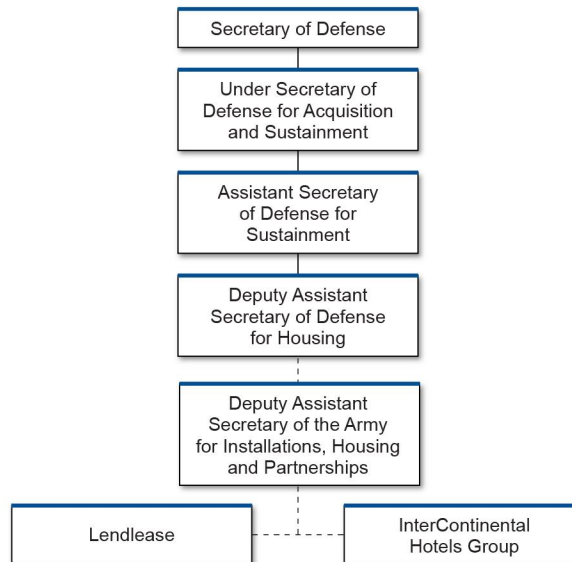
Source: InterContinental Hotels Group. | GAO-21-214

PAL Program Roles and Responsibilities

The Assistant Secretary of Defense for Sustainment—under the authority, direction, and control of OUSD(A&S)—serves as DOD’s Chief Housing Officer and conducts oversight of all aspects of the Military Housing Privatization Initiative, including privatized lodging, among other responsibilities. The Deputy Assistant Secretary of Defense for Housing—under the authority of the Assistant Secretary of Defense for Sustainment—is responsible for oversight and programmatic policy guidance for the Military Housing Privatization Initiative program and the PAL program. The Office of the Deputy Assistant Secretary of the Army for Installations, Housing and Partnerships is responsible for any major decision approvals related to the PAL program, including construction changes of \$500,000 or more.¹⁶ As the private developer, Lendlease builds new facilities, renovates existing facilities, and maintains those facilities. The hotelier InterContinental Hotels Group is responsible for the day-to-day operations of PAL facilities and for ensuring that they meet brand standards. Figure 2 shows the PAL program’s current organizational chart.

¹⁶Assistant Secretary of the Army (Installations, Energy and Environment) Memorandum, *Privatization of Army Lodging (PAL) Major Decisions Authority – Policy Memorandum #2* (May 7, 2012).

Figure 2: Privatized Army Lodging (PAL) Program’s Organizational Chart



Source: GAO analysis of Department of Defense information. | GAO-21-214

PAL Program Funding

The PAL program primarily serves official travelers on temporary duty or permanent change of station travel orders, who pay for their lodging with their per diem allowance.¹⁷ The PAL program’s primary source of revenue is room rates it charges travelers to stay in the hotels. The PAL program’s lease agreement limits room rates to a weighted average across the entire program of 75 percent of the local lodging per diem rate.¹⁸ Given that this is a weighted average of all room rates charged by PAL facilities, room rates at individual PAL facilities may be significantly greater than or less than 75 percent of lodging per diem for that locality, but they cannot exceed the full amount of lodging per diem allowed. In fiscal year 2019,

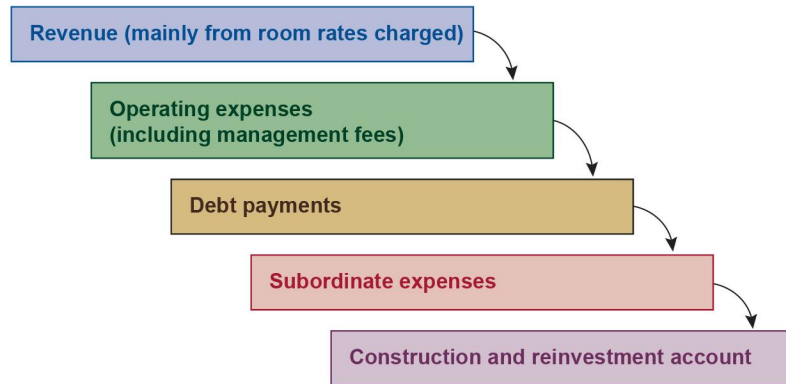
¹⁷Temporary duty travelers are primarily military and civilian personnel temporarily traveling on official business, and permanent change of station travelers are primarily military personnel and their families who are moving to new duty locations. Official travelers pay for their room at the lodging facility and are reimbursed after they submit a voucher. This reimbursement comes primarily from the Military Personnel account for military travelers and from the Operation and Maintenance account for civilian travelers.

¹⁸The General Services Administration sets per diem rates, including specific ones for lodging, for locations within the lower 48 continental United States. The State Department establishes foreign rates. The Department of Defense sets rates for non-foreign locations outside of the continental United States, to include Alaska, Hawaii, and the U.S. territories.

for example, the room rates as a percentage of lodging per diem at PAL lodging facilities ranged from 50 percent of the allowable full lodging per diem rate for Camp Parks, California, to 96.5 percent at Fort Wainwright, Alaska. For the average room rates and lodging per diem at each installation for fiscal year 2019, see appendix II.

Out of its revenue, the PAL program pays its expenses in the order shown in figure 3. PAL’s revenue first covers operating expenses, which include lodging operations as well as Lendlease and InterContinental Hotels Group’s management fees. About half of the revenue generated by the PAL program is used to pay for its operating expenses, including management fees. After all expenses are paid, including debt payments and subordinate expenses, the remaining revenue goes to the construction and reinvestment account, which, according to Army officials, funds the renovation and new construction of lodging facilities.¹⁹

Figure 3: Privatized Army Lodging Program’s Funding Allocation



Source: GAO analysis of Department of Army information. | GAO-21-214

Text of Figure 3: Privatized Army Lodging Program’s Funding Allocation

1. Revenue (mainly from room rates charged)
2. Operating expenses (including management fees)
3. Debt payments
4. Subordinate expenses
5. Construction and reinvestment account

¹⁹Subordinate expenses are operating expenses paid after debt payments. For example, according to Army officials, subordinate expenses are deposits to the Incentive Fee account for the hotelier and the asset manager.

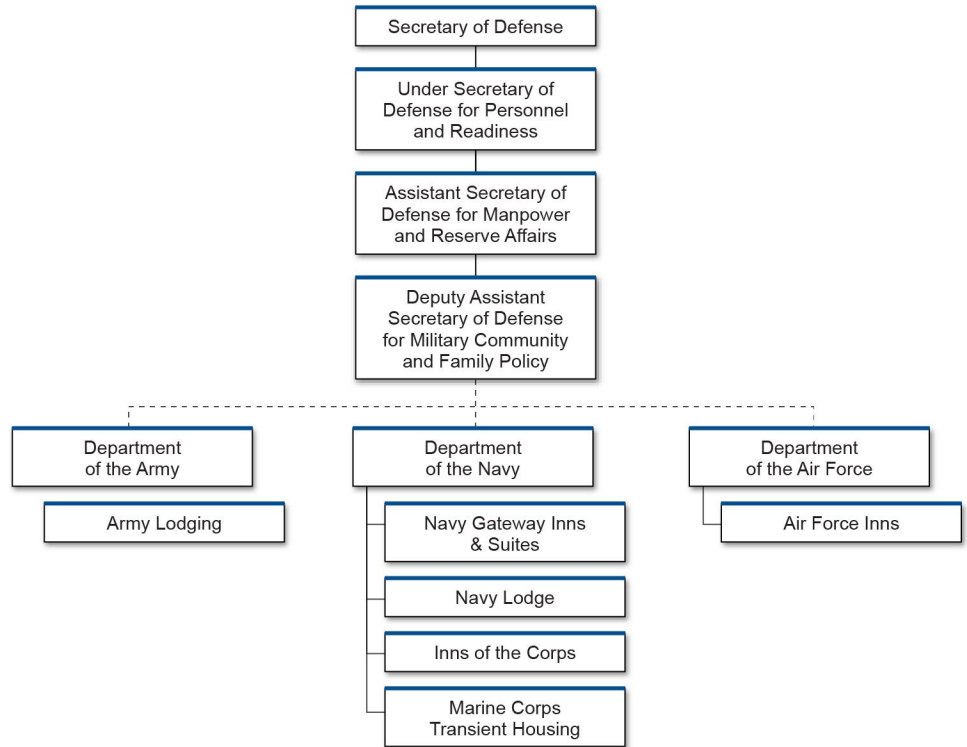
DOD Non-Privatized Lodging Roles and Responsibilities

The Office of the Deputy Assistant Secretary of Defense for Military Community and Family Policy, through the Office of the Assistant Secretary of Defense for Manpower and Reserve Affairs and under the authority of OUSD(P&R), provides policy and administrative oversight of the Army's, the Navy's, the Marine Corps', and the Air Force's non-privatized lodging programs.²⁰ Each of these military services is responsible for its lodging operations and takes its own approach to managing its lodging program. For example, the Navy and the Marine Corps each have separate organizations to manage temporary duty and permanent change of station lodging. Specifically, Navy Gateway Inns and Suites and Marine Corps Transient Housing primarily serve temporary duty travelers, while the Navy Lodge and Inns of the Corps primarily serve permanent change of station travelers. The Air Force manages its lodging under a single organization known as Air Force Inns. Figure 4 shows the current organizational chart for DOD's non-privatized lodging programs.²¹

²⁰DOD's non-privatized lodging programs include the Army's overseas lodging program, Army Lodging, and five non-privatized lodging programs in the Navy, Marine Corps, and Air Force: Navy Gateway Inns and Suites, Navy Lodge, Marine Corps Transient Housing, Inns of the Corps, and Air Force Inns. The Department of the Navy issued a memorandum in July 2020 directing the Navy and Marine Corps to consolidate their temporary duty and permanent change of station lodging programs by October 1, 2021. See, Secretary of the Navy Memorandum, *Department of the Navy Lodging Program* (July 14, 2020).

²¹When we refer to non-privatized lodging, we are referring to DOD's lodging programs that are depicted in figure 4 and overseen by OUSD(P&R). DOD refers to this lodging as "direct-run" lodging.

Figure 4: Department of Defense (DOD) Non-Privatized Lodging Programs' Organizational Chart



Source: GAO analysis of Department of Defense information. | GAO-21-214

Note: The figure above represents DOD's non-privatized lodging programs including the Army's overseas lodging program, Army Lodging, which remains non-privatized. Overseas lodging facilities are not otherwise addressed in this report. In addition, the Department of the Navy issued a memorandum in July 2020 directing the Navy and Marine Corps to consolidate their temporary duty and permanent change of station lodging programs by October 1, 2021.

