United States Government Accountability Office

Report to the Committee on Armed Services, House of Representatives

December 2023

ARMED FORCES RETIREMENT HOME

Congress and Agency Management Should Take Actions to Improve Financial Sustainability

GAO-24-106171

ARMED FORCES RETIREMENT HOME

Congress and Agency Management Should Take Actions to Improve Financial Sustainability

GAO Highlights

Highlights of GAO-24-106171, a report to the Committee on Armed Services, House of Representatives

Why GAO Did This Study

AFRH is an independent entity within the executive branch designed to provide housing, health care, and well-being assistance to eligible veterans. AFRH is financed through a dedicated trust fund. However, certain revenue sources for its funding have decreased or remained static over time while costs have increased. To address its financial challenges without cutting services to residents, AFRH has worked to identify new revenue sources to help rebuild its trust fund balance.

House Report 117-397 includes a provision for GAO to review the financial sustainability of AFRH. GAO examined the extent to which AFRH projected estimated revenues and expenses for its trust fund through 2042, and developed plans to address any potential financing shortfalls, among other objectives.

GAO reviewed relevant laws, federal guidance, audit reports, and agency guidance and policies; interviewed agency officials and actuarial experts; conducted site visits; and developed a projection to analyze AFRH's financial position.

What GAO Recommends

Congress should consider taking action to address AFRH's financial shortfalls and may wish to consider actions proposed by AFRH management. GAO is also making seven recommendations to AFRH, including that it develop policies for financial projections and plans for revenue-generating proposals. AFRH agreed with four recommendations, partially agreed with one, and did not agree with two. GAO believes all recommendations are warranted.

View GAO-24-106171. For more information, contact Kristen A. Kociolek at (202) 512-2989 or kociolekk@gao.gov.

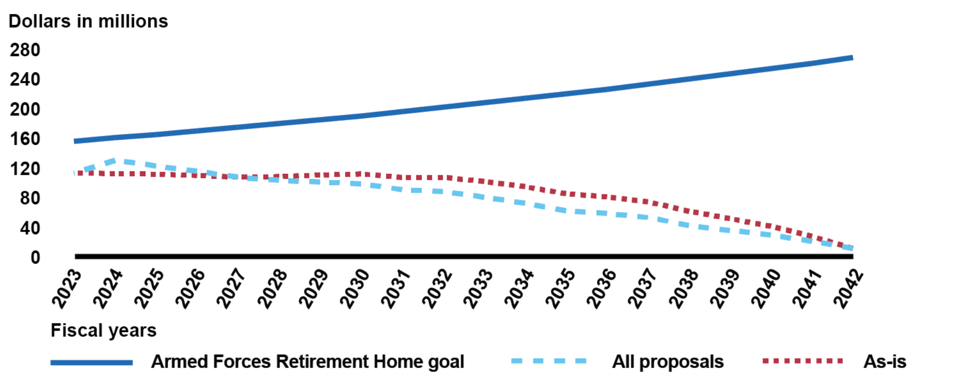
What GAO Found

The Armed Forces Retirement Home (AFRH) prepares at least four financial projections yearly for varying purposes. However, GAO found that AFRH's processes for preparing these projections do not conform to actuarial standards and practices. Specifically, AFRH used inaccurate and inconsistent data, did not have sufficient supporting information for its assumptions of future events and values, and did not make trust fund projections based on reasonable assumptions of expected occupancy levels. Without policies and procedures for preparing financial projections to help ensure staff consistently apply relevant standards and consult with appropriate experts, such as actuaries, AFRH increases the risk that its projections will not be useful for decision-making.

AFRH has identified several proposals to generate revenue and address potential financial shortfalls. However, challenges affect its plans to implement them, including factors outside of AFRH's control. AFRH's planned proposals include a statutory increase in military withholdings, requiring all military service members who are currently eligible for AFRH residency to contribute, and obtaining health and medical care reimbursements from programs such as TRICARE and Medicare for services it provides. However, these proposals require actions from Congress for AFRH to effectively implement them.

GAO developed projections of AFRH's trust fund balance through fiscal year 2042 under two scenarios: AFRH continuing to operate as-is and AFRH operating with all quantifiable proposals implemented. GAO's analysis shows that whether AFRH continues to operate under its current scenario or implements all proposals, the trust fund will likely continue to decline without other significant efforts to bolster it (see figure). Additionally, AFRH is not projected to meet its goal for the trust fund balance.

GAO Projection of Armed Forces Retirement Home's Trust Fund Balance



Source: GAO analysis of Armed Forces Retirement Home data. | GAO-24-106171

AFRH has not achieved its goals to raise its declining occupancy or to implement its other proposals. Also, AFRH faces further financial risks from costly repairs to deteriorating facilities. AFRH has not developed plans to address these issues. Without further actions, AFRH may continue to face financial shortfalls that in the future could affect its ability to fulfill its mission.

Contents

Abbreviations

AFRH	Armed Forces Retirement Home
AFRHAC	Armed Forces Retirement Home Advisory Council
ARC	Administrative Resource Center
ASOP	Actuarial Standard of Practice
CARF	Commission on Accreditation of Rehabilitation Facilities
DOD	Department of Defense
GSA	General Services Administration
NDAA	National Defense Authorization Act
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	performance and accountability report
PP&E	property, plant, and equipment
SFFAS	Statement of Federal Financial Accounting Standards
SOC	system and organization control
SOP	standard operating procedure
VA	Department of Veterans Affairs

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

December 7, 2023

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

Established by statute in fiscal year 1991, the Armed Forces Retirement Home (AFRH) is an independent entity in the executive branch of the federal government whose purpose is to provide housing, health care, and well-being assistance to certain retired and disabled military personnel. AFRH provides these services at two campuses—one in Washington, D.C., and one in Gulfport, Mississippi. AFRH is financed through a dedicated trust fund. Concerns about the solvency of the trust fund led to the creation in 2001 of a joint military services study group within the Department of Defense (DOD). In response to the group's findings, the National Defense Authorization Act (NDAA) for fiscal year 2002 restructured AFRH's management and oversight.[1]

The restructuring gave DOD supervisory responsibility over the management of AFRH. The act established a Chief Operating Officer as head of AFRH, appointed by and reporting to the Secretary of Defense. The Chief Operating Officer is required to have experience and expertise in operating and managing retirement homes and in providing long-term medical care for older persons.

AFRH management reported that since fiscal year 2018, it has, at the direction of Congress, worked to address its continuing financing challenges without cutting resident services. Part of AFRH's efforts have involved identifying new sources of revenue. AFRH management stated that these efforts, combined with receiving annual appropriated funds, are intended to help rebuild its trust fund.

House Report 117-397, which accompanied a fiscal year 2023 National Defense Authorization Act bill, includes a provision for us to review AFRH's financial sustainability.[2] Our review examines the extent to which

[1]Pub. L. No. 107-107, §§ 1401-1410, 115 Stat. 1012, 1257-67 (2001).

[2]H.R. Rep. No. 117-397, pt. 1, at 314 (2022).

AFRH (1) projected estimated trust fund revenues and expenses through fiscal year 2042, and developed plans to address any potential financing shortfalls, and (2) established and implemented policies and procedures to process and account for its revenues and expenses through its trust fund.

To address the first objective, we reviewed the law authorizing AFRH, guidance from the Office of Management and Budget (OMB), prior audit reports issued by GAO and the DOD Office of Inspector General (OIG), annual financial audit reports issued by AFRH's independent public accountants for fiscal years 2014 through 2022, and other relevant program documentation. We reviewed these to gain an understanding of AFRH's operations, financial results, and statutory requirements for its trust fund.

We obtained AFRH's 20-year financial projection spreadsheet and interviewed AFRH officials to gain an understanding of the methodology and key assumptions used to develop the projection. To help assess AFRH's projection, we consulted with two leading expert actuaries in life plan communities.[3] We developed a 20-year projection model, relying on AFRH-provided data, to analyze AFRH's financial position, including its proposals for improving long-term sustainability.

We conducted site visits and spoke with staff at AFRH facilities on its two campuses. We also conducted a site visit and interviewed officials from a private sector life plan community. We interviewed AFRH officials to understand their plans for raising revenue and reducing costs related to the trust fund.

To address the second objective, we reviewed AFRH's financial management guidance (i.e., written policies and procedures) to gain an understanding of how AFRH accounts for and reports results of its financing transactions. We reviewed prior audit reports issued by GAO, DOD OIG, and independent public accountants for fiscal years 2014 through 2022 to determine the extent to which internal controls have been established and whether they are operating effectively.

[3]A life plan community is an organization that provides contractual residential housing and stated housekeeping, social, and health care services in return for some combination of an advance fee, periodic fees, and additional fees. Life plan communities are also known as continuing care retirement communities.

We also reviewed AFRH's interagency agreement with the Department of the Treasury's Bureau of the Fiscal Service's Administrative Resource Center (ARC), AFRH's outsourced financial management shared services provider, to gain an understanding of the financial management services it provides to AFRH. We reviewed the Treasury OIG's report on ARC's shared services to determine if ARC's controls relevant to AFRH were suitably designed and operated effectively for the time period tested.[4] Lastly, we interviewed AFRH officials and observed revenue and expense transactions to determine how they are ultimately posted to AFRH's accounting records. For further details on our objectives, scope, and methodology, see appendix I.

We conducted this performance audit from July 2022 to December 2023 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.

Background

Since the late 1700s, Congress has established numerous federal programs to provide housing, housing assistance, and health care support to certain wounded, ill, or injured service members; military retirees; and certain other veterans. Some of those programs included the establishment of military facilities for temporarily or permanently disabled service members. Most of these facilities have since closed or been transferred to the Department of Veterans Affairs (VA) or state agencies.[5]

The NDAA for fiscal year 1991 established AFRH, which is designed to provide residences and related services to eligible veterans.[6] Established as a single organization, AFRH consists of two merged historical institutions: the U.S. Soldiers' and Airmen's Home in Washington, D.C.,

[4]Department of the Treasury, Office of Inspector General, *Report on the Bureau of the Fiscal Service's Description of its Administrative Resource Center Shared Services System and the Suitability of the Design and Operating Effectiveness of its Controls for the Period July 1, 2021 to June 30, 2022*, OIG-22-039 (Washington, D.C.: September 2022).

[5]Congressional Research Service, *The Armed Forces Retirement Home*, In Focus 11626 (Washington, D.C.: updated Apr. 20, 2023).

[6]Pub. L. No. 101-510, §1511, 104 Stat. 1485, 1723 (1990) (codified, as amended, at 24 U.S.C. § 411).

established in 1851, and the U.S. Naval Home in Gulfport, Mississippi, originally established in Philadelphia, Pennsylvania, in 1834.

The law limits eligibility for residence in AFRH to certain persons. Specifically, the law states that persons eligible to reside at AFRH include certain retired and former members of the Armed Forces, National Guard, and Reserves, at least one-half of whose service was not commissioned service (other than as a warrant officer or limited-duty officer), and their eligible spouses.[7] AFRH is also limited by law in setting residents' fees.

The law states that the Chief Operating Officer, with the approval of the Secretary of Defense, will periodically prescribe the amount of monthly fees to be collected from each resident. Changes in the fees must be based on the financial needs of AFRH and the ability of the residents to pay. Changes in fees may not take effect until 120 days after the Secretary of Defense notifies the Committees on Armed Services of the Senate and the House of Representatives of the change. The law requires that (1) the fee be fixed as a percentage of the monthly income and monthly payments received by a resident, (2) the percentage will be the same for each of AFRH's two facilities, and (3) the Secretary of Defense may make any adjustment to the percentage that the Secretary determines appropriate. Further, the fee is subject to a limit on the maximum monthly amount that may be collected.[8]

For fiscal year 2022, AFRH's fixed percentage fees of residents' gross monthly income ranged from almost 47 percent for residents needing the lowest levels of care to 70 percent for residents needing higher levels of care. The maximum monthly fee allowed to be assessed in 2022 ranged from $2,107 for the lowest level of care to $7,109 for the highest level of care. These amounts are lower than average rates charged throughout the senior living industry as a result of the legal requirement for AFRH's fees to be calculated as a fixed percentage of gross monthly income and the limit on the maximum monthly amount collected. Specifically, AFRH's average overall residential rate (for all levels of service) is less than $1,900 per month. The nationwide average for all levels of care at a life plan community, according to the American Council on Aging, is in excess of $7,300 per month.

[7]24 U.S.C. § 412.

[8]24 U.S.C. § 414.

AFRH has reported that it is the only federal entity operating as a continuing care retirement community—now often commonly termed in the private sector senior living industry as a life plan community.[9] AFRH offers a continuum of five levels of care for eligible residents. These levels range from nonmedical support to various forms of limited skilled nursing care, along with coordinated care with local medical centers and military treatment facilities for additional health care needs. The continuum of care provided by AFRH includes the following:

- **Independent living.** Residents live independently and perform all activities of daily living without assistance.
- **Independent living plus.** Residents continue to live in their independent living rooms while receiving limited assistance with activities of daily living.
- **Assisted living.** Residents receive regular assistance with activities of daily living and are supported with around-the-clock nursing coverage. Dedicated dining is provided in this community, and residents may join recreational activities in the common areas or participate in activities offered in this area.
- **Long-term care.** Residents receive total support for their activities of daily living due to chronic illness or disability, with around-the-clock nursing coverage. Dining and recreational activities are provided in this community.
- **Memory support.** Residents with a cognitive deficiency are unable to perform activities of daily living and need a supervised environment to keep them safe. These residents receive around-the-clock nursing coverage. Dining and recreational activities are provided in their designated community areas.

Veterans generally must enter AFRH in the independent living level, demonstrating as part of their admission process the ability to fully function independently. As veterans require increased health and wellness assistance, they are eligible to move into higher levels of care.

AFRH's stated mission is to "fulfill our Nation's commitment to its veterans by providing premier retirement communities with exceptional care and extensive services." AFRH stated that it accomplishes this goal by hiring staff with senior officer and enlisted military experience to enhance the

[9]Industry experts with whom we consulted noted that "life plan communities" has become a preferred and commonly used term instead of "continuing care retirement communities." Actuarial standards of practice note that both terms are interchangeable.

development of personal relationships with residents, greeting residents by name, and providing exceptional customer service to meet residents' needs.

The law establishing AFRH requires that all services provided to residents must be accredited by a nationally recognized civilian accrediting organization.[10] AFRH received a 3-year certification of reaccreditation from the Joint Commission, a recognized accreditor in the health care industry, in the fourth quarter of fiscal year 2021. The Joint Commission is reported to be the nation's oldest and largest accreditor in the health care industry. It develops industry standards relied on by many health care organizations, providers, payors, and many state legislatures as part of their oversight responsibilities. During the evaluation process, surveyors determine whether an organization demonstrates compliance with standards by randomly selecting patients and tracing their experience within the organization, and along with the resident, talking to doctors, nurses, and other staff who interacted with the resident.

