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Report to the Chairman and Ranking Minority Member, Special Oversight Panel on Morale, Welfare, and Recreation, Committee on Armed Services, House of Representatives

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DEFENSE MANAGEMENT

Proposed Lodging Policy May Lead to Improvements, but More Actions Are Required

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Abbreviations

DOD	Department of Defense
MWR	morale, welfare, and recreation
OSD	Office of the Secretary of Defense
PCS	permanent-change-of-station
TDY	temporary duty

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United States General Accounting Office
Washington, DC 20548

March 18, 2002

The Honorable Roscoe G. Bartlett
Chairman
The Honorable Robert A. Underwood
Ranking Minority Member
Special Oversight Panel on
Morale, Welfare, and Recreation
Committee on Armed Services
House of Representatives

The military services principally operate two types of hotels, or lodges, to support official travelers. The first, called permanent-change-of-station lodges, primarily supports military personnel and their families who are moving to new duty stations. These lodges are intended to provide military travelers and their families with a clean, affordable place to stay while they prepare to move and while they wait for permanent quarters at their new duty stations. The second type of lodge, called temporary duty lodges, primarily supports military and civilians temporarily traveling on official business. [1] Permanent-change-of-station lodges are the subject of a proposed policy change by the Department of Defense and are the focus of this report. The department's current policy permits these lodges to be managed as part of morale, welfare, and recreation programs, which include such things as libraries and gymnasiums. The proposed policy would change this practice by requiring separation of lodge revenues from those used for morale, welfare, and recreation purposes.

In a report provided May 2, 2001, to the Senate and House Committees on Armed Services and signed by the acting assistant secretary of defense for force management policy, the department based its proposed policy revision on a perceived need to align policy for permanent-change-of-station lodging with the Joint Federal Travel Regulation. The department believed that its current policy was in conflict with the requirements of the regulation and that the policy change would resolve the conflict by removing permanent-change-of-station lodging revenues from morale, welfare, and recreation programs. In our discussions with the department,

[1] The services also operate recreational lodging and lodging used by those individuals visiting patients in military treatment facilities. These lodges have little or no effect on the permanent-change-of-station lodging program and are not covered in this report.

it also saw the proposed policy change as a first step to achieve other management objectives, including making the services' lodging programs more consistent with each other, reducing room rates for lodging, and improving lodging facilities. Further, the department wanted greater assurance that the military services are building new lodges primarily to support the needs of official military travelers and their families.

You requested that we review the proposed policy change. As agreed with your office, this report addresses the following questions:

- What will be the potential impact of the proposed policy change on the military services' morale, welfare, and recreation programs?
- What is the basis for the proposed policy change, and will it help the department improve management including the quality and consistency of the services' lodging programs?
- Are the services' plans for building new permanent-change-of-station lodges consistent with current department guidance, and will the proposed policy change this guidance?

To answer these questions, we interviewed key officials in the Office of the Secretary of Defense who are responsible for developing lodging policies and appropriate headquarters personnel for each of the military services. We also visited 16 military installations to determine how the lodges were being locally managed and supported and to observe their physical condition. We also sought information on future lodging construction plans to meet the needs of permanent-change-of-station travelers. More information on our scope and methodology is included in appendix I.

Results in Brief

Except for the Marine Corps, the proposed policy change will not impact the services' morale, welfare, and recreation programs. Only the Marine Corps currently uses permanent-change-of-station lodge earnings to support its morale, welfare, and recreation programs. From fiscal years 1996 through 2000, the net profits reported by the Marine Corps' lodges steadily increased from about $1.8 million to about $5.1 million, and are considered an important source of funds for the Marine Corps' morale, welfare, and recreation programs. Marine Corps officials do not believe the policy change is required and said that, if implemented, the Corps would have to make changes, such as reducing quality-of-life programs at some installations or seeking additional appropriations to compensate for the loss of this revenue. For this reason, they may ask for a waiver from the policy if it is implemented. If the department adopts the new policy,

the Marine Corps might need a temporary waiver giving it time to develop funding options for its morale, welfare, and recreation programs and to maintain a healthy lodging program. However, various alternatives are available that could negate the need for a permanent waiver such as increasing the use of appropriated funds in line with the practices of the other services. On October 1, 2000, the Army took a number of steps to ensure it would be in compliance with the proposed lodging policy should it be adopted. This action included creation of a single lodging fund for both permanent-change-of-station and temporary-duty lodge revenues separate from its morale, welfare, and recreation fund. However, we believe one step that the Army has taken—authorizing its installations to impose a surcharge on some users of the lodges that is then used to help support local morale, welfare, and recreation activities—violates department and Army regulations, which require that revenues from lodges be used only for lodging programs. The Air Force and Navy do not use lodging revenues to support their morale, welfare, and recreation programs. As a result, the proposed policy change would not affect these programs. However, the Navy has not created a consolidated lodging fund for both permanent-change-of-station and temporary duty lodges, as seems to be suggested by the department's May 2 report addressing the proposed policy.

The proposed policy is predicated on resolving a perceived regulatory conflict and achieving other management objectives. Department officials believe separation of permanent-change-of-station lodging funds from morale, welfare, and recreation funds is required in order to resolve a conflict with the Joint Federal Travel Regulation. However, we do not believe the regulation applies to lodging management, since it deals with allowances and reimbursement of expenses for uniformed service members traveling on orders. At the same time, the lodging-policy proposal is within the department's discretion and could be a first step toward achieving a number of planned management improvements across the services. However, the change, by itself, is likely to have little direct effect on the department's broader management objectives. These include (1) making the lodging programs more consistent across the military services, (2) reducing lodging rates where appropriate, (3) improving the overall quality of lodging facilities, and (4) eliminating the construction of new permanent-change-of-station lodges that may exceed the needs of official travelers. While the proposed policy would require revenues to be used exclusively to support lodges, it would not change other department guidance that gives the military services wide discretion in managing their lodging programs, including permitting morale, welfare, and recreation programs to operate permanent-change-of-station lodges. Department

officials said that the lodging policy is only the first step in their plans to improve the lodging program and that they will eventually need to recommend further changes to the department's guidance to address these other issues. Until these changes are made, however, the lodging programs may continue to be managed in a widely divergent manner.

Regarding the last question on building plans, the services' plans for building new permanent-change-of-station lodges are consistent with department guidance. The proposed policy change will not, by itself, change that guidance. However, the department has two sets of guidance in this area. Following the first set, the Air Force and Army base their permanent-change-of-station construction or expansion plans on the number of military and civilian personnel traveling on official orders. Following the second set, however, the Navy and Marine Corps base their plans on a patron base beyond the needs of these types of official travelers. Specifically, the guidance allows them to also consider the demand of other eligible travelers, such as members of the armed forces and their families not on orders and retired members of the armed forces and their families. While available data indicate that all the services have recently constructed or plan to construct new permanent-change-of-station lodges, the Navy and Marine Corps are planning to significantly increase the total number of rooms despite relatively low occupancy rates for patrons on official orders. From 2001 through 2005, for example, the Navy plans to add 940 permanent-change-of-station rooms at 15 installations at an estimated cost of $121.4 million, although its overall occupancy rate for patrons on permanent-change-of-station orders was only 23 percent in fiscal year 2000. Over the same time period, the Marine Corps also plans to add 237 rooms at seven locations, although its overall occupancy rate for patrons on permanent-change-of-station orders was only 31 percent in fiscal year 2000. Department officials are aware that the Navy and Marine Corps are expanding lodging capacity beyond the needs of official travelers but said they cannot revise or disapprove construction projects as long as the services have sufficient financial resources and are complying with applicable DOD guidance and instructions. They pointed out, however, that this excess capacity has a cost, in the form of higher average room rates, which eventually must be borne by the operating components that pay the travel costs of individual travelers.

We are making recommendations for executive action designed to help the Department of Defense improve its lodging-program management and ensure compliance with regulatory requirements. In commenting on a

draft of this report, DOD concurred with three of our recommendations and partially concurred with the fourth.

Background

The Department of Defense's (DOD) lodging programs were established to maintain mission readiness and improve productivity. They were intended to provide quality, temporary lodging facilities and service for authorized personnel and to reduce official travel costs for DOD's mobile military community. DOD's lodging programs are classified as either permanent-change-of-station (PCS) or temporary duty (TDY). The major differences between PCS and TDY lodges are the number of rooms (fewer PCS rooms); the type of traveler they primarily serve; and their primary source of funding and support. TDY lodging typically receives more appropriated funding than does PCS lodging, which relies primarily upon nonappropriated funds generated from lodge operations. Historically, DOD's lodging programs have had varying linkages to the department's morale, welfare, and recreation (MWR) programs.

DOD Lodge Program

The assistant secretary of defense for force management policy is responsible for establishing uniform policies for service lodging programs. DOD's lodging programs are classified as TDY or PCS on the basis of the type of traveler they primarily serve. Table 1 shows the magnitude of DOD's lodging programs.