DOD Non-Privatized Lodging Funding and Consideration of Privatization

In 2017, pursuant to statute, the Secretary of Defense directed the Deputy Chief Management Officer to establish cross-functional teams to pursue efficiencies and cost savings, including in the military services'

lodging programs.²² As a result, DOD formed a lodging cross-functional team, consisting of subject-matter experts from the Deputy Chief Management Officer's office, OUSD(A&S), OUSD(P&R), the Defense Travel Management Office, and the military services.²³ As part of the effort, in November 2018, OUSD(P&R) issued a directive-type memorandum requiring all non-privatized lodging programs to transition to being fully funded through nonappropriated funds by October 1, 2019.²⁴ Historically, the military services' non-privatized lodging programs have been funded through different combinations of appropriated funds and nonappropriated funds.²⁵ The memorandum required the lodging programs to establish room rates at the minimum amount necessary to

²²Section 911 of the National Defense Authorization Act for Fiscal Year 2017 required the Secretary of Defense to, among other things, use cross-functional teams to manage certain critical objectives and outputs of the department. Prior to February 2018, the Deputy Chief Management Officer led the department's efforts to implement section 911 requirements. The Chief Management Officer assumed these responsibilities effective February 1, 2018, in accordance with section 910 of the National Defense Authorization Act for Fiscal Year 2018, which disestablished the position of the Deputy Chief Management Officer as a presidentially appointed, Senate-confirmed position and established the Chief Management Officer position. As of January 2021, the Chief Management Officer position was eliminated in the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021.

²³Cross-functional teams rely on individuals with different types of expertise to work toward a common, well-defined goal, and are thought to deliver better and faster solutions to complex and fast-moving problems. We have previously reported on cross-functional teams. See, for example, GAO, *Defense Management: More Progress Needed for DOD to Meet Outstanding Statutory Requirements to Improve Collaboration*, [GAO-20-312](#) (Washington, D.C.: Jan. 30, 2020). In [GAO-20-312](#), we found that DOD has taken actions such as finalizing its organizational strategy and guidance related to these teams, but had not addressed mandated requirements for training and analysis. These requirements are intended to support cross-functional teams and to promote department-wide collaboration.

²⁴Office of the Under Secretary of Defense for Personnel and Readiness Memorandum, *Directive-type Memorandum 18-007 – Conversion of DoD Temporary Duty and Permanent Change of Station Lodging to Fully Nonappropriated Fund Operations, Maintenance, and Construction* (Nov. 21, 2018).

²⁵Appropriated funds are those monies that Congress provides to DOD through the annual appropriations process. For the lodging programs, these funds have typically been used for operations and maintenance expenses, such as utilities, and some kinds of minor construction. Nonappropriated funds are cash and other assets received from sources other than monies appropriated by Congress. Nonappropriated funds are generated at the lodging facilities as revenues through room sales the traveler pays for the room charge. Since the travelers at the lodging are generally on official travel, most of the nonappropriated funds originate from appropriated funds, given that reimbursement for official authorized travel expenses are funded from either the Military Personnel or Operation and Maintenance budget appropriations.

cover the full costs of operating their lodging facilities.²⁶ Further, in 2019, OUSD(A&S) and OUSD(P&R) each completed assessments of the lodging programs and produced two reports that covered topics including appropriated fund support, lodging facility conditions, and occupancy rates.²⁷ According to the report from OUSD(P&R), each service received different levels of appropriated funds to support their respective lodging programs. In addition, the report stated that with the transition to funding entirely with nonappropriated funds, the adjusted room rates would generate enough cash flow for the military services' non-privatized lodging facilities to meet and maintain lodging adequacy standards and ensure the long-term viability of the lodging programs.

As of June 2021, the Navy, the Marine Corps, and the Air Force have transitioned to nonappropriated funds as their sole source of funding. In addition, OUSD(P&R) is currently assessing how the transition to nonappropriated funds has affected the lodging programs. However, the Coronavirus Disease 2019 (COVID-19) pandemic has significantly reduced the number of travelers staying at these lodging facilities, thus preventing OSD from assessing how the programs—using the new funding structure—would perform under normal operating conditions.

An official from OUSD(P&R) told us they are focused on implementing the 2018 memorandum and, as of January 2021, the Navy, the Marine Corps, and the Air Force are not actively pursuing privatization of their lodging programs. The Department of the Navy began privatization efforts with a February 2019 memorandum directing the Navy and the Marine Corps to begin privatizing their lodging facilities.²⁸ However, the Secretary of the Navy rescinded this directive in a July 2020 memorandum, which stated that, after a review of privatization, the Navy found that it was unlikely to result in substantial appropriated fund savings.²⁹ Although they are not

²⁶According to the memorandum, temporary duty and permanent change of station lodging operation support requirements (e.g., utilities, lawn maintenance, police protective services, as applicable), facility operations, sustainment, repair, recapitalization, and construction costs formerly paid with appropriated funds will now be paid with nonappropriated funds generated from lodging operations.

²⁷Office of the Under Secretary of Defense for Acquisition and Sustainment, *A Review of On-Base Lodging Appropriated Fund and Recapitalization Costs* (March 2019) and Office of the Under Secretary of Defense for Personnel and Readiness, *Department of Defense Direct-Run Lodging Facility, Occupancy, and Right-Sizing Analysis* (August 2019).

²⁸Secretary of the Navy Memorandum, *Lodging Privatization Initiative* (Feb. 6, 2019).

²⁹Secretary of the Navy Memorandum, *Department of the Navy Lodging Program* (July 14, 2020).

actively working to privatize their lodging program, Air Force officials told us they are interested in considering all options for reforming their lodging, including privatization, third-party management, and franchising.

The Army Has Improved All Domestic Lodging Facilities since Privatization, but OSD Could Provide Additional Information to Congress

Since privatizing its lodging, the Army, through its PAL program, has made a variety of improvements to all of its domestic lodging facilities, ranging from the replacement of furniture to the construction of new hotels. These improvements to PAL facilities have taken longer than initially anticipated, and the Army has changed its development plans. However, OSD has not included key information about such delays and changes in its reports to Congress, which would be helpful to decision makers.

The Army Has Made Improvements to All Domestic Lodging Facilities since Privatization

The Army determined in 2003 that over 80 percent of its lodging facilities were in need of either replacement or renovation at a cost estimate of over one billion dollars.³⁰ In addition, the vast majority of the facilities did not meet Army adequacy standards. According to the Army, its lodging facilities, which included an eclectic assortment of buildings originally designated as barracks, family housing units, and office space, lacked many of the standard features and amenities found in commercial hotels. For example, many of the lodging facilities had cinder-block walls, exterior corridors, linoleum floors, and lacked standardized in-room temperature control units, while others had deficiencies in the life-safety systems, such as fire alarms and sprinkler systems.

According to the Army, the poor condition of lodging facilities was further complicated by the fact that it had set room rates at artificially low levels. Specifically, the Army reported that while the lower prices helped minimize travel expenses over the short term, it hindered the Army's

³⁰The Army originally estimated in 2002 that it would cost \$675 million to replace and renovate its lodging facilities. This estimate was updated by the Army in 2003 to \$1.1 billion and in 2008 to more than \$1.8 billion.

ability to fund much needed improvements to its lodging facilities over the long term. In 2004, the Army decided to privatize its lodging in order to modernize its facilities, develop a long-term sustainment plan, account for the true cost of lodging, and exit a non-core function, among other goals; and, in August 2009, the Army began transitioning to private operations.

Since that time, the Army, through the PAL program, has made a variety of improvements to lodging facilities at 40 installations throughout the United States.³¹ Specifically, Army officials told us that all existing domestic lodging facilities have received some work, ranging from small improvements (e.g., replacing furniture or appliances) to completely renovated buildings, while other locations have received newly constructed facilities. Further, Army officials stated that privatization has enabled them to eliminate the worst of the Army's lodging facilities, and the facilities that were in better condition will continue to be maintained until they need to be replaced. See figure 5 for examples of the improvements made to Army lodging facilities (for further examples, see appendix III).³²

³¹Improvements to facilities are completed by Lendlease, the PAL program's private real estate developer. We refer to the Army as the one completing improvements because the Army has oversight of Lendlease's development plan.

³²We obtained all photos directly from the Army, as the COVID-19 pandemic prevented us from doing our own independent, in-person assessment of facilities.

Figure 5: Examples of Improvements to the Army's Domestic Lodging Facilities since Privatizing Its Lodging Program



The first photo shows the lobby at the Army lodging facility at Fort Polk, LA, before privatization. The second photo shows the lobby after privatization at the new Holiday Inn Express hotel, which replaced the lodging facility at Fort Polk in 2010 after it was renovated.



The first photo shows a hotel room at the Army lodging facility at Yuma Proving Ground, AZ, before privatization. The second photo shows a typical room after privatization at the new Candlewood Suites hotel built in 2013 at Yuma Proving Ground.



The lodging facility (first photo) at Fort Meade, MD, was replaced with a Candlewood Suites (second photo) in 2015 as part of the Army's privatization efforts.

Source: (From left to right, first set) © 2004 JLL and © 2017 IHG; (second set) © 2005 JLL and © 2013 IHG; (third set) © 2005 JLL and © 2017 IHG. | GAO-21-214

The Army has several indicators it uses to illustrate the extent of the improvements made to its lodging facilities since privatizing, including branding, age of the facilities, and guest satisfaction scores.

Lodging facility branding. Once a facility meets the hotel brand's standards, as determined by InterContinental Hotels Group, it is considered "branded." As of March 2020, 64 percent of the Army's lodging facilities were branded as Holiday Inn Express, Staybridge Suites, or Candlewood Suites hotels. The majority of renovated lodging facilities were branded as Holiday Inn Express hotels, while newly constructed lodging facilities were branded as either Staybridge Suites or Candlewood Suites hotels. The remaining 36 percent of the Army's lodging facilities are classified as either Historia or InterContinental Hotels Group Army Hotels and are not considered to be branded, according to Army officials. Army officials stated that they have renovated these unbranded facilities, but they are unable, for various reasons, to provide the amenities and services needed to meet the InterContinental Hotels Group brand standards. For example, some facilities remain unbranded because they do not have an acceptable architectural stature that would enable them to be upgraded to brand standards, while other buildings are considered historic and have restrictions that limit the extent to which they can be renovated.³³

Age of Army lodging facilities. According to the Army, the decreasing age of its lodging facilities is another indicator of improvements made through the PAL program. Specifically, the average age of a room at an Army lodging facility prior to privatization was 42 years old, with a weighted average year of construction of 1967. Based on the new construction completed as of March 2020, the average age of a PAL room decreased to 29 years old, with a weighted average year of construction of 1990.

Guest satisfaction. According to the Army, guest satisfaction scores provide important information on the condition of individual Army lodging facilities and help program managers pinpoint when and where improvements are needed.³⁴ These scores are based on guests' responses to a survey they receive via email following a stay at an Army lodging facility.³⁵ Specifically, the survey includes four categories of

³³We have previously reported on DOD's historic properties. See, GAO, *Defense Infrastructure: Additional Actions Could Enhance DOD's Efforts to Identify, Evaluate, and Preserve Historic Properties*, [GAO-19-335](#) (Washington, D.C.: June 19, 2019).

³⁴Assistant Secretary of the Army (Installations, Energy & Environment), *PAL Lodging Guest Satisfaction Report 2Q FY20* (March 2020).