Additionally, although many life plan communities do not attain accreditation specific to that role, AFRH received a 5-year certificate of reaccreditation from the Commission for Accreditation of Rehabilitation Facilities (CARF) in the first quarter of fiscal year 2022.[11] CARF reports that it is the first and only accreditation system for life plan communities. CARF's financial advisory panel provides input on the development of the financial standards and strategic education resources to provide a high-quality framework for life plan communities.

AFRH Campuses

Between its two campuses, there are approximately 97 buildings and structures—94 in the Washington location and three in the Gulfport location. As of September 30, 2022, AFRH had the capacity to accept (between its two locations) up to 1,120 residents. As of that date, AFRH had 210 residents in its Washington campus and 401 residents in its

[10] 24 U.S.C. § 411(g).

[11] According to the19th edition of the Leading Age Ziegler 200, there are thousands of life plan communities nationwide, but only 120 with the CARF certification. The Leading Age Ziegler 200 ranks the nation's top 200 largest not-for-profit senior living and government-subsidized housing multisite, as well as single, campuses.

Gulfport campus, for a total of 611 residents. This represents an overall, combined occupancy rate of 55 percent between the two campuses.[12]

Washington Campus

The 272-acre Washington campus is in a historic district of Washington, D.C. The historic campus features many 19th century landmarks, including President Lincoln's Cottage at the Soldiers' Home—a national monument—and the U.S. Soldiers' and Airmen's Home National Cemetery. The cemetery is one of two national cemeteries that the U.S. Army maintains (the other being Arlington National Cemetery). Beyond routine health care services offered on-site, the nearby VA hospital and Walter Reed National Military Medical Center are accessible for residents' health care needs.

Additionally, the campus has an administration building along with two principal residential buildings—the Scott and the Sheridan—with a total of 555 available residential rooms as of September 30, 2022. AFRH management states that the Scott building serves as the hub of the residential community and includes rooftop gardens, sunlit common areas, a fitness center, and a library. The Sheridan building houses nearly 90 percent of Washington campus residents and provides amenities such as a bowling alley, ceramics and woodworking studios, and a convenience store. Figure 1 shows some of these indoor amenities. Outdoor recreational amenities available to residents include a nine-hole golf course, fishing pond, and walkways to support wellness.

[12]Occupancy rate measures the number of occupied units as a percentage of available units.

Figure 1: Campus Amenities at the Armed Forces Retirement Home in Washington, D.C.

Source: GAO. | GAO-24-106171

Gulfport Campus

AFRH's Gulfport campus, built new after Hurricane Katrina demolished the prior structure, opened in 2011. The Gulfport campus is a beachside community that contains one residential building with 565 rooms, each with a balcony overlooking the Gulf of Mexico. The campus provides amenities for residents, including an outdoor swimming pool, bowling alley, art and hobby studios, a fitness center, a putting green, an exchange store, and a library. Gulfport campus residents have access to activities and entertainment in the cities of Gulfport and Biloxi. Figure 2 shows some of these amenities. In addition, the nearby VA hospital and

Keesler Air Force Base Medical Center offer extensive health care services.

Figure 2: Campus Amenities at the Armed Forces Retirement Home in Gulfport, Mississippi

Source: GAO. | GAO-24-106171

Financial Overview

AFRH performs its financing activities—including receiving revenues, paying operating expenses, and funding capital improvements—through its dedicated trust fund. By law, Treasury serves as the trustee for AFRH's trust fund. The trust fund is solely to be used for the operation of AFRH. The law outlines that the trust fund will consist of monthly fees paid by residents of AFRH; deductions from the pay of enlisted members, warrant officers, and limited duty officers (also termed military withholding); gifts or funds from the disposition of property and facilities; certain statutory fines and forfeitures; interest from investments of the trust fund; and other amounts as may be transferred to the trust fund.[13]

By law, AFRH trust fund balances are only available to AFRH to the extent authorized by annual appropriations.[14] These appropriations are used to fund operations and improve facilities. Since fiscal year 2016, the annual appropriations have also included funding from the General Fund of the Treasury to increase the trust fund balance.[15] AFRH stated in its fiscal year 2022 performance and accountability report (PAR) that it continues to experience decreasing revenues and increasing costs.[16]

Financial Position

According to AFRH management, in recent years and generally throughout AFRH's history, the income from its revenue sources has not been sufficient to cover annual expenses, necessitating appropriated General Fund transfers from Congress to bolster AFRH's declining trust fund balance. Specifically, AFRH's trust fund balance declined drastically from $186.5 million at the end of fiscal year 2010 to $45.8 million at the end of fiscal year 2015. Since then, it has increased gradually because of the General Fund transfers (see fig. 3). The trust fund balance was $107.2 million at the end of fiscal year 2022. AFRH management reported in the fiscal year 2022 PAR that it is working to expand its revenue sources to rebuild the trust fund and create a sustainable path for the future of AFRH campuses.

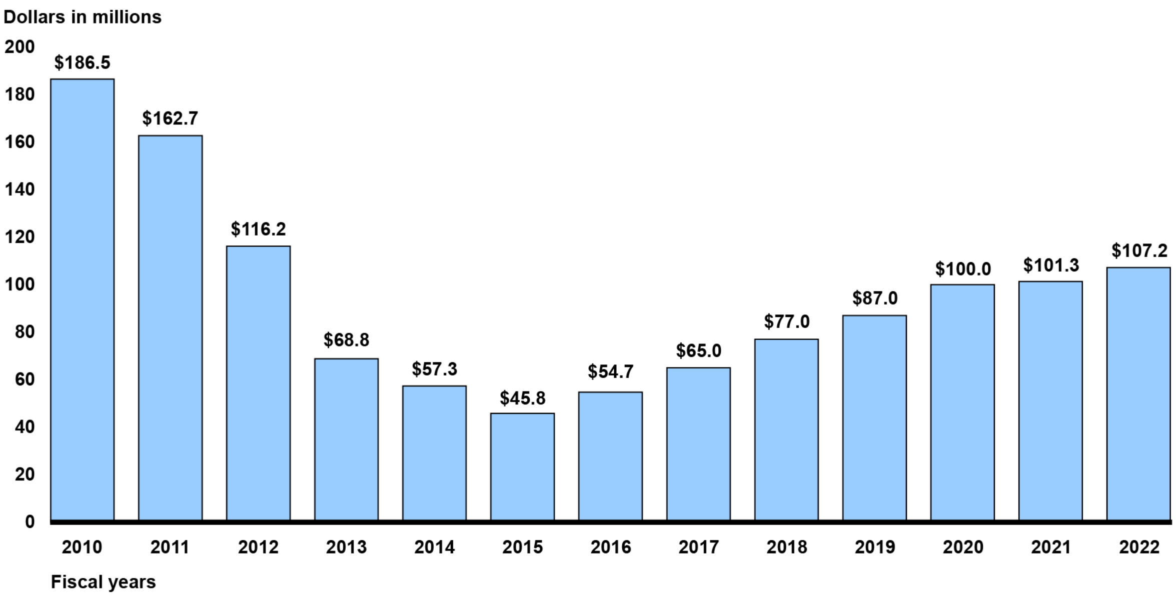
[13]24 U.S.C. § 419.

[14]31 U.S.C. § 1321(b)(2). Only three other federal trust funds are limited in this manner.

[15]The General Fund is a component of Treasury's central accounting function. It is a stand-alone reporting entity that comprises the activities fundamental to funding the federal government (e.g., issued budget authority, cash activity, and debt financing activities).

[16]Armed Forces Retirement Home, *Performance and Accountability Report for Fiscal Year 2022* (Washington, D.C.: November 2022).

Figure 3: Armed Forces Retirement Home Trust Fund Balance, End of Fiscal Years 2010–2022



Source: GAO analysis of Office of Management and Budget data and Department of Defense Inspector General data. | GAO-24-106171

There are several reasons for the decline and subsequent partial recovery of the trust fund balance. Declines from fiscal year 2010 to fiscal year 2015 were due to substantial capital improvements, increasing expenses, and decreasing revenues. Specifically, during this period, AFRH completed capital improvements to the Scott building. These improvements totaled $88.1 million, with funds expended during fiscal years 2011, 2012, and 2013. With respect to expenses, the DOD OIG previously reported that operating expenses moderately increased. Specifically, operating expenses generally increased during this period, starting at $52 million in fiscal year 2010 and climbing to nearly $66 million in fiscal year 2013, before tapering back to $59 million in both fiscal years 2014 and 2015. A principal reason for the increase in expenses beginning in fiscal year 2010 was the reopening of AFRH's Gulfport facility (after being destroyed by Hurricane Katrina in 2005).[17]

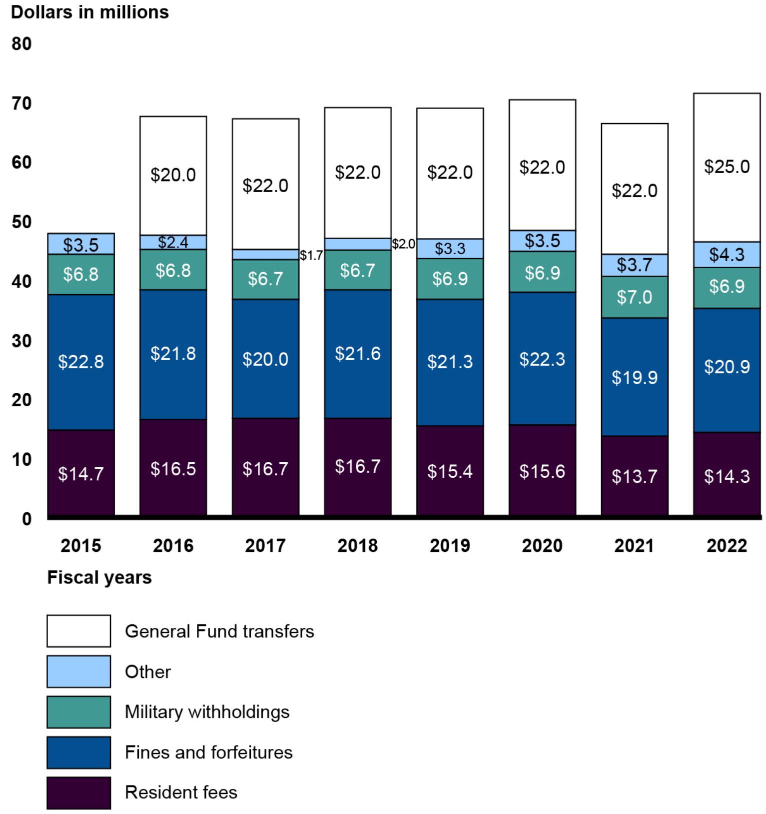
[17]Department of Defense, Office of Inspector General, *Financial Management and Contract Award and Administration for the Armed Forces Retirement Home*, DODIG-2018-077 (Alexandria, Va.: February 2018).

Decreasing total revenues also contributed to declining trust fund balances between fiscal years 2010 and 2015. These amounts decreased from $62.4 million in fiscal year 2010 to $47.8 million in fiscal year 2015. Historically, AFRH's largest source of revenue has been active duty military personnel with disciplinary violations who pay fines and forfeitures, a percentage of which are then deposited into the AFRH trust fund.[18] Revenue from these fines and forfeitures declined significantly from $37.2 million in fiscal year 2010 to $22.8 million in fiscal year 2015. As reported by the DOD OIG, this decrease was directly attributed to the reduction in Uniform Code of Military Justice courts-martial and other disciplinary actions across all military services. Investment interest income (earned on trust funds held by the Treasury) also decreased during the same period—from $6.6 million in fiscal year 2010 to $2.3 million in fiscal year 2015—due to declining trust fund balances.

AFRH's trust fund balance, as was shown in figure 3, began to increase in fiscal year 2016. This increase was because of General Fund transfers appropriated by Congress. AFRH revenues, as shown in figure 4, include General Fund transfers of $20 million in fiscal year 2016, increasing to $25 million in fiscal year 2022. Revenues from other financing sources have remained relatively flat, ranging from $47.5 million in fiscal year 2016 to $46.4 million in fiscal year 2022, and averaging about $46.7 million for the 8-year period.

[18]10 U.S.C. § 2772.

Figure 4: Armed Forces Retirement Home Annual Revenue Amounts by Source, Fiscal Years 2015–2022



Source: GAO analysis of Armed Forces Retirement Home data. | GAO-24-106171

Financial Management

AFRH outsources most of its financial management functions to ARC, a federal financial management shared service provider.[19] ARC is a franchise fund and part of Treasury's Bureau of the Fiscal Service. Through its accounting system, ARC processes accounting transactions (e.g., paying invoices and posting entries to the general ledger), prepares financial statements and other managerial reports, and provides budget services. Importantly, ARC also undergoes an annual examination of its controls that are relevant to the internal control over financial reporting of the entities it serves. This examination is commonly referred to as a

[19]The American Institute of Certified Public Accountants defines a shared service provider or organization as an "entity … that provides services to a user organization that are relevant to the user organization's internal control over financial reporting."

system and organizational controls (SOC) 1, Type 2 audit.[20] AFRH staff, however, remain responsible for accounting and reporting cycle activities, such as reviewing and approving invoices to be paid, granting proper and appropriate accounting system access to employees, and reviewing periodic financial and management reports.

AFRH's Trust Fund Projections Could Be Improved; Challenges Affect Its Planning for Financial Shortfalls

Though AFRH prepares different financial forecast and trust fund projections for various purposes, we found that AFRH's processes for preparing its trust fund projections could be improved, as these processes do not conform to actuarial standards and practices. In addition, AFRH does not have an oversight mechanism for its trust fund projections and related financial management activities. Lastly, we found that challenges affect AFRH's planning efforts for addressing potential financial shortfalls, including factors outside of AFRH's control. GAO's independent financial projection shows that AFRH's trust fund balance will likely continue to decline without actions to address these challenges.

AFRH's Processes for Preparing Trust Fund Projections Do Not Conform to Actuarial Standards and Practices

We found that AFRH's processes for preparing its trust fund projections do not conform to current actuarial standards and practices. Specifically, in preparing its annual projections, AFRH did not employ actuarial practices to help ensure that it used accurate data, sufficiently disclosed embedded assumptions, and linked financial projection data to resident occupancy levels. Instead, AFRH generally prepared its projections using a spreadsheet with data that were not always accurate. Additionally, AFRH did not provide sufficient, detailed support for the specific assumptions and factors used to change or inflate historically based revenues and expenses to estimate and forecast future cash flows and trust fund balances. Actuarial practices would include documenting the assumption-setting process as well as the individual assumptions and factors with underlying data or management's methodology to determine the basis on which assumptions were derived.