Table 1: Magnitude of DOD's TDY and PCS Lodging Programs

	TDY		PCS	
Military service	**Number of installations with TDY lodges**	**Number of rooms**	**Number of installations with PCS lodges**	**Number of rooms**
Air Force[a]	94	29,923	77	3,390
Army[b]	77	17,794	61	3,819
Navy[c]	77	22,140	41	2,552
Marine Corps[d]	17	3,271	12	749
Total	**265**	**73,128**	**191**	**10,510**

[a]Air Force data as of September 2000.

[b]Army data as of June 2000.

[c]Navy data as of May 2001 and PCS room data as of June 2001.

[d]Marine Corps data as of September 2001.

Source: Data provided by each service.

TDY lodges serve mainly individual military or civilian travelers who are temporarily assigned to a duty station other than their home station. In addition, they can serve military personnel and their families who are changing permanent duty stations. On a space available basis, they also serve military retirees and other people authorized by installation commanders. Room rates at these lodges are set at the lowest rate possible to reduce travel costs yet recover authorized nonappropriated fund expenses. While departmental regulations state that the cost of major upgrades and new lodges is expected to be paid with appropriated funds, in recent years some services have added a surcharge[2] to the nightly room rate, which they accumulate and use for lodge construction and major renovation. The revenues from TDY lodging must be maintained in a separate nonappropriated fund account, designated as a lodging or billeting fund, and used only to operate and maintain the lodging facilities. Prior to 1991, Army TDY lodges were part of its MWR program. However, based on a GAO report[3] that found the Army was overcharging TDY travelers to subsidize MWR activities, the Army, in 1991, established a separate lodging fund for TDY lodging revenues.

PCS lodges primarily serve military personnel or DOD civilians (traveling outside the continental United States) who are changing permanent duty stations and their families. On a reservation basis, PCS lodges can also accommodate families, relatives, and guests of hospitalized military or their families and official guests of the installation as determined by the installation commander. On a space available basis, they can serve other authorized patrons, such as civilian PCS (personnel traveling inside the continental United States); military and civilian TDY personnel; military members not on official travel; military retirees; and relatives and guests of service members assigned to the installation. According to DOD's current guidance,[4] the military services can choose how they provide PCS lodging services: (1) through a lodging or billeting fund with all of its revenue used to support lodging activities, as do the Air Force, the Army, and the Navy or (2) through an MWR fund as does the Marine Corps. When services are provided through an MWR fund, revenue is deposited into a

[2] The Army and the Air Force have added surcharges while the Navy and Marine Corps have not.

[3] *Army Housing: Overcharges and Inefficient Use of On-Base Lodging Divert Training Funds*, (GAO/NSIAD-90-241, Sept. 28, 1990).

[4] *Department of Defense Instruction 1015.12, Lodging Program Resource Management*, October 30, 1996.

single MWR installation account[5] and used for the benefit of the local MWR program. The Marine Corps PCS lodging program is currently the only DOD lodging program operating in this manner. The cost of new PCS lodge construction for all the services is paid with nonappropriated funds, but the department's regulations permit some maintenance and repair to be paid with appropriated funds.

Because the department allows the services to choose their method of managing PCS lodging, it has two sets of instructions providing guidance on managing lodging operations. One applies to PCS lodges operated as revenue-generating MWR or exchange service[6] activities, and the other applies to all lodges not operated as such. Both sets of instructions implement policy, assign responsibility, and prescribe procedures for operating the lodges. However, the instructions differ in their program goals and authorized patronage, allowing wide latitude in the operation of PCS lodging programs.

MWR Programs

DOD's MWR program provides for the physical, cultural, and social needs and the well-being of service members, their families, and eligible civilians by providing an affordable source of goods and services like those available to civilian communities. DOD has determined that these programs are vital to mission accomplishment, are an integral part of the non-pay compensation system, and provide quality-of-life benefits for authorized patrons. The services' MWR programs—such as gymnasiums, fast food operations, and libraries—are intended to provide a sense of community among patrons in order to make individuals more satisfied with military life and to attract people to military careers.

MWR programs receive financial support primarily from two sources: nonappropriated funds—generated from profitable business activities such as retail outlets, restaurants, and golf courses—and funds appropriated by Congress. DOD regulations classify MWR activities into three categories, which relate to the degree of appropriated fund support they are expected to receive.

[5] Each installation has a single MWR account. In addition, there is a central MWR construction account that maintains funds collected from each installation. These fund are used to address requirements at each installation on a priority basis.

[6] Military exchange services operate a wide range of retail activities such as department stores, gas stations, and restaurants.

- Category A activities—such as athletic fields, gymnasiums, and libraries—are considered the most essential to supporting MWR. Such activities promote the physical and mental well-being of the military member, supporting the basic military mission. They are generally not expected to support themselves financially. Accordingly, DOD policy provides that a minimum of 85 percent of total expenditures should come from appropriated funds. The use of nonappropriated funds is limited to specific instances where appropriated funds are prohibited by law or where nonappropriated funds are essential to operate a facility or program.
- Category B activities—such as swimming pools, automotive hobby shops, and child care centers—are closely related, in terms of mission support, to those in Category A. These activities provide, to the extent possible, the community support systems that make DOD installations temporary hometowns for a mobile military population. DOD views these activities as having a limited ability to generate nonappropriated fund support and thus requiring less appropriated support than activities in Category A. The DOD standard for appropriated fund support is a minimum of 65 percent of total expenditures.
- Category C activities—such as golf courses, clubs, and bowling alleys—are revenue-generating activities. Although they may lack the ability to completely sustain themselves, they are expected to generate enough income to cover most of their operating expenses. In many cases, they also generate enough income to help support Category A and B activities. Thus, they may receive limited support from appropriated funds.

DOD has established separate but similar classifications for its lodging program. TDY lodges are classified as Category A activities and are thus authorized a higher degree of appropriated support. PCS lodges may be classified, at the option of the service, as either Category A or Category C activities. In the past, the Army, Navy, and Marine Corps operated PCS lodges as Category C activities. In these cases, the lodges were part of the services' MWR programs and lodging revenues were often used to financially support other MWR programs. Currently, the Marine Corps' lodging program is the only one that still has any significant financial connection with MWR operations. DOD's proposed change to its PCS lodging policy is intended to sever this last connection and ensure that no PCS lodging revenues are used to support MWR programs.[7] This change, if

[7] The proposed policy change does not restrict the services from offering recreational lodging as a component of an installation's MWR program.

adopted, would require the services to deposit all PCS lodging revenues into a lodging fund separate from the MWR fund, which would be dedicated to supporting the service's lodging program.

Proposed Policy Change Impacts the Marine Corps' MWR Program

Except for the Marine Corps, DOD's proposed policy change will not impact the services' MWR programs. The Marine Corps still uses PCS lodging earnings to help support its MWR programs. Without these earnings, Marine Corps officials told us that they would have to seek additional appropriations or local installations would have to make changes to their MWR programs that could affect the quality of life of marines and their families. Therefore, Corps officials may request a waiver from the policy if it is adopted. However, the Corps has options that could lessen the effect of the policy on both its MWR and lodging programs if necessary. With regard to the Army, prior to October 2000, the Army also used PCS lodging funds to support its MWR program. Presuming adoption of the policy change, the Army took a number of actions to minimize the impact on its MWR program. Therefore, it will no longer be affected by the policy change. However, as part of these provisions, the Army now permits its installations to charge its patrons not on official orders, such as military retirees, a surcharge that can be used by the local installation's MWR program. This practice violates department and Army regulations. According to DOD, the Navy and Air Force PCS lodging programs already conform to the proposed policy, which would then have no impact on their MWR programs.

The Marine Corps May Request a Waiver If Proposed Policy Is Implemented

The Marine Corps has 14 PCS lodges at 12 of its 19 installations. Since 1996 the PCS lodges have reported steadily increasing earnings. For example, in fiscal year 1996 they reported a net profit of about $1.8 million, and by fiscal year 2000, they reported a net profit of about $5.1 million, which was used to operate the lodging program as well as help support MWR programs at the local installations. Marine Corps officials believe that the proposed policy is inappropriate for the Marine Corps, considering its size, decentralized organization, and the manner in which it operates its MWR and its TDY lodging programs. In addition, they believe that the lodges are a good source of future revenue for the MWR programs.

If these lodging earnings are no longer available to the MWR programs, Marine Corps officials said that they would have to make changes to their MWR programs, such as reducing the quality-of-life services, raising rates, or seeking additional appropriations to compensate for lost revenues. Additionally, they are concerned that some of the lodges will not be able

to operate profitably if they are removed from the MWR program. Currently, the MWR program provides the funds needed to expand, renovate, and construct new lodges. Without this support, officials said some installations might not be able to afford to renovate or build new lodges. They were also concerned that the proposed change might result in additional costs for overhead and common support and were unsure whether a separate lodging fund would be able to reimburse the MWR fund for the value of the lodging assets previously financed and built by the MWR fund. For these and other reasons, Marine Corps officials said they may ask for a waiver if the policy is implemented.