³⁵The same third party that conducts surveys for all of InterContinental Hotels Group's hotels administers the guest satisfaction surveys for PAL.

questions that are designed to gauge overall guest satisfaction as well as their experience with particular aspects of their stay, such as the physical condition of the lodging facility, the services received, staff responsiveness, and internet connectivity. According to an Army fiscal year 2020 guest satisfaction report, guest satisfaction scores have increased from fiscal year 2010 through fiscal year 2019. Further, the Army acknowledges in the report that some facilities still need improvement, which it notes will require it to strike a balance between providing adequate facilities in the short term and setting aside enough funds to fully renovate or replace facilities over the long term. In addition to guest satisfaction scores, Army officials also told us that they monitor travel review sites, such as Google Reviews, for guest comments that may provide the Army with insight into the condition of its facilities and how well they are operating.

OSD Could Provide Additional Information to Congress on the Status of the Army's Privatized Lodging Program

The Army's efforts to privatize its lodging have taken longer than initially anticipated, and the Army has revised its plans for improvements over time. However, OSD has not included key information about such delays and changes in its reports to Congress, which would be helpful to decision makers.

The Army was required to submit two reports to Congress on the status of its lodging privatization efforts in 2008 and 2010. The Army submitted the first of the two reports in February 2008, in which it summarized the merits and impacts of the Secretary of the Army's decision to privatize the Army's lodging program.³⁶ The Army subsequently submitted a report to Congress in March 2010, which described the implementation of the PAL program.³⁷

Since June 2010, OSD has included information on the Army's PAL program in its annual Military Housing Privatization Initiative program reports to Congress (hereafter referred to as OSD's reports to Congress), formerly called *Program Evaluation Plans* or *Program Evaluation*

³⁶U.S. Army, *Report to Congress Regarding Management of Army Lodging* (Feb. 25, 2008).

³⁷Assistant Secretary of the Army (Installations and Environment), *PAL Group A Report to Congress* (Mar. 12, 2010).

*Reports.*³⁸ OSD's reports to Congress have been the Army's primary method of communicating with Congress about the progress of its PAL program.³⁹ OSD compiles its reports to Congress based on data from the military services. The reports include information on the PAL program, such as lodging occupancy rates, cost avoidance estimates, and the results of guest satisfaction surveys.

We found that the information that OSD and the Army have included in all these reports has been largely piece-meal and does not sufficiently explain the significant changes the Army made to development timeframes and facility development plans since deciding to privatize. For example, in the February 2008 report to Congress, the Army stated that it would be able to revitalize its lodging in 5 years instead of the 20 years or more it estimated that it would take had it not privatized.⁴⁰ In its March 2010 report, the Army discussed a phased approach to development and stated that, through the PAL program, Lendlease would renovate or

³⁸Section 2884(c) of Title 10 of the United States Code requires the Secretary of Defense to report evaluations of the status of oversight and accountability measures for military projects that were privatized under the Military Housing Privatization Initiative authorities, including privatized lodging. We recommended that OSD take steps to resume issuing required reports to Congress in a timely manner. See GAO, *Military Housing Privatization: DOD Should Take Steps to Improve Monitoring, Reporting, and Risk Management*, [GAO-18-218](#) (Washington, D.C.: Mar. 13, 2018). DOD concurred, and an official said that collection, reconciliation, and coordination of the information in the report remains the biggest challenge to timely submittal, as well as other privatized housing-related work requirements. The official added that DOD was in the process of reviewing its schedule to determine when it will be able to submit the report covering fiscal year 2018, with the expectation that the submission would be made in December 2019 or no later than March 2020. In November 2020, OSD submitted the fiscal year 2018 report to Congress. When submitting the fiscal year 2018 report to Congress, OSD stated it would submit the report for fiscal year 2019 in September 2021. See, Department of Defense, Office of the Assistant Secretary of Defense for Sustainment, *Military Housing Privatization Initiative Program Report for the Reporting Period October 1, 2017–September 30, 2018* (September 2020).

³⁹According to Army officials, aside from OSD's annual reports to Congress, the development updates from PAL to Congress are "on-demand." In other words, if Congress asked for information, the PAL office would provide it.

⁴⁰U.S. Army, *Report to Congress Regarding Management of Army Lodging* (Feb. 25, 2008). This 2008 Army report to Congress makes two brief references to Group A without providing context as to how Group A relates to the Army's installations. It is unclear if the Army meant 5 years to complete renovations for just the first group of 10 installations (Group A) or for all domestic installations. Our analysis indicates that even if the 2008 report meant that improvements would have been completed 5 years from the transfer of the last group of installations (PAL Group C in 2013), under that rationale, improvements would have been completed in 2018. Group C was split in two parts and in 2015 was complete with the transfer of two new lodging facilities from the Army to Lendlease.

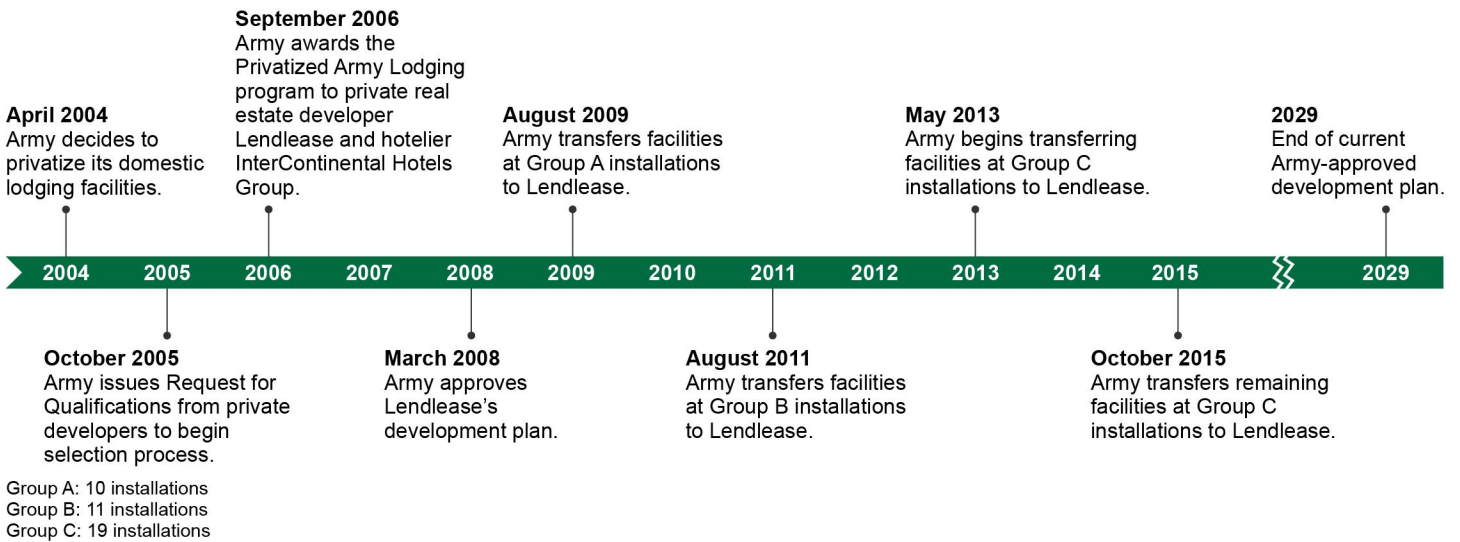
replace lodging facilities at 10 installations known as “Group A” and, based on the Secretary of the Army’s recommendation, would expand the program to 11 more installations known as “Group B.” Further, the Army noted in the March 2010 report that it planned to complete “Group A” lodging facility renovations and replacements within 8 years, which is 3 years more than the amount of time it stated in the 2008 report that it would take to complete the entire project.⁴¹

Since that time, the Army transferred to Lendlease an additional 19 installations as part of “Group C”—17 in 2013 and 2 in 2015—to complete the privatization of the Army’s domestic lodging, and completion timeframes have continued to expand since the initial estimate.⁴² Specifically, as of June 2017, according to Army officials, the overall development period for improvements to privatized lodging would extend through 2029. However, to date, OSD has not included this revised timeframe for the PAL program in its reports to Congress. Figure 6 summarizes key steps that have been completed or are underway as part of the Army’s efforts to privatize its lodging.

⁴¹Assistant Secretary of the Army (Installations and Environment), *PAL Group A Report to Congress* (Mar. 12, 2010).

⁴²The Army originally estimated that Group A improvements would be complete in 5 years and updated that estimate in 2010 to 8 years. However, by September 2017, the improvements for Group A were not complete, as seen in Table 1 (below). The majority of the Group C lodging facilities were transferred in 2013. If improvements for Group C were completed in 8 years, they would be complete in 2021. However, the Army estimates that improvements for all groups will be complete in 2029.

Figure 6: Timeline of Key Events in the Army's Lodging Privatization Efforts



Source: GAO analysis of Department of Defense information. | GAO-21-214

Text of Figure 6: Timeline of Key Events in the Army's Lodging Privatization Efforts
Timeline

Group a: 10 installations

Group b: 11 installations

Group c: 19 installations

- April 2004, Army decides to privatize its domestic lodging facilities.
- October 2005, Army issues Request for Qualifications from private developers to begin selection process.
- September 2006, Army awards the Privatized Army Lodging program to private real estate developer Lendlease and hotelier InterContinental Hotels Group.
- March 2008, Army approves Lendlease's development plan.
- August 2009, Army transfers facilities at Group A installations to Lendlease.
- August 2011, Army transfers facilities at Group B installations to Lendlease
- May 2013, Army begins transferring facilities at Group C installations to Lendlease.

-
- October 2015, Army transfers remaining facilities at Group C installations to Lendlease.
 - 2029, End of current Army-approved development plan.

Source: GAO analysis of Department of Defense information. | GAO-21-214

We also found that since privatizing its lodging, the Army has changed the mix of facilities in its development plans for Group A installations, opting for more renovated and fewer newly constructed facilities than originally planned. However, like the PAL program's revised timeframes, OSD has not clearly articulated these changes in its reports to Congress. For example, we compared data in the Army's 2010 report to Congress with data in OSD's report to Congress covering fiscal year 2017, and found that Lendlease has constructed fewer Candlewood Suites and Staybridge Suites in the 8 years since privatizing "Group A" facilities than it originally planned.⁴³ Specifically, in the March 2010 report to Congress, the Army noted that 2,058 new lodging rooms would be constructed as part of new Candlewood Suites and Staybridge Suites hotels at "Group A" installations for an end-state total of 4,173 rooms. In a follow-on report to Congress for fiscal year 2017, OSD cited a "Group A" installation end-state total of 3,538 new rooms, which is 635 fewer than what was stated in the March 2010 report. While OSD noted in the report covering fiscal year 2017 that the final number of rooms per installation may change due to shifts in unforeseen increases in construction costs, among other things, it did not include information or data from previous reports, which makes a comparison across time difficult. Table 1 further illustrates our analysis of the difference between the mix of Army lodging facilities for Group A installations included in the March 2010 report and what was included in OSD's report to Congress covering fiscal year 2017.⁴⁴

⁴³Department of Defense, Office of the Assistant Secretary of Defense for Sustainment, *Military Housing Privatization Initiative Program Evaluation Report for the Reporting Period: October 1, 2016–September 30, 2017* (May 2019). The most recent report at the time of our review was the Program Evaluation Report covering fiscal year 2017; therefore, we use this report for our analysis. However, OSD submitted the fiscal year 2018 report to Congress in November 2020. See, Department of Defense, Office of the Assistant Secretary of Defense for Sustainment, *Military Housing Privatization Initiative Program Report for the Reporting Period October 1, 2017–September 30, 2018* (September 2020).

