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

REPORT
NO. 92-034

January 9, 1992

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)

SUBJECT: Quick-Reaction Report on the Audit of Family Housing at Naval Station New York (Project No. 1CG-5010.01)

Introduction

On March 22, 1991, we announced our audit of Family Housing at Naval Station (NAVSTA) New York. The audit objectives were to evaluate the impact of planned force reductions on family housing and to determine whether two Section 801 build-to-lease projects, which are not yet under construction, are still required.

We found that the Navy did not accurately determine the effect of DoD force reductions on family housing at NAVSTA New York. Because the Navy changed the mix of ships homeported at NAVSTA New York and there are numerous variables affecting housing demand, the amount of family housing available to military members could range from a surplus of 937 housing units to a deficit of 63 housing units if the 1,183 units under contract are completed. These numbers are based on three different estimates provided by the Navy during the audit. Until family housing requirements are accurately identified for NAVSTA New York and existing family housing is appropriately considered, the Navy should reduce the number of units of family housing under construction and obtain options for the balance on the two Section 801 projects under contract. The two Section 801 projects, awarded in June 1989 and valued at $368 million over a 20-year period, have experienced over 2 years of delays due to complications associated with the builders' inability to obtain building permits. As of our audit, neither contractor had begun construction of the housing units. Therefore, negotiating a bilateral change order to the basic lease contracts should not result in significant contract costs to DoD.

At the time of the audit, the Army and Navy had 220 vacant family housing units in the local NAVSTA New York area that could be used to satisfy housing requirements. Using these facilities could reduce the housing allowances payment by about $1.8 million annually.

Background

In 1982, the Navy began planning nine additional strategic homeports to alleviate overcrowding in existing ports and to provide growth. Subsequent base closure legislation reduced the number of planned homeports to six. Seven ships were originally planned for homeporting at NAVSTA New York. The NAVSTA, located on Staten Island, was one of the six remaining ports and the first port to reach operational capability. As of October 1, 1991, only one ship (USS NORMANDY) had actually arrived at the new NAVSTA homeport. Projected personnel strengths for the NAVSTA were originally estimated at 14,000 personnel, including dependents, most of whom would be active duty personnel assigned to the homeported ships.

Naval Facilities Engineering Command management report, "Determination of Housing Requirements and Project Composition (DD Form 1378)," dated July 21, 1988, showed that NAVSTA New York would have housing responsibility for 6,360 personnel by FY 1993. Of this number, 3,156 personnel would require family housing. To satisfy the housing need, Northern Division, Naval Facilities Engineering Command (NORTHDIV) awarded two Section 801 build-to-lease contracts during June 1989 for 1,183 housing units (1,000 units in the first contract and 183 units in the second) totaling about $368 million over a 20-year period. The original scheduled completion date for the housing for both contracts was June 1991.

Discussion

The fiscal year 1992 DoD budget reflected a reduction in the Navy fleet to 464 ships by fiscal year 1993. Reductions included the deactivation of four remaining battleships, including the USS IOWA, which was to be homeported at NAVSTA New York. The deactivation of the USS IOWA, combined with base realignment and closure actions, resulted in restructuring of ships planned to be homeported at NAVSTA New York. After the restructuring, the Navy planned to homeport eight ships (one cruiser, two destroyers, and five Naval Reserve frigates) at the NAVSTA. Although the mix of ships planned to be homeported at the NAVSTA changed, the associated change in manpower strengths and the effect on family housing requirements were not accurately identified. For example, family housing requirements reported on DD form 1378 dated July 23, 1991, showed a surplus of 937 units when the two Section 801 projects under construction are completed. To demonstrate the impact of the different mix of ships to be homeported, NORTHDIV developed two sets of housing requirements for the NAVSTA on September 26, 1991, that show either a housing surplus of 440 units or a deficit of 63 units, after the two Section 801 projects are completed. The NORTHDIV computation did not recognize the use of 279 private sector housing units

previously reported. Navy management acknowledged that the effects of changing the mix of ships homeported at NAVSTA on housing requirements were not accurately known.

Although the Navy contracted for 1,183 Section 801 build-to-lease housing units, we noted that the Army (Forts Hamilton and Totten) had 67 units of vacant family housing in the NAVSTA area. Additionally, the Mitchell Manor/Field complex was always counted in the NAVSTA project justification. At the time of the audit, this complex had 153 units of vacant family housing. These 220 units of family housing could be used to house Service members requesting family housing. If the existing vacant DoD housing were fully occupied, DoD could save about $1.8 million annually in housing allowances being paid for private sector housing. A total of about $10.8 million in housing allowances could be put to better use over a 6-year period commencing in CY 1992. The justification for the proposed Section 801 project should be reduced by including the full utilization of existing military housing.

