Audit Report

OFFICE OF THE INSPECTOR GENERAL

QUICK-REACTION REPORT ON MILITARY FAMILY HOUSING CONSTRUCTION AT MARINE CORPS BASE HAWAII KANEOHE BAY

Report No. 96-200 July 26, 1996

Department of Defense

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Acronyms

MCBH	Marine Corps Base Hawaii
NAS	Naval Air Station
NAVFAC	Naval Facilities Engineering Command

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

July 26, 1996

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Quick-Reaction Report on Military Family Housing Construction at Marine Corps Base Hawaii Kaneohe Bay (Report No. 96-200)

We are providing this audit report for your review and comment. This report is being issued as a quick-reaction report because time is limited for impacting the planned contract award for two new construction projects of 257 family housing units at the Marine Corps Base Hawaii Kaneohe Bay. We considered comments on a draft of this report from the Under Secretary of Defense (Comptroller); the Commander in Chief, U.S. Pacific Command; and the Deputy Assistant Secretary of the Navy (Installations and Facilities) in preparing the final report.

DoD Directive 7650.3 requires that all recommendations and potential monetary benefits be resolved promptly. We consider the requested comments responsive to each recommendation except for the Navy response to Recommendation 4. Therefore, we request that the Navy provide additional comments on that recommendation. Comments on the recommendation should be received by August 26, 1996.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Wayne K. Million, Audit Program Director, at (703) 604-9312 (DSN 664-9312) or Mr. John M. Delaware, Audit Project Manager, at (703) 604-9314 (DSN 664-9314). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
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Office of the Inspector General, DoD

Report No. 96-200 **July 26, 1996**
(Project No. 5CG-5048.01)

Quick-Reaction Report on Military Family Housing Construction at Marine Corps Base Hawaii Kaneohe Bay

Executive Summary

Introduction. For FY 1993, Congress amended the military family housing construction budget to add funds to build additional family housing units on the island of Oahu, Hawaii. The appropriation was intended to alleviate the critical shortage of affordable family housing for military personnel stationed on Oahu at that time. It included funds for two projects, H-304 and H-305, which were originally for 300 housing units for the Marine Corps Base Hawaii Kaneohe Bay.

In addition, the Marine Corps plans to replace 230 family housing units in five project phases at the Marine Corps Base Hawaii Kaneohe Bay. The projects intend to replace units that have become economically unjustifiable to repair, maintain, or upgrade because of the severity of the problems and the age of the units.

We are issuing this as a quick-reaction report because time is limited for impacting the planned contract awards for the construction projects for the two family housing projects (257 family housing units) at the Marine Corps Base Hawaii Kaneohe Bay.

Audit Objectives. The overall audit objective was to evaluate DoD housing requirements. This report provides the results of the audit of the family housing requirements determination process at the Marine Corps Base Hawaii Kaneohe Bay and discusses the requirement to construct two military family housing projects and to perform five replacement projects at that installation.

Audit Results. The requirements for seven military family housing projects at the Marine Corps Base Hawaii Kaneohe Bay are unsupported because the number of needed housing units is unknown. The Marine Corps plan does not reflect current market trends and the number of military personnel to be based in the area is projected to be less than when the plan was formulated. As a result, the Marine Corps intends to spend approximately $100 million on seven family housing construction projects that it may not need. See Part I for a discussion of the audit results, and see Appendix C for a summary of the potential benefits resulting from the audit.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) place on administrative withhold the FY 1993 military family housing construction funds and the FY 1997 project at the Marine Corps Base Hawaii Kaneohe Bay, totaling $58.3 million. We recommend that the Commandant of the Marine Corps place on administrative withhold (not approve funding for) the FY 1998 through 2001 military family housing construction projects, totaling $41.7 million. We recommend that the Commanding General, Marine Corps Base Hawaii Kaneohe Bay, perform a new market analysis and prepare a DD Form 1523, "Military Family Housing Justification," to justify two new family housing construction projects and five replacement family housing projects. We also recommend the Commander, Naval Facilities Engineering Command, Pacific Division, obtain certification of requirements,

based on a current market analysis, from the Marine Corps Base Hawaii Kaneohe Bay before issuing an advertisement for bids for the construction projects.

Management Comments. The Under Secretary of Defense (Comptroller) concurred with the recommendations to place three construction projects on administrative withhold pending resolution of the audit issues, although the Navy nonconcurred. The Navy and Marine Corps wish to proceed with projects H-304 and H-305 and the Marine Corps has certified the requirements.

The Navy concurred with placing on administrative withhold the FY 1998 through 2001 military family housing construction projects, totaling $41.7 million. The Navy partially concurred with preparing a DD Form 1523 based on a current market analysis for seven projects. The Navy concurred with obtaining the certification validating the two construction projects.

In addition, we received unsolicited comments from the Commander in Chief, U.S. Pacific Command. The U.S. Pacific Command stated that projects H-304 and H-305 should proceed without delay because the Marine Corps will ensure that a housing market analysis is conducted and adjust its inventory accordingly.

Audit Response. We consider the comments on the outyear projects to be responsive. However, we object to the Navy acceptance of what we regard as a meaningless certification for projects H-304 and H-305. We stand by our conclusion that a sound market analysis is needed before the projects proceed. To help resolve this matter, we request that the Navy provide the results of such an analysis or additional comments by August 26, 1996.

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Part I - Audit Results

Audit Background

In April 1994, the Marine Corps Air Station Kaneohe Bay, Hawaii, became the Marine Corps Base Hawaii Kaneohe Bay. The congressional appropriation, the 1993 Commission on Defense Base Closure and Realignment report to the President, and the documentation for the projects mentioned in this report refer to the installation as the Marine Corps Air Station Kaneohe Bay, Hawaii. However, we will refer to the installation as the Marine Corps Base Hawaii (MCBH) Kaneohe Bay for the remainder of this report.

Policy Guidance. DoD Manual 4165.63-M, "DoD Housing Management," September 1993, establishes policy guidance, procedures, and responsibilities on all matters associated with family housing. The manual states, "Communities near the installation are relied on as the primary source of housing for DoD personnel." Military housing may be programmed to meet long-range requirements in areas where the local community cannot support the housing needs of military personnel. The installation commander is responsible for planning and programming for the acquisition of family housing.