⁴⁴The Army's unit of measurement for its data is lodging rooms. Therefore, when discussing data on the branding of the facilities, we use rooms as our measurement.

Table 1: Comparison of Information Provided to Congress on the Branding of Group A Privatized Army Lodging Facilities by Numbers of Rooms

Hotel brand	Plan for Group A rooms (as of March 2010)	Status (as of September 2017)^a
Candlewood Suites (newly constructed facilities)	1,917	595
Staybridge Suites (newly constructed facilities)	141	0
Holiday Inn Express (renovated facilities)	1,859	1,870
InterContinental Hotels Group Army Hotels (renovated facilities)	139	1,029
Historia Collection (renovated facilities)	117	44
Total	4,173	3,538

Source: GAO analysis of Army information. | GAO-21-214

Note: The 10 installations that made up Group A are Fort Rucker, AL; Yuma Proving Ground, AZ; Fort Shafter /Tripler Army Medical Center, HI; Fort Leavenworth, KS; Fort Riley, KS; Fort Polk, LA; Fort Sill, OK; Fort Hood, TX; Fort Sam Houston, TX; and Fort Myer, VA.

^aDepartment of Defense, Office of the Assistant Secretary of Defense for Sustainment, *Military Housing Privatization Initiative Program Evaluation Report for the Reporting Period: October 1, 2016–September 30, 2017* (May 2019). The most recent report at the time of our review was the Program Evaluation Report covering fiscal year 2017; therefore, we use this report for our analysis. However, the Office of the Secretary of Defense submitted the fiscal year 2018 report to Congress in November 2020. See, Department of Defense, Office of the Assistant Secretary of Defense for Sustainment, *Military Housing Privatization Initiative Program Report for the Reporting Period October 1, 2017–September 30, 2018* (September 2020).

According to Army officials, they pushed the development plan timeframe out to 2029 because they decided they wanted to build more new hotels, rather than renovate hotels, than they originally planned. In addition, the Army noted that its planned mix of new-to-renovated facilities was based on assumptions made early in the process of privatizing that could, and in some cases did, change after discerning the lodging needs of individual installations. Therefore, some development that was originally planned for Group A installations may have shifted to Group B and Group C installations. When we asked them why information, such as changes in the mix of facilities for Group A, was not included in their reports to Congress, OSD officials noted that they have expanded the reports over time to include more information. However, these OSD officials also acknowledged that, while they exceed the reporting requirements, they could add more information on the PAL program in their reports to Congress. Aside from OSD’s reports to Congress, Army officials noted that development updates from the PAL program to Congress are “on-demand” and that they would provide the information if it was requested.

Standards for Internal Control in the Federal Government states that management should communicate quality information externally through reporting lines so that external parties can help the entity achieve its objectives.⁴⁵ Information, among other things, should be complete and provided on a timely basis. In addition, management should obtain relevant data from reliable sources, which provide data that are reasonably free from error and faithfully represent what they purport to represent. Ongoing congressional interest in the status of the PAL program—as demonstrated by the reports it has required over the years—along with its inquiries about the potential privatization of the other military services’ lodging programs, further underscore the utility of OSD reporting on such information.

If OSD were to provide additional key information to Congress on the Army’s privatized lodging program, including the status of improvements to its facilities, timeframes for completing privatization, and changes to the development plan, Congress would have the information needed to determine if the PAL program has achieved its intended objectives. In addition, Congress would have reliable information with which to consider whether the other military services should privatize their respective lodging programs. Further, OSD and the Army could take advantage of an opportunity to share key lessons learned about the development process under privatization. Specifically, such information would help DOD to ensure that any future privatization projects would have a more realistic understanding about what can be accomplished and the time it will take to do so.

The Army Estimates Cost Avoidance Rather than Cost Savings, and Reported Estimates Are Likely Overstated

PAL Program Financial Benefits Are Calculated As Cost Avoidance, Not Cost Savings

The Army did not estimate cost savings from the PAL program because, according to officials, the Army does not have a full accounting of the pre-privatization lodging costs that it would need to make such a

⁴⁵[GAO-14-704G](#).

determination. Rather, the Army estimates cost avoidance for official travel lodging costs—that is, the cost that it would have expected to incur if it had not privatized its lodging facilities.⁴⁶

As we have previously reported, prior to privatization, Army officials found inconsistencies in the way cost data were collected across installations, and lodging officials stated that determining the amounts of some appropriated fund support can be difficult.⁴⁷ According to the Army, before privatizing, rooms were sold at rates that did not account for the full cost of each lodging facility's operations.⁴⁸ To make up the difference, Army lodging operations were regularly subsidized by funds appropriated by Congress. However, as we previously reported, these appropriated funds were distributed in various forms at the installation level, making it difficult to parse out how much of these funds went to lodging. For example, appropriated funds are used to pay for an installation's municipal services, such as fire and police protection, trash service, and sewage treatment. While these municipal services benefit the military base as a whole, as we previously reported, the way in which the bases are funded makes it difficult for the Army to calculate the proportional share of the cost that would be borne, for example, by an individual lodging facility. Given that the Army did not calculate pre-privatization lodging costs, Army officials stated they cannot compare pre-and post-privatization costs to determine whether cost savings have been achieved.

The Army instead produces an annual cost avoidance estimate to demonstrate some of the financial benefits resulting from privatization of its lodging program. Information on the Army's cost avoidance estimate is included in OSD's reports to Congress. Based on our analysis, from fiscal

⁴⁶According to DOD, cost avoidances are the reduced need to incur funding increases in the future (above current funding levels) that would otherwise occur if current management practices were not changed. Cost savings are reductions to a budget line or funded program because of a new policy, process, or activity, identified within the department, without adverse impact to DOD's ability to perform its mission. See, Office of the Chief Management Officer (OCMO) and Office of the Under Secretary of Defense (Comptroller), *Definition of Savings and Cost Avoidance for Reform Initiatives* (Apr. 14, 2020).

⁴⁷[GAO-07-164](#).

⁴⁸For example, in fiscal year 2008, the Army charged 52 percent of per diem at its lodging—23 percentage points lower than the current rates charged of 75 percent of per diem. According to officials, the lower room rates that the Army charged prior to privatization did not fully cover lodging costs, whereas the room rates that it now charges under privatization do.

years 2009 through 2019, the Army estimated it achieved approximately \$606 million in avoided lodging costs for official travel. Army officials stated that they determine cost avoidance by comparing the room rate charged for privatized Army lodging—which, as previously discussed, is limited to 75 percent of the average local lodging per diem rate across its installations—to the maximum amount of lodging per diem that could be charged for that location (100 percent). For example, in fiscal year 2019, the Army calculated the difference in revenue between the average daily rate charged across all PAL lodging facilities (\$80.10) and the average lodging per diem rate that could be charged (\$106.88), which it then used to calculate a cost avoidance estimate of approximately \$85 million.⁴⁹ Table 2 shows the Army’s cost avoidance estimates for fiscal years 2009 through 2019.

Table 2: Privatized Army Lodging Program’s Cost Avoidance Estimates for Fiscal Years 2009–2019

Fiscal year	Cost avoidance
2009	\$3,262,163
2010	\$19,219,337
2011	\$23,891,703
2012	\$48,499,953
2013	\$52,696,733
2014	\$60,796,257
2015	\$62,051,611
2016	\$81,047,784
2017	\$83,814,130
2018	\$85,320,652
2019	\$85,212,977
Total	\$605,813,300

Source: GAO analysis of Department of Army information. | GAO-21-214

Note: The data reflect the official travel lodging costs the Army estimates it has avoided by using privatized Army lodging. There may be minor differences between the cost avoidance estimates listed here and those reported in the Office of the Secretary of Defense’s annual reports to Congress.

⁴⁹The average daily rate is calculated by taking total revenue divided by the total number of room nights sold across all PAL lodging facilities. The average lodging per diem rate is the total revenue the PAL program would have received if it had charged the full lodging per diem divided by the number of room night stays. In other words, the average daily rate is based on what was actually charged, and the average per diem rate is based on the maximum allowable lodging per diem.

The Army's Annual Cost Avoidance Estimates for the PAL Program Are Likely Overstated

We analyzed the Army's cost avoidance calculation for official travel lodging costs and found that the Army likely overstated cost avoidance because of the baseline used. As previously discussed, the Army develops its annual cost avoidance estimate by calculating the 25 percent difference between the lodging per diem rate that it is permitted to charge and the maximum lodging per diem rate that the government allows for off-base lodging. However, this may not be the most appropriate comparison because off-base lodging facilities do not always charge 100 percent of lodging per diem. For example, the Defense Travel Management Office negotiates rates for off-base preferred commercial lodging at no more than 90 percent of full lodging per diem, which means that these off-base hotels in military installations' local communities do not charge full lodging per diem.⁵⁰ If the Army—which likewise benefits from these lower off-base rates—were to use 90 percent as its baseline for comparison, we calculated that the cost avoidance estimate would be approximately \$51 million in fiscal year 2019, as opposed to the \$85 million that the Army reported for that year.⁵¹

However, the Army did not compare results from the baseline it used in its cost avoidance calculations with other possible baselines. According to Army officials, the Army compares its room rates to 100 percent of lodging per diem because it is the calculation it has always used. These Army officials also stated that they have not considered using any other

⁵⁰DOD preferred commercial lodging consists of off-base hotels that meet specific quality; safety and security; and financial protection standards. DOD preferred commercial lodging is identified in locations where demands for room nights exceed the available lodging capacity at the military installation and/or there is a need to have adequate lodging available when DOD lodging at a military installation is not available. According to Defense Travel Management Office officials, there are 71 DOD preferred commercial lodging locations for 2021. Reservations for DOD preferred commercial lodging are made through the Defense Travel System or by contacting a travel management company directly. The DOD *Joint Travel Regulations* requires travelers on temporary duty travel to stay in on-base lodging (privatized or non-privatized); commercial preferred hotels; then all other hotels. See, DOD, *The Joint Travel Regulations (JTR)* (May 1, 2021).

⁵¹This cost avoidance estimate would be 40 percent lower than the amount reported by the Army. According to officials, of the 40 PAL locations, 21 were part of the preferred commercial program in fiscal year 2019. Therefore, if the Army were to use 90 percent as its baseline for those 21 locations, its cost avoidance estimate would become \$64 million.

methods or baselines because it is the same methodology and baseline used throughout DOD, including for non-privatized lodging programs.