Recommendations for Corrective Action

We recommend that the Commander, Naval Facilities Engineering Command:

1. Negotiate a bilateral change order to change the number of units required for the two Section 801 contracts to 400 units, with options for additional units to meet future needs.

2. Require Naval Station New York to use vacant DoD family housing in the Staten Island commuting area to satisfy the needs of Service members requiring family housing.

Management Comments

A draft of this quick-reaction report was provided to the Assistant Secretary of the Navy (Financial Management) on October 31, 1991. We received comments from the Assistant Secretary of the Navy (Installations and Environment) (ASN (I&E)) dated November 25, 1991. The complete text of the comments is provided in Enclosure 1.

In our draft report, we recommended that the Navy issue a stopwork order until accurate requirements could be developed. The Assistant Secretary nonconcurred with the draft report Recommendation 1. and stated that issuing a stopwork order would be a breach of contract with the developer and would expose the Navy to a liability ranging from $35 million to $50 million, which represents half the worth of the two contracts. Also, data pertinent to future family housing requirements were carefully reviewed, and the Assistant Secretary concluded that the build-to-lease units for which the Navy had contracted were justified

and would be well utilized. The Assistant Secretary also stated that even if the Navy estimates of family housing requirements and assumptions associated with a new homeport and ship operating concept proved too liberal, the Navy had various options to match assets with requirements.

The Assistant Secretary concurred in principle with Recommendation 2. and stated that the Navy fully supported the policy of utilizing all available adequate housing. However, the Assistant Secretary stated that utilizing housing at Mitchell Field, Mitchell Manor and Fort Totten to satisfy Staten Island requirements was contrary to DoD suitability criteria, since rush hour commuting time from there is approximately double the DoD criterion.

Audit Response to Management Comments

In our draft report, Recommendation 1. was for the Navy to issue a stopwork order until a specific, firm requirement could be identified. We anticipated that this would be a minor, temporary delay, especially when compared to the over 2-year delay in the still distant first delivery. Since the issuance of our draft report, we have attempted to establish our own estimate of the NAVSTA housing requirements and still believe that if the build-to-lease contracts are ever completed, a significant surplus will be created. At a time when delivery has been extended and the contractors continue to experience delays in starting construction, modification to a lesser quantity, or even termination, should not approach the estimated $35 million to $50 million cost alleged by the Navy.

After issuance of our draft report, the Navy, issued a notice to proceed with the construction of foundations for 192 units (Enclosure 2). Preemptive management action prior to the resolution of audit recommendations violates DoD policy.

After receipt of the written Navy position, we received a further briefing by the ASN (Manpower and Reserve Affairs) (M&RA) on December 6, 1991. This briefing showed that upon completion of the contracts, the housing situation may range from a deficit of 241 units to a surplus of 501 units. These projections represented the third set of calculations developed by Navy personnel during the 3-month period of our review and reflect the volatility of requirements.

We analyzed the support for the ASN (M&RA) estimate and developed our own estimate of the housing requirements (Enclosure 3). Depending on the rates used for the dependency and the separation factors, we estimated that from 334 to 686 housing units may be required. The ASN (M&RA) estimated that from 682 to 1,424 housing units may be required. For the majority of variables in either the audit or Navy estimates for

housing there is a great amount of uncertainty. However, the ASN (M&RA) estimate incorrectly included 320 housing units to support a planned ship at the Naval Weapons Station (NWS) Earle, New Jersey (33 miles from NAVSTA housing). The Commander, Naval Surface Force, U.S. Atlantic Fleet (SURFLANT) informed us that the planned ship is now under construction with a planned completion date of 1995. The ship should not be considered a valid housing requirement for NWS Earle at this time. The amount of housing needed will vary as future decisions on the size of the Navy fleet and the NAVSTA homeporting requirements are finalized.