Congressional Amendment. Congress amended the FY 1993 military family housing construction budget to add 758 units to the housing inventory on Oahu, Hawaii. The amendment was intended to alleviate the critical shortage of affordable family housing for military personnel stationed on Oahu. Included in the amendment were two projects, H-304 and H-305, "Family Housing," at MCBH Kaneohe Bay.

Project Scope. Initially, projects H-304 and H-305 were for the construction of 300 family housing units at MCBH Kaneohe Bay at a cost of $44 million. The projects included the construction of 140 two-bedroom units, 114 three-bedroom units, and 46 four-bedroom units for junior enlisted members of the military and their families.

In FY 1995, MCBH Kaneohe Bay redefined the scope of the projects based on the results of the Military Family Housing Market Analysis, dated July 1994, performed for Oahu military installations. The scope of the projects was decreased to 257 units to accommodate the construction of 128 three-bedroom units and 129 four-bedroom units. The cost of the projects increased to $46.4 million.

Replacement Projects. In FY 1993, MCBH Kaneohe Bay proposed five family housing construction projects to replace 230 deteriorating family housing units. MCBH Kaneohe Bay justified the replacement projects, which were to be accomplished in five phases, because the units to be replaced were close to the shoreline, and salt-laden winds had caused rapid deterioration of the housing. The constant repairs, maintenance, and upgrades had become economically unjustifiable because of the severity of the problems and the age of the units.

The replacement projects encompass the demolition of existing houses and the construction of an equal number of new houses. Each of the five projects will replace from 40 to 54 units. In total, 208 three-bedroom units and 22 four-bedroom units are planned for replacement with units of the same number of bedrooms at a cost of $53.6 million.

The following table describes the seven project phases.

Housing Replacement Projects

Project	Fiscal Year	Units	Cost (in millions)
H-304/305	1997	257	$46.4
H-344	1997	54	11.9
H-345	1998	48	11.0
H-346	1999	40	9.5
H-347	2000	48	11.5
H-348	2001	40	9.7
Total		**487**	**$100.0**

Audit Objectives

The overall audit objective was to evaluate whether housing requirements support the need for constructing DoD family housing. Specifically, we determined whether family housing requirements developed by the Military Departments were properly supported and identified in an economical manner. We also announced an objective to review the management control program as it applied to the overall objective.

This report provides the results of the audit of the family housing requirements determination process at MCBH Kaneohe Bay and addresses the requirement to construct two military family housing projects and to perform five replacement projects at the installation. Because of the need to complete the audit and issue the report quickly, we did not review the management control program at MCBH Kaneohe Bay. Our report on the overall audit, however, will discuss management control issues. See Appendix A for a discussion of the scope and methodology and Appendix B for a summary of prior coverage related to the audit objectives.

Family Housing Construction Requirements

The requirements for seven military family housing projects at the Marine Corps Base Hawaii Kaneohe Bay were unsupported. That condition existed because the 1994 market analysis used by the Marine Corps Base Hawaii Kaneohe Bay no longer reflected current market trends and the scope of the housing deficit, if any, is not known. As a result, the Marine Corps Base Hawaii Kaneohe Bay plans to spend approximately $100 million to construct family housing units that it may not need.

Deficit Calculation

DoD Manual 4165.63-M requires a DD Form 1523 to support family housing construction and acquisition programs submitted to the Office of the Secretary of Defense and Congress. The DD Form 1523 provides a tabular analysis of the housing deficit by comparing the effective housing requirement with existing housing assets based on current and future conditions. Future conditions are projected 5 years out.

Effective Housing Requirement. The effective housing requirement is the number of military personnel assigned to an installation who are entitled to military family housing. An installation calculates its effective housing requirement by reducing total personnel strength by the number of transient personnel, the number of unmarried personnel, and the number of voluntarily separated personnel.

Total Personnel Strength. For the current total personnel strength, the installation uses the number of personnel assigned to the installation on the as-of date of the analysis. Personnel include permanent party personnel, civilians as authorized, and transients. For the projected strength, the installation uses the long-range total personnel strength. The Marine Corps relies on the facilities support requirement document to determine its long-range planning numbers. The facilities support requirement document programs personnel strength for an installation 6 years out.

Unmarried Personnel. The installation determines the number of unmarried personnel by using the marriage factors by pay grade in Naval Facilities Engineering Command Publication P-80, "Facility Planning Criteria for Navy and Marine Corps Shore Installations," September 1993. The P-80 provides a percentage distribution, by pay grade, of married Navy and Marine Corps Service members.

Voluntarily Separated Personnel. Those Service members that elect not to be accompanied by dependents for reasons other than nonavailability of housing at the installation are defined as voluntarily separated.

Housing Assets. An installation commander has two sources of housing assets to satisfy housing requirements: military housing and local housing near the installation. Communities near the military installation should be used as the primary source to meet the requirements for housing before programming to build military family housing. The installation uses a market analysis to determine the amount of local housing that is available for Service members.

Project Support

The Marine Corps did not prepare the required DD Form 1523 for the two family housing projects, H-304 and H-305, to support the proposed construction of 257 new units at MCBH Kaneohe Bay. The Marine Corps stated that the form was not required because Congress added the projects to the Marine Corps budget. Also, at the time the projects were added, all military housing on the island of Oahu was under the control of the Oahu Consolidated Family Housing Office, an Army organization. The Oahu Consolidated Family Housing Office was deconsolidated and became the Community Home Finding, Relocation, and Referral Services Office in September 1994. At that time, each Service became responsible for managing its own housing. Since deconsolidation, MCBH Kaneohe Bay has not generated a DD Form 1523 to validate housing requirements for the two projects.

Total Personnel Strength

The military personnel strength for Marine Corps installations on Oahu has decreased significantly since 1992, when Congress authorized the two projects. In 1996, MCBH consists of two installations: MCBH Camp H.M. Smith and MCBH Kaneohe Bay. The two installations were assessed as one location in the housing market analysis. Consequently, the military personnel strength numbers discussed in the following paragraphs include both installations to provide a comparison to the market analysis performed. The military personnel strengths represent the total personnel strength of Service members that are entitled to Marine Corps base housing at the two installations. The numbers have not been adjusted to represent the effective housing requirement.

Actual On-Board Strength. The actual on-board strength for Service members assigned to Marine Corps installations on Oahu totaled 10,177 when Congress authorized the funds to construct the two projects. As of February 1996, the military personnel strength for the Marine Corps installations on Oahu totaled 7,792 Service members.

Authorized End-Strength. The facilities support requirement document that was current at the time forecasted FY 1998 end-strength at 9,839 Service members for Marine Corps installations on Oahu when Congress approved the projects. However, the last official facilities support requirement document, dated August 1994, forecasts an FY 2000 end-strength of 7,552 Service members for MCBH Camp H.M. Smith and MCBH Kaneohe Bay. The forecasts did not include the base realignment of the Naval Air Station Barbers Point to MCBH Kaneohe Bay, which is discussed in another part of this finding.

Market Analysis

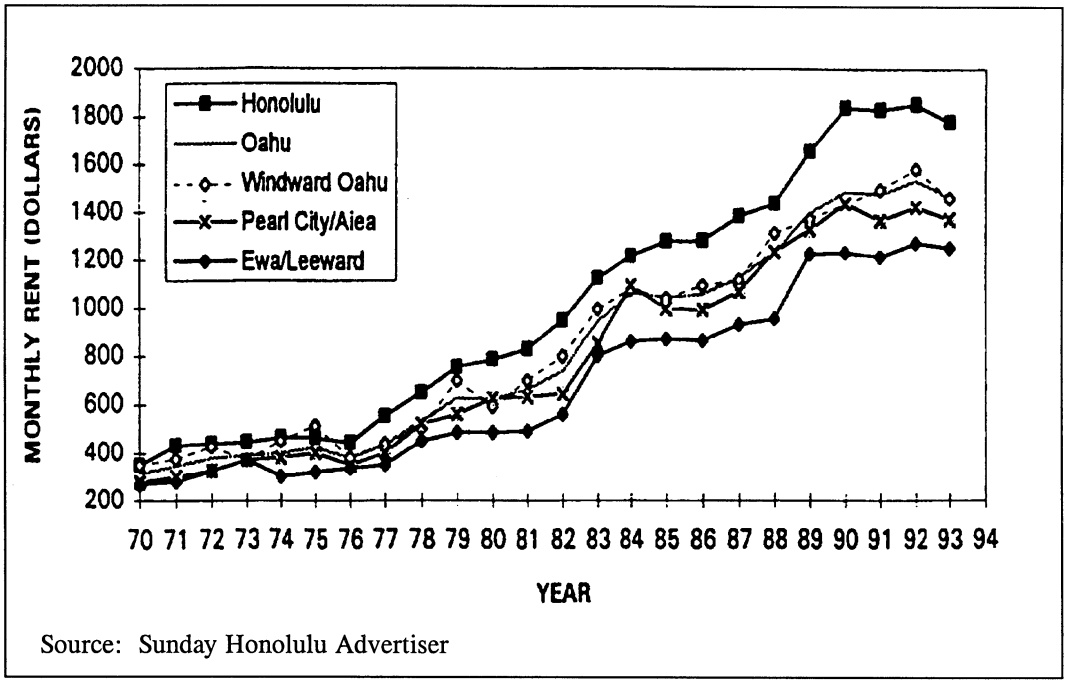
In July 1994, the Navy received the Military Family Housing Market Analysis for Oahu installations. The Navy contracted for the market analysis based on conditions as of September 30, 1993, and included all Services on Oahu (the Army, the Navy, the Air Force, and the Marine Corps), as required by DoD Manual 4165.63-M. The market analysis determined the extent to which the local community could satisfy the anticipated housing requirement of military families assigned to bases on Oahu.

The market analysis formed the basis for projecting a housing deficit or surplus to the year 1999. However, Services with multiple locations on Oahu were assessed as one Service. All installations were not reviewed separately. Therefore, the analysis for the Marine Corps includes MCBH Camp H.M. Smith and MCBH Kaneohe Bay. The market analysis determined that the Marine Corps had a deficit in FY 1993 of 1,659 family housing units and a projected deficit in FY 1999 of 264 family housing units, primarily in the four-bedroom requirement. However, the Marine Corps has not fully modified the scope of the two projects to address the deficit identified.

The initial scope of the projects was for the construction of 140 two-bedroom, 114 three-bedroom, and 46 four-bedroom units. Based on the results of the market analysis, the Marine Corps partially modified the scope of the two projects to construct 128 three-bedroom units and 129 four-bedroom units.

Overall, the market analysis identified Oahu's rental market as "one of the tightest in the nation." The analysis also forecasted the rental market to have relatively low vacancy rates with the potential for moderate rent increases over the next 2 to 3 years. However, the charts provided in the market analysis on rental rates seem to contradict the overall analysis.

The following chart, Figure 1, was taken from the market analysis. The chart indicates a leveling off of rental rates in all the markets and a downward decline in some markets.



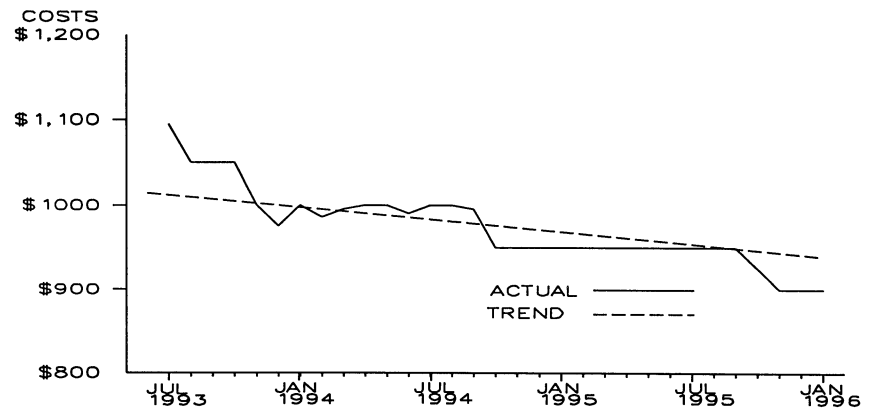
Source: Sunday Honolulu Advertiser

Figure 1. Oahu Single Family Rental Rates by Area

Market Shift

The Honolulu Board of Realtors and a local research firm indicated to the auditors that the 1996 rental market has shifted from the situation forecasted in the market analysis. The rental market seems more favorable for those seeking rental units. The rental trend indicates that prices have dropped and more units are available.

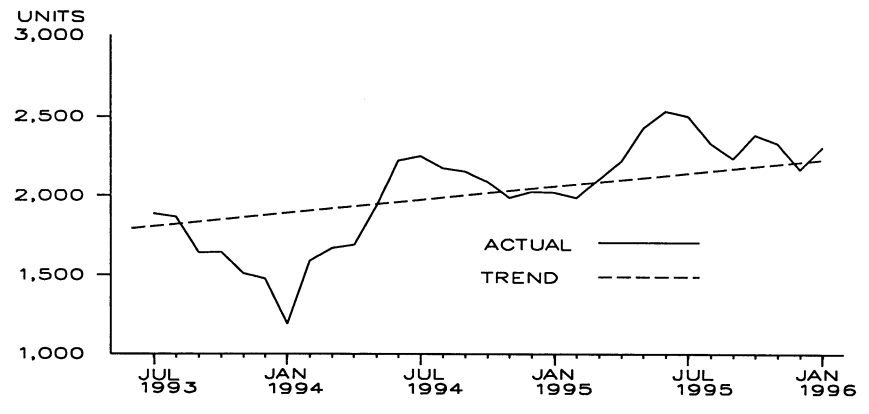
The following figures show the median rental market trend on Oahu.



Note: Monthly cost based on data from the Honolulu Board of Realtors.

Figure 2. Oahu Rental Costs

Figure 2 shows that the 1996 median monthly rental rate of $900 falls within the maximum monthly housing allowance for Marine Corps junior enlisted personnel on Oahu ($1,022.86 for an E-1 and $1,233.17 for an E-5).



Note: Based on data from the Honolulu Board of Realtors.

Figure 3. Number of Rental Units Available on Oahu

Figure 3 shows that the number of rental units on Oahu increased from 1,641 units on September 30, 1993, when the market analysis was performed, to 2,302 units in January 1996.

Family Housing Surplus

Based on the current military conditions, the Marine Corps needs to reevaluate the requirements for the two construction projects. With the current military strength of 7,792 Service members on Oahu, the effective housing requirement equates to about 3,700 Service members requiring family housing. Because the Marine Corps currently has 2,560 military family housing units, it requires only about 1,140 additional family housing units. The market analysis determined that the Marine Corps occupied 1,659 rental units in September 1993. The occupancy rate occurred when the rental market on Oahu was much tighter. Assuming that the Marine Corps has the same market share of rental units as in 1993, the Marine Corps may have a surplus of family housing units. Therefore, the Marine Corps should obtain a current market analysis and determine its actual requirements.

Defense Base Realignment and Closure of Naval Air Station Barbers Point, Hawaii

The 1993 Commission on Defense Base Closure and Realignment closed the Naval Air Station (NAS) Barbers Point, Hawaii. The Commission recommended the relocation of NAS Barbers Point aircraft and associated personnel and equipment support to other naval air stations, including MCBH Kaneohe Bay. The Commission also recommended the retention of the family housing at NAS Barbers Point as needed for multi-Service use.

The Navy did not program Defense base realignment and closure funds to accommodate the realignment of military families to MCBH Kaneohe Bay because the Navy retained the family housing at NAS Barbers Point. The Navy planned to also retain the personnel realigning from NAS Barbers Point to MCBH Kaneohe Bay as a Navy requirement. However, once the personnel from NAS Barbers Point are realigned to MCBH Kaneohe Bay, those personnel become the responsibility of the installation and, therefore, are entitled to family housing on MCBH Kaneohe Bay. The Marine Corps believes that the realignment of NAS Barbers Point personnel will add support to the requirement to build the 257 family housing units. The resolution of the issue could impact the MCBH Kaneohe Bay housing requirement calculations.

Replacement Units

Marine Corps Headquarters prepared a DD Form 1523, dated June 1994, in support of replacing 230 deteriorating family housing units at MCBH Kaneohe Bay located at the Cochran Street housing area. Marine Corps Headquarters developed the DD Form 1523 to justify the projects using data from the 1994 market analysis and the last facilities support requirement document. However, as of March 1996, the Marine Corps had not updated the DD Form 1523 to reflect the changing economic and military conditions on Oahu. Consequently, the Marine Corps does not know whether its requirement to replace 230 family

housing units is still valid. In addition, MCBH Kaneohe Bay did not adjust the scope of the replacement projects to the four-bedroom deficit identified in the market analysis. The replacement projects are planned to replace 206 three-bedroom units and only 24 four-bedroom units. Modifying the scope of the replacement projects to include the additional four-bedroom requirement would also impact the requirement to build new three- and four-bedroom units.

Acquisition

The Marine Corps Manual MCO P11000.22, "Marine Corps Housing Management Manual," requires the development of DD Form 1523 in support of recommended family housing projects based on information gathered in a market analysis. However, the manual also requires that any organization that has acquisitions programmed into its budget should contract for a market analysis to support the acquisitions.

Naval Facilities Instruction 11013.35B, "Re-evaluation and Updating of Requirements Prior to Final Acquisition Process," February 3, 1983, requires Naval Facilities Engineering Command (NAVFAC) Engineering Field Divisions to obtain written confirmation from the major claimant that the requirement for a proposed military construction project is current and that construction should proceed. The certification should be obtained within 3 months prior to contract advertisement.

Pacific Division, NAVFAC, managed the new family housing construction projects for MCBH Kaneohe Bay and issued an advertisement for bids in August 1994 for projects H-304 and H-305. However, it withdrew the advertisement because of design problems and had planned to reissue the advertisement in February 1996. Pacific Division, NAVFAC, did not obtain confirmation from the Marine Corps that the two projects were still valid before either advertisement, and MCBH Kaneohe Bay did not obtain a new market analysis before acquisition to revalidate the projects. During our visit, we advised Pacific Division, NAVFAC, not to reissue the advertisement until the Marine Corps revalidates the projects. Pacific Division, NAVFAC, agreed to delay the planned advertisement.

Summary

The Marine Corps has not revised the requirement calculations for family housing to include the following changes in military and economic conditions that have occurred since the 1994 market analysis:

- Military end-strength on Oahu has decreased.

- Economic conditions in the rental markets on Oahu have changed significantly.

- The 1993 Commission on Defense Base Closure and Realignment has directed the realignment of military units from NAS Barbers Point to MCBH Kaneohe Bay.

- The requirement for four-bedroom units has increased based on the 1994 market analysis.

In addition, Pacific Division, NAVFAC, should have obtained confirmation from the Marine Corps that the projects were still valid before advertising in 1994 and again before planning to reissue the advertisement in 1996. Pacific Division, NAVFAC, did not obtain confirmation from the Marines Corps at either time. For the Marine Corps to revalidate the projects, it must obtain a new market analysis to support the development of a DD Form 1523.

Management Comments on the Finding and Audit Response

Navy Comments. The Navy provided the following comments to the finding of this report, in addition to the comments provided to each recommendation. The Navy stated that the audit report confirms a rental vacancy rate of approximately 2 percent for Oahu. The Navy also feels that Oahu continues to be one of the tightest and most expensive housing markets serving any Department of the Navy installation.

Audit Response. The Navy comments are noted. However, we did not confirm a rental vacancy rate of 2 percent. We determined that enough changes have occurred on Oahu in the number of military personnel and in the housing market trends to justify performing a new market analysis to validate the need for new housing. The last housing market analysis for Oahu, dated in 1994, is based on 1993 data. During our audit, local housing market authorities indicated that the current vacancy rate was from 5 to 6 percent.

Recommendations, Management Comments, and Audit Responses

1. We recommend that the Under Secretary of Defense (Comptroller) do the following regarding the proposed military family housing construction projects for the Marine Corps Base Hawaii Kaneohe Bay:

a. Place the FY 1993 military family housing construction funds of $46.4 million for projects H-304 and H-305, "Family Housing," on administrative withhold.

Under Secretary of Defense Comments. The Under Secretary of Defense (Comptroller) concurred with Recommendation 1.a., stating that the military family housing construction funds for projects H-304 and H-305 will be placed on administrative withhold pending audit resolution.

Navy Comments. Although not required to comment, the Navy nonconcurred with Recommendation 1.a. and stated that sufficient justification exists to continue projects H-304 and H-305. The Navy cites an increase the housing requirement at MCBH Kaneohe Bay resulting from the realignment of NAS Barbers Point, an increase in the demand for housing because projects H-304 and H-305 were downscoped from 300 units to 237 units, a decrease in the validated deficit of three- and four-bedroom units based on construction of the project, and the limited availability of three- and four-bedroom units in the private housing market.

The Navy also states that if a new market analysis indicates surplus units, the replacement projects can be downscoped to replace a smaller number of units. In addition, the new housing units could be used for the families displaced by the replacement projects.

Audit Response. Although MCBH Kaneohe Bay will incur an increase in Navy personnel because of the base closure of NAS Barbers Point, the Marine Corps has not determined the impact that the realignment will have on its housing requirements. The Defense Base Closure Account was established to fund Defense base realignment and closure actions. If the realignment of NAS Barbers Point results in an increase in the housing deficit at MCBH Kaneohe Bay, any new housing construction should be funded from the Defense Base Closure Account and not from the annual military construction budget.

Since issuance of the draft report, projects H-304 and H-305 were again downscoped. The projects decreased from 257 units to 237 units, totaling 118 three-bedroom units and 119 four-bedroom units. However, the downscoping of the projects would not result in an additional private housing demand. In reducing the number of units, the Marine Corps will build more units to accommodate its four-bedroom deficit instead of building to increase its two-bedroom unit surplus. The Marine Corps could construct more four-bedroom units by offsetting the construction of its three-bedroom units. The Marine Corps planned to build 128 three-bedroom units after the 1994 Market Analysis projected a surplus of 291 three-bedroom units in a tight market. Furthermore, the three- and four-bedroom unit deficit has not been validated, and the Marine Corps needs to perform a current market analysis to determine its requirement.

The Marine Corps proposal to continue projects H-304 and H-305 and to adjust the scope of the replacement projects assumes that the new market analysis will justify the construction of new housing units. However, the results of the new market analysis could show a surplus of housing that may require eliminating a portion of the replacement houses and not constructing new housing.

b. Place the FY 1997 military family housing construction project H-344, "Family Housing," valued at $11.9 million, on administrative withhold.

Under Secretary of Defense Comments. The Under Secretary of Defense (Comptroller) concurred with Recommendation 1.b., stating that the military family housing construction funds for military family housing construction project H-344 will be placed on administrative withhold pending audit resolution.

Navy Comments. Although not required to comment, the Navy nonconcurred with Recommendation 1.b. and stated that sufficient justification exists to continue with project H-344. The Navy cited its justification for Recommendation 1.a. and stated that the units being replaced do not meet acceptable standards of comfort and habitability.

Audit Response. We note the Navy comments to Recommendation 1.b.; however, we disagree with the comments for the same reasoning provided in Recommendation 1.a. In addition, as stated in the report, the Marine Corps does not have a current assessment of its requirement. As summarized in the finding, the Marine Corps has not sized its housing projects to address the deficit identified in the last market analysis. Therefore, we do not feel confident allowing the Marine Corps to continue with the new construction and then adjusting the replacement projects to the results of the new market analysis.

2. We recommend that the Commandant of the Marine Corps place FYs 1998 through 2001 military family housing construction projects H-345, H-346, H-347, and H-348, "Family Housing," totaling $41.7 million, for the Marine Corps Base Hawaii Kaneohe Bay, on administrative withhold until Recommendations 3. and 4. are satisfactorily completed.

Navy Comments. The Navy concurred with Recommendation 2.

3. We recommend that the Commanding General, Marine Corps Base Hawaii Kaneohe Bay, Hawaii, prepare a DD Form 1523, "Military Family Housing Justification," based on a current market analysis to determine the current and projected deficit of family housing units and to determine whether a requirement exists for construction projects H-304 and H-305, "Family Housing," and replacement projects H-344, H-345, H-346, H-347, and H-348, "Family Housing."

Navy Comments. The Navy partially concurred with Recommendation 3. The Navy disagreed with the need to prepare a DD Form 1523 based on a current market analysis to determine whether a requirement still exists for projects H-304 and H-305. The Navy feels that it has sufficient justification to continue with those projects. The Navy agreed that the Marine Corps needs to prepare a DD Form 1523 for projects H-344, H-345, H-346, H-347, and H-348 based on a current market analysis to determine whether the requirements still exist.

Audit Response. We consider the Navy comments responsive. The Navy agreed to obtain a current market analysis for five projects. By obtaining a current market analysis, the Navy will effectively determine its requirements for all seven projects.

4. We recommend that the Commander, Naval Facilities Engineering Command, Pacific Division, obtain certification from the Marine Corps based on a current market analysis, that projects H-304 and H-305, "Family Housing," are still valid before issuing an advertisement for bids.

Navy Comments. The Navy concurred with Recommendation 4. and stated that Pacific Division, NAVFAC, obtained certification from the Marine Corps that projects H-304 and H-305 are still valid.

Audit Response. Although the Navy concurred with our recommendation and obtained certification from the Marine Corps, we consider the action taken to be nonresponsive. The Pacific Division, NAVFAC, accepted the certification dated March 6, 1996, with the knowledge that our audit found the requirements unsupported in February 1996 and issued the request for proposal on March 26, 1996. In addition, Marine Corps Headquarters issued the certification without supporting justification, based on a current market analysis, after we advised the Marine Corps of the problems with the projects that we identified during our audit. Therefore, we request the Navy to reconsider its position that Recommendation 4 has been implemented. We have reworded the recommendation to emphasize that any certification needs to be based on a current market analysis.

Other Management Comments and Audit Response

U.S. Pacific Command Comments. Although not required to respond, the U.S. Pacific Command also provided comments on the report and recommendations (see Part III). The U.S. Pacific Command stated that the FY 1993 projects, H-304 and H-305, should not be delayed. The U.S. Pacific Command maintains that the projects should proceed and further stated that the Marine Corps will ensure that a housing market analysis is conducted and will adjust its inventory should the analysis show a surplus of units for the Marine Corps.

Audit Response. We understand the U.S. Pacific Command's concern in continuing with projects H-304 and H-305; however, the funds for the projects do not expire until September 30, 1997. The construction contract for projects H-304 and H-305 should not be awarded until the Marine Corps has performed a current housing market analysis to support its requirement. The Marine Corps has more than a year to validate its requirements using the DD Form 1523 based on a current market analysis and thus continue with the projects if an appropriate requirement is demonstrated. Once the requirement has been validated, the Marine Corps should not incur any further delays. The Pacific Division, NAVFAC, has already issued the request for proposal for the project, as discussed in Recommendation 4., with a bid opening date of June 14, 1996. However, contract award should be delayed pending the results of the current market analysis. The construction projects are at 100 percent design and should be ready for contract award if the current market analysis confirms a deficit of housing on Oahu for the Marine Corps.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

We reviewed the supporting documentation for the current housing requirements used to justify the advertisement and construction of 257 family housing units, estimated to cost $46.4 million, and to justify the replacement of 230 family housing units, estimated to cost $53.6 million.

Methodology

We performed this audit using DoD and Marine Corps guidance to evaluate how the Marine Corps Base Hawaii Kaneohe Bay determines its family housing requirements. This audit did not rely on computer-processed data or statistical sampling procedures. We reviewed documentation dated from June 1992, when Congress amended the military family housing construction budget, through February 1996.

Audit Period, Standards, and Locations

This economy and efficiency audit was made from January through February 1996 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. See Appendix C for the potential benefits resulting from the portion of the audit discussed in this quick-reaction report. Appendix D lists the organizations visited or contacted during the portion of the audit discussed in this report.

Appendix B. Summary of Prior Audits and Other Reviews

Inspector General, DoD

Inspector General, DoD, Report No. 95-013, "Development of Ford Island, Pearl Harbor, Hawaii," October 19, 1994, states that the Army, the Navy, the Air Force, and the Marine Corps on Oahu were duplicating the responsibility of the Oahu Consolidated Family Housing Office, U.S. Army Pacific. The plans of the Navy to build 780 military housing units on Ford Island and, more generally, the U.S. Pacific Command's "Strategy 8000 Family Housing Acquisition Plan" were not based on a valid requirement. The report recommended that all military family housing construction projects on Ford Island be suspended until requirements were adequately justified and validated. Management generally concurred with the recommendations.

Inspector General, DoD, Report No. 93-030, "DoD Family Housing Requirements Computations," December 11, 1992, states that the Navy and the Air Force overstated housing requirements used to support five section 801 projects. The housing survey procedures and the DoD suitability evaluation criteria used to determine housing requirements were not followed or consistently applied. In addition, Navy and Air Force management did not review or validate the data in the family housing surveys and excluded available housing from private sector housing computations. The Navy and the Air Force did not have guidance on computing the military fair share ratio used in a housing market analysis. The report recommended changes in the Navy and the Air Force housing survey processes and changes in the DoD suitability evaluation criteria used in the housing requirement determination process. Management concurred with the recommendations.

Navy

Naval Audit Service Report No. 065-C-94, "Navy Family Housing Requirements," September 26, 1994, states that the Naval Facilities Engineering Command overstated housing requirements because of flawed procedures, poor implementation of those procedures, and significant problems with the accuracy of data on which estimated requirements were based. The Naval Audit Service recommended delaying planned construction and redetermining housing requirements for all areas using new combined survey procedures and improved sampling and data validation procedures. Management concurred with the recommendations and the monetary benefits.

Appendix C. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount or Type of Benefit
1. and 2.	Economy and Efficiency. Avoids expenditure of funds for projects that may not be needed.	Amount of benefit identified in Recommendation 3.
3.	Economy and Efficiency. Ensures that military family housing construction projects are based on valid requirements.	Up to $100 million of FY 1997 through 2001 Military Family Housing Construction funds put to better use.
4.	Compliance with Laws or Regulations. Requires certification of projects before advertisement.	Nonmonetary.

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC
Deputy Under Secretary of Defense (Industrial Affairs and Installations), Washington, DC
Director, Housing Revitalization Support Office, Washington, DC

Department of the Army

Community Home Finding, Relocation, and Referral Services Office, Honolulu, HI*

Department of the Navy

Commander in Chief, Pacific Fleet, Pearl Harbor, HI
Marine Forces Pacific, Camp H.M. Smith, HI
Headquarters, U.S. Marine Corps, Arlington, VA
Marine Corps Base Hawaii Camp H.M. Smith, HI
Marine Corps Base Hawaii Kaneohe Bay, HI
Naval Facilities Engineering Command, Alexandria, VA
Pacific Division, Pearl Harbor, Hawaii

Unified Command

Commander in Chief, U.S. Pacific Command, Camp H.M. Smith, HI

Non-Federal Organizations

Hawaii Housing Authority, Honolulu, HI
Honolulu Board of Realtors, Honolulu, HI
The Prudential Locations, Inc., Honolulu, HI

*Formerly Oahu Consolidated Family Housing Office.

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense (Industrial Affairs and Installations)
  Principal Assistant Deputy Under Secretary of Defense (Industrial Affairs and Installations)
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Commandant of the Marine Corps
  Commanding General, Marine Corps Base Hawaii
Assistant Secretary of the Navy (Financial Management and Comptroller)
Assistant Secretary of the Navy (Installations and Environment)
Deputy Chief of Naval Operations (Logistics)
Commander in Chief, Pacific Fleet
  Commander, Marine Forces Pacific
Auditor General, Department of the Navy
Commander, Naval Facilities Engineering Command
  Commander, Pacific Division

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Unified Command

Commander in Chief, U.S. Pacific Command

Other Defense Organizations

Director, Joint Staff
Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

  Senate Committee on Appropriations
  Senate Subcommittee on Defense, Committee on Appropriations
  Senate Subcommittee on Military Construction, Committee on Appropriations
  Senate Committee on Armed Services
  Senate Committee on Governmental Affairs
  House Committee on Appropriations
  House Subcommittee on Military Construction, Committee on Appropriations
  House Subcommittee on National Security, Committee on Appropriations
  House Committee on Government Reform and Oversight
  House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
  House Committee on National Security

Honorable Daniel K. Akaka, U.S. Senate
Honorable Daniel K. Inouye, U.S. Senate
Honorable Neil Abercrombie, U.S. House of Representatives
Honorable Patsy T. Mink, U.S. House of Representatives

Part III - Management Comments

Under Secretary of Defense (Comptroller) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER
(Program/Budget)

May 1, 1996

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD IG
(DIRECTOR, CONTRACT MANAGEMENT)

SUBJECT: DoD IG Quick-Reaction Report on Military Family Housing Construction at Marine Corps Base Hawaii Kaneohe Bay (Project No. 5CG-5048.01)

This responds to your April 4, 1996, memorandum requesting our comments on the subject report.

The audit states that the Marine Corps has not effectively managed acquisition of new family housing units at Kaneohe Bay since the requirement for the units has not been revised to include changes in military and economic conditions that have occurred since the last market analysis in 1994.

The audit recommends that the USD(Comptroller) place funding for the two fiscal year 1993 projects and one fiscal year 1997 project at issue on administrative withhold until the Marine Corps conducts a new market analysis to determine whether a requirement exists for the projects.

We generally agree with the audit findings and recommendations, and will place the funds associated with the fiscal year 1993 Kaneohe Bay family housing projects in question on administrative withhold pending audit resolution. Should Congress approve the fiscal year 1997 family housing project at Kaneohe Bay before audit resolution, those funds will also be placed on administrative withhold.

B. R. Paseur
Director for Construction

U.S. Pacific Command Comments

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INFO RUEKJCS/SECDEF WASHINGTON DC//OPADUSD/IA&I/COMP//
RUEKJCS/JOINT STAFF WASHINGTON DC//J4-ILED//
RUEACMC/CMC WASHINGTON DC//LF//
RHHMHAH/CINCPACFLT PEARL HARBOR HI//N4//
RUHVPAC/PACAF HICKAM AFB HI//CE//
RUEAHIC/CDRUSARPAC FT SHAFTER HI//APEN//
RUHPHMS/COMMARFORPAC//FEO//
RUHPKBC/CG MCB HAWAII KANEOHE BAY HI//G4//
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SUBJ/DODIG PROJECT NO. 5CG-5048.01//
REF/A/QUICK REACTION/REPORT/-/PROJECT/-/5CG5048.01//
REF/B/MEMO FOR DODIG FROM/DEPUTY ASST OF NAVY/-//
RMKS/1. REFERENCE A REPORT MADE FOUR SPECIFIC RECOMMENDATIONS WHICH WERE ANSWERED IN REFERENCE B MEMORANDUM.
2. USCINCPAC POSITION IS THAT THE FY93 PROJECT SHOULD CONTINUE
PAGE 02 RHHMSGG4094 UNCLAS
UNINTERRUPTED. CONCURRENTLY, THE MARINE CORPS WILL ENSURE THAT A HOUSING MARKET ANALYSIS IS CONDUCTED. SHOULD THE HOUSING MARKET ANALYSIS SHOW THAT THE MARINE CORPS IS OVERBUILT, THE MARINE CORPS WILL TAKE ACTION TO REDUCE ITS INVENTORY ACCORDINGLY.
3. USCINCPAC REMAINS COMMITTED TO ENSURING EXCELLENT MILITARY FAMILY HOUSING AS A PRIORITY QUALITY OF LIFE GOAL, AND AN IMPORTANT CINC INTEGRATED PRIORITY LIST (IPL) ISSUE.
4. MY POINT OF CONTACT FOR THIS ACTION IS LTC BRUCE FINK, J442, DSN 477-0880, COMMERCIAL (808) 477-0880.//
BT
#4094
NNNN

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Department of the Navy Comments

Final Report Reference

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(INSTALLATIONS AND ENVIRONMENT)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

17 MAY 1996

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DOD QUICK REACTION REPORT ON MILITARY FAMILY HOUSING CONSTRUCTION AT MARINE CORPS BASE, KANEOHE BAY, HAWAII (Project No. 5CG-5048.01)

I am responding to the draft Quick Reaction Report forwarded by Attachment 1, concerning family housing requirements at Marine Corps Base Kaneohe Bay, Hawaii. The Department of the Navy concurs with recommendations 2 and 4, partially concurs with recommendation 3, and does not concur with recommendation 1. Our detailed response is provided at Attachment 2.

Although your report confirms a rental vacancy rate of approximately two percent, you contend that "the rental market seems more favorable for those seeking rental units." In San Diego, where we have a confirmed deficit in excess of 4,000 homes, the rental vacancy rate is in the 5-6 percent range. Clearly, Oahu continues to be one of the tightest and most expensive housing markets serving any Department of the Navy installation. Any delay or cancellation of the FY-93 family housing construction project will have a significantly negative impact on the quality of life for Marine and Navy families assigned to MCB Kaneohe Bay.

Duncan Holaday
Deputy Assistant Secretary
(Installations and Facilities)

Attachments:
1. DOD IG Memo of April 4, 1996
2. DON Response to Quick Reaction Report

Attachment 1 omitted. Copies will be provided upon request.

Detailed Response to
DODIG Project No. BCG-5048.01

The detailed responses to the recommendations of the DODIG draft of a Proposed Audit Report on Project No. SCG-5048.01 dtd April 4, 1996 are provided below.

Recommendation 1. We recommend that the Under Secretary of Defense (Comptroller) do the following regarding the proposed military family housing construction projects for the Marine Corps Base Hawaii, Kaneohe Bay:

a. Place the FY 1993 military family housing construction funds of $46.4 million for projects H-304 and H-305, "Family Housing," on administrative withhold.

b. Place the FY 1997 military family housing construction project H-344, "Family Housing," valued at $11.9 million on administrative withhold.

Response 1.a - Do not concur. There is ample justification for continuing with these projects including:

- With Navy families from Barbers Point, the total projected family housing demand for the Marine Corps increases by almost 700 families over projected demand used in the 1994 Market Analysis.
- Downscoping of the H-304/H-305 projects from 300 units to a current total of 237 units results in an additional private housing demand of 63 from market analysis projection.
- The project will directly reduce the validated three- and four-bedroom unit deficit by 119 units and 118 units respectively.
- MCB Hawaii is still experiencing a strong demand for three bedroom units.
- Four bedroom and larger units make up only 14.4 percent of the market and Marine Corps share of additional four bedroom units would be insignificant. Even with recent decline in rental prices, four bedroom rents with utilities are still not within the affordability range of enlisted personnel.

Attachment 2

- If a new market analysis indicates surplus units or continued bedroom mix mismatches the replacement projects can still have their bedroom mixes changed, be downscoped to replace a smaller number of units, or converted to demolition projects with the resultant savings redirected to other required Marine Corps housing projects. The new units can be used to house the families displaced by the demolition of 230 units during the five replacement projects.

Response 1.b - Do not concur. Most of the justification for continuing with projects H-304/H-305 also applies for project H-344. Further, the units being replaced do not meet acceptable standards of comfort and habitability. The units have experienced accelerated deterioration due to proximity of the ocean. Electrical service does not meet National Electric Code standards. Continued deterioration will make these units uninhabitable.

In addition, the Commandant of the Marine Corps is capable of determining validity of the project based on a new market analysis. Project scope changes, if required and supported by a new market analysis, can be effected by the Commandant of the Marine Corps in coordination with Commander, Naval Facilities Engineering Command and necessary Congressional notification provided similar to Projects H-304 and H-305, "Family Housing."

Recommendation 2. We recommend that the Commandant of the Marine Corps place FYs 1998 through 2001 military family housing construction projects H-345, H346, H-347, and H-348, Family Housing," totaling $41.7 million, for the Marine Corps Base Hawaii Kaneohe Bay, on administrative withhold until recommendation 3 and 4 are satisfactorily completed.

Response 2. Concur.

Recommendation 3. We recommend that the Commanding General, Marine Corps Base Hawaii, Kaneohe Bay, Hawaii, prepare a DD Form 1523, Military Family Housing Justification," based on current market analysis to determine whether a requirement exists for construction projects H-304, H-305, "Family Housing," and replacement projects H-344, H345, H346, H-347, and H-348. Family Housing."

Response 3. Partially concur. Concur for replacement projects H-344, H345, H346, H-347, and H-348, Family Housing." Do not concur for construction projects H-304 and H-305, "Family Housing." Justification for continuing with these projects based on the existing market analysis and other currently known factors is provided in response to Recommendation 1.a. Primary elements remain increased projected loading, continued unaffordability of four bedroom units, reduction in four bedroom deficit, no net gain of units with off-setting demolition, ability to correct any surpluses by rescoping future replacement projects, and the life span of the funds as opposed to the length of time to complete a new market analysis.

Recommendation 4. We recommend that the Commander, Naval Facilities Engineering Command, Pacific Division, obtain certification from the Marine Corps that projects H-304 and H-305, 'Family Housing are still valid before issuing an advertisement for bids.

Response 4. Concur. A copy of the certification is attached.

From: Naval Facilities Engineering Command 5014A
Pacific Division, Code 5014A 16 Feb 96
Pearl Harbor, Hawaii 96860-7300

To: Commander of the Marine Corps
Washington, D.C.

Project:
FY93 NAVY FAMILY HOUSING PROJECT H-304 & H-305, 257 NEW FAMILY HOUSING UNITS, KANEOHE MARINE CORPS BASE, HAWAII

Ref: (a) NAVFACINST 11013.35

1. Since design of the above project is nearing completion, certification is required that there is a current valid requirement for this project. Reference (a) requires this as a milestone achievement prior to contract award.
2. Upon receipt of this certification the acquisition process will continue.
3. Our tentative execution schedule for this project is:

ADVERTISE FOR BIDS	22 FEB 96
OPEN BIDS	9 APRIL 96
AWARD CONSTRUCTION CONTRACT	MAY 96
BENEFICIAL OCCUPANCY DATE	OCT 98

FIRST ENDORSEMENT CODE: LFF-3
DATE: 6 MARCH 96

FROM: Commandant of the Marine Corps
Headquarters, U.S. Marine Corps
2 Navy Annex
Washington, D.C. 20380-1775

TO: Naval Facilities Engineering Command
Pacific Division, Code 5014A
Pearl Harbor, Hawaii 96860-7300

1. Returned. The project is:
✓ CERTIFIED TO BE CURRENT VALID REQUIREMENT
____ NO LONGER REQUIRED. CANCEL ACQUISITION PROCESS

Signature of Certifying Official

Audit Team Members

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Paul J. Granetto
Wayne K. Million
John M. Delaware
Amy M. Weaver
Donald C. Shaw