GAO's *Assessment Methodology for Economic Analysis* states that an economic analysis should describe and justify the analytical choices, assumptions, and data used and how adjustments to each may affect the estimated economic effects.⁵² Further, an economic analysis should define an appropriate baseline and conduct a sensitivity analysis by examining the effects of an action by comparing alternatives, using one of them as the baseline.⁵³ GAO's *Assessment Methodology for Economic Analysis* states that a sensitivity analysis is regarded as an essential feature of a high-quality analysis.⁵⁴

Furthermore, we found that the Defense Travel Management Office uses a different baseline for calculating cost avoidance estimates for its off-base preferred commercial lodging. Specifically, it compares average daily rates charged at off-base preferred commercial lodging facilities to 95.6 percent of lodging per diem, rather than full lodging per diem because officials said they were only paying 95.6 percent on average before they negotiated discounted rates for off-base preferred commercial lodging. Further, if actual room rates off-base are negotiated at rates less than 100 percent of the lodging per diem allowed, using a lower per diem baseline would likely result in a more accurate estimate of costs that have been avoided. By not using different possible scenarios to calculate cost avoidance estimates, also known as conducting a sensitivity analysis, the Army did not quantify how its choice of a baseline affected its results.

Until the Army evaluates the methodology and baseline it uses to calculate its cost avoidance estimate, includes a comparison of alternative scenarios against a different baseline in its calculations, and shares the results of this with Congress, DOD and Congressional decision makers cannot be sure that the reported financial benefits of privatization have actually been achieved. Using a different baseline and comparing it with alternative scenarios would enable decision makers to better evaluate how changes in assumptions about the baseline may affect the results. In addition, a different baseline would enable decision

⁵²[GAO-18-151SP](#).

⁵³A sensitivity analysis quantifies how much of an analytic result hinges on the specific choices made by the authors. Comparing results from using different baselines is one type of sensitivity analysis.

⁵⁴[GAO-18-151SP](#).

makers to better evaluate the costs and benefits of privatizing other lodging programs.

OSD's Oversight of Its Lodging Programs Has Been Limited in Some Cases

We identified two issues that limit OSD's oversight of its lodging programs. First, OSD and the military services lack standardized data for the lodging programs that would be useful for conducting oversight of—and making informed decisions about—its lodging programs. Second, OSD lacks data regarding the inappropriate use of off-base lodging for official travel.

OSD and the Military Services Lack Standardized Data for Oversight of Lodging Programs

OSD collects a variety of data, which it uses to oversee the military services' privatized and non-privatized lodging programs. However, we determined that the calculations and definitions underlying these data can differ considerably, thus limiting their usefulness for conducting oversight and the extent to which the military services' programs can be compared. For example, OUSD(P&R) compiles an annual lodging adequacy standards report on the non-privatized lodging programs. For this report, the lodging facilities rate themselves on the various adequacy standards. As part of this effort, OUSD(P&R) developed a template for the military services to collect a variety of data on their respective lodging programs. OUSD(P&R) uses these data, which include information about things such as average daily rates, occupancy rates, and room nights sold to assess the extent to which the military services' lodging programs adhere to established adequacy standards.⁵⁵

However, our review of the military services' data submitted to OUSD(P&R) for these reports identified substantial differences in the way each military service calculates key metrics, thus limiting their comparability. Specifically, the military services' non-privatized lodging programs differ in whether they count each room booked or each bed that

⁵⁵If lodging facilities do not meet the adequacy standards, they are not available for booking as government lodging in the Defense Travel System.

is occupied within a room as a “room night sold” at a lodging facility.⁵⁶ In other words, according to military service officials, some lodging programs count one room with two beds as two “room nights sold” while others would count it as one. The “room nights sold” metric affects a number of other calculations, including occupancy rates and average daily rates, which are both used in OUSD(P&R)’s annual lodging adequacy standards report. In addition, one lodging program uses its own definition of a fiscal year. Specifically, it uses a different number of days for its fiscal year compared to the other programs. For example, according to officials from one military service, the lodging program’s 2017 fiscal year had 371 days and other years had 364 days, whereas the other lodging programs use a typical fiscal year with 365 days.⁵⁷ Given the differences in these underlying definitions and metrics, comparisons across the lodging programs’ performance metrics is difficult. By including all the non-privatized lodging programs in OUSD(P&R)’s annual lodging adequacy standards report and assessing them using the same variables—for room nights sold, occupancy rates, and average daily rates—it invites the reader to draw comparisons between the programs that may not be accurate.

OSD has similarly found that the services’ lodging data varied. Specifically, in its 2019 report, OUSD(P&R) stated that while the non-privatized lodging programs seek to meet the same lodging adequacy standards, differences exist across their performance metrics.⁵⁸ For example, the programs’ accounting methods differ and therefore it is difficult to determine operating expenses. In addition, in its 2019 review of the lodging programs, OUSD(A&S) found that the data it received from the military services were often incomplete and reflected inconsistent,

⁵⁶There are five non-privatized lodging programs in the Navy, Marine Corps, and Air Force: Navy Gateway Inns and Suites, Navy Lodge, Marine Corps Transient Housing, Inns of the Corps, and Air Force Inns. While the PAL program is not included in OUSD(P&R)’s annual lodging adequacy standards report, the Army has its own metrics for assessing the performance of its PAL program. According to Army officials, the Army counts rooms as one room sold regardless of how many beds or travelers are staying in the room.

⁵⁷The Army uses a typical fiscal year with 365 days for its PAL program.

⁵⁸Office of the Under Secretary of Defense for Personnel and Readiness, *Department of Defense Direct-Run Lodging Facility, Occupancy, and Right-Sizing Analysis* (August 2019).

varying methodologies with significant differences in the resulting estimates.⁵⁹

Standards for Internal Control in the Federal Government states that an oversight body should analyze and discuss information relating to the entity's achievement of objectives and that management should use quality information to achieve the entity's objectives.⁶⁰ Information, among other things, should be appropriate and complete. This involves processing data into information and then evaluating the processed information so that it is quality information. In addition, management should obtain relevant data from reliable sources, which provide data that are reasonably free from error and faithfully represent what they purport to represent.

OSD has not established guidance that includes methodologies or definitions, which are needed to help ensure that the military services are collecting and reporting data in a consistent manner. An OUSD(P&R) official acknowledged that the military services record lodging data differently and stated that they are working to address these differences. OUSD(P&R) officials stated that they are currently updating their lodging policy to incorporate standard definitions and calculations and they anticipate publication no later than October 2021.⁶¹ As OSD updates its guidance, it will be important to establish consistent methodologies and clearly articulated definitions for the military services to use when reporting lodging program data, so that decision makers in DOD and Congress will have the information they need to make meaningful comparisons and sound decisions about the lodging programs' future.

OSD Lacks Data regarding the Inappropriate Use of Off-Base Lodging for Official Travel

According to an OUSD(P&R) memorandum, many official travelers are staying in more expensive off-base lodging, despite the availability of on-base lodging and policies that prioritize its use. However, the extent to which official travelers are being improperly reimbursed for off-base stays

⁵⁹Office of the Under Secretary of Defense for Acquisition and Sustainment, *A Review of On-Base Lodging Appropriated Fund and Recapitalization Costs* (March 2019).

⁶⁰[GAO-14-704G](#).

⁶¹Department of Defense Instruction 1015.11, *Lodging Policy* (Oct. 6, 2006)(Incorporating Change 1, Nov. 15, 2011).

is currently unknown. While DOD servicemembers and civilian employees on official travel are required to use adequate on-base lodging, DOD policy allows authorizing officials to approve these travelers' use of off-base lodging in certain circumstances. For example, if a room at an on-base lodging facility is not available for the entire duration of a traveler's stay, the Defense Travel System (the system through which DOD travelers make travel arrangements, including lodging reservations) generates an electronic certificate of non-availability that permits the traveler to stay off base.⁶² However, if travelers choose to stay off base despite the availability of on-base lodging, they must select from a set of pre-approved "reason codes" to explain their choice. Valid reason codes include on-base lodging being too far from the work location or lower rates being available off base, among other things. Once completed, the travel authorization is routed through the Defense Travel System to the official responsible for authorizing the travel, who then must approve the code used in order for the traveler to be reimbursed the full amount of the off-base stay.⁶³ If travelers decline to stay in on-base lodging, and their reasons are not approved by the authorizing official, the Defense Travel System limits their reimbursement to what it would have cost to stay in on-base lodging.

The Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015 gave DOD the authority to establish a pilot program in which the department would require that both servicemembers and civilian employees stay at adequate privatized or non-privatized on-base lodging when available while on official travel to

⁶²DOD's Defense Travel System is the primary system used to process travel payments and accounts for most of the department's travel payments.

⁶³The authorizing officials can approve reimbursement of actual costs up to per diem if they determine the reason for staying off base when on-base lodging is available is valid. In addition to no availability on base, permissible reasons for staying off base are: on-base lodging is too far away from the work location, the available on-base lodging does not meet mission requirements, there is a lower rate available off base, the traveler is staying with family or friends, or personal choice. All travelers who decline a required lodging option have their lodging reimbursement limited regardless of reason code. Travelers can accept the limited lodging reimbursement and pay out of pocket the difference between what on-base lodging would have cost and the cost of the off-base lodging they booked. The authorizing official may choose to allow the actual expense if they determine that the reason is valid.

an installation.⁶⁴ This policy has since been incorporated into the Joint Travel Regulations and the pilot program was made permanent in the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021.⁶⁵ In April 2018, OUSD(P&R) also issued a memorandum that reiterated this requirement, stating that servicemembers are required to use available and adequate lodging facilities when ordered to a DOD installation that is part of the program.⁶⁶

OSD officials told us they believe that many travelers do not stay in on-base lodging in accordance with established policy and are at times inappropriately reimbursed for off-base stays, despite policy that requires travelers to use available on-base lodging facilities when traveling. Specifically, in the April 2018 memorandum, OUSD(P&R) noted that many official travelers are staying in more expensive commercial lodging, even though adequate government lodging is available.⁶⁷ When travelers are reimbursed for stays in off-base lodging when they should have stayed in on-base lodging, this results in an improper payment and a monetary loss to the government.⁶⁸ OSD officials explained there are multiple reasons why this could be occurring. For example, DOD officials told us that listing the name of a nearby city as opposed to the installation where the traveler will be working is a way to circumvent the requirement

⁶⁴Prior to this provision, DOD could require only servicemembers to stay on base in non-privatized lodging. The requirement to stay on base does not apply to civilian permanent change of station travelers. DOD has an extensive list of adequacy standards, managed by OUSD(P&R). These standards include free high-speed internet and a private bathroom, among many others. See, Carl Levin and Howard P. “Buck” McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113-291, §914.

⁶⁵See, Pub. L. No. 113-291, §914 (2014); Pub. L. No. 116-283, §642 (2021); DOD, *The Joint Travel Regulations (JTR)* (May 1, 2021).