On September 30, 1991, at a time when the Defense budget is being reduced and military forces are continuing to be cut, the Deputy Secretary of Defense reemphasized the continuing need for DoD to exercise careful stewardship of funds available for military construction. It is apparent that steps need to be taken to provide an alternative to the construction of 1,183 family housing units, costing $368 million over 20 years, at NAVSTA New York. At least half of the units may not be needed under current estimates and, considering the trends toward reduction of forces, even fewer units may be required in the future. In the briefing provided by the ASN (M&RA), the Navy identified five options to alleviate any potential surplus family housing. We reviewed these options and determined that one of them, to modify the existing contracts, is reasonable. Accordingly, we changed our Recommendation 1. We now recommend that the Navy modify the contracts to provide 400 units, with options to obtain additional units if the Navy identifies valid, future needs. Implementation of this recommendation could result in a potential monetary benefits of up to $244 million over the 20-year contract lease period or about $73 million over the initial 6-year period. The actual amount of monetary benefits would only be determined after the Navy exercises any options for additional housing.

Although the ASN (I&E) concurred in principle with Recommendation 2., we do not agree with the Assistant Secretary that housing identified in the recommendation is inadequate to satisfy NAVSTA New York housing requirements. NAVSTA New York is responsible for providing family housing to Service members assigned to DoD activities at NAVSTA New York and activities located in the adjacent New York City area. Family housing located at Mitchell Field and Mitchell Manor, which are owned by NAVSTA New York, and Fort Totten supports other DoD activities located well within DoD's criteria for suitability (no more than 30 miles and no more than 1-hour commute). Personnel interviewed at activities located within commuting distance, have indicated to us that they would welcome the use of suitable DoD housing at the Mitchell Manor/Field housing complex. Also, the ASN (I&E) did not comment on the vacant units at Fort Hamilton, which is located about 3 miles from NAVSTA New York. Therefore, we request that the Navy reconsider its position on Recommendation 2. when responding to the final report.

Request for Comments

This final report is provided for your information and use. Management comments were considered in preparing this report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, we request that the ASN (I&E) provide final comments on the unresolved recommendations and potential benefits by January 27, 1992. DoD Directive 7650.3 requires that your comments indicate concurrence or nonconcurrence in the finding and each recommendation addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated dates for completion of planned actions. If you nonconcur, you must state your specific reasons for each nonconcurrence. If appropriate, you may propose alternative methods for accomplishing desired improvements.

If you nonconcur with the estimated monetary benefits (Enclosure 4) or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment.

The cooperation and courtesies extended to the audit staff are appreciated. If you have any questions on this quick-reaction report, please contact Mr. Wayne K. Million, Program Director, at (703) 614-6281 (DSN 224-6281) or Mr. Gary R. Padgett, Project Manager, at (703) 614-3459 (DSN 224-3459). Activities visited or contacted are listed in Enclosure 5. Copies of the final report will be distributed to the activities listed in Enclosure 6.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Navy
Under Secretary of Defense for Acquisition
Deputy Assistant Secretary of Defense (Installations), Office of the Under Secretary of Defense for Acquisition
Comptroller of the Department of Defense
Under Secretary of the Navy
Assistant Secretary of the Army (Installations, Logistics and Environment)
Assistant Secretary of the Navy (Manpower and Reserve Affairs)

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

25 NOVEMBER 1991

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subj: DRAFT QUICK-REACTION ON THE AUDIT OF FAMILY HOUSING AT NAVAL STATION NEW YORK (PROJECT 1CG-5010.01)

Ref: (a) DODIG Memo of 31 Oct 91

Encl: (1) Department of the Navy Response to Draft Quick-Reaction Report

I am responding to the draft quick-reaction report forwarded by reference (a) concerning the requirement for family housing under two Section 801 build-to-lease contracts at Staten Island, New York.

Enclosure (1) provides the Department of the Navy response to the draft report recommendations. The position has been fully coordinated within the Department.

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

Department of the Navy Response
to
DODIG Draft Quick-Reaction Report of October 31, 1991
on the
Audit of Family Housing at Naval Station New York
Project No. 1CG-5010.01

Recommendation 1: We recommend that the Commander, Naval Facilities Engineering Command, issue a stop work order on the two Section 801 build-to-lease contracts at Naval Station New York until family housing requirements can be accurately identified. Once the requirements are accurately identified, bilateral change orders can be negotiated to change the number of housing units needed, if warranted.

DON Position: Non concur. Issuing a stop work order would be a breach of contract with the developers and would expose the Navy to a minimum liability of $35 million, and depending upon other unknown factors, as much as $50 million, which represents half the worth of the contracts. We have carefully reviewed data pertinent to our future family housing requirements at Staten Island. Applying our experience and best judgment, we conclude that the build-to-lease units for which we have contracted are justified and will be well utilized. This conclusion acknowledges that some traditional factors and assumptions for calculating a programming need for family housing are not appropriate in an after-the-fact analysis, when the units already exist or have been contracted to be built. Furthermore, the application of these and other factors requires careful judgment, because in this particular instance, a new homeport is being established, that will support a new class of ships (FFTs), with a new concept of operations (Innovative Naval Reserve Concept). In fact, no historic data for this situation exists, from which to derive future family housing requirements. Moreover, even if our assumptions and estimates prove too liberal in the future--and we do not believe they will--we have various options available to match assets with requirements. Therefore, it is not in the best interest of our military personnel and their families, or of prudent business judgment, to stop work on these build-to-lease contracts.

Recommendation 2: We recommend that the Commander, Naval Facilities Engineering Command, require Naval Station New York to use vacant DOD family housing in the Staten Island area to satisfy the needs of service members requiring family housing.

DON Position: Concur in principle. We fully support the policy of utilizing all available adequate housing. The specific recommendation to utilize housing at Mitchell Field, Mitchell Manor and Fort Totten for Staten Island requirements, however, is contrary to DOD suitability criteria for housing adequacy, since rush hour commuting times from there approximately double the DOD criterion. Accordingly, potential monetary benefits cited in the draft report are unfounded.

DEPARTMENT OF THE NAVY
NORTHERN DIVISION
NAVAL FACILITIES ENGINEERING COMMAND
BUILDING 77L, U.S. NAVAL BASE
PHILADELPHIA, PENNSYLVANIA 19112-5094

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12 November 1991

Mr. Robert Mazzuoccola
President
Aspen Knolls Corp.
3295 Amboy Road
Staten Island, NY 10306

RE:
Section 801 Housing
Lease No. N62472-89-RP-00145

Dear Mr. Mazzuoccola:

This letter is your notice to proceed with construction of the referenced project through to completion of foundations for the first 192 units which are located in the areas of the site known as Sections 1A and 1B.

You will be contacted by the office of the Resident Officer in Charge of Construction (ROICC) at Staten Island, CDR Paul Stasiewicz, to schedule a pre-construction conference. I have designated the ROICC as the Contracting Officer's Technical Representative. In general, this will entail conducting construction surveillance inspections, monitoring construction progress, and issuing Certificates of Acceptance. CDR Stasiewicz or Mr. Chris Shukis, Project Engineer, may be contacted at telephone (718) 816-1111 should you need to discuss any aspect of construction surveillance and inspection with them.

You have delivered duplicate original copies of Performance and Payment bonds related to the work discussed above listing the United States of America as Co-Obligee. These have been reviewed and are acceptable. I am in receipt of your letter dated November 12, 1991 containing the initial Aspen Knolls Bondable Hard Cost Items Checklist and the related Contractor's Summary and Outline Scope of Work and your commitment to furnish all remaining bonds on or about December 2, 1991. This commitment to furnish the balance of bonds in accordance with this schedule is acceptable..

Furthermore, you may proceed to completion with the balance of construction for Sections 1A and 1B once the Government has received, reviewed and accepted the following deliverables:

1. All Ryland Building System (RBS) plans showing engineering of units as required by the Lease. (Please reference previous correspondence regarding your provision and Government's review of a prototype unit.)
2. All bonds as outlined in your letter of November 12, and as discussed above.
3. Continuing updates of the insurance coverage as to the types and levels of coverage required in the lease.

Should you have any questions regarding this notice, please call me or Mr. Neil Dougherty at (215) 897-6204.

Sincerely,

MARK N. LUNDGREN
Realty Officer, Real Estate Division
Real Estate Contracting Officer

Copy to:
NOICC - Staten Island - Hand deliver
COMNAVFACENGCOM - Code 24 Via Telefacsimile
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00; 09; 09A; 09A224; 09B; 08; 081; 09F; 24; 24D; 24D.1; 4012/RG; 09C; 05

HOUSING REQUIREMENTS COMPUTATIONS

	Navy Estimate		Audit Estimate		
	High	Low	High	Low	
Homeported ships:					
1 - CG-60	375	375	375	345	1/
3 - FFTs	714	714	714	657	1/
2 - FFGs	318	318	318	293	1/
2 - DDGs	685	685	685	630	1/
Total Ship Personnel	2,092	2,092	2,092	1,925	1/
Ashore:					
Naval Station	228	228	228	228	
SIMA 2/	384	384	384	384	
MOTU-16 3/	31	31	31	31	
Other Tenants	438	438	335	335	4/
Total: Staten Island	1,081	1,081	978	978	
Brooklyn Area	74	74	66	66	
Bronx Area	60	60	0	0	4/
Manhattan/Queens Area	25	25	0	0	4/
Total Ashore Personnel	1,240	1,240	1,044	1,044	
Total Permanent Personnel	3,332	3,332	3,136	2,969	
Dependency Factor (percent)	0.58	0.55	0.55	0.50	5/
Gross Requirement	1,933	1,833	1,725	1,485	
Separation Factor (percent)	.106	0.15	0.15	0.22	5/
Less Voluntary Separations	205	275	259	327	
Effective Requirement	1,728	1,558	1,466	1,158	
Earle Requirement	320	72	0	0	6/
Total Effective Requirement	2,048	1,630	1,466	1,158	

See footnotes on next page.

HOUSING REQUIREMENTS COMPUTATIONS (continued)

DoD Assets	504	552	504	587
Community Assets	120	320	200	200 7/
Total Assets	624	872	704	787
Total Effective Requirement	2,048	1,630	1,466	1,158
Less Total Assets	624	872	704	787
100-Percent Projected Deficit	1,424	758	762	371
Less: 90-Percent Program Limit	0	76	76	37
Adjusted Deficit	1,424	682	686	334
Section 801 Housing	-1,183	-1,183	-1,183	-1,183
Housing Shortage/(Surplus)	241	(501)	(497)	(849)

Footnotes:

1/ Shipboard manning computed at 92 percent of authorized per the Commander, Naval Surface Force, U.S. Atlantic Fleet (SURFLANT) data.

2/ SIMA - Shore Intermediate Maintenance Activity

3/ MOTU - Mobile Technical Unit

4/ Audit high and low estimate reduced by recruiters and other commands who are stationed outside the 1-hour commuting area.

5/ Audit high estimate used overall Navy average; Audit low estimate used actual results obtained by audit.

6/ AOE6's assigned to Naval Weapons Station Earle, NJ were under construction at the time of the audit; first ship delivery date is in late FY 1995. SURFLANT did not consider this a valid housing requirement.

7/ Data obtained from Navy Family Housing Market Analysis prepared for Northern Division, Naval Facilities Engineering Command.

SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and efficiency to to build only 400 units, thereby canceling 783 units of build-to-lease housing to be delivered in two Section 801 lease contracts.	A total of up to $73 million of Operation and Maintenance funds will be put to better use over a 6-year period commencing in FY 1992. 1/
2.	Economy and efficiency to use vacant DoD family housing in the NAVSTA area to house Service members requiring family housing.	A total of about $10.8 million of Military Pay and Allowance funds will be put to better use over a 6-year period commencing CY 1992. 2/

1/ By canceling 783 units, monetary benefits over the 20-year contract lease period could be as much as $244 million. Actual contract modification costs, if any, are unknown at this time and are not included in the above estimate. The actual amount of monetary benefits can only be determined after the Navy exercises any contract options needed for additional housing requirements.

2/ Monetary benefits were computed using monthly Basic Allowance for Quarters and Variable Housing Allowance rates for an E-5 as of January 1991.

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Comptroller of the Department of Defense, Washington, DC
Deputy Assistant Secretary of Defense (Installations), Office of the Under Secretary of Defense for Acquisition, Washington, DC

Department of the Navy

Assistant Secretary of the Navy (Manpower and Reserve Affairs), Washington, DC
Deputy Chief of Naval Operations (Logistics), Washington, DC
Commander-in-Chief, Atlantic Fleet, Norfolk, VA
Commander, Naval Surface Forces, Atlantic Fleet, Norfolk, VA
Commander, Naval Surface Reserve Forces, New Orleans, LA
Commander, Naval Facilities Engineering Command
Northern Division, Naval Facilities Engineering Command, Philadelphia, PA
Naval Station New York, Staten Island, NY

REPORT DISTRIBUTION

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Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense
Deputy Assistant Secretary of Defense (Installations), Office of the Under Secretary of Defense for Acquisition

Department of the Army

Assistant Secretary of the Army (Installations, Logistics and Environment)

Department of the Navy

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Under Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
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Auditor General, Naval Audit Service

Non-DoD

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