INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

REPORT
NO. 91-073

April 30, 1991

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE NAVY (INSTALLATIONS AND ENVIRONMENT)

SUBJECT: Final Quick-Reaction Report on the Audit of DoD Base Realignment and Closures (Project No. 0CG-0031.01)

Introduction

In January 1990, we began our audit of DoD Base Realignment and Closures. The audit objectives included determining whether the need for base realignment construction was adequately supported.

Base realignment projects estimated to cost about $53 million at the Naval Station Pearl Harbor, HI are not needed. On November 26, 1990, the Deputy Secretary of Defense signed Program Budget Decision No. 011 to deactivate the Navy's two remaining battleships. Work continues, however, on contracts recently awarded for new facilities at the Naval Station Pearl Harbor to homeport the battleship USS Missouri, and additional contracts are pending award. Immediate management action is needed to cancel construction projects that are no longer supported by realignment actions, and to ensure that the DoD Base Closure Account is charged only for expenditures actually related to base realignment.

Background

On May 3, 1988, the Secretary of Defense chartered the Commission on Base Realignment and Closure to recommend military bases for realignment and closure. The Secretary of Defense approved the Commission's recommendations in January 1989. Public Law 100-526, "Base Closure and Realignment Act," authorizing realignment actions, was enacted in April 1989 and established the Base Closure Account, which can be used only for purposes prescribed in the law. Those purposes include new construction of replacement facilities when functions are transferred from one military installation to another military installation.

The Commission's report recommended the homeporting of one battleship and two cruisers at the Naval Station Pearl Harbor, HI. To support realignment actions, eight construction projects with an estimated cost of $73.4 million were developed by command personnel at the Naval Station Pearl Harbor. Six of the eight projects, estimated to cost $61.6 million, were directly related to homeporting the USS Missouri. The following table shows the six projects and their estimated costs as of August 30, 1990.

Construction Project	Estimated Cost ($000)
Pier/Shore Improvements 1/	$45,000
Billeting Facilities 2/	8,500
Fleet Support Center	3,300
Club Expansion	2,700
Applied Instruction Facility	1,600
Supply Storage Facility	530
Total	$61,630

1/ Contract awarded September 28, 1990 for $29 million.

2/ Contract awarded September 28, 1990 for $8 million.

Discussion

Construction requirements to homeport the USS Missouri at the Naval Station Pearl Harbor are no longer supported by realignment actions. The original justification and current status of the six projects are discussed below.

Pier and Shore Improvements. To berth the USS Missouri at Ford Island, DD Form 1391 "Military Construction Project Data," outlined numerous pier and shore improvements estimated to cost $45 million. Construction requirements included: a 1,000-foot pier capable of supporting a 90-ton mobile crane operation; utilities services for "cold iron" berthing (that is, reliance on shore power to operate shipboard systems) and for potable water, wastewater, and telephone and fire alarm systems; harbor dredging to a depth of 45 feet; demolition of an existing wharf; vehicle parking; and an operations building. A contract for pier and shore improvements was awarded for $29 million on

September 28, 1990. According to personnel at the Naval Station Pearl Harbor, the contractor began work on-site in January 1991, and contract completion is expected by September 1992.

Billeting Facilities. DD Form 1391 states that billeting facilities are needed to house additional transient and permanent party enlisted personnel required to support the battleship and two cruisers. Due to funding constraints, the Navy reduced the scope of the project prior to contract award, thereby eliminating the requirement associated with the battleship. We agree that the revised billeting project only supports the homeporting of the cruisers.

Fleet Support Center. Command personnel requested that morale, welfare, and recreational facilities be provided for the battleship crew. The project consisted of several support facilities on Ford Island to include an amusement center, laundromat, exchange service outlet, recreation pavilion, and athletic courts and fields. The facilities were estimated to cost about $3.3 million, and the contract award is planned for April 1991.

Club Expansion. DD Form 1391 shows a requirement for an expansion and for alterations to the "All Hands" club located on Ford Island. Facility improvements were requested to meet the expected increase in demand for services from the battleship crew. The club expansion project was estimated to cost about $2.7 million, and the contract award is planned for April 1991.