⁶⁶Under Secretary of Defense for Personnel and Readiness Memorandum, *Maximum Use of DOD Lodging Facilities on DOD Installations* (Apr. 27, 2018). The order of preference for lodging laid out in policy is as follows: on-base lodging (non-privatized or privatized), commercial preferred hotels, and all other hotels.

⁶⁷Under Secretary of Defense for Personnel and Readiness Memorandum, *Maximum Use of DOD Lodging Facilities on DOD Installations* (Apr. 27, 2018).

⁶⁸Improper payments are payments that should not have been made or were made in an incorrect amount. Monetary loss is an amount that should not have been paid and could be recovered. We have previously reported on improper payments in the DOD travel pay program. See, GAO, *Defense Travel: DOD Should Strengthen Its Ongoing Actions to Reduce Improper Travel Payments*, [GAO-19-530](#) (Washington, D.C.: Aug. 15, 2019). According to Defense Travel Management Office officials, there are also locations where lodging is more expensive than the off-base options.

to stay on base. In addition, officials told us that enforcing the requirement is the responsibility of the official who approves the travel authorization. While Defense Travel Management Office officials told us that there are processes in place to ensure that authorizing officials are trained and approving reimbursement for lodging appropriately and that there are audits to verify authorized expenses, OSD officials believe that both travelers and authorizing officials are not adhering to policies.

DOD officials told us that, while they know travelers are sometimes improperly reimbursed for stays in off-base lodging, they do not know the extent or the reasons why it is occurring because they have not conducted an in-depth analysis to determine the underlying problems. However, officials agreed that this type of analysis would be valuable. Guidance from the Office of Management and Budget specifies that agencies should ensure they have identified a true root cause of an improper payment, because it is critical to do so in order to formulate effective corrective actions.⁶⁹ The Office of Management and Budget emphasizes that, in identifying root cause, it is important to distinguish between what constitutes a root cause that created an error and an internal control problem that failed to catch an error. The guidance instructs agencies to implement corrective actions that are responsive to root causes, are proportional to the severity of the associated amount and rate of the root cause, and are measurable. DOD's Financial Management Regulation states that root causes may be due to anomalies, random events, or due to process vulnerabilities and other systemic factors (e.g., failure to obtain documentation or failure to update recipient eligibility). A root cause is the origin of a problem or condition that led to the failure in a program or activity that resulted in an improper payment. Root cause analysis must identify the internal control deficiency or underlying problems and events that directly contributed to the improper payment.⁷⁰

In a 2019 report, OUSD(P&R) estimated that \$13.7 million in travel costs could have been avoided in fiscal year 2016 if the requirement to stay on

⁶⁹Specifically, Appendix C to Office of Management and Budget Circular A-123 defines root cause as something that would directly lead to an improper payment and, if corrected, would prevent the improper payment. See Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix C, Requirements for Payment Integrity Improvement (June 26, 2018).

⁷⁰DOD Financial Management Regulation 7000.14-R, Volume 4, Chapter 14, Payment Integrity (May 2020).

base had been properly enforced.⁷¹ However, the potential cost avoidance may be lower or higher than this estimate. That said, if DOD could avoid even a portion of these costs, it could amount to millions of dollars annually. In addition, according to an official from OUSD(P&R), if more travelers stayed in on-base lodging, occupancy rates would be higher, and room rates could be lower.

Without conducting an in-depth analysis by military service that assesses the extent to which DOD servicemembers and civilian employees are inappropriately using off-base lodging for official travel and why it is occurring, as well as developing a plan to address any issues identified, neither DOD nor Congress can be sure that the department is making the most cost-effective use of taxpayer funds. In addition, travelers staying off base when they should be staying on base reduces the amount of revenue going into the lodging programs that could be used for further improvements. Further, unnecessary use of off-base lodging hinders OSD and the military services from accurately determining if privatized and non-privatized on-base lodging are sufficient to meet their travelers' needs.

Conclusions

The Army began the process of privatization in 2009 and, since that time, has successfully privatized all of its domestic lodging facilities, which includes 75 hotels across 40 Army installations. Privatization has enabled the Army to improve existing lodging facilities and to construct new ones, thereby decreasing the average age of its rooms from 42 to 29 years. However, we found that improvements to PAL facilities that were to take place after privatization have taken longer than initially anticipated and development plans have changed.

First, the Army now estimates that the overall development period for its PAL program will extend to 2029. We also found that since privatizing its

⁷¹OUSD(P&R) reached this estimate by taking the number of stays that took place worldwide near bases that offered lodging (11 million room-nights). Of those, 25 percent were estimated to be on temporary duty travel to an installation. An estimated 15 percent of those could have shifted on base based on lodging capacity, resulting in approximately 410,000 room-nights. OUSD(P&R) estimated a cost avoidance of \$40 per night for DOD non-privatized lodging and \$15 per night for PAL, bringing their total cost avoidance estimate to \$13.7 million annually. See, Office of the Under Secretary of Defense for Personnel and Readiness, *Department of Defense Direct-Run Lodging Facility, Occupancy, and Right-Sizing Analysis* (August 2019).

lodging, the Army has changed the mix of facilities in its development plans for its first group of privatized installations, opting for more renovated and fewer newly constructed facilities than originally planned. However, to date, OSD has not included information on the Army's revised timeframe or development plans in its reports to Congress. If OSD were to provide this additional information, Congress and other decision makers would be better able to determine whether the PAL program is achieving its intended objectives.

Second, the reported financial benefits of official travel lodging costs under the PAL program are likely overstated. Specifically, the Army estimated a cost avoidance of approximately \$606 million for official travel lodging costs from fiscal years 2009 through 2019, using a baseline that is higher than what the Defense Travel Management Office uses and what off-base commercial preferred hotels may charge. However, the Army has not evaluated whether the calculation it uses or an alternative is the most accurate representation of the cost avoidance achieved.

Finally, OSD's oversight of the military services' lodging programs has been limited in some cases. Specifically, OSD has not established guidance that includes methodologies and clearly articulated definitions for the military services to use when reporting lodging program data. OUSD(P&R) officials stated that they are currently updating their lodging policy to incorporate standard definitions and calculations. As OSD updates its guidance, it will be important to establish consistent methodologies and clearly articulated definitions for the military services to use when reporting lodging program data, so that decision makers in DOD and Congress will have the information they need to make meaningful comparisons. Further, OSD has not conducted an in-depth analysis to assess the extent to which its travelers are inappropriately using off-base lodging and why it is occurring, which limits DOD's ability to assure Congress that the department is making the most cost-effective use of taxpayer funds.

Recommendations for Executive Action

We are making a total of four recommendations to the Secretary of Defense.

The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment provides additional key information from the Army about the PAL program in its annual Military Housing Privatization

Initiative program reports to Congress, including the status of improvements to its facilities, timeframes for completing improvements, and any significant changes to the development plan. (Recommendation 1)

The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment requires the Army to evaluate the methodology and baseline it uses to calculate its cost avoidance estimate, to include a comparison of alternative scenarios against a different baseline in its calculations, and share the results of this evaluation with Congress. (Recommendation 2)

The Secretary of Defense should ensure that the Under Secretary of Defense for Personnel and Readiness and the Assistant Secretary of Defense for Sustainment, in collaboration with the military services, establish consistent methodologies and clearly define the data that the military services are to report to the Office of the Secretary of the Defense on their respective lodging programs. (Recommendation 3)

The Secretary of Defense should ensure that the Under Secretary of Defense for Personnel and Readiness, in collaboration with the Assistant Secretary of Defense for Sustainment, assesses by military service the extent to which DOD servicemembers and civilian employees are inappropriately using off-base lodging for official travel and why it is occurring, and develop a plan to address any issues identified. (Recommendation 4)

Agency Comments

We provided a draft of this report to DOD for review and comment. In its comments, reproduced in appendix IV, DOD concurred with each of our recommendations. DOD also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees and the Secretary of Defense. In addition, the report is available at no charge on our website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2775 or FieldE1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.

Letter

A handwritten signature in black ink, appearing to read "Elizabeth A. Field". The signature is fluid and cursive, with a large initial "E" and a long, sweeping underline.

Elizabeth A. Field
Director, Defense Capabilities and Management

List of Committees

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

The Honorable Martin Heinrich
Chairman
The Honorable John Boozman
Ranking Member
Subcommittee on Military Construction, Veterans Affairs, and Related
Agencies
Committee on Appropriations
United States Senate

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

The Honorable Debbie Wasserman Schultz
Chairwoman
The Honorable John Carter
Ranking Member
Subcommittee on Military Construction, Veterans Affairs, and Related
Agencies
Committee on Appropriations
House of Representatives

Appendix I: Objectives, Scope, and Methodology

Senate Report 116-48, accompanying a bill for the National Defense Authorization Act for Fiscal Year 2020, included a provision for us to review improvements made to Army lodging, among other things.¹ This report examines the extent to which (1) the Army made improvements to its lodging facilities since privatizing and the Office of the Secretary of Defense (OSD) reported complete information about the Army's development plans to Congress; (2) the Army has reliably determined any cost savings or cost avoidance as a result of its privatized lodging program; and (3) there are limitations in OSD's oversight of the military services' lodging programs.

For objective one, we reviewed data from fiscal years 2009 through 2019 on the Army's development plans, branding of the lodging facilities, and timeframes for improvements. We chose these years because the Army privatized the first group of 10 installations in 2009 and the most recent full year of data available at the time of our review was for fiscal year 2019. We determined that the data were sufficiently reliable to report the number of facilities upgraded to InterContinental Hotels Group's brand standards through interviewing Army officials about the data and by comparing the data we received to other Army documentation. We compared initial plans from when the Army began privatization in 2009 to the most recent updates to its development plan provided to us. We also reviewed the status of branding at each Privatized Army Lodging (PAL) installation.

We based our analysis of the status of the first 10 installations privatized by the Army on fiscal year 2017 information contained in OSD's annual report to Congress, which provides status updates on different accountability measures for military projects that were privatized under

¹S. Rep. No. 116-48 (2019).

the Military Housing Privatization Initiative authorities.² In November 2020, OSD submitted its Military Housing Privatization Initiative report covering fiscal year 2018 to Congress.³ However, we use the report covering fiscal year 2017 for our analysis because it was the most recent report available at the time of our review. We asked the Army to provide us with photos that would show improvements to lodging facilities since privatization to include examples in our report. We obtained these photos directly from the Army as the COVID-19 pandemic prevented us from doing our own independent, in-person assessment of facilities. We chose the photos that we display in appendix III from the group of photos sent by the Army based on the quality of the photos they provided, and chose examples from multiple years and installations.