Earnings from what the Marine Corps terms its MWR business activities,[8] including its PCS lodges, help to support a number of MWR programs that cannot support themselves. In fiscal year 2000, the Marines' MWR business activities at installations that had PCS lodges reported profits of approximately $49 million. (See table 2.)

[8] The Marine Corps' MWR program has three business activities—retail sales, services, and food and hospitality, which includes lodging. These activities generate revenues to pay for their own operations and use earnings to support other MWR activities that may not generate revenues or may generate insufficient revenues to offset their costs.

Table 2: Summary of All Marine Corps Reported MWR Sales and Profits for Profitable Activities in Fiscal Year 2000 at Installations with PCS Lodges

Dollars in thousands

	Reported sales			Reported profits from profitable activities		
Marine Corps installations	**All MWR programs**	**PCS lodges[a]**	**Percent[b]**	**MWR**	**PCS lodges[a]**	**Percent[c]**
Barstow, Calif.	$ 4,241	$ 47	1.1	$ 295	$ 14	4.7
Beaufort, S.C.	9,911	525	5.3	912	224	24.6
Butler, Japan	40,953	3,709	9.1	5,661	2,120	37.4
Iwakuni, Japan	32,743	429	1.3	2,839	243	8.6
Hawaii	67,729	606	.9	4,366	215	4.9
Lejeune, N.C.	133,855	1,409	1.1	11,163	492	4.4
Miramar, Calif.	10,856	1,424	13.1	1,744	461	26.4
Parris Island, S.C.	36,712	357	1.0	3,146	67	2.1
Pendleton, Calif.	151,513	1,953	1.3	9,620	509	5.3
Quantico, Va.	60,961	1,614	2.6	4,395	482	11.0
29 Palms, Calif.	51,687	357	.7	3,521	82	2.3
Yuma, Ariz.	17,147	504	2.9	1,623	228	14.0
Total	**$618,308**	**$12,934**	**2.1**	**$49,285**	**$5,137**	**10.4**

[a]PCS lodge sales and reported profits are included in MWR sales and reported profits.

[b]GAO calculation of Marine Corps' reported lodging sales as a percent of total reported MWR programs sales.

[c]GAO calculation of Marine Corps' reported lodging profits as a percent of reported MWR profits.

Source: Marine Corps Community Services data.

Profits shown in table 2 are those reported for installations with PCS lodges before these profits were used to help support local MWR programs that may either collect no revenue, or insufficient revenue, to offset their operating costs (e.g., parks and picnic areas, swimming pools, and child development centers). After this support was provided, the Marine Corps' MWR program reported profits of about $7.8 million. If the PCS lodging profits of about $5.1 million had been set aside to support only the lodging programs, the MWR would still have earned about $2.7 million more than MWR expenses.

The impact of losing PCS lodging earnings varies by installation. As a percent of total reported MWR program sales and profits in fiscal year 2000 (see table 2), PCS lodging was 2.1 percent of sales; but 10.4 percent of profits. These PCS profits ranged from a low of 2.1 percent of the total MWR profits at Parris Island, S. C., to as much as 37.4 percent at Camp Butler, Japan. All of the installations in table 2 earned a profit before those

profits were used to help support local MWR programs. In addition, all but two of the MWR funds would have had profits remaining (after paying all MWR support costs) even if lodging earnings had not been available to them. The MWR fund at Parris Island, S.C., for example, had a net loss of about $940,000 in fiscal year 2000 after paying all MWR support costs. Without the $67,000 in profits from the PCS lodge, the net loss would have been even greater. The MWR fund at Camp Lejeune, N.C., would also have lost money if lodging earnings were not included. In fiscal year 2000, its net profit was about $68,000 after paying all MWR support costs. Without the $492,000 in PCS lodging profits, the fund would have lost about $424,000 for the year. Camp Lejeune officials said that this loss would have had a significant impact on the quality of life of that Marine community.

According to Marine Corps officials, the impact of separating PCS lodging funds from the MWR program would be greater than suggested by simply focusing on PCS lodge profits. The officials indicated that removal of the PCS lodging funds would eliminate much needed funding flexibility and the ability to provide advance funding for future activities. Therefore, if the proposed policy is adopted, they said that these installations might have to increase fees or eliminate certain programs.

Options to Compensate Marine Corps MWR Fund for the Loss of Lodging Revenue

The Marine Corps has several options to compensate the MWR fund for the lost PCS lodging revenue. Currently the Marine Corps is not considering any of these options, which suggests that it is likely to request a waiver from the policy if it is adopted. Each of the options for maintaining a healthy MWR operation at each Marine Corps installation would need to be studied to determine which option or which combination would be the most effective. These options include, but would not be limited to,

- reducing or eliminating some MWR services or increasing the services' fees;
- seeking additional appropriations or reprioritizing existing appropriations; and
- using the potential reimbursement for the net book value[9] of the lodging assets.

[9]Net book value represents the original cost of the facilities plus any improvements minus the allowable depreciation.

Marine Corps officials often cited reducing or eliminating MWR services as a possible but undesirable outcome of the policy change, but they did not specify which services would be reduced or eliminated, saying that this would be an individual installation decision. They also discussed the potential need to raise the fees charged for other MWR services used by Marines and their families. These MWR services, especially MWR Category B and C programs, charge varying fees to help support the MWR program. Raising the fees and reducing or eliminating some of these services is an option for the MWR program to offset the loss of lodging revenues.

A second option available to the Marine Corps would be to seek additional appropriations or to reprioritize them. Depending on how vital the MWR program is to the military mission, DOD regulations permit varying levels of appropriated support. However, as shown in table 3, the Marine Corps provided less appropriated support in fiscal year 2000 than did the other services for Categories A and B MWR programs.

Table 3: Percent of Appropriated Support to MWR Provided by Services for Fiscal Year 2000

	Category A	Category B
DOD minimum goal	85	65
Navy	89	66
Army	90	66
Air Force	96	66
Average	92	66
Marine Corps	76	52

Note: Category C programs receive little appropriated support.

Source: DOD December 26, 2001, MWR Report.

According to DOD policy,[10] Category A MWR programs (e.g., free professional entertainment and physical fitness programs) are considered most essential in meeting each of the military services' objectives and have virtually no capacity for generating nonappropriated revenues. DOD guidance specifies that they are to be supported almost entirely with appropriated funds. However, according to DOD data, in fiscal year 2000 Marine Corps appropriations paid 76 percent of Category A expenses

[10]*Department of Defense Instruction 1015.10 Programs for Military Morale, Welfare, and* Recreation (MWR), November 3, 1995 *(Administrative Reissuance Incorporating Change 1*, October 31, 1996*)*.

compared to an average of about 92 percent by the other military services. (See table 3.) A portion of its lodging earnings helped offset the shortfall.

Category B MWR programs (e.g., childcare programs and youth activities) are similar to Category A programs in importance to each service but have some revenue-generating capacity. In fiscal year 2000, Marine Corps appropriations paid 52 percent of Category B MWR expenses, compared to approximately 66 percent by the other services. Again, the Marine Corps used a portion of its lodging earnings to help offset the shortfall.

Category C MWR programs (e.g., golf courses and bowling alleys) have enough revenue-generating capacity to cover most operating expenses and generally receive limited appropriated support.

Because the Marine Corps has discretion to determine how much of its operations and maintenance appropriations will be used to support MWR activities, it could look for opportunities to allocate a greater portion of these appropriations to support MWR activities at levels closer to those provided by the other services. In fact, Marine Corps officials said they were taking steps to increase the percentage of appropriated support for MWR programs. The Corps also has the option to seek additional appropriations from the Congress to make up for the MWR program's loss of lodging revenues.

A third option available to the Marine Corps is to follow a practice recently used by the Army—reimbursing the MWR fund for the value of lodge assets previously held in the MWR program. The Marine Corps estimates the current net book value of its lodging facilities is about $18 million but this could increase as current and planned construction projects are completed. Because most of these assets were built or obtained with MWR funds, the MWR program may be entitled to a reimbursement if the lodging assets are transferred to a separate lodging fund. The Army used this approach when it changed its lodging program to meet the requirements of the proposed policy. In that case, the Army established a multiyear payment schedule to reimburse the MWR program from annual lodging receipts. Such a program in the Marine Corps could provide a source of annual funds to help compensate for lost lodging revenue, at least in the shortterm.