The Actuarial Standards Board sets standards for actuarial practice in the United States by developing and promulgating Actuarial Standards of Practice (ASOP). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services. ASOP No. 3, *Continuing Care Retirement Communities and At*

[20] A SOC 1, Type 2 report is an independent auditor's report on a service organization's internal controls.

Home Programs, applies to actuaries when performing actuarial services with respect to life plan communities.

AFRH officials prepare the following four financial/trust fund projections yearly:

- a 2-year projection using OMB-provided budget amounts for AFRH's next 2 fiscal years, which is used for the annual budget justification to Congress;
- a 5-year projection presented in its annual PAR to illustrate revenues management anticipates as of the reporting date;
- a 10-year projection submitted to OMB to show the flow of funding into and out of AFRH's trust fund, which is a requirement as part of the President's budget submission; and
- a 20-year projection used internally for long-term analysis to model potential changes to revenues and expenses, in part to determine effects on trust fund balances.

We found that AFRH did not use consistent data and assumptions to forecast revenues and expenses in each of its projections, and did not sufficiently document these data and assumptions. Specifically, data in AFRH's 20-year projections (1) were sometimes inaccurate and inconsistent with data in other financial records, such as audited annual financial statements and budgetary reporting in OMB's MAX.gov website;[21] (2) did not have sufficient supporting documentation for the key assumptions used; and (3) projected revenues and expenses separately without a clear linkage to resident occupancy and levels-of-care data.

- **Inaccurate and inconsistent data.** Some revenue amounts that AFRH used in the 20-year financial projection were not accurate. These included amounts for fines and forfeitures, General Fund support, trust fund interest, and donations that did not match corresponding amounts that were reported in AFRH's annual PARs. Further, certain data in the 20-year projection—including beginning balances presented for fiscal years 2017 through 2022, upon which projections were made for some revenues, operating expenses, and

[21]MAX.gov is a government-wide website supported by OMB and used to pass budget information securely between OMB and federal agencies during the budgeting process. Specifically, OMB compiles data from federal agencies in OMB MAX to provide reports presenting budgetary and financial data, such as Analytical Perspectives and the Budget Appendix. OMB MAX contains numerous edit checks to help ensure data consistency.

capital expenses—were inconsistent with data reported to OMB as part of AFRH's annual budget process.

Moreover, data that we expected to be the same between AFRH's various projections were often inconsistent from one projection to another. For example, AFRH used different revenue data for the 5-year and 20-year projections. An AFRH official told us that staff prepare the different projections with the best information they have at the time and based on the purpose for which the projections are prepared. For example, the official stated that AFRH staff prepare the 2-year projection using amounts that OMB provides annually. However, it is unclear why data expected to be consistent across the financial projections, such as revenue data, would vary.

- **Lack of sufficient supporting information.** According to ASOP No. 3, professional judgment is a part of preparing financial projections. Professional judgment is used particularly when developing reasonable assumptions of future events, including factors used to inflate or index various amounts for values in the future. According to actuarial practices, the actuary generally develops assumptions based on a combination of historical data, future expectations, and professional judgment. The individual assumption should be disclosed as well as the methodology for selecting certain key assumptions. However, AFRH's documentation did not include sufficient, detailed support for the specific assumptions noted in the 20-year projection. For example, in its 20-year projection, AFRH management used a 1.5 percent annual increase to inflate revenue from fines and forfeitures into the future. However, this rate was not supported by documentation of any underlying data or methodology of how it was derived or calculated based on historical rates and future expectations.

  Similarly, projected amounts for capital improvements, a potentially substantial future expense, were not well supported or documented in the 20-year projection. AFRH developed a capital improvement plan several years ago and has expressed in certain strategy documents its needs for some imminent and future capital improvements. However, there is not a complete inventory of these projects or estimates of costs or timing for when the improvements may be made.

- **Projection data not clearly linked to resident occupancy.** AFRH included a key revenue source—resident fees—in its 20-year projection for fiscal years 2023 through 2042. However, the estimated amounts of fees were based neither on current actual income being received nor on reasonable assumptions of expected occupancy at AFRH's two campuses. Specifically, starting in projections for fiscal year 2024, AFRH management estimated resident fee revenues assuming an overall occupancy level of 70 percent. Current occupancy is at 55 percent. Management did not provide a plan for how it intends to dramatically increase occupancy in a single year, particularly given a generally declining occupancy rate over the past several years (which we discuss in more detail later).

In addition, AFRH indexed, or inflated, projected resident fees at a rate of 3 percent. However, AFRH did not allocate revenues and expenses separately to the different resident care levels, nor did it calculate a population projection as defined by ASOPs. Most life plan communities project resident fees based on estimates of the population of future residents in accordance with actuarial standards. Specifically, according to actuarial standards, the cash flow projection should be prepared using a population projection. Such a projection includes current residents at each level of care, and projects the future populations to factor health deterioration (morbidity) and death rates (mortality), based on consideration and review of appropriate data. Calculated resident populations are then used as the basis on which to project variable revenues and costs. Actuarial experts with whom we consulted noted that life plan communities generally use population projections prepared by actuaries.

As noted earlier, AFRH has reported in its PARs that it is the only federal entity operating a life plan community. AFRH, like most life plan communities, is a complex and unique business that requires delivery of multifaceted services. For example, a life plan community operates (1) as a landlord, providing specialized residential space; (2) as a restaurant, offering up to three meals a day; (3) as a recreation center, offering multiple wellness and community services; and perhaps most importantly, (4) as a health care organization, offering varying and increasing levels of medical care.

Beyond the complexities and financial pressures that any one of these individual “businesses” might face, the combination of providing all of these services, coupled with the complexity of an aging or changing population, warrants financial projections that are based upon a greater degree of precision for future factors and events that might affect the financial position of an entity such as AFRH. Industry experts with whom we consulted agree that most life plan community entities prepare detailed models for their financial feasibility and projections of cash flows and cash and investment balances, with input from members of actuarial organizations that are governed by the Actuarial Standards Board’s ASOPs.

As noted above, ASOP No. 3, *Continuing Care Retirement Communities and At Home Programs*, applies to actuaries when performing actuarial services for life plan communities. Examples of the services covered by this ASOP include testing the entity's financial condition for satisfactory actuarial balance; evaluating the fee structure for residents; developing population projections that include member movements, independent living unit turnover, and health center utilization; projecting future cash flows and cash and investment balances; and assisting in developing financial feasibility studies.

Additionally, *Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks, including designing appropriate types of control activities for the entity's internal control system. For example, managing an entity's workforce is an important part of internal control—specifically, hiring a workforce with the required knowledge, skills, and abilities to achieve organizational goals. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible.

Further, the internal control standards state that management should implement control activities through policies, including documenting in policies for each unit its responsibility for an operational process's objectives and related risks and control activity design, implementation, and operating effectiveness. Each unit determines the policies necessary to operate the process based on the objectives and related risks. Each unit also documents policies in the appropriate level of detail to allow for effective monitoring of the control activity.[22]

The issues with AFRH's trust fund projections occurred largely because AFRH does not have policies and procedures for preparing the projections that would help to ensure that staff followed appropriate standards consistently and maintained sufficient supporting documentation. Further, AFRH did not consult with individuals with the necessary and relevant expertise, such as actuaries, in preparing and reviewing the projections. AFRH officials noted that the Chief Financial Officer develops AFRH's financial projections in conjunction with the Chief Operating Officer, the Chief Executive Officer, and other AFRH

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

leadership. However, none of these leadership officials has actuarial experience or expertise.

Until AFRH management develops and implements policies and procedures for preparing financial projections that incorporate relevant standards for life plan communities, AFRH is at increased risk that its staff will not conduct sufficient research and prepare financial projections in a standardized or sufficient way. This can result in financial projections that are not useful for decision-making. Having policies in place to help ensure that staff consistently apply relevant standards in developing the projections and consult with individuals with appropriate expertise, such as actuaries, would help to mitigate this risk. Such policies would also help to ensure that staff appropriately document the projection development and provide implementing guidance to those who are involved.

AFRH Does Not Have an Oversight Body for Its Trust Fund Projections and Related Financial Management Activities

We found that AFRH has not had an active, functioning advisory council since at least 2015. Accordingly, AFRH management has lacked a body to provide advice, guidance, and oversight of its operations, financial management and projections, and other critical administrative matters. AFRH is required to have an advisory council whose purpose is to provide guidance on the administration of AFRH and the quality of care provided to residents. Further, the council is required to submit at least annually a report to the Secretary of Defense with its observations and any recommendations the council considers appropriate.[23]

By statute, the council is to be composed of experts in various disciplines applicable to AFRH's mission of providing retirement quarters and health care. This includes, among others, experts in nursing home administration and financing, gerontology (the scientific study of old age and the process of aging), and financial management.[24]

In addition to these requirements, *Standards for Internal Control in the Federal Government* states that an oversight body should oversee an entity's internal control system. This includes overseeing the entity's operations; providing constructive criticism to management; and where appropriate, making oversight decisions so that the entity achieves its objectives in alignment with the entity's integrity and ethical values. These standards also state that in selecting members for an oversight body, the

[23] 24 U.S.C. § 416(b).

[24] 24 U.S.C. § 416(c).

entity defines the knowledge, relevant expertise, number of members, and possible independence needed to fulfill the oversight responsibilities. Additionally, the standards state that members of an oversight body understand the entity's objectives, its related risks, and expectations of its stakeholders.

Although there is a statutory requirement to maintain an advisory council, an AFRH official stated that AFRH's advisory council was disbanded in approximately 2015 because the council's members did not possess the specialized skills necessary to carry out the mandate and provide management with expert industry-specific advice. Additionally, in early 2021 a directive from the Secretary of Defense suspended AFRH's advisory council along with many other DOD advisory committees.

Most recently, DOD has provided notice in the *Federal Register* that it is again establishing an Armed Forces Retirement Home Advisory Council (AFRHAC) as a nondiscretionary federal advisory committee.[25] Specifically, on April 6, 2023, the Secretary of Defense approved the AFRHAC, requiring it to include appropriate individuals from both the private and public sectors to promote diversity of background, experience, and thought in support of the AFRH mission. The Secretary directed that the AFRHAC should be composed of at least 15 members with specialized skills, including those mandated by AFRH's implementing law. Members of the AFRHAC will be appointed by the Secretary of Defense or the Deputy Secretary of Defense ("the DOD Appointing Authority"), or in the case of employees of other federal departments or agencies, appointed in consultation with the DOD Appointing Authority by their respective departments and agencies.[26]

DOD's steps to reestablish the statutorily required AFRHAC are promising. However, the council is not yet fully established, with designated responsibilities for providing oversight. Until AFRH designates a body that functions as an oversight body per federal internal control standards, it will continue to lack a body to oversee, assist, question, and advise management. An appropriately structured body, such as an

[25]Members of the AFRHAC are to be appointed by the Secretary of Defense, and the council is charged with providing recommendations both to AFRH management and to the Secretary. While AFRH is an independent entity and not a DOD agency, the Chief Operating Officer is subject to the authority, direction, and control of the Secretary of Defense.

[26]Establishment of Armed Forces Retirement Home Advisory Council, 88 Fed. Reg. 22015 (Apr. 12, 2023).

advisory council, could provide AFRH with specialized knowledge to enable discussion and offer constructive criticism to management.

Challenges Affect AFRH's Planning Efforts to Address Potential Financial Shortfalls

AFRH management reported in its fiscal year 2022 PAR that since fiscal year 2018 it has worked to identify several proposals to generate additional revenue and address potential financial shortfalls. However, we found that challenges—including factors outside of AFRH's control—affect its planning efforts.

AFRH's current business model is not financially sustainable due to generally flat revenue and increasing expenses. As discussed earlier, several revenue sources, including fines and forfeitures—a historically large source of revenue for AFRH—have been generally flat since at least 2016. At the same time, operating expenses generally increased, resulting in a decreasing trust fund balance. Additionally, AFRH currently faces a risk to its financial condition because of the age and deteriorating condition of many of its buildings and structures. Specifically, on the Washington campus, it is likely that hundreds of millions of dollars will be needed in the future to stabilize or restore these facilities to a satisfactory condition.

While AFRH has proposals to generate revenue to address potential financial shortfalls in the future, they are insufficient on their own to bolster the trust fund. AFRH is likely to need assistance from Congress and DOD to implement some of the proposals. Key revenue-generating proposals under consideration by AFRH management include

- raising military withholdings,
- receiving withholdings from the Reserves and the National Guard,
- obtaining medical cost reimbursement, and
- increasing occupancy levels at both campuses.

GAO's financial projection of AFRH's trust fund balance through fiscal year 2042 shows that projected revenues from incorporating the proposals for which an estimate can be made would result in a declining trust fund balance to the point of it being nearly exhausted. Similarly, if no actions are taken, the projection shows that AFRH's trust fund balance is likely to continually decline—even if General Fund transfers are provided at the current rate into the future—until it is eventually exhausted. During the time of our review, AFRH was working on a redevelopment plan to generate additional revenue from underutilized grounds and facilities at its Washington, D.C., campus. However, on October 26, 2023, AFRH announced that it had terminated the redevelopment plan. In AFRH's press release, management stated that the redevelopment plan was facing tough economic conditions resulting in significantly diminished financial benefits to AFRH. Accordingly, no projected revenues related to this prior proposal are included in GAO's projection. We discuss this projection in more detail later in this report.

AFRH's Proposals to Generate Revenue

Raising Military Withholdings Allowed under Law

The current military withholding is $0.50 per month. This amount is deducted from the monthly pay of each enlisted member, warrant officer, and limited duty officer of the armed forces on active duty and deposited into the AFRH trust fund.[27] While DOD and the U.S. Coast Guard may elect to deduct up to $1.00 per month from the appropriate armed forces members, they have declined to increase the deduction beyond $0.50.[28] The amount has been unchanged since 1977.

However, average pay for enlisted personnel has increased from 1977 to 2022, while the real value of $0.50 has decreased. Specifically, using published pay data, we calculated that average pay for active duty enlisted and warrant officers has increased 407 percent and 430 percent, respectively, over this period. Likewise, calculating for inflation over the same period, $0.50 in October 1977 is comparable to $2.45 in March 2023.

While raising the military withholdings from $0.50 to $1.00 per month would not fully cover the cost of inflation, AFRH management estimated an immediate $7 million increase in annual revenue if military withholdings were to be raised to $1.00 per month, as allowed by statute. However, AFRH does not have the authority to effect this change. That authority lies with the Secretary of Defense and the Commandant of the Coast Guard. Additional legislative action could also implement this proposal, at the $1.00-per-month level or higher.

[27]Enlisted military personnel are subject to this deduction from pay while serving regardless of whether they ultimately retire and reside at AFRH. National Defense Authorization Act for Fiscal Year 1995, Pub. L. No. 103-337, § 371(a), 108 Stat. 2663, 2735 (1994) (codified, as amended, at 37 U.S.C. § 1007(i)).