We interviewed Army officials to discuss improvements to the facilities since privatization. We also met with representatives from Lendlease and InterContinental Hotels Group to discuss improvements to the facilities, development plans, and lessons learned from privatization. Additionally, we reviewed how OSD reports any changes to the Army's development plan or timeframes for improvements to its lodging facilities in OSD's annual reports to Congress.⁴ We also determined that the information and communication component of internal control was significant to this objective, along with the underlying principles that management should communicate quality information externally through reporting lines so that external parties can help the entity achieve its objectives. We assessed the extent to which the previously mentioned reports to Congress communicate necessary quality information.⁵

²National Defense Authorization Act for Fiscal Year 1996 Pub. L. No. 104-106 § 2801 (1996) (codified as amended at 10 U.S.C. §§ 2871-2894a); and Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, §2803(b) (2002) (codified as amended at 10 U.S.C. § 2871(11)). See, Department of Defense, Office of the Assistant Secretary of Defense for Sustainment, *Military Housing Privatization Initiative Program Evaluation Report for the Reporting Period: October 1, 2016–September 30, 2017* (May 2019).

³Department of Defense, Office of the Assistant Secretary of Defense for Sustainment, *Military Housing Privatization Initiative Program Report for the Reporting Period October 1, 2017–September 30, 2018* (September 2020).

⁴Department of Defense, Office of the Assistant Secretary of Defense for Sustainment, *Military Housing Privatization Initiative Program Evaluation Report for the Reporting Period: October 1, 2016–September 30, 2017* (May 2019), and *Military Housing Privatization Initiative Program Evaluation Report for Reporting Periods: October 1, 2014–September 30, 2015, and October 1, 2015–September 30, 2016* (Aug. 13, 2018).

⁵[GAO-14-704G](#).

For objective two, we analyzed data and documentation from the Army on its cost avoidance estimate. We reviewed the data in the spreadsheet that the Army provided, but because the spreadsheet did not identify sources or describe how the estimate is calculated, we requested additional information, and the Army provided that data in follow-up documentation. Specifically, we analyzed Army data from fiscal years 2009 through 2019 on key metrics, including cost avoidance. We determined that the data were sufficiently reliable to report average daily rates, per diem rates, and the percentage of per diem through interviews with Army officials. Specifically, we interviewed Army officials to determine how the Army calculates cost avoidance since privatizing its lodging and whether any other methods had been considered. We also reviewed underlying data to check the validity of the Army's calculations. Through the Army's documentation and discussions with officials, we were able to reproduce the Army's cost avoidance estimate. Further, we met with officials from the Defense Travel Management Office to understand how it calculates cost avoidance estimates for off-base preferred commercial lodging. We completed our own assessment of the Army's cost avoidance estimate and calculated how it would be different under different baselines by comparing results from the Army's method with results from the Defense Travel Management Office's method. We interviewed Army officials to obtain their position about the Army's ability to determine its lodging costs before privatization. We also obtained information from the Department of Defense (DOD) on its definitions of cost savings and cost avoidance. We assessed the Army's method for calculating cost avoidance against best practices for economic analysis to determine the extent to which the Army used the appropriate methods to calculate a cost avoidance estimate.⁶

For objective three, we reviewed data from all of the lodging programs that OSD uses to conduct oversight, such as daily room rates and occupancy rates.⁷ We compared data from the military services for fiscal years 2017 through 2019 to determine the extent to which they and OSD are able to use the data for comparisons among the lodging programs. We selected this timeframe because it was the 3 most recent years of complete and available information. We determined that the data are not consistent across the military services or comparable with each other, even if the data were accurate. These differences in definitions and

⁶GAO-18-151SP.

⁷We reviewed data from the Army's PAL program and the five non-privatized lodging programs in the Navy, Marine Corps, and Air Force: Navy Gateway Inns and Suites, Navy Lodge, Marine Corps Transient Housing, Inns of the Corps, and Air Force Inns.

methodology prevented us from independently verifying the data, with the exception of the Army's cost avoidance data, as described above. Therefore, we do not report them and instead identified related issues in our report.

We also reviewed DOD guidance on oversight, including lodging instructions.⁸ We reviewed the Army's Portfolio and Asset Management Handbook and major decisions memorandum.⁹ We interviewed relevant OSD officials regarding oversight of the lodging programs, including those in OSD in the offices of the Under Secretary of Defense for Acquisition and Sustainment (OUSD(A&S)) and the Under Secretary of Defense for Personnel and Readiness (OUSD(P&R)). The control environment and information and communication components of internal control—the oversight body should oversee the entity's internal control system and management should use quality information to achieve the entity's objectives—were significant to this objective, along with the related principles that management should analyze and discuss information relating to the entity's achievement of objectives, and management should obtain relevant data from reliable sources.¹⁰ We assessed the previously mentioned information we received from OSD and the military services to determine the extent to which DOD has the necessary information to conduct oversight of its lodging programs.

We met with the Defense Travel Management Office to discuss the different requirements surrounding official travel. We also met with multiple OSD and military service officials to discuss oversight of DOD official travelers' use of off-base lodging. Further, we obtained information from the Office of the Under Secretary of Defense (Comptroller) on the capabilities of DOD travel systems to track whether off-base stays are in

⁸Department of Defense Instruction 1015.15, *Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources* (Oct. 31, 2007)(Incorporating Change 1, Mar. 20, 2008); Department of Defense Instruction 1015.11, *Lodging Policy* (Oct. 6, 2006)(Incorporating Change 1, Nov. 15, 2011); and Department of Defense Instruction 1015.12, *Lodging Program Resource Management* (Oct. 30, 1996).

⁹Department of the Army, *Portfolio and Asset Management Handbook* (Version 5.0, September 2014), Assistant Secretary of the Army (Installations, Energy and Environment) Memorandum, *Privatization of Army Lodging (PAL) Major Decisions Authority – Policy Memorandum #2* (May 7, 2012).

¹⁰[GAO-14-704G](#).

accordance with policy, including the Joint Travel Regulations.¹¹ We also reviewed Office of Management and Budget guidance that states agencies are to identify and address the root causes of improper payments.¹²

We conducted this performance audit from January 2020 to June 2021 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.

¹¹DOD, *The Joint Travel Regulations (JTR)* (May 1, 2021) and Under Secretary of Defense for Personnel and Readiness Memorandum, *Maximum Use of DOD Lodging Facilities on DOD Installations* (Apr. 27, 2018).

¹²Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix C, Requirements for Payment Integrity Improvement (June 26, 2018).

Appendix II: Privatized Army Lodging Program's Locations and Key Metrics for Fiscal Year 2019

The following is a complete listing of the Army's 40 installations with privatized lodging.

Table 3: Privatized Army Lodging Program's Locations and Key Metrics for Fiscal Year 2019

Installation	Group	Average full per diem	Official traveler average daily rate	Average daily rate as a percentage of per diem
Fort Wainwright, AK	B	\$104.19	\$100.54	96.5%
West Point, NY	C	\$110.00	\$102.77	93.4%
Yuma Proving Ground, AZ	A	\$94.00	\$86.84	92.4%
Fort Campbell, KY	B	\$94.00	\$84.55	89.9%
Fort Polk, LA	A	\$98.00	\$87.80	89.6%
Fort Myer, VA	A	\$213.61	\$187.44	87.8%
Fort Riley, KS	A	\$94.00	\$82.42	87.7%
Fort McCoy, WI	C	\$94.00	\$80.70	85.8%
Carlisle Barracks, PA	C	\$94.00	\$80.09	85.2%
White Sands Missile Range, NM	B	\$94.00	\$79.46	84.5%
Joint Base Lewis McChord, WA	C	\$121.00	\$101.14	83.6%
Fort Hood, TX	A	\$94.00	\$77.97	83.0%
Fort Drum, NY	C	\$94.00	\$76.68	81.6%
Fort Bliss, TX	B	\$96.00	\$76.45	79.6%
Fort Bragg, NC	C	\$106.00	\$81.80	77.2%
Fort Shafter/Tripler Army Medical Center, HI	A	\$177.00	\$135.73	76.7%
Fort Meade, MD	C	\$121.75	\$92.55	76.0%
Hunter Army Airfield, GA	C	\$118.62	\$90.07	75.9%
Dugway Proving Ground, UT	C	\$125.00	\$94.63	75.7%
Fort Benning, GA	C	\$94.00	\$71.07	75.6%
Redstone Arsenal, AL	C	\$94.00	\$71.03	75.6%
Fort Knox, KY	B	\$94.00	\$70.88	75.4%
Fort Gordon, GA	B	\$102.00	\$76.65	75.1%
Fort Leavenworth, KS	A	\$125.00	\$93.92	75.1%

**Appendix II: Privatized Army Lodging
Program's Locations and Key Metrics for
Fiscal Year 2019**

Installation	Group	Average full per diem	Official traveler average daily rate	Average daily rate as a percentage of per diem
Fort Lee, VA	C	\$94.00	\$70.46	75.0%
Fort Huachuca, AZ	B	\$94.00	\$70.44	74.9%
Fort Sill, OK	A	\$94.00	\$70.44	74.9%
Fort Leonard Wood, MO	B	\$94.00	\$70.43	74.9%
Fort Sam Houston, TX	A	\$126.00	\$94.23	74.8%
Fort Rucker, AL	A	\$94.00	\$70.19	74.7%
Fort Jackson, SC	C	\$109.00	\$80.60	73.9%
Fort Stewart, GA	C	\$94.00	\$69.33	73.8%
Fort Hamilton, NY	B	\$248.61	\$163.94	65.9%
Fort Buchanan, PR	B	\$180.77	\$115.16	63.7%
Fort Hunter Liggett, CA	C	\$162.60	\$99.98	61.5%
Fort Belvoir, VA	B	\$217.55	\$132.84	61.1%
Presidio of Monterey, CA	C	\$163.69	\$97.05	59.3%
Aberdeen Proving Ground, MD	C	\$107.00	\$62.40	58.3%
Fort Carson, CO	C	\$113.87	\$66.08	58.0%
Camp Parks, CA	C	\$175.00	\$87.50	50.0%

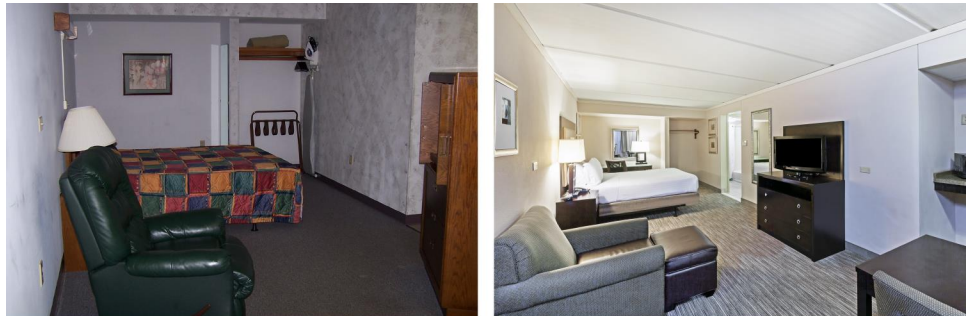
Source: GAO analysis of Army information. | GAO-21-214

Note: The table is sorted by the last column, the average daily rate as a percentage of per diem.

Appendix III: Additional Examples of Facility Improvements Made since the Army Privatized Its Lodging Program

Figures 7 through 14 illustrate before and after photos of Army improvements to lodging facilities from 2010 through 2020.

