Audit Report

OFFICE OF THE INSPECTOR GENERAL

QUICK-REACTION REPORT ON THE REVIEW OF DEFENSE BASE CLOSURE AND REALIGNMENT BUDGET DATA FOR NAVAL AVIATION ENGINEERING SERVICE UNIT

Report Number 92-085 **May 7,1992**

Department of Defense

The following acronyms are used in this report.

AFB.....Air Force Base
COBRA.....Cost of Base Realignment Actions
MILCON.....Military Construction
NAESU.....Naval Aviation Engineering Service Unit
NAVSTA.....Naval Station
NAVAIR.....Naval Aviation Systems Command
NAWC.....Naval Air Warfare Center

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

Report No. 92-085 May 7, 1992

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)

SUBJECT: Quick-Reaction Report on the Review of Defense Base Closure and Realignment Budget Data for the Naval Aviation Engineering Service Unit (Project No. 2CG-5022.01)

We are providing this final report for your information and use. The audit was required by Public Law 102-190, "National Defense Authorization Act for FY 1992 and 1993," December 5, 1991. The Law prescribes that we evaluate significant increases in military construction (MILCON) project costs over the estimated costs provided to the Base Closure and Realignment Commission. This report is one in a series of reports relating to FY 1993 MILCON costs and addresses the closing of Naval Station Philadelphia, and the realignment of the Naval Aviation Engineering Service Unit to Naval Air Warfare Center, Lakehurst, New Jersey.

Comments received on a draft of this report conform to the requirements of DoD Directive 7650.3, and there are no unresolved issues. Therefore, no additional comments are required at this time. However, we request that the Navy provide the results of the Expense Operating Budget Study and the decision related to the location of the Naval Aviation Engineering Service Unit after the study is complete.

The courtesies extended to the audit staff are appreciated. If you have any questions on this final report, please contact Mr. Wayne K. Million at (703) 614-6281 (DSN 224-6281) or Mr. Gary Padgett at 614-3459 (DSN 224-3459). The planned distribution of this report is listed in Appendix C.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Navy
Assistant Secretary of Defense (Production and Logistics)
Comptroller of the Department of Defense

Office of the Inspector General, DoD

AUDIT REPORT NO. 92-085 **May 7, 1992**
(Project No. 2CG-5022.01)

QUICK-REACTION REPORT ON THE REVIEW OF DEFENSE BASE CLOSURE AND REALIGNMENT BUDGET DATA FOR NAVAL AVIATION ENGINEERING SERVICE UNIT

EXECUTIVE SUMMARY

Introduction. The review was directed by Public Law 102-190, "National Defense Authorization Act for FY 1992 and 1993." This Public Law states that the Secretary of Defense shall ensure that the amount of the authorization requested by DoD for each military construction project, associated with base closure and realignment actions, does not exceed the original estimated costs provided to the Base Closure and Realignment Commission. The Secretary is required to submit to Congress an explanation of the reasons for the differences in a project's requested amount and the estimated cost provided to the Commission. The Inspector General, DoD, is required to review each military construction (MILCON) project for which there was a significant difference and provide the results of the review to the Secretary for forwarding to Congress. This report is one in a series of reports relating to FY 1993 MILCON cost increases for closing and realigning bases.

Objective. The objective of the review was to evaluate significant increases in costs over the estimated costs provided to the Base Closure and Realignment Commission for base closure and realignment MILCON projects. This report provides the results of the review related to the closing Naval Station, Philadelphia, Pennsylvania, and realignment of the functions of Naval Aviation Engineering Service Unit to the Naval Air Warfare Center, Lakehurst, New Jersey.

Audit Results. We determined that a proposed FY 1993 MILCON project to renovate 19,710 square feet of a facility for administrative space at the Naval Air Warfare Center was supported. However, the decision as to where Naval Aviation Engineering Service Unit will actually be relocated is still uncertain and is being reevaluated by the Commander, Naval Aviation Systems Command.

Internal Controls. We did not include a review of internal controls as related to the objective because of the time sensitivity of the data reviewed.

Potential Benefits of Audit. We determined that based on the results of the Expense Operations Budget Field Activity Study, monetary benefits could range from 0 to $1.3 million (see Appendix A).

Summary of Recommendations. We recommended that the $1.3 million MILCON project for the administration building be suspended until Navy management makes a final decision regarding the NAESU location. We also recommended, based on the results of a NAVAIR study, either a resubmission, a change in requirements, or the cancellation of the project.