Options to Ensure Marine Corps Lodges Will Continue to Operate without MWR Support

The Marine Corps also stated that without continued MWR support, the operations of some of its PCS lodges would be negatively affected. There are options, however, that could reduce this impact. Each of these would need to be studied to determine which or which combination would offer the best alternative. The options include, but would not be limited to

- sharing pooled PCS lodge revenues across all installations and
- combining PCS and TDY lodging operations and sharing resources.

Pooling and sharing of lodging profits across the Marine Corps installations (e.g., creating a centrally managed lodging fund) could help ensure that money is available to meet all installations' PCS lodging needs, including construction or remodeling needs and additional support costs. Shortfalls at one location could be met with profits from others. The Marine Corps already pools and shares some lodging earnings. For example, each MWR business activity (including the lodges) contributes to a central MWR construction fund, which is shared by all installations.

Currently, the Marine Corps PCS and TDY lodges (like those of the Navy) are managed and operated by two separate organizations. The Office of the Deputy Commandant, Installations and Logistics manages the Marine Corps' TDY lodges, and the Marine Corps Community Services manages its PCS lodges. The Marine Corps could combine its TDY and PCS lodging operations similar to those of the Air Force and Army, potentially reducing the management and overhead costs associated with managing two distinct lodge systems.

The Army Has Taken Steps to Comply with the Proposed Policy But Is Still Using Some Lodging Revenues to Support MWR Programs

On October 1, 2000, the Army took steps to ensure it would be in compliance with the proposed lodging policy should it be adopted. This included creation of a single lodging fund for both PCS and TDY revenues separate from its MWR fund. It also authorized its installations to impose a surcharge on some users of its lodges that is used to help support local morale, welfare, and recreation activities. We believe this practice violates DOD and Army regulations.

Army Made Changes to Comply with Expected Policy

Prior to October 1, 2000, the Army operated separate TDY and PCS lodging programs. Revenues from the TDY program were deposited into a separate lodging fund and used exclusively to support TDY lodges. However, revenues from the PCS lodging program were deposited into the Army's MWR fund. While this fund, in turn, paid the lodges' operating expenses and funded capital improvements, excess lodging earnings were used to support other Army MWR programs.

On October 1, 2000, the Army combined operations of the two lodging programs and began depositing all lodging revenues into a single lodging fund at each installation.[11] Considering potential management efficiencies, Army officials believe that the financial impact on its overall MWR program would be minimal. They estimated that the MWR fund will annually lose lodging earnings of about $5 million,[12] after deducting MWR overhead and recapitalization costs. They consider the impact on any particular installation to be limited because the loss is shared by the 61 installations with PCS lodges. Additionally, the Army's MWR construction fund will lose about $800,000 annually, representing the PCS lodges' historical contribution to the fund, which was based on a 2-percent assessment of lodging revenues.

However, the MWR fund will also benefit from the change because it will no longer be responsible for maintaining existing or constructing new lodges. From fiscal years 1996 through 2000, for example, the MWR fund reported spending about $38 million on the construction of new PCS lodges. In addition, the Army has estimated that it currently has a $635-million backlog of maintenance and repair in its PCS and TDY lodges.[13] Installation MWR funds will no longer be responsible for the PCS portion of this backlog. The Army central lodge construction fund will also reimburse each installation MWR program for the estimated book value of the PCS lodging assets as of October 1, 2000. This is being done in recognition that the assets were initially constructed or renovated with MWR funds but that the MWR programs would no longer be able to benefit financially from the investments. The total reimbursement will be $49.5 million, paid out over 6 years.

Army Improperly Diverts Some Lodging Revenue to MWR

To further lessen the impact of the loss of lodging revenue to installation MWR programs, the Army permits installations to impose a surcharge on patrons not traveling on official orders, such as military retirees, and transfer the proceeds to the MWR funds at the local installations. Army installations can choose whether to participate and can set the surcharge

[11] The Army also maintains a central lodge construction fund, containing funds from each installation with a lodging program, at its lodging headquarters in Alexandria, Virginia.

[12] For example, gross revenues for fiscal year 2000 were about $14 million, but the MWR programs returned about $9 million to the lodging program in various types of support ranging from operating expenses to capital improvements.

[13] Army lodging officials said they could not provide us a breakdown of the PCS portion of this backlog without an extensive data-gathering effort.

amount. Twenty-three of 61 installations in the United States and overseas elected to participate in fiscal year 2001. The surcharge rates ranged from $1 at West Point, N. Y., to $25[14] at Army locations at Camp Zama and Kure, Japan, and generated more than $1.8 million during fiscal year 2001.

Under DOD and Army guidance, this transfer of funds to the MWR program is prohibited. The transfer violates the provisions of DOD and Army regulations, set forth below:

- DODI 1015.12, Lodging Program Resource Management states that nonappropriated funds that are generated from, or associated with, lodging programs shall be used only for lodging programs unless they are organized as part of the single MWR fund.[15]
- Army Regulation 215-1, MWR Activities and Nonappropriated Fund Instrumentalities[16] provides that supplemental mission nonappropriated funds, such as the funds from lodging operations, will not be used to subsidize MWR programs and that such funds can be used only for the requirement for which they were established—in this instance, lodging.

Air Force and Navy MWR Programs Will Not Be Affected by the Proposed Policy

While the Air Force and Navy manage their PCS lodging programs differently, neither provides any lodging revenue to its MWR programs. Rather, historically the Air Force and the Navy have deposited all revenues into separate lodging funds and reinvested them into the lodging programs; therefore they are already in compliance with what the proposed policy would require. The Air Force manages TDY and PCS lodges as one program, and most management operations are the same for both types of facilities. The managing agent is Air Force Services. While the Navy already maintains separate accounting of its lodging fund from its MWR fund, it has not created a consolidated lodging fund for both PCS and TDY lodges as seems to be suggested by the department's May 2, 2001, report to the Congress. The Navy's PCS and TDY lodges are managed by two separate organizations, which have separate lodging funds with distinct management philosophies and goals. Navy Exchange Service Command manages the Navy's PCS lodging and the Naval Facilities Engineering Command manages its TDY lodging.

[14] According to an Army lodging official, the $25 charge is only for contractor personnel.

[15] Oct. 30, 1996; paragraph 4.6.

[16] Oct. 25, 1998; paragraph 4.7, 4.8, and 4.11.

Proposed Policy Change Based on Resolving a Perceived Regulatory Conflict and Achieving Other Management Objectives

DOD officials provided two primary reasons for changing the PCS lodging policy. First, they perceived a need to resolve a conflict with the Joint Federal Travel Regulation. In DOD's view, resolution of the conflict required separation of lodging revenues from those used for MWR purposes. Second, the officials told us the policy change was a first step to achieve a number of other management objectives. Our analysis indicates that the policy change may serve an important management purpose, ensuring that lodging funds are retained and used exclusively for lodging programs. However, the change is not compelled by requirements of the Joint Federal Travel Regulation. And while consistency and achieving other management objectives appear to be reasonable, much more will be required to enable DOD to accomplish the other management objectives.

The PCS Policy Change Intended to Resolve a Perceived Conflict with Travel Regulation

In its May 2001 report to Congress,[17] DOD based the proposed policy change on a determination that its current PCS policy is in conflict with requirements of the Joint Federal Travel Regulation. DOD reported that its current policy defines PCS lodging as an "unofficial lodging program" while the Joint Federal Travel Regulation defines PCS lodges as "official travel government quarters." DOD viewed the proposed policy as resolving this conflict by removing PCS lodging revenues from MWR programs.

Although we believe the policy change is within the discretion of the department, we do not find a conflict between the department's current policy and the Joint Federal Travel Regulation. In our view, the regulation deals with allowances for travel and transportation; it does not apply to lodging policy.

The Policy Change by Itself Will Not Allow DOD to Accomplish Most Other Management Objectives

DOD officials also outlined a number of other management objectives they expected to accomplish, aimed at improving management of the lodging programs. These included (1) making the programs more consistent across the military services, (2) reducing lodging rates where appropriate, (3) improving the overall quality of lodging facilities, and (4) eliminating the construction of new PCS lodges that may exceed the needs of official DOD travelers. The proposed policy, however, does not specifically address these objectives. Therefore, the policy change, by itself, will not allow DOD to accomplish them. Supplemental DOD guidance for operating both

[17] *Report on Lodging Programs* provided to the Senate and House Armed Services Committees; May 2, 2001.

TDY and PCS lodges will be required. Department officials said that the lodging policy is only the first step in their plans to improve the lodging program and that they will eventually need to recommend further change to the department's guidance to address these other issues.

Create Consistent Lodging Policy and Operations

According to officials in the Office of the Secretary of Defense (OSD), the military services' PCS lodging programs have evolved over time and have widely different operating philosophies and approaches. In addition, when DOD revised its lodging policies and implementing guidance in 1995 and 1996, they were written so that the military services could continue to operate their unique PCS lodging programs; they were not written to ensure consistent lodging programs across the services. The proposed new policy change does not address this issue.