[28]37 U.S.C. § 1007(i)(1).

Receiving Withholdings from the Reserves and the National Guard

In fiscal year 2021, certain members of the military services' Reserves and National Guard became eligible for residence at AFRH.[29] Although this change gave the service members an opportunity for residency, DOD has not been authorized to withhold money from Reservist pay or the National Guard for deposit into the AFRH trust fund.[30]

AFRH management estimated that if allowed by law, withholdings from Reserve and National Guard personnel at the current assessed rate of $.50 per month would generate an additional and immediate $7 million each year in revenue for AFRH. AFRH management further estimated that if the statutorily allowed increase discussed above were also enacted, withholding $1 per month from these members would add $14 million to annual revenues. Congressional action to authorize withholdings from eligible Reserve and National Guard service members could help AFRH to implement this proposal and increase its annual revenue.

Obtaining Medical Cost Reimbursement

Noting the significant expense of providing routine health care services to its residents, AFRH management is pursuing reimbursement of these expenses to help improve AFRH's financial condition. AFRH provides residents with routine health care (including optometry and geriatric psychiatry), medical care services, and dental care services, which are mandated by law.[31] AFRH bears the costs for these services as a normal operating expense.

However, nearly all of AFRH's residents, because of their prior military service, are eligible for care at military hospitals. Entities such as TRICARE or the VA generally bear the costs for care of military service members at these hospitals. Moreover, according to industry experts, many life plan communities, including the commercial operation we interviewed, depend on Medicare or Medicaid, or both, to fund the entity's operations. However, according to AFRH officials, reimbursement of

---

[29]William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116–283, §1412(a)(1), 134 Stat. 3388, 4030-4031, (2021) (codified, as amended, at 24 U.S.C. § 412).

[30]37 U.S.C. § 1007(i)).

[31]24 U.S.C. § 413.

health care costs from military or federal insurance programs such as TRICARE, Medicare, or Medicaid would require specific authority to be granted by law. If Congress and the President were to enact legislation allowing such reimbursement, AFRH management estimates an additional $1 million to $4 million of revenue annually.

Increasing Occupancy Levels at Both Campuses

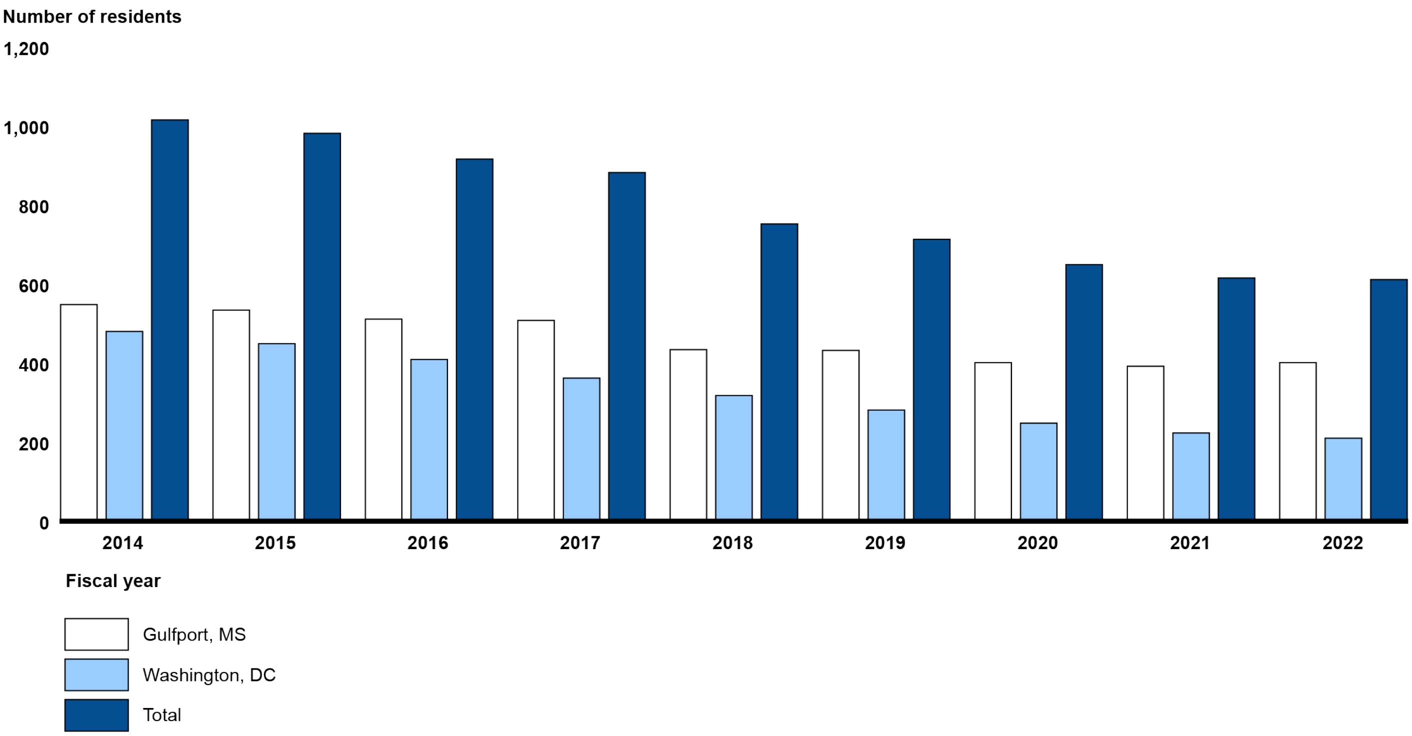
Since fiscal year 2018, AFRH has been reporting that its goal is to achieve an occupancy rate of 90 percent or better at both campuses.[32] However, occupancy at both campuses remains well below that goal. Management noted that empty rooms represent a missed opportunity to serve veterans in need, lost revenue, and a sunk cost to maintain unused facilities.

At its Washington campus, AFRH management said that it has purposely held occupancy low in preparation for a major capital improvement project. The Washington campus occupancy rate declined from 85 percent at the end of fiscal year 2014 to 38 percent at the end of fiscal year 2022. However, the occupancy rate at the Gulfport campus has also steadily declined over the past several years, without intentional efforts from AFRH management to keep the rate low. The Gulfport campus's occupancy rate declined from 93 percent at the end of fiscal year 2014 to 71 percent at the end of fiscal year 2022.

As shown in figure 5, the number of residents at each campus has steadily declined from fiscal year 2014 to fiscal year 2022. Specifically, there were 548 residents and 480 residents at the Gulfport and Washington campuses, respectively, at the end of fiscal year 2014. By the end of fiscal year 2022, the number of residents declined to 401 at the Gulfport campus and 210 at the Washington campus. In total, the number of residents at AFRH's combined campuses shrank from 1,028 at the end of fiscal year 2014 to 611 at the end of fiscal year 2022, representing a decline of over 40 percent during those 8 years.

[32]Experts with whom we consulted noted that most life plan communities target an occupancy rate of 95 percent for independent living.

Figure 5: Armed Forces Retirement Home Occupancy, End of Fiscal Years 2014–2022



Source: GAO analysis of Armed Forces Retirement Home data. | GAO-24-106171

To date, AFRH management has not provided us with a plan for how it intends to achieve its goal to increase occupancy rates. While AFRH management, in its financial projections, calculated increasing revenues that AFRH could receive if the 90 percent or better occupancy rate were achieved, it did not quantify the effect of corresponding increases to expenses that would also occur.

ASOP No. 3 notes that high occupancy, sound pricing, and effective financial management are keys to the successful operation of a life plan community. The standard of practice notes that the ability of a life plan community to attract new residents to fill vacancies will depend on keeping the life plan community competitive with respect to its physical property, its fee schedule, and the general attractiveness of its whole environment. Without a written plan for managing its occupancy levels consistent with management's goals and industry standards, AFRH increases the risk that its occupancy rate at both campuses will continue to decline, resulting in potential financial shortfalls in the future.

Financial Risk from Deteriorating Facilities

Improving AFRH's financial position through the proposals discussed above includes overcoming a number of challenges, including those that depend on potential changes to law and Secretary of Defense Directives. However, AFRH faces the potential for an even greater challenge to its financial stability as a result of its deteriorating facilities. Maintenance on many of its buildings and structures on the Washington campus has been deferred, resulting in several buildings that are in various stages of decay. Remediation and stabilization of these decayed facilities will likely result in a significant expense sometime in the future. The exact amount of such an expense is unknown, but AFRH has stated it could be in the hundreds of millions of dollars. AFRH officials indicated that they currently do not have a source of revenue or congressional appropriations to begin these repairs. Until such repairs are under way, the facilities likely will continue to decay, marring the overall appearance of the campus and straining annual resources to minimally maintain and secure the buildings and structures.

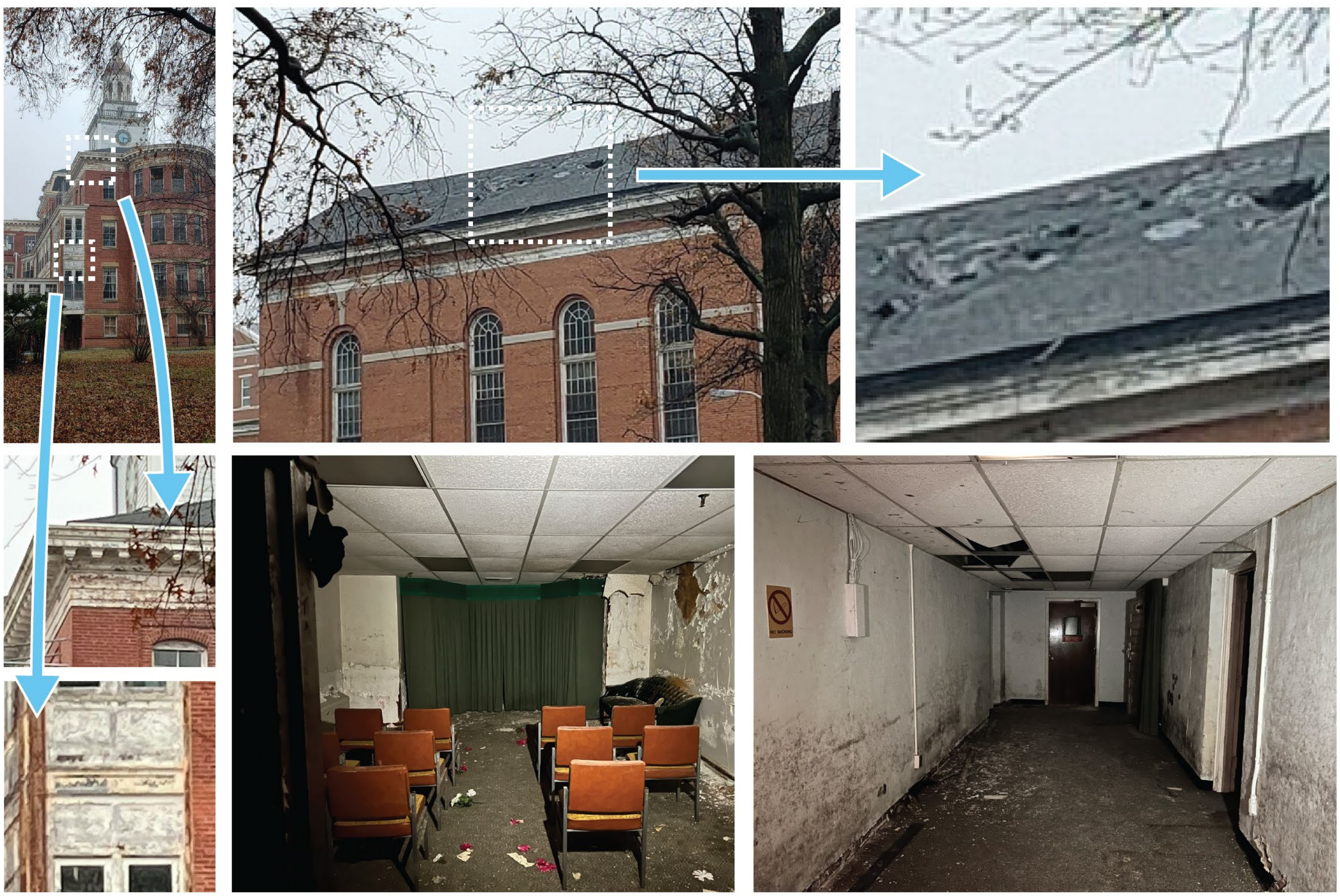
There are approximately 94 buildings and structures on the 272-acre Washington campus, including 14 quarters (single-family homes), warehouses, administrative buildings, and health care facilities. According to AFRH-prepared statistics, of the nearly 1.6 million square feet of property among all campus buildings and structures, approximately 555,000 square feet (35 percent) is currently in use by AFRH, and 131,000 square feet (8 percent) is currently being rented to others. The remaining 899,000 square feet (approximately 57 percent) is unusable or underutilized. Many of the buildings and structures that are currently unused and abandoned were constructed in the 19th century, are considered historical and heritage assets, and are currently in later stages of decay.

We found that AFRH management has not completed a full estimate of the deferred maintenance costs to stabilize the deteriorating structures or bring them back to an acceptable condition. Federal internal control standards state that management should implement control activities through policies. However, AFRH does not have policies and procedures for preparing an estimate for deferred maintenance costs.

Because of the age and deteriorating condition of many of the buildings and structures on the Washington campus, AFRH is likely correct that hundreds of millions of dollars will be needed in the future to stabilize or restore these structures to a satisfactory condition. For example, AFRH officials informed us that for just one of these structures, the Grant building, costs to stabilize the building could be at least $176 million.

During our site visit to the Washington campus, we observed multiple buildings with extensive exterior and interior damage. The exterior damage included breached and leaking roofs, doors, and windows, which has resulted in interior water damage; evidence of animal and pest infestations; and mold. Figure 6 shows the exterior and interior condition of deteriorating buildings, for which AFRH likely will incur substantial costs to rehabilitate and restore.

Figure 6: Examples of Exterior and Interior Building Damage at the Armed Forces Retirement Home in Washington, D.C.



Source: GAO. | GAO-24-106171

Beyond an estimate of the deferred maintenance costs, additional information to help management and others understand the magnitude of deferred maintenance is a required reporting element in federal entities' PARs.[33] AFRH reports an element of deferred maintenance in its PAR, as required: the requirement regarding how entities rank and prioritize maintenance and repair activities. However, additional information, including implicit exposures specifically for stabilizing or restoring these historical structures, which would show a roll-forward estimate of the costs by type of property, would provide greater transparency.[34]

Transparency through reporting in financial or other reports is an essential element providing readers and oversight bodies with a more comprehensive picture of fiscal exposures for deferred maintenance and repairs. Without additional information about these exposures specifically for deferred maintenance and repairs, AFRH management and its oversight bodies may not be able to make fully informed decisions that could, for example, help management prepare a more accurate projection of its trust fund balance and appropriately plan for its future. Expanding the availability of information on AFRH's deferred maintenance plans, for example, estimated costs for stabilizing or restoring its historical structures, would also help oversight bodies to monitor and have a clearer picture of AFRH's fiscal exposure.