Applied Instruction Facility. Command personnel requested additional training facilities to teach operational and maintenance skills in ordnance and weaponry for crews assigned to the battleship and two cruisers. DD Form 1391 states that the battleship requires unique expert systems knowledge and that the cruisers have to maintain advanced technology systems. DD Form 1391 shows a requirement for a 7,200 square-foot expansion to the applied instruction facility, but does not indicate how much training space is solely required for the battleship crew. The project is currently in the design phase, and the contract award is planned for January 1992.

Supply Storage Facility. Command personnel planned to construct a 4,800 square-foot building costing about $530,000 to store nonstandard spare parts for the battleship. We determined that the requirement for the supply storage facility was not supported, and the project was canceled as a result of our review.

The Navy accelerated the September 28, 1990 award of construction contracts for the pier and shore improvements and for the billeting facilities, even though only one month later the Secretary of the Navy proposed retiring the USS Missouri.

Although we did not determine exactly when the Navy began seriously considering the retirement of the remaining battleships in the fleet, it is improbable that their retirement was not an active consideration within the senior echelons of the Navy before the construction contracts were awarded on September 28, 1990. Officials within the Office of the Secretary of the Navy and the Office of the Chief of Naval Operations did not take action in September 1990 to reverse the accelerated contract award strategy. In addition, action was not taken during the ensuing period when the Secretary of the Navy's recommendation was being finalized, after the recommendation was forwarded on October 31, 1990, or after the Deputy Secretary of Defense decision was made on November 26, 1990. Instead, work continues on the pier and shore improvements and most of the original realignment support package is still planned, on the basis that the new facilities can always be used to provide an expanded capability for current and potential future mission requirements.

Public Law 100-526 is clear in that the Base Closure Account may be used only for approved closure or realignment purposes. Accordingly, the Base Closure Account should not be used to fund replacement facilities that are no longer supported by realignment actions.

Recommendations for Corrective Action

1. We recommend that the Comptroller of the Department of Defense:

a. Reduce Navy base closure funds by $53,130,000 for construction projects directly related to homeporting the USS Missouri at the Naval Station Pearl Harbor.

b. Provide funding for terminating the contract awarded for construction of pier and shore improvements (Contract N62471-89-C-1344) at the Naval Station Pearl Harbor. Also, ensure that contract termination costs are properly supported.

c. Make appropriate adjustments to the Base Closure Account for reducing Navy base closure funds and for providing funds for contract termination costs.

2. We recommend that the Assistant Secretary of the Navy (Installations and Environment):

a. Determine contract termination costs for pier and shore improvements (Contract N62471-89-C-1344) at the Naval Station Pearl Harbor.

b. Terminate Contract N62471-89-C-1344 at the Naval Station Pearl Harbor.

c. Request military construction funding to pay for costs incurred to date on the pier and shore improvement project, and use these military construction funds to reimburse the Base Closure Account.

d. Cancel realignment projects for the Fleet Support Center and Club Expansion at the Naval Station Pearl Harbor.

e. Reevaluate the training requirement to support the homeporting of two cruisers at the Naval Station Pearl Harbor, reduce the scope of the applied instructional facility, and submit a revised DD Form 1391 for base closure funding.

Management Comments

A draft of this quick-reaction report was provided to the Comptroller of the Department of Defense and the Assistant Secretary of the Navy (Installations and Environment) on February 26, 1991. We received comments from the Comptroller of the Department of Defense dated March 19, 1991, and from the Assistant Secretary of the Navy (Installations and Environment) dated March 25, 1991. The complete text of management comments is provided in Enclosures 1 and 2.

The Comptroller of the Department of Defense concurred with the draft report findings and Recommendations 1.a., 1.b., and 1.c. The Comptroller stated that the battleships were in jeopardy during the FY's 1992/1993 budget review period since force structure reductions necessary to accommodate declining budgets pointed to the retirement of these ships rather than their retention. Furthermore, it appears that the expenditure of funds for construction attributable to base realignments is no longer necessary, and termination costs would have been held to the minimum if the Navy had taken more timely action. The Comptroller also stated that it appears that some modifications may be required to the planned battleship pier and associated dredging before use by either larger or smaller ships. Funds for construction projects not yet awarded will be withheld, and funds in excess of contract termination costs will be withdrawn.