Contrasting PCS and TDY lodging programs, OSD officials pointed out that TDY lodging guidance ensures greater consistency across the services. It requires that the services manage their TDY lodges similar to Category A MWR activities. Such lodges are considered to be mission-sustaining; can receive appropriated funds for major renovations and new lodge construction; and can receive other appropriated support typically provided by the local installation (e.g., for minor repairs and electricity). The goal of this type of lodging program, according to DOD's guidance, is to provide quality lodging facilities at the lowest possible price to official DOD patrons traveling on orders. This, in turn, reduces the travel costs of operational units, allowing use of appropriated funds for other purposes.

However, current PCS lodging guidance permits management of lodges as Category A mission-sustaining lodges or as Category C revenue-generating lodges. First, for Category A mission-sustaining PCS lodges, the services follow DOD's lodging guidance which is similar to guidance followed by TDY lodges. A major difference, however, is that the services must use nonappropriated funds (e.g., from lodging revenues), not appropriated funds, to renovate or build new PCS lodges. The Air Force and Army have combined their TDY and PCS lodging programs and operate them as Category A mission-sustaining activities. While they maintain some distinctions between the two types of lodges (e.g., PCS lodges are designed more for families and generally provide some type of kitchen facilities), lodging rates are kept as low as possible. Further, generally one organization on each installation manages and oversees lodging operations. Revenues in these cases are deposited into a single lodging fund and are used only to support the lodging programs.

Second, the services MWR program or exchange service can manage PCS lodges as Category C activities. In these cases, DOD's lodging criteria are completely different. Most notably, they do not designate PCS lodges as mission-sustaining. Rather, they are classified as revenue-generating activities that, with some minor exceptions, should be financially self-supporting. Consequently, they are expected to receive only limited appropriated support. There is also no requirement that lodging rates be kept to the lowest possible price. The Navy and Marine Corps have separate TDY and PCS lodging programs. They manage their TDY programs as the Air Force and Army manage theirs but manage their PCS programs as revenue-generating activities. Each military installation usually has two lodging organizations, each with its own rate structures and funding priorities. The Navy's PCS lodging revenues go into a separate lodging fund, while Marine Corps revenues go into a single MWR fund. DOD officials said that besides creating an inequitable situation among the services, the variety of operations makes it practically impossible to collect consistent data and analyze the effectiveness of the lodging programs.

The proposed lodging policy, by itself, will not result in more consistent lodging policies and operations among the services. Although, the proposed policy would prevent the services from operating PCS lodges as Category C MWR activities and require them to deposit lodging revenues into "the Military Service's Lodging Fund," it would not prevent the services' MWR programs from continuing to manage separate PCS lodging programs. DOD's May 2, 2001, report, for example, states that the Navy's PCS program will not be affected by the change because the Navy already deposits PCS lodging revenue into a separate lodging fund. Moreover, if DOD implements the proposed policy, OSD officials said that the Navy and the Marine Corps could choose to continue to operate separate PCS and TDY lodging programs as long as lodging revenues were not used to support MWR programs. Thus, the policy would not necessarily resolve DOD's concern about the inconsistent management approaches being used by the military services.

Reduce Lodging Room Rates

OSD officials said, and we confirmed, that there is a relatively large difference in PCS room rates charged by the military services. As shown in table 4 below, the average room rates for fiscal year 2000 ranged from $27 to $55 (actual room rates ranged between $6 and $105 overseas and between $15 and $70 domestically). In these officials' views, this variation in rates creates an inequitable situation between the services that should be resolved.

Table 4: PCS Lodging Room Rates – Fiscal Year 2000

Military services	Average nightly room rate	Criteria for room rates	Other room rate factors
Air Force	$27	Based on a formula designed to recover operating expenses and to refurbish interiors over a 5-year period	$6-per-bed-night surcharge to fund needed construction and major renovation ($8 overseas)[a]
Army	$37[b]	Rates varied across installations and were designed to help cover lodging and other MWR program costs	2% of aggregate installation MWR earnings from all MWR activities were collected centrally to pay for construction.
Marine Corps	$44	Based on local market survey and designed to earn at least a 25 % profit	2.5 % of all lodging revenues is transferred to a central fund to support MWR construction and major renovations
Navy	$55	Designed to be at least 20 % lower than local commercial room rates and to earn at least a 20-percent profit	Construction and major renovations are funded from current lodge earnings.

[a]Surcharge amounts are included in the Air Force's room rates.

[b]Rate is before Army combined PCS and TDY lodging. Average rate for fiscal year 2001 is $32 and is based on a formula designed to recover only lodge operating expenses and to refurbish lodge interiors over a 5-year period. This rate also includes a $6-per-bed-night surcharge to pay for a lodge modernization plan.

Source: Data provided by each service.

All of the services offer lodging at rates below commercial rates. However, higher lodging room rates in some services increase the appropriations needed to support PCS travelers. PCS travelers and their families [18] and a large number of TDY travelers stay at PCS lodges. Because these travelers are reimbursed for the actual cost of their rooms, higher rates have a direct impact on the operation and maintenance accounts of their organizational units.

As shown in table 4, the services have different criteria for establishing PCS room rates. The Air Force uses the same formula as it does for TDY rates. This formula is designed to recover current operating costs and provide sufficient funds to periodically refurbish lodging interiors (e.g.,

[18] PCS travelers and their families receive a maximum of $180 per day for a maximum of 10 days to help them offset the cost of lodging and other living expenses. Section 632 of the National Defense Authorization Act for Fiscal Year 2002 (Public Law 107-107) increased this allowance to $180 per day from $110 per day. The 10-day period includes the time military travelers and their families spend while they are preparing to move and while they wait for permanent quarters at their new duty station. It does not include the PCS travel time needed to travel between duty stations. While military travelers are also authorized to stay in military lodges while they are enroute to their new duty station, they receive a different type of travel allowance during this period.

furniture and paint).[19] It also adds a $6 per-night surcharge (included in the room rates shown above), which is collected centrally and used to pay for the expense of renovating existing lodges and building new ones. Theoretically, this process establishes the lowest possible price needed to meet lodging standards. As shown in the footnotes to table 4, the Army has, since October 1, 2001, adopted a similar approach to that of the Air Force in establishing nightly room rates. It now uses, for example, the same type of formula for establishing PCS room rates and charges a $6 per night surcharge to fund the construction and renovation of its lodges.

The Navy and Marine Corps have greater flexibility to establish lodging rates. Each performs a local market survey and/or attempts to establish rates that are lower than the federal per-diem rate but will allow them to earn at least a 20-or 25-percent profit.

The proposed policy change does not specifically address lodging rates. There could be some impact on the rates, however, depending on how the services choose to implement the new policy. For example, when the Army implemented the proposed policy, it combined its TDY and PCS lodging programs and began to eliminate distinctions between the two; it set a single rate of $32, which includes the $6 per night surcharge, for both types of lodges. It is not clear at this time how the proposed policy might affect rates charged by the Navy and Marine Corps. As discussed in the previous section, the proposed policy does not specifically require the Navy to combine its TDY and PCS lodging programs, and Navy officials indicated they do not plan to do so.

Improve Quality of Lodging Facilities

OSD officials perceived a wide difference in the quality of PCS lodges across the services. They attributed this difference to a number of factors, all related to funding. How the proposed policy will affect some of these issues is unclear.

- First, the inconsistent operating and funding arrangements allowed by DOD's current lodging guidance allows some services to deposit lodging revenues into a lodging or billeting fund while the Marine Corps deposits revenues into an MWR fund. This creates an inconsistency in how lodging funds can be used. The new policy will eliminate this inconsistency.

[19] The Air Force develops 5-year plans to refurbish the interior of the lodges. The cost of these plans is built into the rate structure.

- Second, differences exist in how funding is obtained for lodging modernization and new construction. Lodging revenues in the Army and Air Force (which operate their lodges as Category A mission-sustaining activities) must be sufficient to fund current operating expenses, periodic refurbishment of the lodging interiors, major renovations to the building exteriors, and the construction of any new or replacement lodges. However, the formula used by these two services to set lodging rates does not include factors for renovation or new construction. Therefore, the Army and Air Force lodging programs have added a nightly surcharge to their room rates to pay for these types of capital improvements. The Navy and Marine Corps (which operate their lodges as Category C revenue-generating activities) have greater flexibility to set lodging rates to generate additional revenue for capital improvements or other purposes.
- Third, the degree of appropriated support provided at the local installation level (e.g., minor repairs and grounds maintenance) varies greatly. Much depends on other funding priorities at the installation and the installation commander's interest and support.