Figure 7: The Army Replaced Lodging at Fort Polk, LA, in 2010 with a Holiday Inn Express Hotel as Part of the Privatized Army Lodging Program



The first photo shows a hotel room at the Army lodging facility at Fort Polk, LA, before privatization. The second photo shows a typical room after privatization at the new Holiday Inn Express hotel, which replaced the lodging facility at Fort Polk in 2010 after it was renovated.

Source: (From left to right) © 2004 JLL and © 2017 IHG. | GAO-21-214

Figure 8: The Army Replaced Lodging at Fort Hood, TX, in 2014 with a Candlewood Suites Hotel as Part of the Privatized Army Lodging Program



The lodging facility (first photo) at Fort Hood, TX, was replaced with a Candlewood Suites (second photo) in 2014 as part of the Army's privatization efforts.

Source: (From left to right) © 2004 JLL and © 2014 IHG. | GAO-21-214

Appendix III: Additional Examples of Facility Improvements Made since the Army Privatized Its Lodging Program

Figure 9: The Army Replaced Lodging at Fort Hood, TX, in 2014 with a Candlewood Suites Hotel as Part of the Privatized Army Lodging Program



The first photo shows a hotel room at the Army lodging facility at Fort Hood, TX, before privatization. The second photo shows a typical room after privatization at the new Candlewood Suites hotel built in 2014 at Fort Hood.

Source: (From left to right) Department of the Army and © 2013 IHG. | GAO-21-214

Figure 10: The Army Replaced Lodging at Fort Bliss, TX, in 2018 with a Candlewood Suites Hotel as Part of the Privatized Army Lodging Program



The lodging facility (first photo) at Fort Bliss, TX, was replaced with a Candlewood Suites (second photo) in 2018 as part of the Army's privatization efforts.

Source: (From left to right) © 2010 JLL and © 2018 IHG. | GAO-21-214

Appendix III: Additional Examples of Facility Improvements Made since the Army Privatized Its Lodging Program

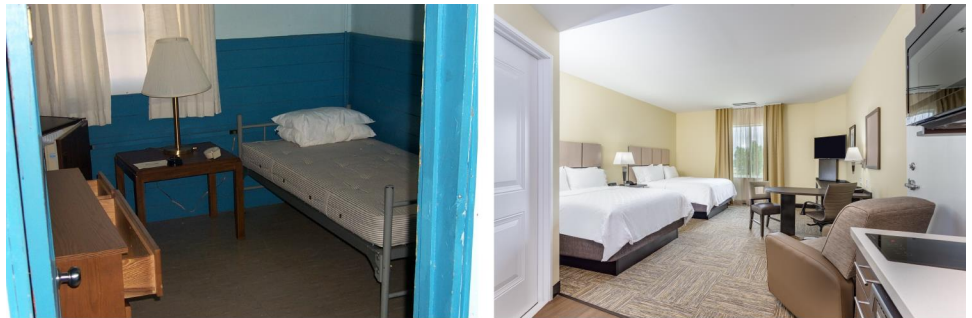
Figure 11: The Army Replaced Lodging at Fort Drum, NY, in 2018 with a Candlewood Suites Hotel as Part of the Privatized Army Lodging Program



The lodging facility (first photo) at Fort Drum, NY, was replaced with a Candlewood Suites (second photo) in 2018 as part of the Army's privatization efforts.

Source: (From left to right) © 2005 JLL and © 2019 IHG. | GAO-21-214

Figure 12: The Army Replaced Lodging at Fort Drum, NY, in 2018 with a Candlewood Suites Hotel as Part of the Privatized Army Lodging Program



The first photo shows a hotel room at the Army lodging facility at Fort Drum, NY, before privatization. The second photo shows a typical room after privatization at the new Candlewood Suites hotel built in 2018 at Fort Drum.

Source: (From left to right) © 2005 JLL and © 2019 IHG. | GAO-21-214

Appendix III: Additional Examples of Facility Improvements Made since the Army Privatized Its Lodging Program

Figure 13: The Army Replaced Lodging at Joint Base Lewis–McChord, WA, with a Candlewood Suites Hotel in 2019 as Part of the Privatized Army Lodging Program



The lodging facilities (first two photos) at Joint Base Lewis–McChord, WA, were replaced with a Candlewood Suites (third photo) in 2019 as part of the Army’s privatization efforts.

Source: (From left to right) © 2012 HAS LLC and © 2020 IHG. | GAO-21-214

Figure 14: The Army Replaced Lodging at Fort Gordon, GA, with a Candlewood Suites Hotel in 2020 as Part of the Privatized Army Lodging Program



The lodging facility (first photo) at Fort Gordon, GA, was replaced with a Candlewood Suites (second photo) in 2020 as part of the Army’s privatization efforts.

Source: (From left to right) © 2010 JLL and © 2020 IHG. | GAO-21-214

Appendix IV: Comments from the Department of Defense



OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

05/18/2021

SUSTAINMENT

Ms. Elizabeth Field
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Field:

The Department of Defense (DoD) response to the GAO Draft Report GAO-21-214, "MILITARY LODGING: DoD Should Provide Congress with More Information on Army's Privatization and Better Guidance to the Military Services," dated April 8, 2021 (GAO Code 104020) is enclosed.

My point of contact is Ms. Patricia Coury, Deputy Assistant Secretary of Defense for Housing, via email at patricia.l.coury.civ@mail.mil or via phone at (703) 571-9077 office or (703) 901-8789 mobile.

Sincerely,

CRAMER.PAUL.D Digitally signed by
CRAMER.PAUL.DAVID.114690653
AVID.1146906539 Date: 2021.05.18 15:16:22 -0400

Paul D. Cramer
Performing the Duties of Assistant Secretary of
Defense for Sustainment

Enclosure:
As stated

cc:
WHS GAO Affairs Division

GAO DRAFT REPORT DATED APRIL 8, 2021
GAO-21-214 (GAO CODE 104020)

“MILITARY LODGING: DOD SHOULD PROVIDE CONGRESS WITH MORE
INFORMATION ON ARMY’S PRIVATIZATION AND BETTER GUIDANCE TO THE
MILITARY SERVICES ”

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION 1: The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment provides additional key information from the Army about the PAL program in its annual Military Housing Privatization Initiative program reports to Congress, including the status of improvements to its facilities, timeframes for completing improvements, and any significant changes to the development plan.

DoD RESPONSE: Concur. The Assistant Secretary of Defense for Sustainment, as the Chief Housing Officer, will expand the annual Department of Defense Military Housing Privatization Initiative (MHPI) program reports to include the information provided about the Privatization of Army Lodging program effective with the report covering the fiscal year 2019 reporting period.

RECOMMENDATION 2: The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment requires the Army to evaluate the methodology and baseline it uses to calculate its cost avoidance estimate, to include a comparison of alternative scenarios against a more appropriate baseline in its calculations, and share the results of this evaluation with Congress.

DoD RESPONSE: Concur. The Assistant Secretary of Defense for Sustainment, as the Chief Housing Officer, will issue guidance directing the Army to evaluate its methodology and baseline for calculating the Privatization of Army Lodging program’s cost avoidance savings and to share the results of its evaluation with Congress.

RECOMMENDATION 3: The Secretary of Defense should ensure that the Under Secretary of Defense for Personnel and Readiness and the Assistant Secretary of Defense for Sustainment, in collaboration with the military services, establish consistent methodologies and clearly define the data that the military services are to report to the Office of the Secretary of the Defense on their lodging programs.

DoD RESPONSE: Concur. The Under Secretary of Defense for Personnel and Readiness and the Assistant Secretary of Defense for Sustainment will collaborate with the Military Departments to establish consistent methodologies and definitions for lodging program data that the Military Departments are to report to the Office of the Secretary of Defense. Standard lodging definitions will be included in the next update of Department of Defense Instruction 1015.11 “Lodging Policy,” which is scheduled for publication in late calendar year 2021, and key metrics will be defined in the 2021 Annual DoD Lodging Adequacy report guidance.

**Appendix IV: Comments from the Department
of Defense**

RECOMMENDATION 4: The Secretary of Defense should ensure that the Under Secretary of Defense for Personnel and Readiness, in collaboration with the Assistant Secretary of Defense for Sustainment, assesses by military service the extent to which DOD servicemembers and civilian employees are inappropriately using off-base lodging for official travel and why it is occurring, and develop a plan to address any issues identified.

DoD RESPONSE: Concur. The Under Secretary of Defense for Personnel and Readiness, in collaboration with the Assistant Secretary of Defense for Sustainment as appropriate, will assess by military service the extent to which DoD military members and civilian employees are inappropriately using off-base lodging for official travel and why this is occurring, and will develop a plan to address any issues identified.

Text of Appendix IV: Comments from the Department of Defense

Page 1

05/18/2021

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Director, Defense Capabilities and Management

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

Washington, DC 20548

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Sincerely,

Paul D. Cramer

Performing the Duties of Assistant Secretary of Defense for Sustainment

Enclosure:

As stated

cc:

WHS GAO Affairs Division

Page 2

GAO DRAFT REPORT DATED APRIL 8, 2021 GAO-21-214 (GAO CODE 104020) "MILITARY LODGING: DOD SHOULD PROVIDE CONGRESS WITH MORE INFORMATION ON ARMY'S PRIVATIZATION AND BETTER GUIDANCE TO THE MILITARY SERVICES "

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Page 3

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Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Elizabeth A. Field, 202-512-2775 or FieldE1@gao.gov

Staff Acknowledgments

In addition to the contact listed above, Kim Mayo (Assistant Director), Nancy Santucci (Analyst-in-Charge), Ronnie Bergman, Vincent Buquicchio, Martin De Alteriis, Susan Irving, David Jones, Paul Kinney, Carol Petersen, Clarice Ransom, Mike Silver, Justin Snover, John Van Schaik, and Kelsey Wilson made key contributions to this report.

Related GAO Products

Military Housing Privatization: DOD Should Improve Oversight of Property Insurance and Natural Disaster Recovery. [GAO-21-418](#). Washington, D.C: May 20, 2021.

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Military Housing: DOD Has Taken Key Steps to Strengthen Oversight, but More Action Is Needed in Some Areas. [GAO-21-389T](#). Washington, D.C: February 16, 2021.

Military Housing: Actions Needed to Improve the Process for Setting Allowances for Servicemembers and Calculating Payments for Privatized Housing Projects. [GAO-21-137](#). Washington, D.C: January 25, 2021.

Military Housing Privatization: Preliminary Observations on DOD's Oversight of the Condition of Privatized Military Housing. [GAO-20-281](#). Washington, D.C: March 26, 2020.

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Military Housing: Management Improvements Needed as the Pace of Privatization Quickens. [GAO-02-624](#). Washington, D.C.: June 21, 2002.

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Related GAO Products

Military Housing: Continued Concerns in Implementing the Privatization Initiative. [GAO/NSIAD-00-71](#). Washington, D.C.: March 30, 2000.

Military Housing: Privatization Off to a Slow Start and Continued Management Attention Needed. [GAO/NSIAD-98-178](#). Washington, D.C.: July 17, 1998.

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