GAO's Financial Projection for the AFRH Trust Fund Balance

As previously discussed, AFRH prepared a 20-year financial projection that included, in some cases, the potential effects from the aforementioned proposals. However, as also previously discussed,

[33]Disclosure elements of deferred maintenance is a reporting requirement of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*, and is a part of the Required Supplementary Information section in an agency's annual report.

[34]OMB Circular A-136, *Financial Reporting Requirements*, states that in accordance with SFFAS 42, entities must (1) describe their maintenance and repairs policies and how they are applied, (2) discuss how they rank and prioritize maintenance and repair activities among other activities, (3) identify factors considered in determining acceptable condition standards, (4) state whether deferred maintenance and repairs relate solely to capitalized general property, plant, and equipment (PP&E) and stewardship PP&E or also to non-capitalized or fully depreciated general PP&E, (5) identify PP&E for which management does not measure and/or report deferred maintenance and repairs and the rationale for the exclusion of other than non-capitalized or fully depreciated general PP&E, (6) provide beginning and ending deferred maintenance and repairs balances by category of PP&E, and (7) explain significant changes from the prior year. In addition, condition standards, related assessment methods, and reporting must be consistently applied unless management determines that changes are necessary.

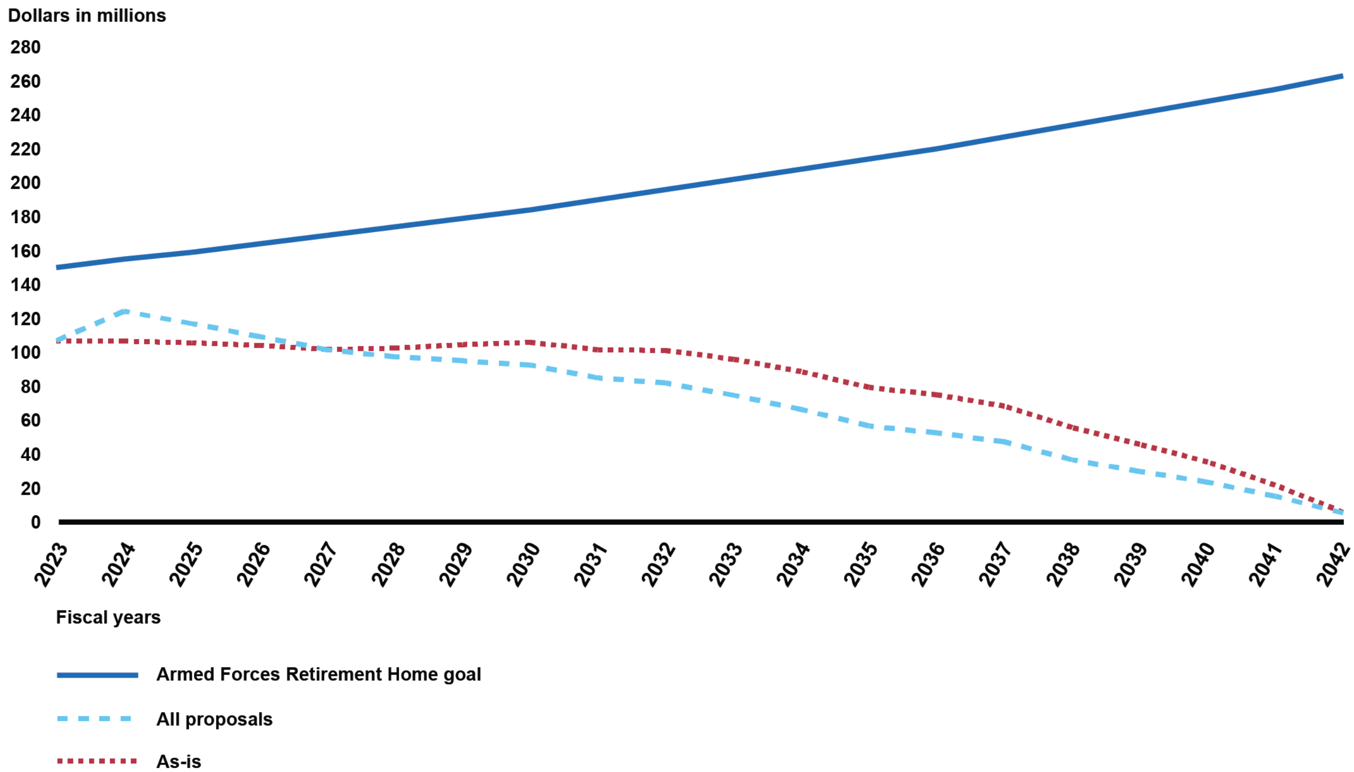
AFRH's projection included data inaccuracies, did not sufficiently disclose embedded assumptions, and did not link financial projection data to resident occupancy levels.

To assess AFRH's trust fund finances over the next 20 years, we prepared a 20-year financial projection under two different scenarios. The first scenario projects AFRH's revenues, expenses, and resulting trust fund balance to approximate continuation of AFRH's current operations—labeled "as-is" in the projection. For this "as-is" projection, we assumed that Congress would continue to provide an annual General Fund transfer as it has in each of the past 8 fiscal years. Therefore, we included in our projection a $25 million General Fund transfer for fiscal year 2024 through fiscal year 2042 without the amount being indexed for inflation.

The second scenario projects AFRH's revenues, expenses, and resulting trust fund balance assuming that all of the proposals discussed above that are quantifiable are put in place.[35] This scenario is labeled "all proposals" in the projection. The projection also includes AFRH's stated goal for its trust fund balance, which AFRH officials determined based on strategic plans and past experience. Additionally, for this projection we did not include an amount for General Fund transfers beyond fiscal year 2024. This decision was based on the assumption that management's plans to expand AFRH's revenue sources would eliminate the need for Congress's appropriated General Fund transfers in the future (see fig. 7). Additional details about our methodology for the two scenarios is provided in appendix I.

[35]AFRH's planned quantifiable proposals to generate revenue are raising military withholdings to the maximum amount allowed under law ($1.00 per month), receiving withholdings from the Reserves and the National Guard, and obtaining medical cost reimbursement.

Figure 7: GAO Projection of Armed Forces Retirement Home's 20-Year Trust Fund Balance, Fiscal Years 2023–2042



Source: GAO analysis of Armed Forces Retirement Home data. | GAO-24-106171

We were unable to estimate, and therefore did not include any potential effect from increasing resident occupancy from the current rate of 55 percent to management's goal of 90 percent. As previously mentioned, we also did not include any potential revenues from AFRH's terminated redevelopment plan for its Washington, D.C., campus. Further, because AFRH has not prepared an estimate of deferred maintenance costs expected in the future, we did not include an estimate for this expense in the projection. It is important to note that if such maintenance costs are shown to be substantial, this could significantly alter the projection.

Our analysis shows that AFRH's trust fund balance is projected to continually decline over most of the next 20 years under the as-is scenario, where no actions are taken to bolster income and reduce operating expenses. This decline is projected even with continued transfers from the General Fund at its current amount of $25 million annually. Likewise, our projection shows the trust fund balance would continually decline over most of the next 20 years under the all proposals scenario. In summary, whether AFRH continues to operate under its current scenario or implements all quantifiable revenue-generating proposals, the trust fund will likely continue to decline to the point of being near or fully exhausted without other significant effort to bolster it. Such effort could include continued, and perhaps increasing, General Fund transfers in addition to implementing AFRH proposals. It is also important to note that under both scenarios, absent congressional actions, AFRH's trust fund balance is projected to not reach AFRH management's stated $150 million goal.

AFRH's Trust Fund Accounting Policy Is Insufficient, and Its Internal Control System Lacks Oversight

AFRH's Policy for the Financial Management of Its Trust Fund Is Insufficient and Outdated

We found that AFRH does not have a written financial operating policy that reflects its current accounting operations. As previously discussed, AFRH outsources most of its financial management functions—notably its accounting, accounting system, and financial reporting—to ARC. While AFRH has an overall financial management policy that, among other things, defines duties of personnel with responsibilities over trust fund management, AFRH has not developed written standard operating procedures (SOP) for many of the day-to-day activities AFRH staff perform that are adjunct to the financial management and accounting functions that ARC performs.

AFRH management provided us ARC's cycle memorandums, which ARC prepared to document the financial management and accounting functions it performs for AFRH. These cycle memorandums detail ARC's processes, procedures, and key internal control activities related to AFRH's budgeting, Fund Balance with Treasury, payroll, revenue and cash receipt, and purchasing and disbursement cycles.

In addition to ARC's processes and controls, AFRH performs certain supplemental procedures and has designed some complementary user entity controls, such as conducting inventory checks when goods are received as a part of the accounting cycle for purchasing and disbursement.[36] This and other supplemental procedures are integral components of the respective accounting cycle to help ensure proper recording of AFRH's transactions. However, while this supplemental procedure is documented in an SOP, other supplemental procedures that AFRH staff perform in some key financial management cycles are not documented in written SOPs. For example, AFRH was unable to provide SOPs for supplemental procedures that its staff perform in the budgeting and payroll cycles.

In addition to the lack of adequate documentation for its day-to-day procedures, AFRH's financial management policy is outdated, as it was last updated in 2016. We found that AFRH management does not have a process to periodically review its financial management policies and procedures to ensure they are current. As a result of these issues, AFRH does not have sufficient documentation of procedures and controls to reflect AFRH's current financial management operations. According to the Chief Financial Officer, staff prioritized designing and implementing new, streamlined processes and controls before documenting the changes and preparing new policies and procedures. Management therefore does not have adequate, specific implementing guidance for staff performing daily procedures related to the financial management of AFRH's trust fund.

Standards for Internal Control in the Federal Government states that management should design control activities to achieve objectives and respond to risks. Further, the standards state that management should implement control activities through policies. As part of this, management documents in policies each unit's responsibility for an operational process's objectives, control activity design, implementation, and operating effectiveness. Management also periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives.[37]

Without maintaining current documentation of procedures and controls, and periodically reviewing and updating policy and process guidance, AFRH cannot ensure that financial management practices will be consistently applied (e.g., in the event of staff turnover) or that the design

[36]Complementary user entity controls are controls implemented by user entities (such as AFRH), which supplement controls by management of a service organization (such as ARC).

[37]GAO-14-704G.

of internal controls is sufficient to meet management's objectives of proper financial recording and reporting.

AFRH Has Not Had a Statutorily Required Advisory Council since 2015

As previously discussed, AFRH has not had an active and functional advisory council since at least 2015 despite a statutory mandate. Specifically, AFRH is required to have an advisory council that includes members with various cross-functional expertise, among them an expert in financial management.[38] *Standards for Internal Control in the Federal Government* states that the oversight body should oversee the entity's internal control system, which includes its design, implementation, and operating effectiveness. Specifically, an oversight body oversees the entity's operations; provides constructive criticism to management; and makes oversight decisions, where appropriate, to achieve objectives in alignment with the entity's integrity and ethical values.

With the absence of a functioning advisory council and a written charter or other document with its expected tasks, such as those outlined in federal internal control standards for an oversight body, AFRH lacks management oversight in developing and performing control activities, such as developing and periodically updating its policies and procedures. As a result, AFRH lacks assurance that its operational processes, including having a sufficiently designed and operating system of internal control, align appropriately with the agency's objectives and values.

Conclusions

Congress has a long history of establishing and supporting federal programs such as the AFRH to provide housing, housing assistance, and health care support for veterans. AFRH has reported that it is the only federal entity operating as a life plan community, providing nonmedical and medical care and support for its residents. Its two campuses in Washington, D.C., and Gulfport, Mississippi, offer various services along a continuum of care to eligible veterans and their spouses. Expenses for operating the two campuses and maintaining the grounds are increasing, but revenues from various sources have historically not kept pace with these rising costs. As a result, AFRH has struggled to rebuild its trust fund without supplementing its financing from General Fund transfers from the U.S. government.

While AFRH management prepares various financial projections, it has not applied robust and actuarially sound methods and assumptions in developing the projections. Developing and implementing policies and

[38] 24 U.S.C. § 416.

procedures for preparing financial projections would help AFRH to ensure that it is following appropriate standards and including input from individuals with the necessary and relevant expertise, such as actuaries. Moreover, AFRH does not have an oversight or advisory body in place to help ensure the sufficiency of financial projections. Without improving its processes for preparing the financial projections and ensuring that an oversight body is in place, AFRH will not have reasonable assurance that its projections are useful for decision-making.

AFRH management has been developing and pursuing several proposals to help it potentially increase certain revenues and decrease certain expenses. However, AFRH recently terminated a redevelopment plan for its Washington, D.C., campus and has not implemented any of the other proposals, in part due to factors outside of its control. Without additional action from Congress to address AFRH's financial situation, AFRH's trust fund balance will likely continue to decline until it is eventually exhausted.

Finally, AFRH has not updated its policies and procedures related to key financial and accounting functions. Because it lacks an oversight body similar to those outlined in federal internal control standards, AFRH management has not had effective oversight to review its control activities, including developing and updating its financial management policy and procedures. Without well-developed and documented policies, procedures, and internal controls—and proper oversight of them—management cannot be assured that its data, which also provide the basis for its financial projections, are reliable for managerial decision-making.

Matter for Congressional Consideration

Congress should consider taking action to address AFRH's financial shortfalls. This could include consideration of some level of continued General Fund transfers and the following proposals by AFRH management:

- Amending 37 U.S.C. § 1007(i) to require (1) an increase in the amount of the payroll deductions from eligible service members and (2) that such deductions be adjusted for inflation on a recurring basis.
- Passing legislation to authorize withholding from National Guard and Reserve members eligible for residence at AFRH, similar to withholding currently authorized from armed forces on active duty.
- Passing legislation to authorize AFRH to receive reimbursement from appropriate sources for relevant health and medical care services provided to AFRH's residents. (Matter for Consideration 1)

Recommendations for Executive Action

We are making the following seven recommendations to the Armed Forces Retirement Home.