The Assistant Secretary of the Navy (Installations and Environment) generally nonconcurred with the draft report findings and Recommendations 2.b., 2.c., and 2.e. Appropriate actions were taken on Recommendations 2.a., and 2.d. Navy management provided several reasons, which they believe invalidates most of the report recommendations. Specifically, the Assistant Secretary of the Navy stated that accelerated procurement of the pier and shore improvement and billeting facility projects was under taken because decision documents in the August/September 1990 time frame did not indicate an imminent decision or even that retirement of the last two battleships was being considered; contracts were awarded with the full knowledge,

concurrence, and assistance of the Comptroller of the Department of Defense; and the Navy was in a position to improve the rate of obligations against the Base Closure Account.

The Assistant Secretary of the Navy stated that base closure funds were properly and legally obligated on September 28, 1990, which was well in advance of the Secretary of the Navy's recommendation to deactivate the last two battleships on October 31, 1990. As a result, there is no legal requirement for a transfer of funds. Furthermore, there is no transfer authority between the two separate appropriations (Base Closure Account and Military Construction), nor is there authorization under the Military Construction Appropriation for these specific projects.

The Assistant Secretary of the Navy stated that projects related to pier and shore improvements, billeting facilities, and the applied instruction facility are still needed and are proceeding as originally planned. The following reasons for continuing these projects were provided.

- Deactivation of the battleship did not eliminate the requirement for the pier and shore improvement project. The original justification for the pier was to homeport a Mid-Pacific Surface Action Group, which would be 2,500 miles closer to a potential conflict and crisis than the west coast. The homeporting requirement for the Surface Action Group at Pearl Harbor is still valid. The Fleet Commander's long-range plans also include homeporting additional deep draft ships, and the pier will be used to accommodate transient ships and other ships that might be homeported at Pearl Harbor as a result of future base closure decisions. In addition, contract termination costs were estimated to be $19 million (68 percent of the contract amount) as of March 1, 1991. The Navy was also concerned that eliminating the project might cause the State of Hawaii to cancel their agreement to build the Ford Island Causeway. Given the continuing requirement for the pier and excessive termination costs, the Navy stated that it was prudent to complete the project.

- Billeting requirements were previously reduced by 17 percent due to funding constraints. This scope reduction effectively, but coincidently, eliminated the billeting requirement associated with the battleship.

- The applied instruction facility project was primarily related to homeporting the two cruisers and, since project design is nearing 100 percent, it would not be cost-effective to redesign the project to delete the battleship portion from the requirement.

The Assistant Secretary of the Navy stated that the Navy does not plan to proceed with three of the six projects (costing about $6.5 million) related to the USS Missouri. Contracts will not be awarded for the fleet support center and club expansion projects. Also, the supply storage facility project had already been deleted independent of the audit findings due to a general decline of total ships.

Audit Response

We consider the response on the report by the Comptroller of the Department of Defense to be fully responsive and in conformance with the provisions of DoD Directive 7650.3. The response by the Assistant Secretary of the Navy was not fully responsive.

We believe there was ample evidence that should have led prudent managers to delay the commitment of nearly $29 million in construction until near-term decisions on the battleships were finalized. In December 1989, the Secretary of Defense approved the deactivation of the first two battleships because they are manpower intensive, and considerable savings could be accrued with minimal loss of capability. The potential deactivation of the USS Missouri was also a topic of several discussions held with command officials during our initial visit to Naval Station Pearl Harbor in June 1990. As mentioned above, the Comptroller of the Department of Defense stated that declining budgets pointed to the retirement of the battleships.

The Secretary of the Navy's recommendation to decommission the remaining battleships 1 month after the date of contract award should not have come as a surprise and suggests a serious management disconnect among Navy officials. With regard to assistance provided by the Office of the Comptroller of the Department of Defense, Comptroller officials told us that they had requested, but had not been given, access to Navy internal force reduction plans and that it was Navy management who wanted to accelerate procurement actions. Also, improving obligation rates against the Base Closure Account should not have been a factor in contract award decisions.

We agree that funds were legally obligated against the Base Closure Account when the contract was awarded on September 28, 1990. However, the pier and shore improvement project is not needed to support known, approved or highly likely realignment actions. Accordingly, the Base Closure Account should not be used to fund the project and its costs should not be construed as part of the price of implementing the base realignment plan. In addition, Navy management should have requested a waiver to the Secretary of Defense's temporary prohibition on military construction if they intended to continue the project.