During our work, we stayed at and/or visited 16 of DOD's 191 installations with PCS lodges, many of which had more than one PCS lodge building. We observed the general quality of the facilities and discussed management and funding issues with local managers. While this small sample does not allow us to project findings to all PCS lodges, our overall impression is that the lodges were generally in good condition. While we noted differences in the quality and age of the buildings and general appearance of the surrounding grounds, most of the interior furnishings were reasonably up to date, and the rooms were clean. Naturally, some of the lodges appeared better than others, but for our small sample, this did not seem to be related to a particular service or method of operation. Rather, it was more a product of the lodges' age (some were over 50 years old while others had recently been constructed); how recently the interiors had been refurbished (each of the services seemed to have a cyclical refurbishment plan to keep the interiors fresh); whether the exteriors had been adequately maintained or recently renovated; and the degree of support and interest by the local installation commander and his management team. To illustrate this last point, the PCS lodging facilities at Fort Bragg, N. C., appeared to be in very good condition. Local lodging managers said they were lucky because a past installation commander had considered the lodges to be an important quality-of-life issue and made them a priority for funding. Other locations we visited had not benefited from this degree of support.

The proposed policy will ensure that lodging revenues are used exclusively for lodging purposes, but the extent to which it will change existing conditions and approaches to upkeep and renovation is unclear. All the services already have programs underway to either renovate or build new or replacement lodges. Because DOD's current guidance does not permit the services to use appropriations to fund PCS lodge construction, they have used different methods to generate needed funds. For example, as shown in table 4 above, the Air Force and Army currently charge $6 per room, per night, which is deposited into centrally managed construction funds and redistributed on a priority basis. Similarly, each Marine Corps lodge deposits 2.5-percent of its annual revenues into a central MWR construction fund, which is redistributed on a priority basis to all MWR programs. The Navy's PCS lodging program, which is managed centrally by the Navy Exchange Service Command, earns sufficient profits to renovate existing lodges and build new ones. As discussed previously, similar differences also exist with regard to appropriated fund support at the local installation level. Army and Air Force lodges (because they operate as Category A mission-sustaining activities) are authorized to receive appropriated funding for routine maintenance and other types of support. Navy and Marine Corps lodges (because they operate as Category C revenue-generating activities) are also authorized some indirect appropriated support but generally are expected to be self-supporting at most installations. These funding differences are unlikely to be resolved by the proposed policy change.

Eliminate Construction of New Lodges That Exceeds the Needs of PCS Travelers

As discussed in more detail later, OSD officials said that under current guidance, they are not able to limit the construction of new PCS lodges, particularly in the Navy and Marine Corps, even when it is clear that the new lodges are not needed to support PCS travelers. Because the Navy and Marine Corps operate their PCS lodges as Category C revenue-generating activities, current guidance allows them to construct lodges to meet the needs of all authorized MWR patrons, not just those of patrons traveling on orders. As a result, they are building new lodges, some in recreational areas or in other areas that have a high demand by MWR patrons. While the proposed policy will prevent the Marine Corps from using PCS lodging revenues to support MWR programs, it does not change the guidance relating to the construction of PCS lodges. Thus, the Navy, and possibly the Marine Corps, may continue to build PCS lodging in excess of demand by patrons traveling on government orders.

Most Management Objectives Necessitate Longer-Term Actions

For the most part, the proposed policy does not change the underlying DOD instructions and guidance that give the military services wide discretion in managing their lodging programs. As a result, the policy

change, by itself, will not result in the type of managerial improvements OSD officials envision for the program. OSD officials said they recognized that the proposed policy was only the first step in revising the department's lodging operations and that they would eventually recommend changing the DOD instructions to address the other management issues. Until this is done, however, the lodging programs will continue to be managed in a widely divergent manner.

DOD Guidance Allows Services to Build PCS Lodges in Excess of Official Traveler Needs

The services' plans for building new PCS lodges are consistent with department guidance. However, two sets of OSD policy guidance are available to the services in managing their lodging programs—MWR guidance followed by the Navy and Marine Corps, which allows them to add new lodging rooms beyond those required to meet the needs of PCS travelers, and lodging guidance followed by the Air Force and Army, which is oriented to meeting the more limited needs of official military and civilian travelers. Each of the services is constructing or has plans to construct sizeable quantities of new or replacement PCS lodges.

The Military Services Follow Divergent Guidelines to Justify New PCS Lodge Construction Projects

DOD has two sets of PCS lodging guidance depending on how the military services choose to manage their programs: MWR guidance and lodging guidance. These different sets of guidance have different program emphasis and, more importantly, allow the services to use a different authorized patron base to determine how many lodge rooms are needed to accommodate travelers. MWR guidance allows construction to support all MWR patrons. Lodging guidance allows construction to support only patrons on travel orders.

MWR Guidance and Approach

DOD's MWR guidance[20] stipulates that PCS lodges are provided specifically for PCS personnel and their families but identifies a number of other authorized users, including TDY travelers, members of the armed forces and their families not on official travel, retired members of the armed forces and their families, and others at the discretion of the base commander (e.g., DOD civilians and their families, other federal employees, guests, and even members of the public under some limited

[20] *Department of Defense Instruction 1015.10 Programs for Military Morale, Welfare, and Recreation* (MWR), November 3, 1995 *(Administrative Reissuance Incorporating Change 1*, October 31, 1996*)*.

circumstances). While PCS travelers are given preference, other authorized users can make confirmed reservations in advance of their stay. In addition, the guidance allows the services to consider all these authorized users when determining whether there is a need to expand existing lodges or build new ones.

The Navy Exchange Service Command, which manages the PCS lodging program for the Navy, operates the PCS lodging program in accordance with this MWR guidance. Therefore, to determine its PCS lodging requirements, the Exchange Service tracks total occupancy rates and other data that indicate whether there is an unmet demand from any of its authorized patrons (e.g., number of people turned away). It then assesses the potential return on investment and prepares long range plans to build new lodges or expand existing ones at the installations with the most need. Navy officials pointed out, however, that the installation must approve any expansion or construction plans before funds are committed.

The Marine Corps Community Services, which manages the Corps' PCS lodging program, operates the PCS lodging program as a Category C MWR activity to earn a profit. Unlike the other services, these profits are used to help support Marine Corps MWR programs at the local installation level. Capital to renovate or build new PCS lodges comes predominately from a MWR construction fund managed centrally at the Marine Corps Community Services' headquarters at Quantico, Va. This fund receives 2.5 percent of the revenues from all Marine Corps MWR business activities (including the PCS lodges) managed by the Marine Corps Community Services and redistributes them to the activities based on relative priorities and potential return on investment. From fiscal years 1996 through 2000, the Marine Corps PCS lodging programs contributed about $1.2 million to the fund but received MWR program commitments of about $21 million to renovate or build new lodges.[21] According to a Marine Corps lodging official, to determine PCS lodging requirements, the Corps relies on four factors, 1) condition of current facilities, 2) percent of occupancy and the number of reservation requests that could not be filled, 3) return on investment of the planned lodging, and 4) availability of housing in the local area.

[21] Over time and with increasing revenues from lodging operations, the Marine Corps could in turn devote a greater portion of its lodging revenues to meeting non-lodging MWR needs.

Lodging Guidance and Approach

DOD's lodging guidance[22] says that PCS lodges are provided specifically for PCS travelers. It also identifies a number of other authorized users, such as TDY travelers and relatives and guests of military personnel stationed at the installation. The primary distinction between MWR and lodging guidance, therefore, is more a matter of emphasis. Under the lodging guidance, other authorized users stay at PCS lodges on a "space-available basis," which generally means they cannot obtain a confirmed reservation until 24 hours before the night of the stay, while MWR guidance allows all authorized users to obtain reservations in advance. The goal as stated in the lodging guidance is "to provide quality lodging facilities and service to authorized personnel and maintain maximum occupancy to reduce official travel costs."

Air Force Services, which manages the TDY and PCS lodging programs for the Air Force, operates both programs as Category A mission-sustaining activities. Because such programs are not designed to generate profits, the Air Force added a surcharge—currently $6 in the United States and $8 overseas—to its nightly room rates to help fund construction of new and replacement lodges. This surcharge generated about $100 million[23] from fiscal years 1996 through 2000. Over the last several years, the Air Force has based its PCS construction program on a 1995 contractor report that described the condition of the Air Force's PCS lodges and recommended a comprehensive program to bring them up to standard. This program involved the construction of lodges at a cost of about $141 million with an additional $224 million in additional requirements not yet funded. Air Force officials said that their decision to build new PCS lodging capacity is based on estimates of upcoming military personnel moves, not on the lodging demands of unofficial travelers.

The U.S. Army Community and Family Support Center manages the Army's PCS and TDY lodging operations.[24] In February 2000 it approved a "wellness strategy" aimed at addressing an estimated $635 million backlog of maintenance and repair requirements for its PCS and TDY lodges. Currently, the Army funds this strategy and any resulting lodge

[22] *Department of Defense Instruction 1015.12*, *Lodging Program Resource Management*, October 30, 1996.