Management Comments. The Assistant Secretary of the Navy (Financial Management) partially concurred with both recommendations and provided acceptable alternative actions. The Assistant Secretary stated that no funds will be authorized or expended for design or construction of Project No. P-232 until a NAVAIR decision can be made after the completion of the Expense Operating Budget Study, expected before June 30, 1992. Potential monetary benefits also will not be determined until after the completion of the study.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Information Officer, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

PART I - RESULTS OF AUDIT

Introduction

On March 6, 1992, we announced our review of Defense Base Closure and Realignment Budget Data. The review was directed by Public Law 102-190, "National Defense Authorization Act for FY 1992 and 1993," December 5, 1991. The objective of the review was to evaluate significant increases in military construction project costs over the estimated costs provided to the Base Closure and Realignment Commission. This report is one in a series of reports relating to FY 1993 military construction (MILCON) costs for closing and realigning bases and addresses the closure and realignment of the Naval Station (NAVSTA), Philadelphia, Pennsylvania.

We found that a proposed FY 1993 MILCON project to renovate 19,710 square feet of a facility for administrative space at the Naval Air Warfare Center (NAWC), Lakehurst, New Jersey, was supported. The administrative space was needed to relocate the Naval Aviation Engineering Service Unit (NAESU) from the closing NAVSTA, Philadelphia. However, the decision as to where NAESU will actually be relocated is still uncertain and is being reevaluated by the Commander, Naval Aviation Systems Command (NAVAIR). NAVAIR should suspend the administration building project until Navy management makes a final decision regarding the NAESU location. The MILCON project can then be reevaluated based on the Navy decisions and appropriate alternative actions can be taken, if required.

Background

Public Law 102-190 states that the Secretary of Defense shall ensure that the amount of the authorization requested by DoD for each MILCON project associated with base closure and realignment actions does not exceed the original estimated cost provided to the Base Closure and Realignment Commission. The Secretary is required to submit to Congress an explanation of the reasons for the differences in a project's requested amount and the initial estimated cost. Also, the Inspector General, DoD, is required to review each MILCON project for which there was a significant cost difference.

Base closure and realignment costs submitted to the 1991 Base Closure and Realignment Commission were developed from a computer model, "Cost of Base Realignment Actions" (COBRA), initially developed during the 1988 base closure process. The model was used to estimate the potential costs and savings associated with realignment recommendations. Specifically, the model estimated one-time realignment and closure costs, such as administrative planning and support; personnel actions; moving; construction; procurement and construction cost avoidances; and other one-time costs and cost avoidances.

The COBRA model also estimated recurring costs and savings. However, the costs were developed as a "closure and realignment package" for a particular closing or base realignment and were not developed by specific MILCON projects for each installation affected by the recommendations.

Scope

Because we were unable to determine the amount of cost increases for each MILCON project related to a base closure, we compared the total COBRA construction cost for each base closure package to the Military Department's MILCON budget submission for FY 1993 and future years. Our comparison found 13 base closure packages with increases ranging from $1.1 million to $35.3 million. We selected for review seven packages with an increase in cost of 20 percent or greater. This report covers the NAVSTA Philadelphia closure and realignment package.

The Base Closure and Realignment Commission recommended that NAVSTA Philadelphia realign its force structure and close the base by the end of the fiscal year 1995.

The FY 1993 through FY 1997 MILCON budget for base closure at NAVSTA Philadelphia totaled $25.1 million, an increase of $4.1 million or 20 percent. However, of the $25.1 million, only $1.3 million was included in the FY 1993 budget submission. Accordingly, our review was limited to validation of the justification to support the FY 1993 MILCON project. During our review, we determined that this MILCON project did not account for any of the $4.1 million increase. In fact, this project decreased by $1.2 million from the original estimate. We will review the remaining projects related to closure and realignment of NAVSTA Philadelphia as the budget requests are made for the needed funds in FY 1994 through FY 1997.

Audit period, locations, and standards. This economy and efficiency audit was conducted at the activities listed in Appendix B during March 1992. We did not rely on computerized data to conduct this review. Additionally, we did not review internal controls related to our objective because of the time sensitivity of the data under review. Except as noted, the review was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Other Audits

In addition to this report, the following audits were conducted, or are in process, by the Office of the Inspector General, DoD, which relate to the overall objective.

- The base closure of Fort Benjamin Harrison, Indiana, and the realignment of some of its functions to Fort Meade, Maryland; including the realignment of functions scheduled to move to Fort Benjamin Harrison from Fort Sheridan, Illinois, but realigned to Fort Knox, Kentucky (IG, DoD Report No. 92-087).

- The partial closing of MacDill Air Force Base (AFB), Florida, and the realignment of some of its functions to Luke AFB, Arizona, and Seymour Johnson AFB, North Carolina (IG, DoD Report No. 92-086).

- The closing of Carswell AFB, Texas, and the realignment of some of its functions to Minot AFB, North Dakota; Barksdale AFB, Louisiana; Dyess AFB, Texas; and Tinker AFB, Oklahoma (IG, DoD Project No. 2CG-5022.04).

- The realignment of Navy Fleet Support Activities to Naval Surface Warfare Center, Dahlgren, Virginia, and Naval Underwater Warfare Center, Carderock, Maryland (IG, DoD Project No. 2CG-5022.05)

The General Accounting Office is conducting an audit (GAO Code 398100) of the closure of Rock Island Arsenal, Illinois, and various other minor activities with functions being realigned to Redstone Arsenal, Huntsville, Alabama.

The Army Audit Agency is also performing an audit, Project No. S1732C, "Audit of BRAC-91 Construction Costs," which includes coverage of our objectives at two activities.

- The realignment of functions from Fort Benjamin Harrison to Fort Jackson, South Carolina.

- The closure of Fort Ord, California, and the realignment of some of its functions to Fort Lewis, Washington.

Upon completion of the audits of all seven Base closure packages with significant differences in FY 1993 cost increases over the costs submitted to the Commission, we will submit a summary report to the Secretary of Defense.

Discussion

We examined the FY 1993 proposed MILCON construction project entitled "Engineering Management Facility" (Project No. P-232) associated with closure of the Philadelphia Naval Station. This Navy activity is scheduled for closure as a result of the President's recommendations on base closure and realignment. NAESU, a tenant of the Philadelphia Naval Station, is scheduled to relocate its administrative functions to the NAWC, Lakehurst, New Jersey. The proposed construction project involves the alterations of gymnasium and fitness center space to accommodate 19,710 square feet of administrative space.

Our review of the data used to support the project showed that the administrative space is needed. Based on a review of the individual costs listed on the FY 1993 Military Construction Project Data (Form 1391), we concluded that the total cost of this project agreed with the Navy basic facility requirements for military construction. To date, no funds have been spent on this project. NAVAIR has set milestones for the design study, which was initiated in mid-April 1992.

During our review, NAESU informed us that NAVAIR is evaluating alternatives for relocating NAESU. On February 12, 1992, NAVAIR requested that NAESU participate in the Expense Operating Budget Study. The goal of this study was to reduce the total command by 30 percent and to review the organization's functions to determine if savings could be gained through merger of like functions. This study was scheduled to be completed during May 1992. It is possible that the NAESU will be consolidated with one or more expense operating budget commands as a result of the Expense Operating Budget Study; thereby eliminating the construction project or modifying its scope.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

We recommend that the Commander, Naval Air Systems Command:

1. Place on hold the construction Project No. P-232, "Engineering Management Facility" for relocation of Naval Aviation Engineering Service Unit's administrative space until completion of the Expense Operating Budget Field Activities Study.

2. Proceed with design and execution of the construction project, change the requirements for the construction project, or cancel the project based on the results of the study and the Navy decision.

Management comments. The Assistant Secretary of the Navy (Financial Management) partially concurred with both recommendations and stated that no funds will be authorized or expended for design or construction of Project No. P-232 until a Naval Air Systems Command decision can be made after the completion of the Expense Operating Budget Study, expected before June 30, 1992. In the meantime, the Assistant Secretary stated that a low-level of effort will continue in preparing the design contract documentation so that an award can be made quickly if the decision is made to proceed with the project.

Audit response. The comments of the Assistant Secretary are responsive to the intent of the recommendations. Since potential monetary benefits cannot be determined until after the completion of the study, the Navy is not required to

respond to the final report at this time. However, we request that the Assistant Secretary provide the results of the study and the final decision, as well as comments on the potential monetary benefits after the study and decision are complete.

PART II - ADDITIONAL INFORMATION

APPENDIX A - Summary of Potential Benefits Resulting from Audit

APPENDIX B - Activities Visited or Contacted

APPENDIX C - Report Distribution

APPENDIX A - SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefits	Amount and Type of Benefit
1.	Economy and Efficiency. Suspend proposed MILCON project until completion of the Expense Operations Budget Field Activities Study.	Nonmonetary
2.	Economy and Efficiency. Based on results of the Expense Operations Budget Field Activity Study, either resubmit, change the requirements for, or cancel the project.	Monetary benefits cannot be quantified. */

*/ Monetary benefits could range from 0 to $1.3 million. The closure and realignment requirements will be recomputed after a final decision has been determined as to where NAESU will be located. Monetary benefits will occur if the military construction is canceled or the scope is reduced.

APPENDIX B - ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Comptroller of the Department of Defense, Washington, DC

Department of the Navy

Deputy Chief of Naval Operations (Logistics), Washington, DC
Commander, Naval Air Systems Command, Washington, DC
Commanding Officer, Naval Aviation Engineering Services Unit, Philadelphia, PA
Commanding Officer, Naval Air Warfare Center, Lakehurst, NJ
Commander, Naval Aviation Supply Office, Philadelphia, PA
Commander, Naval Base Philadelphia, PA
Commanding Officer, Naval Station, Philadelphia, PA
Northern Division, Naval Facility Engineering Command, Philadelphia, PA

APPENDIX C - REPORT DISTRIBUTION

Office of the Secretary of Defense

Comptroller of the Department of Defense

Department of the Navy

Secretary of the Navy
Under Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Commander, Naval Air Systems Command
Commanding Officer, Naval Aviation Engineering Service Unit
Auditor General, Naval Audit Service

Non-DOD

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

Congressional Committees:

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

APPENDIX C - REPORT DISTRIBUTION (continued)

Congressional Committees: (continued)

Senator Bill Bradley, U.S. Senate
Senator Harris Wofford, U.S. Senate
Senator Frank Lautenberg, U.S. Senate
Senator Arlen Specter, U.S. Senate
Congressman Robert A. Borski, U.S. House of Representatives
Congressman Thomas Foglietta, U.S. House of Representatives
Congressman Jim Saxton, U.S. House of Representatives

PART III - MANAGEMENT COMMENTS

Department of the Navy

DEPARTMENT OF THE NAVY COMMENTS

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT)
WASHINGTON, DC 20350 1100

20 APR 1992

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: AIG(A) DRAFT QUICK-REACTION REPORT ON THE REVIEW OF DEFENSE BASE CLOSURE AND REALIGNMENT BUDGET DATA FOR THE NAVAL AVIATION ENGINEERING SERVICE UNIT (PROJECT NO. 2CG-5022.01)

Encl: (1) Department of the Navy (DON) comments

In response to your memorandum of 30 March 1992, we have reviewed the subject report. Detailed comments on the recommendations are forwarded as enclosure (1).

The Navy partially concurs with recommendations 1 and 2, agreeing to delay design contract award but continue low level internal contract documentation preparation efforts.

Robert C. McCormick

DEPARTMENT OF THE NAVY RESPONSE
TO
AIG(A) DRAFT QUICK-REACTION REPORT ON THE REVIEW OF
DEFENSE BASE CLOSURE AND REALIGNMENT BUDGET DATA FOR THE
NAVAL AVIATION ENGINEERING SERVICE UNITURE AND REALIGNMENT BUDGET DATA
PROJECT NO. 2CG-5022.01

OAIG(A) RECOMMENDATIONS

1. OAIG(A) recommends that the Commander, Naval Air Systems Command:

1. Suspend construction Project No. P-232,, "Engineering Management Facility" for relocation of NAESU's administrative space until completion of the Expense Operating Budget Field Activities Study.

Department of the Navy Comments:

1. Partially concur. Presently, no funds have been authorized or expended for design or construction of Project P-232. If it remains a valid requirement after completion and review of the Expense Operating Budget Study (EOB), the Naval Facilities Engineering Command (NAVFAC) (as the Navy's Military Construction design and construction agent) will proceed to have a design contract in FY 92 leading to construction starting in FY 93. Meanwhile, a low level of internal effort must be continued in preparing the design contract documentation so that an award can be made quickly if the decision is made to proceed with the project.

NAVAIR recommends that the final report be revised to allow internal preparation but have the expenditures for the design funds for the P-232 postponed until a NAVAIR decision can be made after the completion of the EOB study. NAVFAC has been advised verbally that the study is underway and to defer design contract award on P-232. Official written notice will be provided by letter.

2. OAIG(A) recommends that based on the results of the study, and the Navy decision, resubmit the construction project, change the requirements for the construction project, or cancel the project.

Department of the Navy Comments:

2. Partially concur. NAVAIR recommends that recommendation 2 be revised to read as follows "... Navy decision, proceed with design and execution of the construction project, change..." If decisions are made to continue with the project for construction during FY 93, valuable time would be lost by requiring the project to be resubmitted from the activity level back through the chain of command. It would be more timely and efficient to place the project on hold at the headquarters level as proposed and then proceed, change, or cancel the project after the EOB study decision, expected before the end of June 92.

Encl. (1)

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