The continuing requirement for the pier and shore improvement project is highly questionable, no matter what funding source is used. While the need for the Mid-Pacific Surface Action Group may still be valid, it now excludes the battleship for which the pier was justified. The Navy's ship stationing plan (as of November 19, 1990,) also shows that the number of ships homeported at Naval Station Pearl Harbor (excluding the battleship) will actually decrease from 20 to 16 ships during FY 1990 to FY 1998. We believe that accommodating transient ships and homeporting plans caused by unknown future base closure actions is not sufficient justification to continue the pier and shore improvement project. In addition, base closure funds of $11.8 million have been allocated to upgrade existing berthing facilities for the Aegis cruisers planned for Pearl Harbor.

We did not validate the $19 million estimated contract termination costs cited by Navy management. We recognize that actual termination costs are a negotiated amount. However, the cost estimate appears to be inflated since on-site work began in January 1991, and contract completion is not expected until September 1992. In November 1990, the Navy estimated termination costs at $4 to $6 million. By late December 1990, the Navy estimated such costs at $15 million. In any event, we agree with the Comptroller of the Department of Defense's comment that termination costs would have been held to the minimum if the Navy had taken more timely action. Despite the termination costs, it appears that existing facilities can satisfy current and future homeporting requirements, and that the expenditure of additional funds on a pier with marginal value is not warranted.

Navy reduced the scope of the billeting facilities project, thereby eliminating the battleship portion of the requirement. As a result, we have revised Recommendations, 2.a., 2.b., and 2.c. pertaining to the billeting project and deleted associated monetary benefits that were included in the draft report.

An analysis demonstrating that it is not cost-effective to redesign the applied instruction facility project has not been performed. We believe our recommendation to reevaluate the applied instruction facility project is valid, and base closure funding should be withheld until the appropriate analysis is performed.

Management actions taken on three of the six projects (costing about $6.5 million) were prudent and satisfy the intent of the report.

For the reasons provided above, we request that Navy management reconsider its position on Recommendations 2.b., 2.c., and 2.e. We also request that additional comments be provided within 15 days of the date of this final report.

The courtesies extended to the audit staff are appreciated. If you have any questions on the final quick-reaction report, please contact Mr. Michael G. Huston, Program Director, at (703) 614-6281 (DSN 224-6281) or Ms. Barbara A. Sauls, Project Manager, at (703) 693-0517 (DSN 223-0517). Potential monetary benefits are discussed in Enclosure 3. Activities visited or contacted are listed in Enclosure 4. Audit Team Members are listed in Enclosure 5, and copies of this report are being provided to the activities listed in Enclosure 6.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

cc: Secretary of the Navy
Under Secretary of Defense for Acquisition

COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

MAR 19 1991

MEMORANDUM FOR INSPECTOR GENERAL, DOD

SUBJECT: Comments on Draft Quick-Reaction Report on the Audit of DoD Base Realignment and Closures (Project No. OGC-0031.01)

The findings contained in the Draft Report are factual. The battleships were in jeopardy during the FY 1992/FY 1993 budget review period since force structure reductions necessary to accommodate declining budgets pointed to the retirement of these ships rather than their retention.

It appears that the expenditure of funds for construction attributable to base realignments is no longer necessary, and termination costs would have been held to the minimum if the Navy had taken more timely action. It also appears that some modifications may be required to the planned battleship pier and associated dredging prior to utilization by either larger or smaller ships.

The number of construction projects and their budgeted costs are accurately reflected in the Draft Report. However, savings associated with the pier/shore improvement project (approximately $16 million) were reallocated to the Army by PBD 380C; thus, the estimated construction costs are now approximately $45 million as noted in the Draft Report. Funds for the projects not yet awarded will be withheld by this office pending resolution of the issues raised in the Draft Report. For those projects under contract, this office will withdraw the funding that exceeds the Navy's termination costs when the Navy identifies the available balances.