[23] About $70 million was collected from the surcharge on TDY rooms and $30 million on PCS rooms.

[24] The Community and Family Support Center is a Field Operating Agency under the Army's assistant chief of staff for installation management.

construction and renovation with a $6 per-room, per-night surcharge. Because the Army estimates it will take 32 years to complete the program at this rate, it expects to increase the surcharge incrementally by $1 per year (starting in fiscal year 2003) until it reaches $12. According to Army lodging officials, part of their wellness strategy includes reviewing the occupancy rates at each installation and resizing the number of lodge rooms as necessary. Its internal guidance stipulates that "a lodging operation should be sized to accommodate 90 percent of its official lodging demand on an annual basis." In this case, official lodging demand is defined as PCS personnel and their families and TDY personnel, both military and civilian.

Services Are Building or Plan to Build Additional PCS Lodges

All of the services have recently built PCS lodges as part of their plans to replace or modernize their lodges. However, as shown in table 5, three of the services are building or have identified building plans that lead to a net increase in their inventory of PCS lodging rooms in the coming years.

Table 5: Estimated New PCS Lodge Construction—Increasing Room Inventories in Fiscal Years 1996-2000 and Fiscal Years 2001-2005

Dollars in millions

	Net increase in PCS lodging rooms					
	Fiscal years 1996-2000			Fiscal years 2001-2005		
Military services	Reported Cost	Locations	Rooms	Estimated Cost	Locations	Rooms
Navy	$42.4	11	587[a]	$121.4[b]	15[b]	940[b]
Marine Corps	$3.0	1	36	$24.6	7	237
Air Force	$93.3	16	540	$47.6[c]	4[c]	180[c]
Army	$38.0	6	259	None	None	None

[a]The Navy reduced its lodge rooms by 225 rooms at 4 locations during this time period.

[b]The Navy is reviewing two projects in Japan (150 rooms at an estimated cost of $27.2 million) and one in Puerto Rico (100 rooms at $15.3 million) for their viability. If any of these are not built, the numbers will be reduced accordingly.

[c]The Air Force numbers are only for fiscal years 2001-02.

Source: Data provided by each service.

As shown in table 5, the Navy Exchange Service estimates that it will spend about $121.4 million from fiscal years 2001 through 2005 for a net increase of 940 PCS lodging rooms at 15 Navy installations. These numbers do not include additional Navy plans to replace 769 rooms at 14 installations at an estimated cost of about $84 million, over the same

period.[25] The Marine Corps and the Air Force also have plans for new lodge construction. In addition, the Air Force has identified the need for $224 million to construct 1,039 new rooms at 36 bases but is unsure which ones, if any, will be funded. While the Army does not have plans for a net increase in PCS rooms, during fiscal year 2002, as part of its wellness strategy, the Army plans to spend $54 million to renovate or build replacement lodging rooms for those that are not considered worth renovating.

Available data on PCS lodge occupancy rates indicate that overall occupancy varies only slightly between the services. For example, during fiscal year 2000 the Air Force at 88 percent had the highest occupancy rate and the Army at 80 percent had the lowest. However, the mix of patrons who are using PCS lodges varies greatly. (See table 6.)

Table 6: Difference Between PCS Lodging Occupancy by Official and Unofficial Travelers – Fiscal Year 2000

	Official travelers			Unofficial travelers
Military services	**PCS**	**TDY**	**Total**	
Navy	23 %	30 %	53 %	47 %
Marine Corps	31 %	14 %	45 %	55 %
Air Force	[a]	[a]	95 %	5 %
Army	54 %	20 %	74 %	26 %

[a]Air Force data do not specify whether official travelers are PCS or TDY.

Source: Data provided by each service.

The data in table six coupled with the service lodge construction plans (see table 5) indicate that the Navy and Marine Corps plan significantly more new construction than would be necessary based on PCS traveler use. For example, the Navy recently has had plans to add 110 PCS rooms at the North Island Naval Air Station in California, which would have brought its total inventory there to 300 rooms. This contrasts with the fact that, in fiscal year 2000, however, only 38 percent of the occupants were official travelers (11 percent PCS and 27 percent TDY). The other 62 percent were other authorized travelers. In justifying this expansion, Navy officials cited an expected increase in Navy personnel in the area and a

[25] The Navy is reviewing one project in Japan to replace 50 rooms at an estimated cost of $10 million for its viability. If this project is not built, these numbers will be reduced accordingly.

large number of reservation requests. More recently, the terrorist events of September 11, 2001, are causing the Navy to rethink the size of this project based on force protection requirements and environmental issues—issues unrelated to PCS occupancy rates.

OSD Has Limited Control Over the Construction of New PCS Lodges

Officials in the Office of the Assistant Secretary of Defense, Force Management Policy, are responsible for overseeing DOD's lodging programs and establishing appropriate policies. In this capacity, they have review and approval authority for all major PCS lodging-construction projects. According to these officials, however, they cannot limit construction projects as long as the requesting authority has complied with applicable DOD guidance and instructions. They are aware, for example, that the Navy and Marine Corps have expanded existing lodges and built new ones that exceed the needs of PCS and other official travelers. Because DOD's current guidance allows this, OSD officials state that they have little recourse but to approve the projects as long as sufficient financial resources are available.

They pointed out, however, that this excess capacity has a cost that is borne by DOD. The higher room rates charged by the Navy and Marine Corps PCS lodging programs (see table 4) increase DOD travel expenses. As we pointed out earlier, this is one of several key reasons DOD wanted to change the PCS lodging policy.

Conclusions

Although we do not believe that travel regulations require DOD to revise its PCS lodging policy, the department does have the discretion to make the proposed change to bring consistency to the program and to reach desired management objectives. Although the proposed policy change would not impact the other services' overall MWR programs, it would impact the Marine Corps' MWR program. However, the Marine Corps has several options to help it compensate for potential lost MWR revenue and to preserve a financially healthy lodging operation. For this reason, if the proposed policy is adopted and the Marine Corps requests a waiver, we would support a short-term waiver to permit the Marine Corps time to evaluate implementation options. However, we do not believe that a permanent waiver is necessary, considering the reported amount of lodging earnings involved. While the Navy already separates accounting of its lodging fund from its MWR fund, it does not currently plan to create a consolidated lodging fund for both PCS and TDY lodges as seems to be suggested by OSD's May 2, 2001, report to the Congress. Clarification of the intent of the policy guidance in this area is needed. In addition, the

Army's practice of charging unofficial travelers a nightly surcharge that it provides to the local installation's MWR fund violates DOD and Army regulations.

DOD's desired lodging-management objectives—such as consistent lodging policy and operations, reduced room rates, improved lodging facilities, and limitations on new PCS construction—will not happen based simply on the proposed lodging policy change. Such improvements would likely require a revision of internal policies and instructions for both the TDY and PCS lodging programs. Also, the proposed policy leaves in doubt whether DOD expects the services to merge all operations of PCS and TDY lodging or if these operations may, in the case of the Navy and Marine Corps, continue to operate separately. DOD's current lodging guidance permits a wide disparity in operating and managing PCS lodging programs. This authorizes the Navy and Marine Corps to charge higher rates to help fund the construction of lodging accommodations in excess of the need of PCS travelers. These higher room rates increase the travel expenses for the department and for those of the services' operation and maintenance accounts. DOD officials acknowledge that the proposed policy change is but the first step in achieving DOD's desired goals.

Recommendations for Executive Action

We recommend that the secretary of defense in conjunction with the assistant secretary of defense for force management policy take the following actions if the proposed policy is implemented

- Provide the Marine Corps with a short-term waiver, if requested, to permit it time to evaluate policy implementation options and
- Clarify the proposed policy with regard to whether DOD expects the services to combine PCS and TDY lodging programs and funds or will allow these separate operations to continue.

Regardless of whether the proposed policy is implemented, the assistant secretary of defense for force management policy should:

- Provide the military services with a policy framework including improved lodging guidance to help achieve DOD's desired lodging-program management objectives, including consistent lodging policy and operations, reduced room rates, improved lodging facilities, and limitations on new construction not focused on official PCS and TDY travelers; and
- Require the Army to adhere to DOD's and its own regulations by discontinuing the transfer of lodging revenues (unofficial-traveler

surcharge) to installation MWR funds and returning the proceeds collected thus far to the Army's lodging fund.

Agency Comments

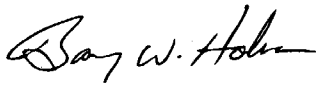
In commenting on a draft of this report, the assistant secretary of defense for force management policy concurred with the first three recommendations but partially concurred with the fourth. The assistant secretary stated that if the policy is implemented the department will (1) provide a short-term waiver so that Marine Corps leadership can evaluate policy implementation options and (2) clarify the proposed policy regarding whether the services will be directed to combine PCS and TDY lodging programs and funds or if the services can continue separate operations. Regardless of whether the proposed policy is implemented, the assistant secretary stated that the department will provide clear policy guidance, expected to be published by September 30, 2003, to achieve its lodging program management objectives. While we commend departmental recognition of the need for additional policy guidance to achieve lodging-program management objectives, we would urge a quicker time frame than the year and a half the department has established for issuing the guidance.

The assistant secretary also stated the department will require the Army to discontinue the transfer of lodging revenues (unofficial-traveler surcharge) to installation MWR funds. The department does not agree, however, that the proceeds already collected should be returned to the Army's lodging fund. DOD stated that return of the proceeds would create an undue hardship on the MWR program because the funds have already been committed. We continue to believe our recommendation is sound. The revenues in question were transferred from the Army's lodging funds to its MWR funds in violation of clear prohibitions contained in DOD Instruction 1015.12 and Army Regulation 215-1. The DOD instruction further provides that nonappropriated funds are government funds entitled to the same protection as appropriated funds. The instruction recognizes an individual fiduciary responsibility for properly using nonappropriated funds. The Army regulation contains nearly identical provisions and further provides that DOD directives and implementing Army regulations have the force and effect of law. Under these circumstances, we find no reason to modify our recommendation. The department's written comments are presented in their entirety in appendix II.

We are sending copies of this report to the secretary of defense; the under secretary of defense (personnel and readiness); the secretaries of the Air

Force, the Army, and the Navy; the director, Office of Management and Budget; and interested congressional committees and members. We will also make copies available to others upon request.

If you or your staff have questions concerning this letter, please contact us on (202) 512-8412. Staff acknowledgements are listed in appendix III.



Barry W. Holman, Director
Defense Capabilities and Management

Appendix I: Scope and Methodology

To determine the potential impact of the policy change on service MWR programs, we interviewed and received briefings on the policy change and its impact from key officials in the OSD who are responsible for developing MWR and lodging policy and from appropriate military service headquarters personnel who manage the services' MWR and lodging operations. We also obtained DOD and service headquarters overviews of their PCS and TDY lodging operations in addition to their policies and regulations that govern MWR and lodge funding and operations, as well as nonappropriated funds and nonappropriated fund instrumentality management and control. We also obtained and reviewed financial reports and other lodging and MWR revenue and expense data. In addition, we obtained and reviewed the Marine Corps Community Services' Annual Report for 1999, which included an unqualified opinion on its financial statements by an independent public accountant. We analyzed this information and identified additional impacts on both the services' MWR programs as well as their lodging programs. We used the impacts on the Army's programs to compare with the potential impacts on the Marine Corps' programs and to help us propose options for maintaining the health of the Marine Corps' MWR and lodging programs.

To determine to what extent DOD will accomplish its management objectives with the policy change, we first interviewed OSD officials to determine what they hoped to accomplish with the policy change and what they saw as the future of DOD's and the services' lodging programs. OSD officials were aware that the proposed policy change would have a limited effect and discussed this issue with us. We obtained and reviewed departmental and service MWR and lodging guidance to establish how each service was allowed to operate their PCS and TDY lodging programs. We then compared this information with the way in which the services were operating their programs to determine whether their operations were within departmental guidelines. We identified actions likely required to implement DOD's objectives for improving management of the lodging program and then compared this to the impact of the proposed policy to determine the extent to which the new policy would achieve DOD's objectives.

To determine whether the services' plans for building new PCS lodges was consistent with department guidance, we assessed authorities provided for new construction under existing department guidance with the construction plans of each service. To compare construction plans with the needs of PCS travelers, we obtained the number and location of their lodging facilities; number of rooms, room rates, and official and unofficial occupancy rates at each facility; reported past and future construction

schedules and costs; and reported revenue and expenses for each program. We analyzed this information within each service and between the services. We then compared each service's official and unofficial occupancy rates with their past and future plans for construction to give us an indication of which service had construction plans that did not match with their official traveler occupancy rate.

We reviewed the proposed policy justification and the Army's use of the unofficial traveler's surcharge to determine whether they were consistent with law and regulation.

Our work was performed at the Office of the Assistant Secretary of Defense Force Management Policy in Washington, D.C.; Navy Exchange Service Command headquarters in Virginia Beach, Va.; the Food and Hospitality Branch, Marine Corps Community Services, United States Marine Corps at Quantico, Va.; the Army Community and Family Support Center in Alexandria, Va.; and the Air Force Combat Support and Community Services Office in Crystal City, Va. We also visited the following 16 military installations to determine how the lodges were being managed and supported and to observe their physical condition: Andrews Air Force Base, Md.; Wright-Patterson Air Force Base, Ohio; Scott Air Force Base, Ill.; Fort Meade, Md.; Fort McPherson, Ga.; Fort Bragg, N. C.; Fort Belvoir, Va.; Camp Lejeune, N. C.; Quantico, Va.; Camp Pendleton, Calif.; Miramar Marine Corps Air Station, Calif.; Norfolk Naval Station, Va.; Little Creek Naval Amphibious Base, Va.; Oceana Naval Air Station, Dam Neck Annex, Va.; San Diego Naval Station, Calif.; and North Island (Coronado) Naval Air Station, Calif. We did not independently verify the data the DOD provided. Moreover, while our most recent financial audit[1] disclosed a continuing inability to capture and report the full cost of DOD's programs, the data provided by the department is the only data available for our analysis.

We conducted our review from March 2001 through January 2002 in accordance with generally accepted government auditing standards.

[1] *DOD Financial Management: Integrated Approach Accountability and Incentives are Keys to Effective Reform* (GAO-01-681T, May 8, 2001).

Appendix II: Comments from the Department of Defense

ASSISTANT SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000

MAR 8 2002

FORCE MANAGEMENT POLICY

Mr. Barry W. Holman
Director, Defense Capabilities and Management
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Holman:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report GAO-02-351, "DEFENSE MANAGEMENT: Proposed Lodging Policy May Lead to Improvements, But More Actions Are Required," dated February 7, 2002 (GAO Code 350050).

The DoD partially concurs with the draft report. DoD concurs with the first three recommendations, but partially concurs with the fourth recommendation. The Department will require the Army to discontinue the transfer of lodging revenues collected from the surcharge on unofficial travelers to installation MWR funds. However, DoD disagrees with returning the proceeds already collected by installations, as this would create an undue hardship on the MWR program because the funds have already been committed.

Suggested technical changes for clarification and accuracy have been provided separately.

The Department appreciates the opportunity to comment on the draft report.

Sincerely,

Charles S. Abell

Attachment:
As stated

GAO DRAFT REPORT DATED FEBRUARY 7, 2002
(GAO CODE 350050)

"DEFENSE MANAGEMENT: Proposed Lodging Policy May Lead to Improvements, But More Actions Are Required"

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense in conjunction with the Assistant Secretary of Defense for Force Management Policy provide the Marine Corps with a short-term waiver, if requested, to permit it time to evaluate policy implementation options.

DOD RESPONSE: Concur. The Marine Corps will be provided a short-term waiver, if requested, after the proposed policy is implemented to permit time for their leadership to evaluate lodging management options.

RECOMMENDATION 2: The GAO also recommended that the Secretary of Defense in conjunction with the Assistant Secretary of Defense for Force Management Policy clarify the proposed policy with regard to whether DoD expects the services to combine PCS and TDY lodging programs and funds or will allow these separate operations to continue.

DOD RESPONSE: Concur. The DoD agrees to clarify in the proposed policy whether the Military Services will be directed to combine PCS and TDY lodging programs and funds or be allowed to continue to operate these as separate programs with separate funds.

RECOMMENDATION 3: The GAO recommended that the Assistant Secretary of Defense for Force Management Policy provide the Military Services with a policy framework including improved lodging guidance to help achieve DoD's desired lodging-program management objectives, including consistent lodging policy and operations, reduced room rates, improved lodging facilities, and limitations on new construction not focused on official PCS and TDY travelers.

DOD RESPONSE: Concur. The DoD will provide clear policy guidance to achieve lodging program management objectives. It is expected that the new DoD policy will be published by September 30, 2003.

RECOMMENDATION 4: The GAO also recommended that the Assistant Secretary of Defense for Force Management Policy require the Army to adhere to DoD's and its own regulations by discontinuing the transfer of lodging revenues (unofficial-traveler surcharge) to installation MWR funds and returning the proceeds collected thus far to the Army's lodging fund

DOD RESPONSE: Concur that the Department will require the Army to discontinue the transfer of lodging revenues collected from the surcharge on unofficial travelers to installation MWR funds. However, DoD disagrees with returning the proceeds already collected by installations, as this would create an undue hardship on the MWR program because the funds have already been committed.

Appendix III: Staff Acknowledgments

Acknowledgments

Robert Ackley, Roger Corrado, James Hatcher, M. Jane Hunt, Richard Meeks, and Paul Newton made key contributions to this report.

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