AFRH's Chief Operating Officer should develop and implement policies and procedures for preparing financial projections, including consistent application of relevant standards and inclusion of individuals with the appropriate expertise, such as an actuary. (Recommendation 1)

AFRH's Chief Operating Officer, in coordination with the Secretary of Defense, should take steps to ensure that AFRH has an oversight body with the responsibilities and qualifications outlined in federal internal control standards, and consider whether the advisory council could be structured in a way to serve this role. (Recommendation 2)

AFRH's Chief Operating Officer should develop a written plan for managing occupancy levels at both campuses that is consistent with management's goal and industry standards. (Recommendation 3)

AFRH's Chief Operating Officer should develop and implement policies and procedures for estimating deferred maintenance costs and reporting fiscal exposures for all of its facilities. (Recommendation 4)

AFRH's Chief Operating Officer should update its financial management policy to include specific implementing guidance (SOPs) for staff performing the daily procedures related to the financial management of its trust fund, and to reflect current processes. (Recommendation 5)

AFRH's Chief Operating Officer should develop and document a process to periodically review existing financial management policies and procedures to ensure that they remain up to date. (Recommendation 6)

AFRH's Chief Operating Officer, in coordination with the Secretary of Defense, should document, in a charter or other document, expected tasks for an oversight body as outlined in federal internal control standards. Such tasks should include providing oversight to AFRH management in developing and performing control activities and periodically updating policies and procedures as necessary. (Recommendation 7)

Agency Comments and Our Evaluation

We provided a draft of this report to AFRH and DOD for review and comment. In written consolidated comments, reproduced in appendix II, AFRH and DOD concurred with four of our seven recommendations, partially concurred with one, and did not concur with two. We maintain that all seven recommendations are warranted, as discussed below.

AFRH and DOD concurred with recommendations 1, 4, 5, and 6 and cited actions they will take to address each recommendation. We believe that if implemented effectively, the actions cited will address each of these recommendations.

AFRH and DOD partially concurred with recommendation 3 to develop a written plan for managing occupancy levels at both AFRH campuses that is consistent with management's goal and industry standards. In their written comments, AFRH and DOD noted that our analysis of declining occupancy did not consider the effects of the COVID-19 pandemic on AFRH, including on the rate of resident admissions. While we did not discuss the pandemic in the report, we acknowledge the significant impact it had on facilities such as AFRH. However, we note that AFRH's occupancy rates had been steadily declining for each of the 6 years prior to the start of the pandemic, as our analysis shows in figure 5 of the report.

Further, AFRH and DOD stated that they laid out goals and initiatives regarding occupancy in their strategic plans, budget submissions, and other documents. The strategic plan, for example, notes management's objective to increase occupancy rates by expanding AFRH resident eligibility to veterans' spouses and National Guard and Reserve members, along with improving AFRH's Washington facility. We acknowledge and discuss in the report that AFRH has goals to increase its occupancy rates at both campuses, and we encourage AFRH's continued pursuit of initiatives to increase its occupancy rates. However, neither the strategic plan nor AFRH's budget submissions include detailed written plans for how it intends to execute initiatives to achieve its objectives and goals. Therefore, we continue to believe our recommendation is warranted.

AFRH and DOD did not concur with recommendations 2 and 7 to help ensure that AFRH establishes an oversight body with the responsibilities and qualifications outlined in federal internal control standards to assist management with its financial projections and internal controls, respectively. However, AFRH and DOD indicated in their consolidated response that DOD is taking various actions that would seem to address parts of these recommendations. For example, the response noted that DOD is updating policy and guidance on AFRH oversight roles and responsibilities, though it does not have an expected completion date for this update.

We appreciate that AFRH and DOD recognize the importance of taking actions to ensure that AFRH has proper and sufficient oversight for its operations. We believe that this reinforces the need to fully address our two oversight-related recommendations.

AFRH and DOD further responded that AFRH has abundant oversight and control mechanisms, particularly for a small agency. The response cites various congressional committees, OMB, and the Office of the Secretary of Defense, among others. *Standards for Internal Control in the Federal Government* states that federal government organizations may have key stakeholders for the entity, such as the White House and OMB. The oversight body works with these key stakeholders to understand their expectations and help the federal entity fulfill these expectations if appropriate. It is important to note, however, that the roles and responsibilities of an oversight body differ from those of key stakeholders. It is incumbent upon the federal entity to establish an appropriate oversight body for its system of internal controls, considering and clearly defining the knowledge, relevant expertise, number of members, and possible independence needed to fulfill oversight responsibilities.

The overall intent of recommendations 2 and 7 is for AFRH to ensure that it has an appropriately structured oversight body for its internal control system, and that the designated oversight body has documented roles and responsibilities to effectively oversee AFRH's development and performance of control activities. Whether the AFRH advisory council can be structured appropriately to fulfill this role within AFRH's unique context is, as the report and AFRH and DOD's comments indicate, ultimately a matter for AFRH to determine.

However, without a designated oversight body that can effectively oversee AFRH's financial management activities, AFRH increases the risks that its controls will not be designed, implemented, and operating effectively. This further increases the risk that AFRH will continue to face challenges with its financial management, including its financial projections. Therefore, we continue to believe that our recommendations 2 and 7 are warranted.

We are sending copies of this report to the appropriate congressional committees, the Chief Operating Officer of the Armed Forces Retirement Home, the Secretary of Defense, and other interested parties. In addition, this report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-2989 or kociolekk@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

Kristen A. Kociolek
Director, Financial Management and Assurance

Appendix I: Objectives, Scope, and Methodology

This report examines the extent to which the Armed Forces Retirement Home (AFRH) (1) projected estimated trust fund revenues and expenses through fiscal year 2042, and developed plans to address any potential financing shortfalls, and (2) established and implemented policies and procedures to process and account for its revenues and expenses through its trust fund.

To address the first objective, and to identify and gain an understanding of AFRH's statutory requirements, operations, and financial results, we reviewed

- the statute that established AFRH and other relevant legal provisions;
- guidance from the Office of Management and Budget (OMB);
- Actuarial Standard of Practice (ASOP) No. 3, *Continuing Care Retirement Communities and At Home Programs*, and other relevant criteria;
- prior audit reports issued by GAO and the Department of Defense's (DOD) Office of Inspector General (OIG) related to AFRH; and
- annual financial audit reports issued by AFRH's independent public accountants from fiscal year 2014 through fiscal year 2022.

We conducted site visits at AFRH facilities on its two campuses in Washington, D.C., and Gulfport, Mississippi, to observe the facilities and resident services provided to help us understand operations and facilities in relation to financial projections. Further, we interviewed AFRH officials to understand their plans for raising revenue and reducing costs related to projected shortfalls, if any, in AFRH's trust fund.

We obtained AFRH's 20-year trust fund balance projection spreadsheet and interviewed AFRH officials to gain an understanding of the methodology and key assumptions used to develop the projection. To help assess AFRH's projection, we reviewed ASOP No. 3, a standard that describes the procedures an actuary should follow when performing actuarial services. It also identifies what the actuary should disclose when communicating the results of those services with respect to life plan communities. We also consulted with two leading expert actuaries in the life plan community area of practice; one was a member of the Actuarial Standard Board's task force that was responsible for updating ASOP No. 3. Additionally, these two actuaries provide actuarial estimates and services to nearly one-half of the life plan community, an indicator that the industry recognizes them as experts.

To further help assess AFRH's projection, including the reasonableness of the embedded assumptions, we developed a 20-year projection model of AFRH's trust fund balance. Our projection enabled us to analyze AFRH's financial position, including projected amounts that incorporated AFRH's proposals for improving long-term sustainability.

To develop our 20-year projection of AFRH's trust fund balance, we projected most operating revenues based on an average of the actual amounts reported in AFRH's performance and accountability reports (PAR) over the prior 5 fiscal years (fiscal years 2018 through 2022), and generally indexed these amounts at an inflation rate of 3 percent. This inflation rate was included in the range of reasonableness based on recommendations from life plan community actuarial experts with whom we consulted.

For congressional support in fiscal year 2023, we included in our projection a $25 million General Fund transfer, plus a $77 million one-time congressional appropriation to fund specific capital improvements as approved by law.[1] Because Congress has provided a General Fund transfer in each of the past 8 fiscal years, we assumed it would continue, and therefore included in our projection, a $25 million General Fund transfer for fiscal years 2024 through 2042 without the amount being indexed for inflation.

We estimated interest earned from trust fund balances using the previous year's ending trust fund balance multiplied by the future expectation for the 3-month Department of the Treasury (Treasury) Bill rate of 2.3 percent. This target rate is closely tied to Treasury's overnight securities rate. AFRH told us the trust fund balance is exclusively invested in Treasury's overnight securities.

With respect to expenses, we projected expense lines (e.g., personnel compensation and benefits, utilities, and communications) based on beginning amounts in AFRH's projection, which in total approximately equaled the total operations and maintenance expense reported in AFRH's fiscal year 2020 PAR. We indexed, or inflated, these amounts by the same inflation rate factor of 3 percent as used in most revenue projections. However, based upon recommendations received from actuarial experts, we indexed, or inflated, medical cost expenses by 5

[1]Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, Div. J, Tit. III, 136 Stat. 4459, 4971-2 (2022).

percent because medical expenses have historically outpaced the overall rate of inflation. We also indexed, or inflated, contractual services using a 2 percent index rate to capture a slower annual growth (than is estimated for other revenues and expenses) because of certain contractual expenses, which according to AFRH, do not escalate over the multiyear term of the contract. Because AFRH had not prepared an estimate of deferred maintenance costs expected in the future, we did not include an estimate for this expense in our projection.

The net effect of revenues and expenses, indexed in future years as discussed above, is presented in our graph of trust fund balances as the line labeled “as-is” to simulate the current state of AFRH’s operations. We also projected potential revenues, adding to the “as-is” amounts that might be received for AFRH’s various proposals, to the extent that AFRH could estimate the amounts. We determined the effect to trust fund balances by including the sum of these potential revenues, labeled “all proposals” in our graph, to determine whether AFRH’s proposals might improve AFRH’s financial condition.

For this “all proposals” projection, we included the $25 million General Fund transfer plus the $77 million one-time congressional appropriation for capital improvements, as these amounts were already approved and funded for fiscal year 2023. We anticipated that the General Fund transfer would continue into fiscal year 2024. However, we did not include an amount for General Fund transfers beyond fiscal year 2024. This was based on the assumption that management’s plans to expand its revenue sources would eliminate the need for Congress’s appropriated General Fund transfers in the future.

Of the proposals discussed earlier in this report, we did not include projected revenues and related expenses that might result from increasing resident occupancy to AFRH management’s stated goal, because AFRH did not have sufficient data to calculate revenue and expense amounts based upon an estimate of the future resident population. We also did not include any potential revenues from AFRH’s terminated redevelopment plan of the Washington, D.C., campus.

To project the annual ending balance of AFRH’s trust fund, beginning with the amount reported in the fiscal year 2022 PAR, we added the sum of annual projected revenues—for both the “as-is” and “all proposals” estimates—less the sum of projected expenses, to the projected prior-year ending balance of AFRH’s trust fund. Lastly, we compared the projected ending trust fund balance to AFRH officials’ stated goal of maintaining $150 million (in fiscal year 2023 dollars) in its trust fund, and included this, labeled as "AFRH goal" in our graph. For annual comparisons through fiscal year 2042, we inflated this beginning trust fund goal by the same 3 percent rate of inflation used mostly throughout our projection of AFRH's revenues and expenses.

We determined that three components of internal control (control activities, control environment, and information and communication) were significant to the first objective.[2] The control activities component includes the underlying principles that management should design control activities to achieve objectives and respond to risks and implement control activities through policies. The control environment component includes the underlying principle that the oversight body should oversee an entity's internal control system. Lastly, the information and communication component includes the underlying principles that management should use quality information to achieve the entity's objectives and externally communicate the necessary quality information to achieve the entity's objectives.

In addition, we reviewed the *United States Code* and other related legal materials for specific AFRH guidance and criteria, as appropriate. We also reviewed ASOP No. 3 and interviewed actuaries with expertise in life plan communities to determine additional sources of criteria. We limited the scope of our review to AFRH's analysis of its revenue sources and expenses, including the projected trust fund balances through fiscal year 2042.

To address the second objective, we reviewed AFRH's financial management guidance (i.e., written policies and procedures) to gain an understanding of how AFRH accounts for and reports results of its financing transactions. We further reviewed prior audit reports issued by GAO, DOD OIG, and independent public accountants for fiscal year 2014 through fiscal year 2022 to determine the extent to which internal controls have been established.

We reviewed AFRH's interagency agreement with Treasury's Bureau of the Fiscal Service's Administrative Resource Center (ARC), AFRH's outsourced financial management shared services provider. The interagency agreement helped us gain an understanding of the financial

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

management services it provides to AFRH (such as accounting, financial reporting, and budgeting). In addition, we reviewed Treasury OIG's report on ARC's shared services to determine if ARC's controls relevant to AFRH were suitably designed and operating effectively for the period tested.[3]

We interviewed AFRH officials and observed the processing of revenue and expense transactions at AFRH's Washington campus to determine how AFRH ultimately posted transactions to its accounting records. We then compared our observations to the requirements included in the AFRH-provided ARC cycle memorandums to determine the extent to which AFRH's procedures aligned with guidance. We limited our review to policies, procedures, and guidance from AFRH established and in effect as of January 1, 2022, to account for AFRH's revenue and expense transactional activities through its trust fund.

We determined that the control environment component of internal control was significant to this objective, along with the underlying principle that an oversight body should oversee the entity's internal control system.[4] We also determined that the control activities component of internal control was significant to this objective, along with the underlying principles that management should design control activities to achieve objectives and respond to risks, as well as implement control activities through policies.

We conducted this performance audit from July 2022 to December 2023 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.

[3]Department of the Treasury, Office of Inspector General, *Report on the Bureau of the Fiscal Service's Description of Its Administrative Resource Center Shared Services System and the Suitability of the Design and Operating Effectiveness of Its Controls for the Period July 1, 2021 to June 30, 2022*, OIG-22-039 (Washington, D.C.: September 2022).

[4]GAO-14-704G.

Appendix II: Comments from the Department of Defense and Armed Forces Retirement Home

ARMED FORCES RETIREMENT HOME
3700 NORTH CAPITOL STREET, NW
WASHINGTON, D.C. 20011

November 20, 2023

Mrs. Kristen A. Kociolek,
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mrs. Kociolek,

Enclosed is the Department of Defense (DoD) and Armed Forces Retirement Home (AFRH) consolidated response to the U.S. Government Accountability Office (GAO) Draft Report GAO-24-106171, "Armed Forces Retirement Home: Congress and Agency Management Should Take Actions to Improve Financial Sustainability," provided November 8, 2023 under GAO engagement code 106171.

Our points of contact are Mr. Michael Coolbaugh for DoD, at michael.d.coolbaugh.civ@mail.mil or 571-372-7044, and Mr. Patrick Cavanagh for AFRH, at patrick.cavanagh@afrh.gov or 202-541-7529.

Sincerely,

Stephen T. Rippe
AFRH Chief Executive Officer,
on behalf of the Secretary of Defense

John S. RisCassi
AFRH Chief Operating Officer

Enclosure:
As stated

GAO DRAFT REPORT DATED NOVEMBER 8, 2023
GAO-24-106171 (GAO CODE 106171)

"ARMED FORCES RETIREMENT HOME: CONGRESS AND AGENCY MANAGEMENT SHOULD TAKE ACTIONS TO IMPROVE FINANCIAL SUSTAINABILITY"

DEPARTMENT OF DEFENSE AND ARMED FORCES RETIREMENT HOME COMMENTS

SUMMARY COMMENTS FOR SECOND DRAFT REPORT

We appreciate GAO's work in this report to provide an independent perspective on actions needed to set Armed Forces Retirement Home (AFRH) on a path to long-term sustainability, as well as highlighting ways we can continue to improve management of the organization. We concur with GAO's finding that significant efforts to bolster the trust fund are necessary, and we believe long overdue. If past performance is a predictor of future performance, we are proud that in recent years:

- Revenue initiatives and increased resident fees, together with operating efficiencies and general fund appropriations, have led to the AFRH Trust Fund balance increasing 62 percent from $66 million in FY2017 to $107 million in FY2022
- Capital spending authority increased by 9 times, from $4 million to $37.3 million, to address critical deferred maintenance projects
- Operating budget authority increased eight percent to help us attract and retain highly competitive nursing and other positions and absorb inflationary cost increases
- A $77 million appropriation was provided to renovate the Washington, D.C. campus principal residential Sheridan Building to modernize and expand units to better attract residents and achieve energy efficiencies
- Statutory changes expanded resident eligibility to include reservists, spouses, and a pathway to admission for those with manageable mental health and substance abuse issues who were previously denied entry; transitioned operating funding from one-year to two-year availability for contingencies like hurricane recovery at the AFRH Gulfport campus and to cushion the effects of repeated funding lapses and continuing resolutions on the Home's operations; and provided new authority to solicit gifts and donations
- We re-energized efforts to leverage the Washington, D.C. facility's underutilized property for additional lease revenue which led to a master plan amendment approved by the National Capital Planning Commission (NCPC); a new memorandum of understanding between AFRH, NCPC, and the District of Columbia governing how mixed-use development on Federal land will be zoned, entitled, permitted, and serviced; and statutory changes to clarify lease execution authority.
- Over $4.2 million in additional revenue FY2018 and FY2023 was secured through interim-use leases with nearby hospitals, at with minimal cost to AFRH
- We achieved, including for FY2023, a track record of unmodified audit opinions

All of these coincided with the Covid-19 pandemic and national emergency which required an unprecedented response. At AFRH we marshalled support for $2.7 million in emergency supplemental funding in the CARES Act; engaged with DoD and Defense Health Agency to deliver rapid-sourcing of medical supplies and personal protective equipment; and provided vaccine doses to AFRH veterans within days of Centers for Disease Control and Prevention approval. Tough decisions about campus operations and access limitations, while maintaining transparent and effective communications with stakeholders, led to remarkable achievements in patient safety during the pandemic compared to similarly situated facilities, with no resident deaths directly attributable to Covid-19, and a successful inspection by the DoD Inspector General.

In the coming years we look forward to resolving the decades-long impasse over pay deductions supporting the Home, instituting new health record systems that will improve healthcare coordination for our residents and better facilitate reimbursement for covered services performed on-site, developing an updated capital investment plan for facilities and equipment, and executing a new strategy to secure a long-term revenue stream from the Home's substantial real estate assets. Together these initiatives will facilitate reducing the requirement for general fund transfers to support operating expenses.

The second draft report was provided for comment November 8, 2023 and was necessary following the decision by AFRH, reviewed and concurred by the Department of Defense (DOD) and announced October 26, 2023[1], to terminate the solicitation open since 2018 for the project to redevelop 80 acres of the Home's Washington, D.C., campus. The decision came in the wake of nearly 4 years of intensive negotiations with the selected developer, during which mutually agreeable terms could not be finalized and significant changes in economic conditions since the original proposal occurred. Given these changes and the elapsed time since the offerors' initial proposals, AFRH determined that continued negotiations would not be feasible. While this decision represents a setback, efforts to date will not be wasted. AFRH will continue to work to implement its Master Plan, mitigate environmental impacts, reach out to communities and neighbors, and preserve greenspace and historic assets to the extent possible. AFRH still believes development will occur and bring positive results and opportunities to both the Home and the District, and we remain committed to pursuing financial self-sustainability while ensuring the well-being of the veterans in our care.

The revised draft removed the impact of potential revenues of a redevelopment project from GAO's 20-year projection, updated figure 7, and removed nearly all discussion and a related recommendation regarding the project. Analysis on the earlier draft projection stated: "We were unable to estimate, and therefore did not include, projected revenues for some of the proposals discussed above, including potential new revenues (other than a $3 million initial estimate provided by management) from the Zone A proposal."

The first draft found "that the projected revenues from incorporating the proposals would bolster the trust fund balance," differing sharply from the second draft which finds "whether AFRH continues to operate under its current scenario or implements all of its proposals, the trust fund will likely continue to decline without other significant efforts to bolster it." This shift cannot be

[1] https://www.afrh.gov/sites/default/files/files/press-releases/PressRelease-26October23.pdf

explained solely by the removal of the above $3 million initial annual estimate for property development, but no additional analysis or explanation for the shift was included. Nevertheless, we were generally able to reproduce the trend of the graph in the most recent draft report. Predicting the future is always perilous, and we caution the pile-on effects from stacked assumptions. Among these assumptions, it is unclear whether GAO's analysis used obligations or actual expenditures for projecting expenses, and whether non-cash expenses were included which would not affect the trust fund balance.

The curve can be shifted with seemingly minor adjustments:

- Applying a 2.3% inflation factor (the average of military COLAs for the last 18 years) to military withholding, or a similar alternative funding mechanism, could add $1 million each additional income each year if the proposals we suggested are enacted
- Federal funds rates averaged 1.93% over the last 25 years but 4.82% over the last 50 years. If rates stabilize between these averages at 3.37%, AFRH can earn $3-5 million per year in interest on the projected trust fund balance over the next decade.

Regarding increasing occupancy, we estimate that by extending the average fee paid by current independent living residents to additional residents following the renovation to the Washington campus Sheridan Building in approximately 2027, including a 2.8% annual cost of living increase, reaching 90% occupancy in independent living would yield nearly $9 million additional revenue. Applying conservative variable costs by extending proportionally all resident services, utilities, and non-nursing healthcare, the remainder would yield $1.6 million net revenue in approximately 2027.

Adding these to our reproduced GAO projection, fully implementing each of these would still require an average $12 million per year in the last decade of the 20-year projection to balance income and expenses, absent any general fund transfers and excluding capital investments. The original property redevelopment proposal could have closed much of that gap, but as stated previously, more recent projections indicated far lower revenues with increased risk to AFRH.

Recent deficits have been shouldered by taxpayers, which Congress has directed be reduced and preferably eliminated. But these recent taxpayer infusions mask the much longer history of insidious underinvestment, capacity reductions, and service cuts which, alongside inflation, work to erode this benefit to enlisted veterans. Consider, for example, these statistics for two fiscal years fifteen years apart:

Fiscal Year	Operating Budget	Resident Capacity	FTE
2004	$63.296 million	1,865	549
2019	$63.300 million	1,125	336
		-40%	-39%

$63.296 million in September 2004 has the same buying power as $102.6 million in September 2023—a 38% difference, which AFRH has been tracking near identically by paring capacity and staffing.[2]

At the same time, a recent New York Times article highlighted concerns about current and future availability and affordability for elder care, particularly for the middle class:[3]

- By 2050, the population of Americans 65 and older is projected to increase by more than 50 percent, to 86 million, according to census estimates. The number of people 85 or older will nearly triple to 19 million.
- Among Americans who had $171,365 to $1.8 million in savings at age 65, those with greater long-term care needs were much more likely to deplete their savings than those who did not need long-term care.
- The cost of a spot in an assisted-living facility has soared to an unaffordable level for most middle-class Americans.
- Middle-class people must exhaust their assets to qualify, forcing them to sell much of their property and to empty their bank accounts. If they go into a nursing home, they are permitted to keep a pittance of their retirement income: $50 or less a month in a majority of states. And spouses can hold onto only a modest amount of income and assets, often leaving their children and grandchildren to shoulder some of the financial burden.
- Half of the nation's assisted-living facilities cost at least $54,000 a year, according to Genworth, a long-term care insurer. That rises substantially in many metropolitan areas with lofty real estate prices. Specialized settings, like locked memory care units for those with dementia, can cost twice as much.

AFRH addresses precisely this issue, providing affordable residences with a variety of on-site services to veterans with moderate incomes, using income-based fees that ensure resources will not be depleted because of the cost of living with us. Like insurance, AFRH was not intended to serve every veteran, but it provides an important backstop and it would be unfortunate to allow this benefit to continue to erode at the same time it will be sorely needed in the coming years. Action is needed, but particularly those actions which will provide steadily increasing amounts commensurate with inflation. From AFRH's long experience, unpredictable infusions through the budget process or from asset sales are not a sustainable solution.

The following comments, while adjusted to reflect the latest draft report, are largely unchanged.

FINANCIAL PROJECTIONS

AFRH revenue initiatives together with operating efficiencies and support from general fund appropriations have led to the AFRH Trust Fund balance increasing 62 percent from $66 million in FY2017 to $107 million in FY2022. AFRH increased resident fees dramatically in 2019 and, though development revenues remain difficult to project, we are confident that initiatives in this area can help provide meaningful long-term income to the trust fund. Restoring the trust fund balance and maintaining it at a level between one- and three-times annual operating expenditures

[2] https://www.bls.gov/data/inflation_calculator.htm
[3] "Facing Financial Ruin as Costs Soar for Elder Care", *The New York Times*, November 14, 2023

would provide a margin of safety to absorb short-term revenue reductions or cost increases with meaningful, but not excessive, capital to invest in furthering the Home's mission.

As the GAO draft report ("report" hereafter) noted, other changes to significantly increase revenue will require Congressional or Executive Branch action. DOD sponsored legislative proposals approved by OMB 1.) to extend withholding contributions to reservists now eligible for AFRH admission and 2.) to authorize reimbursement for healthcare services provided at AFRH facilities which are covered by health benefit programs. Congress has not yet adopted these proposals. Numerous recommendations have been made to increase military pay withholding to support the Home from $0.50 to $1.00 as authorized in law, including the 2001 DOD joint study discussed in the report and more recently in a DOD efficiency study conducted in 2016. As the report notes, the Secretary of Defense has discretion to set the rate within the statute based on the financial needs of AFRH, whereas changes to the limits or mechanisms would require Congressional action. Proposals were made to increase the withholding in 2015, 2019, and 2023 but faced opposition to tax current military members and were not ultimately advanced. Doing so would double the current contributions from active duty servicemembers from approximately $7 million to $14 million annually.

The 20-year projection mentioned numerous times in the report was never intended as a bona fide projection for official use. The 20-year projection was an internal document used to model myriad "what ifs" and assumptions, or to test how possible revenue generation ideas may broadly impact financials. Many factors and assumptions contained in the forecast would, of course, be inaccurate without more detailed analysis and documentation, and are inconsistent with the official 10-year forecast contained in the President's Budget Submission and 5-year forecast contained in the annual Performance and Accountability Report.

To achieve more accurate and detailed projections, we would welcome actuary support. As described below, we have had actuarial representation on our Advisory Council and perhaps this is an area where DOD can provide additional support given that our resident population draws entirely from DOD personnel. Actuarial standards have not played a role within AFRH considering the unique nature of our agency and financial structure. AFRH differs from traditional retirement or life plan communities offering more insurance-like contracts guaranteeing services and pricing as residents age and their health needs change. Actuarial projections are much more important in those cases since the communities assume liability to care for the residents and must accurately project resident assets and incomes, life expectancies, and healthcare needs to ensure residents and annuity investments will not run out of funds. Many communities have moved away from writing these contracts given the complexities involved and the risks the communities assume if they are inaccurate. Fee-for-service arrangements have become more prevalent in the industry to help mitigate the communities' risks while shifting the affordability risk to their residents.

The report allocated only a brief section to the congressionally-requested product of a 20-year projection, and then only at the overall level without detailing the individual components and their associated assumptions and indexing; how various factors might change the projection curve for better or worse; or actuarial commentary on the fidelity and limitations of the projections. The bulk of the report focused on the shortcomings of the internal 20-year projection, with recommendations to dedicate additional (limited) resources, energy, and oversight to producing more detailed, finely-tuned projections. We believe a more fulsome and useful report would walk through each of the major funding streams; for example, a section covering fines and forfeitures and how historical receipts and changes in military force structure could inform projections. GAO criticized AFRH's what-if 1.5 percent inflation rate but did not offer an alternative or analysis of its own. GAO's projection excluded any attempt to project the effects of increased occupancy. In making a projection, we would start with existing AFRH resident fees and history of military retiree pay increases on the income side, and with variable costs on the expense side. Most opportunity for occupancy growth is with our independent living level of care which has less variable cost exposure than health care levels.

Recommendation 1: The GAO recommends that the AFRH Chief Operating Officer should develop and implement policies and procedures for preparing financial projections, to include consistent application of relevant standards and inclusion of individuals with the appropriate expertise, such as an actuary.

Recommendation 5: The GAO recommends that the AFRH Chief Operating Officer should update its financial management policy to include specific implementing guidance (SOPs) for staff performing the daily procedures related to the financial management of its trust fund, and to reflect current processes.

Recommendation 6: The GAO recommends that the AFRH Chief Operating Officer should develop and document a process to periodically review existing financial management policies and procedures to ensure they remain up to date.

Response for recommendations 1, 5, and 6: Concur. AFRH is updating its financial management policies and procedures, which was identified as an action item prior to the GAO study. The financing, operations, resident eligibility, and many other elements of AFRH's model are not directly comparable to other retirement communities. Many of the actuarial standards used in the industry are not applicable to AFRH. With that said, some actuarial services are relevant to AFRH and can be used to improve projections and assist in risk management mitigation strategies. AFRH will consult with the DOD Office of the Actuary to determine what expertise may be available to AFRH and relevant actuarial models that may apply. A financial management analyst was brought on board in March 2023 as a program manager for internal controls and financial policy, and AFRH will update relevant policy and guidance with completions expected between November 2023 and February 2024.

OVERSIGHT

AFRH has abundant oversight and control mechanisms, particularly for a small agency: four congressional oversight committees along with engagements by local members, OMB, the Office of the Secretary of Defense, the Defense Health Agency through the Deputy Director's statutory role as AFRH Senior Medical Advisor, AFRH Inspector General, DOD Inspector General, GAO, CBO, our statutorily required third-party accreditors The Joint Commission and CARF, our statutorily required independent auditor, our federal shared service providers which are subject to their own degrees of oversight and audit and whose policies are independent from our control, and numerous others. The report discusses our shared service outsourcing to the Administrative Resource Center (ARC) within the Bureau of the Fiscal Service at the Department of the Treasury. ARC experts oversee and execute AFRH's financial management, procurement, and HR functions. As such, our financial management is centralized at ARC which allows for consistent financial control and oversight, ensuring AFRH operates within established guidelines and regulations. ARC helps AFRH comply with federal laws and regulations, such as the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). By serving as the umbrella for internal controls, the ARC assists AFRH in identifying and mitigating financial risks. We are proud of our record of unmodified audit opinions, conducted under generally accepted government auditing standards and generally accepted accounting principles, and believe that reflects well on our internal control system. We engage frequently with OMB on our strategic initiatives and finances, and the reporting for these functions. Additionally, GAO footnoted that the AFRH Trust Fund is one of only four federal trust funds where spending is limited by annual appropriations, an additional control mechanism compared to other trust funds.

Beyond the routine oversight listed above, in recent years AFRH has been subject to a DOD efficiency study, a comprehensive DOD Inspector General review and a targeted inspection on our response to COVID-19, an inspection by the investigations subcommittee of the House Appropriations Committee, and this GAO review. Studies, working groups, and audits were convened in 1994, 1995, 1999, 2000, 2001, 2002, 2004, 2006, 2015, 2016, 2017, and 2023. Each of these efforts involved hundreds of hours of interviews and thousands of documents transferred, consuming enormous organizational energy and focus.

As “The Green Book” (*Federal Internal Control Standards* (GAO-14-704G)) defines the roles, an oversight body

> *is responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing management’s design, implementation, and operation of an internal control system. For some entities, an oversight body might be one or a few members of senior management. For other entities, multiple parties may be members of the entity’s oversight body.*

It further defines management as “directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity’s internal control system.” Several sections in the Green Book indicate that the oversight body should be able to direct or act. Although the Advisory Council is part of AFRH’s governance framework, it is purely advisory and does not set the strategic direction of the agency nor may it direct or compel elements of AFRH to act, in accordance with 5 U.S.C. 1008(b):

> *Unless otherwise specifically provided by statute or Presidential directive, advisory committees shall be utilized solely for advisory functions. Determinations of action to be taken and policy to be expressed with respect to*

> *matters upon which an advisory committee reports or makes recommendations shall be made solely by the President or an officer of the Federal Government.*

The council is not a governing board and should not be construed as such. As the report alludes in its transmittal letter, when it was established the AFRH did have a governing board but the DOD joint study group recommended restructuring management and oversight, leading to the changes in Public Law 107-107 which created the COO position and expanded DOD oversight responsibilities. By the Green Book definitions, we consider AFRH's oversight body to consist of the Chief Operating Officer (COO) as the agency head and the Secretary of Defense and his designees. These include, at present, the Director of Administration and Management, the Director of Washington Headquarters Services, the AFRH Chief Executive Officer who is delegated most of the secretary's day-to-day responsibilities, and the Deputy Director of the Defense Health Agency as AFRH Senior Medical Advisor.

The report's assertion that "AFRH has not had an active, functioning advisory council since at least 2015" is incorrect. The council had designated members and held meetings 04/21/2016, 11/17/2016, 08/16/2017, 05/08/2019, 12/03/2019, and 01/28/2021. Meetings in 2020 were planned but suspended for multiple reasons due to the pandemic. However, this is not to say that the council has been effective. We observe the council provided few actionable or specific recommendations and routinely failed to produce annual reports in a timely manner, leading at one point to an admonishment by a DOD oversight official. Current leadership asked the council to review and provide recommendations on medical coding and marketing. The Council's chair, after conferring with other members, advised that members were not able to commit sufficient time to develop original recommendations as a working council, but could help validate proposals under consideration by AFRH leadership. Finally, we observe that the council's 2015 annual report included multiple commendations including for AFRH's financial management, while at the same time a separate working group was convened by the Office of the Under Secretary of Defense for Personnel and Readiness at the request of the Chairman of the Joint Chiefs of Staff to address the known issue of the Home's solvency. Notably, no members of the Advisory Council were included as members of the working group, and the group's report only mentioned the council by referring to its recommendations involving changes to resident fees.

Despite these shortcomings as a body, the composition of the council to include experts from various disciplines has at times proven beneficial as individual members have provided advice and counsel or made professional connections between AFRH and others. We are proud that a DOD Office of the Actuary staff member served as one of our most engaged members for a number of years and continued to do so after moving to the Department of Veterans Affairs, helping provide AFRH with data and analysis on military retirees. Understanding the value of these experts, and particularly in the potential for those from outside the federal government, as the report noted the Secretary of Defense recently reestablished the Advisory Council after pausing all DOD advisory committees pending the outcome of an internal review. This newly reinstituted council will include non-federal experts in retirement community leadership and gerontology whom we are excited to welcome and learn from.

Recommendation 2: The GAO recommends that the AFRH Chief Operating Officer, in coordination with the Secretary of Defense, should take steps to ensure that AFRH has an

9

oversight body with the responsibilities and qualifications outlined in federal internal control standards, and consider whether the advisory council could be structured in a way to serve this role.

Recommendation 7: The GAO recommends that the AFRH Chief Operating Officer, in coordination with the Secretary of Defense, should document, in a charter or other document, expected tasks for an oversight body as outlined in federal internal control standards. Such tasks should include providing oversight to AFRH management in the development and performance of control activities, and periodically updating policies and procedures as necessary.

Response for recommendations 2 and 7: Non-concur. Congress already took action, as the report noted, in 2001 when it abolished the governing board and replaced it with a COO as agency head and expanded DOD oversight to focus responsibility and accountability. In that vein, the DOD Director of Administration and Management is updating DOD Instruction 1000.28, which provides policy and guidance on AFRH oversight roles and responsibilities. As the GAO report notes, DOD has issued a Federal Register notice to reestablish the AFRH Advisory Council with an approved charter under the Federal Advisory Committee Act. While part of the AFRH governance structure, the council is purely advisory in nature and will not have the authorities of a governing board and should not be construed as such.

Moreover, AFRH has abundant oversight and control mechanisms, particularly for a small agency: four congressional oversight committees along with engagements by local members, OMB, the Office of the Secretary of Defense, Defense Health Agency through the deputy director's statutory role as AFRH Senior Medical Advisor, AFRH Inspector General, DOD Inspector General, GAO, CBO, our statutorily required third-party accreditors The Joint Commission and CARF, our statutorily required independent auditor, our federal shared service providers which are subject to their own degrees of oversight and audit and whose policies are independent from our control, and numerous others.

In addition to updating DOD Instruction 1000.28, DOD is also updating DOD Instruction 5010.40 and is developing an enterprise risk management framework which will help define oversight roles and responsibilities within the department. As discussed in our response to recommendations 1, 6, and 7, AFRH is updating its financial management policies and procedures. DOD and AFRH will review best practices for enterprise risk management and resource planning to determine the best approach for defining an oversight body and other internal control oversight within AFRH's unique context. AFRH anticipates updating its financial management directive in December 2023 and follow-on procedures by February 2024. DOD does not currently have an expected completion date for updating DOD Instruction 1000.28.

OCCUPANCY

We appreciate the report's attention to occupancy since this has been a key focus of the current management team. Congress supported expanding AFRH eligibility to include reservists, retirees under age 60, and admitting otherwise ineligible spouses with their respective eligible veteran. As FY2023 has shown, comparatively large occupancy increases are reasonable to reach our goal of 90 percent or better. Since the end of FY2022, our 120 admissions through August 2023, along with significantly lower voluntary discharges (16 versus an average 56 since FY2016) and deaths (48 versus an average 86), represents a net 8.5 percent improvement in the occupancy rate. Beginning in August 2023, the AFRH-Washington campus has reached its effective capacity with a waiting list started for new residents so that renovation of the Sheridan Building, the Washington campus' principal residence, can begin in 2024.

Our strategic plans, budget submissions, and performance and accountability reports have identified our plans to increase occupancy through initiatives to expand AFRH eligibility to more veterans and their spouses and invest in facility improvements that will be more attractive to current and future generations. Campus administrators and admissions staff have objectives in included their performance plans, and we continually review processes to improve admissions efficiency. We recently reduced our application processing time from approximately 90 days to an average of 20 days in response to an evaluation which found several steps slowing down the admission timeline. In addition, we mitigated delays caused by incomplete applications by proactively working with applicants to receive complete information. We also streamlined financial and medical reviews by using technology to reduce the exchange of time-consuming emails and fully integrating electronic storage to share and track our progress.

The report did not mention the COVID-19 pandemic, particularly in the context of occupancy, and the herculean mitigation efforts AFRH undertook that resulted in no resident deaths due directly to COVID-19 – unmatched, we believe, by virtually any other institutional living facility. COVID-19 changed the world, and the report did not touch upon it, or the impacts to AFRH despite the enormous organizational energy and resources, and deviation from plans and goals, required to respond to the global pandemic, the effects of which are still being felt and, in some cases, amplified. From the pandemic's beginning in March 2020 to February 2021, when our communities became sufficiently immunized against the virus to safely resume regular admissions, voluntary discharges and deaths held at normal rates but only 20 new residents were admitted. This compares to an average 104 admissions per year during FY2016-2019 prior to the pandemic. Concerns over the community living environment continued to depress admissions until late FY2021 in Gulfport and FY2022 in Washington.

Aside from the pandemic, a large drop in occupancy is visible in figure 5 between FY2017 and FY2018. While admissions during that period were typical, the 119 voluntary discharges were more than double the average 56 mentioned above. As the report found, AFRH resident fees are lower than market (although comparisons to market rates often fail to address average resident incomes), so various studies have recommended that AFRH increase fees. DOD took action on those recommendations in 2019, increasing fees for most residents by 23 percent, from $1,450 per month average across all levels of care in 2018 to $1,786 in 2019. After the plan was announced in March 2018, 84 Gulfport residents left between April and September largely in protest of the increase. Management discontinued plans to further increase fees beyond annual cost of living adjustments in light of the significant increase implemented and concerns about continued occupancy declines due to both increased fees and the onset of the pandemic.

Recommendation 3: The GAO recommends that the AFRH Chief Operating Officer should develop a written plan for managing occupancy levels at both campuses that is consistent with management's goal and industry standards.

Response for recommendation 3: Partially concur. We have laid out goals and initiatives regarding occupancy in our strategic plans and budget submissions, and included objectives in individual performance plans. These initiatives are in the process of execution, evidenced by post-pandemic increases in occupancy along with funding and designs secured to renovate the Sheridan Building. AFRH is working to update its admissions program directive, procedures, and processes and will include appropriate elements to further define and operationalize these plans. Directive completion is expected January 2024 with procedures and processes expected to follow by March 2024.

DETERIORATING FACILITIES

AFRH requested, and OMB and Congress supported, $37.3 million in capital spending authority between FY2020 and FY2023 to tackle critical deferred maintenance projects for electrical, water, roofing, elevators, HVAC, and other infrastructure critical to operations and life safety. It is also why we requested and obtained a $77 million appropriation to renovate the Washington, D.C. campus' principal residential Sheridan Building to modernize and expand units to better attract residents and sustain our key operating assets.

Current leadership inherited 9 consecutive years of capital spending authority in the $1-2 million range on property, plant and equipment valued near $300 million net of depreciation, $400-500 million undepreciated, during that timeframe. A minimal capital expenditure ratio by any measure, and far below other continuing care retirement communities with much younger facilities, which we have discussed repeatedly in PARs and budget submissions. GAO's report focused exclusively on non-operational outdated facilities. The report is correct that we have not completed a full estimate of the cost to stabilize these structures or bring them back to an acceptable condition. Previous leaders long ago determined that those facilities were no longer useful to AFRH operations. With the possible exception of the more modern LaGarde Building, we agree, hence those facilities were included for redevelopment in the Home's master plan. The majority of the structures in the development area are slated for demolition, and our 2018 solicitation provided a caveat that the facilities are as-is. Our intent, as clearly stated in the solicitation, upon selecting a developer was to negotiate and execute a master ground lease within 120 days. Four years later, we still had not reached mutually agreeable terms that would address these facilities in a reasonable timeline. The timing has changed, but our outlook that these facilities are beyond their usefulness to AFRH operations has not.

We allow that narrative information on our strategies and policies as described in A22-A24 of SFFAS 42 could be improved, but disagree with the report's contention for a "full estimate" of deferred maintenance costs. First, section A28 of SFFAS 42 discusses that estimating deferred maintenance which has a low probability of occurrence on assets deemed inactive and in the process of disposal could overstate estimates useful for decision-making. Granted, A28 indicates estimates on inactive assets should still be made and separated from active assets, but this leads to our second point: estimates are just that, subject to a wide degree of methods and judgment, unfavorable market conditions, and real-world constraints on resources and capacity. Even specific statutory authority is resource limited, as AFRH found when it pursued grant funding under the limited scope of 24 U.S.C. 423 only to find that funds were not available or the likelihood of approval remote. AFRH, with Congressional and Administration support, has been working to dig out of its deferred maintenance hole to keep electricity running and water flowing to our operating assets, much less nonoperating ones, while at the same time responding to a devastating pandemic, economic disruptions, and the too-common budgetary instability of volatile capital budgets, funding lapses, continuing resolutions, and government-wide threats of across-the-board cuts. It would be a waste of resources to conduct complete assessments and preventive maintenance on structures planned for demolition.

Recommendation 4: The GAO recommends that the AFRH Chief Operating Officer should develop and implement policies and procedures for estimating deferred maintenance costs and reporting fiscal exposures for all of its facilities.

Response for recommendation 4: Concur. AFRH is updating its financial management policies and procedures, and will review and update as appropriate our facility management and investment review policies and processes with completion expected February 2024.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Kristen A. Kociolek, (202) 512-2989 or kociolekk@gao.gov

Staff Acknowledgments

In addition to the contact named above, the following individuals made key contributions to this report: Paul Kinney (Assistant Director), Sabur Ibrahim (Auditor-in-Charge), Mauricio Chacon-Vaca, Jason Kelly, Deanna Kitchens, Michael LaForge, Jessica L'Or, Faye Morrison, Peter Rossi, Amanda Stogsdill, Anne Thomas, and Frank Todisco.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. You can also subscribe to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, https://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube.
Subscribe to our RSS Feeds or Email Updates. Listen to our Podcasts.
Visit GAO on the web at https://www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: https://www.gao.gov/about/what-gao-does/fraudnet

Automated answering system: (800) 424-5454 or (202) 512-7700

Congressional Relations

A. Nicole Clowers, Managing Director, ClowersA@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Strategic Planning and External Liaison

Stephen J. Sanford, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814,
Washington, DC 20548