Sean O'Keefe

ENCLOSURE 1

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350-1000

25 MAR 1991

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subj: DRAFT QUICK-REACTION REPORT ON THE AUDIT OF DOD BASE REALIGNMENT AND CLOSURES, PROJECT NO. 0CG-0031.01

Ref: (a) Inspector General, Department of Defense Memo dated 26 February 1991

The opportunity to comment upon the draft quick-reaction report forwarded by reference (a) is appreciated. The issues regarding facilities requirements at Pearl Harbor have been the subject of prior evaluation and discussions involving the Secretary of the Navy, Department of the Navy staff, and representatives of the Office of the Secretary of Defense. As a result of those joint discussions, the Navy has incorporated reductions in its budget estimates and is proceeding with implementation of the revised program.

Notwithstanding the above considerations, TAB A addresses specific issues and implications contained in the discussion portion of the draft report which we believe to invalidate associated recommendations in the document.

Jacqueline E. Schafer

JACQUELINE E. SCHAFER
ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS & ENVIRONMENT)

TAB A - Navy Comments on DoDIG Draft Quick-Reaction Report

NAVY COMMENTS ON DoDIG DRAFT QUICK-REACTION REPORT
BASE REALIGNMENT AND CLOSURES
NAVAL STATION PEARL HARBOR

Discussion Content: DoDIG contends that, despite awareness that deactivation of the two remaining battleships was being considered, officials in Chief of Naval Operations did not take actions to preclude contract awards for Base Realignment and Closure facilities at the Naval Station Pearl Harbor. Procurement was expedited by moving base closure funds from FYs 1991 and 1992 to FY 1990 to enable the contract awards. Contracted work continues and action has not been taken to cancel or revise other realignment projects directly related to the USS MISSOURI. Public Law 100-526 clearly stipulates that Base Closure Account funds may only be used to fund replacement facilities. Accordingly, only military construction funds should be used for continuing the contracts.

Response: The Department of the Navy strongly does not concur. Shortly prior to award of contracts for the Pier and Shore Improvements and Billeting Facilities projects, officials at the Office of the Chief of Naval Operations who were responsible for approving execution of the projects ascertained that no active consideration was being given to deactivation of the Navy's two remaining battleships. Decision documents in the August and September 1990 time frame do not indicate an imminent decision, or even that retirement of the last two battleships was being considered. Accelerated procurement of the two projects in FY 1990 was in direct response to the Office of the Assistant Secretary of Defense's stated concern in September 1990 that the Base Closure Account obligation rate for FY 1990 was too low. The Navy was in a position to assist DoD in improving its obligation rate by rearranging funding of the Navy's Base Closure Program to enable contract awards prior to the end of the fiscal year. This was done with the full knowledge, concurrence and assistance of the Department of Defense Comptroller.

The issue of continuing battleship-related contracts was thoroughly examined in connection with PBD 380C. The funds provided by Public Law 100-526 were properly and legally obligated when the Pier and Shore Improvements and Billeting Facilities construction contracts were awarded in September 1990. Project funds were obligated well in advance of the Secretary of the Navy's 31 October 1990 recommendation to the Secretary of Defense to deactivate the last two battleships early because of reduced FY 1991 Navy manpower authorizations, as contained in the conference version of the Defense Authorization Bill. These and other early ship deactivations were not finalized until 26 November 1990 when the Secretary of Defense made his decision. Having properly entered into valid contracts two full months prior

TAB A

to the decision to retire the last two battleships, the question arose in December whether other requirements also existed which would argue in favor of contract continuation. On 28 December 1990, the Secretary of the Navy provided reasons for not terminating the construction contracts (see attachment). These included a sound business decision in view of an estimated $15 million termination cost, excellent bids, acquisition of a strategic Fleet asset, and the potential for adverse impact on the Ford Island Causeway negotiations.

Because the funds were legally obligated from the Base Closure Account when the contracts were awarded, there is no legal requirement for a transfer of funds. Furthermore, there is no transfer authority between the two separate appropriations (Base Closure/Realignment and Milcon), nor is there authorization under the Milcon Appropriation for these specific projects.

Discussion Content: DoDIG further contends that construction of six projects to support the USS MISSOURI is no longer supported as a realignment action. These projects total $61,630,000.

Response: Partially concur. The Navy does not plan to proceed with award of three of the six projects identified. The Supply Storage Facility had already been deleted as a Base Realignment and Closure requirement due to general decline of total ships. The Navy reached this decision independent of audit findings. Although no battleship has yet to be retired, due to the uncertainty of the requirement, bids which were opened in September 1990 for the Fleet Support Center and the Club Expansion will be allowed to expire in April 1991 without contractual action being taken. These three projects total $6,500,000.

The Navy does not concur that requirements for the remaining three projects have been eliminated because of battleship deactivation. Construction continues to proceed on schedule for the pier and billeting facilities. The current funding requirements of these two projects are $35,600,000 and $9,800,000, respectively. Design is nearing 100% on the applied instruction facility, which is estimated to cost $1,600,000. Specific project details follow:

Pier and Shore Improvements. In early December 1990, the cost of terminating this $28,800,000 contract was estimated at $15 million. Currently, test piles have been completed and demolition, utilities, roadwork and dredging are well underway. The large majority of materials necessary to support the contractor's extensive undertaking are already on site, with much of the remaining requirements already in the pipeline. The estimate of termination cost as of 1 March 1991 is $19 million. The Secretary of the Navy, on 28 December 1990, provided reasons for continuing with contract on the basis of beneficial cost, strategic location, and adverse public impact (see attachment).

Furthermore, the original justification for the pier, to support a Mid-Pacific Surface Action Group (SAG) which would be 2,500 miles closer to potential conflict and crisis than the west coast, continues to be valid. The SAG will be homeported at Pearl Harbor, whether the composition includes a battleship or not. The Fleet Commander's long range plans include homeporting additional new construction deep draft, power intensive ASW and AAW surface combatants (Aegis cruisers, Burke class guided missile destroyers, and Spruance class destroyers) in Pearl Harbor. The unique AAW and ASW training ranges at Barking Sands and the strategic mid-Pacific location make Pearl Harbor the preferred location for surface action group combatants. The pier will also be used to accommodate transient and other homeported ships which are now routinely berthed in the shipyard area of Pearl Harbor, distant from training spaces and recreational facilities. Additionally, the pier facility ensures the presence of berthing support for homeporting of additional ships which could be relocated to Pearl Harbor by future closure and realignment actions.

Finally, the effect of terminating the Pier and Shore Improvements Contract at this time would cost the Department of Defense approximately 68 percent of the contract value ($19 million termination cost estimate) without the benefit of usable facilities received for the investment.

a/ Billeting Facilities. This facility is required to fulfill the shoreside billeting requirements of the transient and permanent party enlisted personnel associated with the relocation of two AEGIS-class cruisers to Pearl Harbor. The battleship requirements are relatively self-contained, by comparison, with berthing available on board for all crew members; no significant requirement exists to berth support personnel other than on the ship. The modern AEGIS-class surface warfare combatants, on the other hand, require large numbers of land support and ship transient personnel to effectively operate, maintain, repair and upgrade the vessel and its many systems. The enlisted billeting facilities being constructed will barely satisfy the requirements generated by the two cruisers. Only 83 percent of the originally planned scope was awarded due to fund limitations. This scope reduction effectively, but coincidently, eliminated the portion of the project that had anticipated possible shore billeting requirement associated with the battleship.

It appears that DoDIG erroneously assumed that the shore billeting requirement is directly correlated to the ship's crew size. In late December 1990, the Office of the Under Secretary of Defense corrected this misconception in a memorandum to the Department of Defense Comptroller, adding that this BEQ is particularly critical because of the already insufficient number of enlisted berthing spaces at Pearl Harbor.

a/ Recommendations 2.a., 2.b., and 2.c. pertaining to the billeting project were revised.

Applied Instruction Facility Addition. This addition is needed to provide the additional operational and maintenance training for crews assigned to the relocated cruisers. Closer scrutiny would reveal that most of the facility requirement arises from the advanced technology systems associated with AEGIS-class cruisers. Battleship-related training requirements are much smaller with less frequent classroom requirements. It would not be cost effective to redesign the facility to delete the battleship requirement because the cost saved by reducing classroom space would be largely offset by the cost of redesign. The GAO has also examined this facility requirement in a briefing report to Representative Dana Rohrbacher, dated September 1990, and concluded that, by omitting this facility in its calculation of battleship homeporting costs, the Applied Instruction Facility addition was not related to the battleship.

Attachment:
DOD(C) memo of 28 Dec 90

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D C. 20350-1000

28 December 1990

MEMORANDUM FOR THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

Subj: PBD 380C - BASE REALIGNMENT AND CLOSURE

I have reviewed the subject Program Budget Decision and have the following comments for coordination:

Adjustments are recommended in the PBD to delete eight construction projects and ancillary costs at the Naval Station Pearl Harbor, HI funded from the Base Closure Account on the basis that the inactivation of the two remaining battleships negates the need for these projects. Adjustments are also recommended to the individual Department's base operations and repair and maintenance accounts in anticipation of savings from future base closings and realignments.

Of particular concern is the $45.0 million Pier and Shore Improvements project. I strongly support proceeding with this Ford Island pier upgrade contract considering derived benefits and estimated costs of contract termination. Based on favorable bids, $14.0 million of the initial funded amount is available for recapture resulting from contract savings. Due to contractor costs and commitments to date, the current estimate for contract termination is $15.0 million. Therefore, if we terminate, we will have spent half the contract amount and received nothing for a $15 million outlay. On the other hand, we have a continuing need for this facility upgrade at Pearl, particularly in view of strategic retrenchment in the Pacific and the increasingly maritime nature of the Pacific aspect of the national military strategy. Our concern is not just with the loss of this particular facility, but also with a potential political decision that could result in the State of Hawaii canceling their agreement to build the Ford Island Causeway. It currently costs the Navy $1.0 million per year for maintenance on the old ferries that shuttle personnel to and from Ford Island. These vessels are nearing the end of their useful life and will need to be replaced in the near future. Given where we are, it just makes good business sense to proceed with the pier as a capital investment for the future.

The three remaining projects in FY 1990 (Wharf Mods I and II and the BEQ) and the Applied Instruction building in FY 1991 are necessary solely to support the two Aegis cruisers and are not in support of the battleship. These three projects are also currently awarded, and it makes equal sense to complete them, especially since they are within the guidelines of the Base Closure Commission's recommendation to relocate two cruisers from Hunters Point to Pearl Harbor.

Given the current status of future requirements the Department concurs with deferring the three FY 1992 projects. The O&M dollars in FY 1991 and FY 1992 are required for outfitting and startup and ordnance handling costs not related to the battleship.

With regard to the general reduction to the Department's base operations and maintenance and repair accounts, in anticipation of savings from future base closings and realignments, I understand that the top line is coming down but the savings are not available. As you know, the savings have already be taken. Of the eleven PBDs related to Maintenance of Real Property, seven reduced the requested amounts, citing future savings generated by base closures. With the volatility of the new Base Closure procedures and the changing force reduction it is doubtful if the projected savings in the PBD will materialize, certainly not in sufficient time to avoid current operating costs. If these future savings are taken now the Department will be forced to make appropriate redistributions of resources in the resource allocation process. Accordingly, I recommend that the savings not be taken now, but only in the future, if and when they materialize.

H. Lawrence Garrett, III
Secretary of the Navy

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.a., 1.b., 1.c.	Economy and Efficiency Construction requirements are no longer supported by realignment actions for the following projects: - Pier/Shore Improvements ($45,000,000) 1/ - Fleet Support Center ($3,300,000) - Club Expansion ($2,700,000) - Applied Instruction Facility ($1,600,000) 2/ - Supply Storage Facility ($530,000)	Funds of $53M put to better use, for FY 90, DoD Base Closure Account 970/50103
2.a., 2.b., 2.c., 2.d.,	Economy and Efficiency These recommendations all contribute to eliminating unsupported projects and using the proper types of funds for supported projects.	Monetary benefits calculated above for Recommendations 1.a., 1.b., and 1.c.

1/ Potential savings will be partially offset by contract termination costs.

2/ Potential savings could be at least partially offset by requirements to support homeporting the two cruisers at the Naval Station Pearl Harbor.

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics), Washington, DC
Comptroller of the Department of Defense, Washington, DC

Department of the Navy

Office of the Chief of Naval Operations (Logistics), Washington, DC
Naval Facilities Engineering Command, Alexandria, VA
Naval Facilities Engineering Command, Pacific Division, Pearl Harbor, HI

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FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Comptroller of the Department of Defense
Deputy Assistant Secretary of Defense (Installations)

Department of the Navy

Assistant Secretary of the Navy (Installations and Environment)
Office of the Chief of Naval Operations (Logistics)

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office,
NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations