Audit Report

OFFICE OF THE INSPECTOR GENERAL

MILITARY CONSTRUCTION FOR THE RENOVATION OF UNACCOMPANIED PERSONNEL HOUSING AT LACKLAND AIR FORCE BASE, TEXAS

Report No. 97-146 May 22, 1997

Department of Defense

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Acronyms

AETC	Air Education and Training Command
AFB	Air Force Base
MILCON	Military Construction
O&M	Operation and Maintenance
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)

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

May 22, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
PRINCIPAL ASSISTANT DEPUTY UNDER SECRETARY OF DEFENSE (INDUSTRIAL AFFAIRS AND INSTALLATIONS)

SUBJECT: Audit Report on Military Construction for the Renovation of Unaccompanied Personnel Housing at Lackland Air Force Base, Texas (Report No. 97-146)

We are providing this audit report for your review and comment. This report is one in a series about requirements and costs for unaccompanied personnel housing. Management comments on the draft report on Military Construction for Renovation of Unaccompanied Personnel Housing at Lackland Air Force Base were considered in preparing the final report.

As a result of management comments, we revised the finding and the report recommendations. We request that the Under Secretary of Defense (Comptroller) and the Air Force respond to the additional or revised recommendations by June 23, 1997.

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. Michael Perkins, Audit Project Manager, at (703) 604-9273 (DSN 664-9273). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-146 **May 22, 1997**
(Project No. 6CG-0072.01)

Report on Military Construction for the Renovation of Unaccompanied Personnel Housing at Lackland Air Force Base, Texas

Executive Summary

Introduction. This report is one in a series about unaccompanied personnel housing. For FY 1997, Congress approved a DoD budget request for $4.6 million of military construction funds to renovate a 1,000-person recruit dormitory at Lackland Air Force Base, Texas. The appropriation was intended to provide a complete renovation of the entire dormitory, including all major electrical and mechanical systems and all interior and exterior finishes. DoD Regulation 7000.14-R and Office of Management and Budget Circular A-11 require that the full cost of military construction projects be identified at the time the project is submitted for funding.

Audit Objectives. The overall audit objective was to determine the validity of the requirement estimates for DoD unaccompanied personnel housing. This report provides the results of the audit of requirements and cost estimates for FY 1997 military construction project number MPLS963247, "Upgrade Troop Dormitory," Lackland Air Force Base. Audit objectives announced, but not included in this report, will be discussed in a separate report for Project No. 6CG-0072.

Audit Results. The Air Education and Training Command, Randolph Air Force Base, Texas, did not update DD Form 1391, "FY 1997 Military Construction Project Data," to show full funding requirements for a military construction project to renovate a 1,000-person dormitory at Lackland Air Force Base, even though bids on similar projects showed that the renovation project may be significantly underfunded. The DD Form 1391 showed a cost estimate of $6.0 million when the project was submitted to the Office of The Under Secretary of Defense (Comptroller) for funding. Budget reductions in January 1996 reduced the programmed amount from $6.0 million to $4.6 million. In February 1996, bids on contracts for renovation of similar facilities showed that the planned project should cost about $8.0 million, $3.4 million more than the programmed amount. Engineers at the Air Education and Training Command stated the intended dormitory will still be substandard after the $4.6 million renovation, and additional funds will be required to complete the project. Using the $4.6 million for the approved project will not provide a complete and usable facility, and the incremental approach may result in higher costs.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) place on administrative withhold, funds for FY 1997 military construction project number MPLS963247 "Upgrade Troop Dormitory," Lackland Air Force Base. Also, we recommend that the Under Secretary of Defense (Comptroller) notify the applicable committees of Congress if the scope or cost of the Air Force proposed alternate project varies from the scope or cost of the approved project by more than 25 percent. We recommend that the Commander, Air Education and Training Command revise the DD Form 1391 to show the complete military

construction cost estimate and project requirements, and if the costs or the scope varies by more than 25 percent, request appropriate approval for the changes as required by United States Code, title 10, section 2853, "Authorized Cost Variations."

Management Comments. The Under Secretary of Defense (Comptroller) concurred with the draft recommendation and placed funds on administrative withhold, pending audit resolution. The Air Force concurred with the overall intent of our findings and recommendations, and agreed that the budget, based on recent bid information, is insufficient to renovate the recruit dormitory as originally intended. However, the Air Force did not concur with the formulation of the majority of the audit findings. The Air Force stated that the Air Education and Training Command has begun work to reauthorize the funds for use on an alternate project that can be completed for the $4.6 million budgeted amount. See Part I for a summary of management comments and Part III for the complete text of those comments.

Audit Response. As a result of management comments, we revised the finding and the report recommendations concerning withholding of funds and approval for incremental funding. We added the recommendation that the Under Secretary of Defense (Comptroller) notify the appropriate committees of Congress if the Air Force proposed alternate project varies from the approved project by more than 25 percent. We request the Under Secretary of Defense (Comptroller) and the Air Force respond to the recommendations by June 23, 1997.

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Part I - Audit Results

Audit Background

The 37th Training Wing, Lackland Air Force Base (AFB), Texas, identified a requirement to house an average daily student population of 4,390 recruits. Lackland AFB also trains 2,000 Reserve Officer Training Corps cadets each year. The Air Force dormitory survey performed in May, 1996, showed that Lackland AFB has adequate capacity to house these troops in seven existing 1,000-person Recruit Housing and Training dormitories. However, the survey stated that all seven of the facilities were in unsatisfactory condition. Renovation was recommended as the most cost-effective method to upgrade the facilities to an adequate condition. The 37th Training Wing's long-range strategy is to upgrade two recruit housing and training dormitories each year, starting in FY 1996, using Military Construction (MILCON) and Operation and Maintenance (O&M) "plus-up" funds. See Appendix B for additional background information.

Audit Objectives

The overall audit objective was to determine the validity of requirement estimates for DoD unaccompanied personnel housing. A specific objective was to determine whether unaccompanied personnel housing requirements and cost estimates developed by Military Departments and Defense agencies were supported with appropriate documentation. We also announced an objective to review the management control program as it applies to the other stated objectives.

This report provides the results of the audit of requirements and costs for the FY 1997 MILCON renovation project for unaccompanied personnel housing at Lackland AFB. The management control program will be discussed in the overall report for Project No. 6CG-0072. See Appendix A for a discussion of the scope, methodology, and a summary of prior coverage related to the audit objectives.

Unaccompanied Personnel Housing Requirements and Costs

The Air Education and Training Command (AETC), Randolph AFB, Texas, did not disclose the full cost to complete MILCON project number MPLS963247, "Upgrade Troop Dormitory," Lackland AFB, to the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) when requesting military construction funds. This condition occurred because AETC did not request from the OUSD(C), additional funding or approval to reduce the project scope, even though cost for similar projects showed that MILCON project number MPLS963247 could not be accomplished for the $4.6 million programmed amount. AETC planned to provide a partial renovation with the available funds. As a result, the requested project was underfunded by $3.4 million and will not provide a complete and usable facility. Additional work and funding will be required to upgrade the facility to an adequate condition.

Cost and Scope Variations

United States Code, title 10, section 2853 (10 U.S.C. 2853), "Authorized Cost Variations," requires that the cost authorized for a military construction project may be increased by no more than 25 percent of the amount appropriated for the project by Congress, if the OUSD(C) determines that the increase is the sole result of an unusual variation in cost, and this variation could not have been reasonably anticipated at the time the project was originally approved. Also, 10 U.S.C. 2853 requires that a Congressionally approved military construction project may not be placed under contract if the scope of work or the cost is proposed to be changed by more than 25 percent. These limitations on changes in scope or cost do not apply if:

- the changes are approved by the OUSD(C);
- a written notification of the facts relating to the changes are submitted by the OUSD(C) to the appropriate committees of Congress; and
- either 21 days have elapsed, or Congress has indicated approval.

Support for Project Submission

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," May 1994, requires that at the time of submission to the OUSD(C) for budget approval, data for all projects should reflect, as a minimum, the 35 percent design stage. The DD Form 1391 should include the following information:

date of design initiation; percentage of design complete when submitted to the OUSD(C); and the projected or actual date of design completion. The regulation also requires that prior to the submission of the President's budget to Congress, the OUSD(C) be notified if any of the previous estimates for design completion have slipped so that the 35 percent design status will not be achieved by January 1 of the fiscal year in which the project is budgeted.

Support for Budget Estimates

Office of Management and Budget Circular Number A-11, Part 3, "Planning, Budgeting, and Acquisition of Fixed Assets," July 1996, requires that agencies request full funding for military construction in budget requests. The circular reiterates the long standing policy that investment appropriation requests reflect the full cost of asset acquisition initially to help ensure that all costs and benefits are fully considered when Government capital investment decisions are made. The circular also states that, when fixed assets are funded in increments, without certainty whether future funding will be available, it can and occasionally does result in poor planning, acquisition of assets not fully justified, higher acquisition costs, cancelation of major projects, the loss of benefits from prior costs, or inadequate funding to maintain the assets.

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," May 1994, requires that budget estimates for MILCON reflect fully funded requirements, regardless of their size. This regulation further states that incremental funding is not acceptable unless justification included with the budget submission demonstrates that each project segment would satisfy a fully definable mission objective without subsequent funding, or unless an exception has been requested and granted.

Air Force Instruction 32-1021, "Planning and Programming of Facility Construction Projects," May 1994, states that Air Force Major Commands must validate each MILCON project and confirm that the DD Form 1391 data is accurate. Also, the regulation states that Major Commands must develop accurate cost estimates for the Air Force budget. As a minimum, these estimates should be based on a completed requirement and management plan and a parametric model cost estimate or a 35 percent conventional design. The regulation also requires the Directorate of Military Construction, Headquarters U.S. Air Force to review each project in detail and validate the need, engineering feasibility, compliance with Air Force objectives, and project cost.

The Office of Management and Budget Circular Number A-11, DoD Regulation 7000. 14-R, and the Air Force Instruction 32-1021, all require that the approval documents for MILCON projects show accurate cost estimates for the full project cost.

Prior Renovation Projects

As a result of the 1995 Commander's Facility Assessment, the Deputy Assistant Secretary of the Air Force approved the renovation of two 1,000-person recruit dormitories on February 22, 1996. In March, 1996, AETC awarded contracts for the renovation of the two entire dormitories, which included replacing or upgrading all major facility systems, repairing deteriorated interior and exterior finishes, and a complete reworking of kitchen and dining areas. The contracts for both projects were awarded at about $8.0 million each and were funded with FY 1996 O&M "plus-up" funds.

MILCON Project Documentation

AETC did not complete an adequate design to support the scope of work for the FY 1997 MILCON renovation project. Therefore, AETC was not in compliance with DoD Regulation 7000.14-R and Air Force Instruction 32-1021, which require that, as a minimum, a 35 percent conventional design, or a 10 percent design and a parametric model cost estimate be completed before the project is submitted to the OUSD(C) for funding approval. AETC had completed a 10 percent design and a requirements and management plan. However, AETC had not prepared a more detailed 35 percent conventional design to show the scope of work and specific elements of the facility to be renovated.

AETC stated that the 35 percent design was not needed because the design for two FY 1996 O&M renovation projects was used to establish the scope of work and determine requirements for the FY 1997 MILCON renovation project. AETC stated that the FY 1996 O&M renovation projects are essentially the same as the FY 1997 MILCON renovation project. Therefore, AETC planned to reuse the design for the FY 1996 O&M renovation projects for the FY 1997 MILCON renovation project to save design funds.

The FY 1996 O&M renovation projects entailed a complete renovation of two 1,000-person dormitories. The DD Form 1391 submitted to OUSD for the FY 1997 MILCON renovation project shows requirements similar to the FY 1996 O&M renovation projects. Prior projects may provide useful planning information and should be considered when planning new projects.

The FY 1997 project cost estimate of $6.0 million may have been accurate at the time the project was submitted for approval. However, in January 1996, the Office of the Secretary of Defense issued Program Budget Decision 604 that reduced the programmed amount from $6.0 million to $4.6 million. Subsequently, in February 1996, the design estimates for the similar FY 1996 O&M projects showed that the initial estimate of $6.0 million and the $4.6 million programmed amount was too low. The contract award data for the FY 1996 projects showed that the FY 1997 project may cost as much as $8.0 million. During our site visit in August 1996, AETC did not provide any

support to show that project cost estimate was being revalidated, or that the Air Force had requested approval from the OUSD(C) to reauthorize funds for use on an alternate project.

Project Cost Estimate

After receipt of the FY 1996 contract award amounts, AETC did not revise the DD Form 1391 to accurately reflect the amount required to fully fund the project and did not disclose to the OUSD(C) that the project would require additional funding. Instead, AETC planned to reduce the scope of the project, without OUSD(C) approval, to a level that could be accomplished within funding limitations. AETC and 37th Training Wing engineers stated that rather than replace all major systems and refurbish interior and exterior finishes, as stated in the project approval documents, only the substructure, the first floor, and the kitchens would be renovated. However, AETC engineers stated that the facility will remain in substandard condition after the planned $4.6 million MILCON renovation project is completed and that additional funding would be required. The engineers stated that AETC will request O&M "plus-up" funds to complete the renovation of the dormitory and provide a usable facility.

Funding the project in segments without the approval of the OUSD(C) contravenes Government and DoD policy. DoD Regulation 7000.14-R requires that budget estimates for MILCON renovation projects reflect fully funded requirements, regardless of their size. Also, the regulation states that incremental funding is not allowed unless an exception has been requested and granted. If the project was to be funded in increments, AETC should have requested approval from the OUSD(C) when engineers determined that the $4.6 million programmed amount would not fully fund the project.

Summary

AETC did not disclose full funding requirements for the FY 1997 MILCON renovation project. DoD Regulation 7000.14-R and Office of Management and Budget Circular A-11 require that the full cost of military construction projects be identified at the time the project is submitted for funding. Also, the 35 percent design should be complete prior to the project being submitted to the OUSD(C) for funding approval. AETC developed its initial cost estimate of $6.0 million based on cost data from similar projects, in lieu of a 35 percent conventional design. This $6.0 million cost estimate, although subsequently reduced by a Program Budget Decision to $4.6 million, may have been reasonable when the project was submitted for funding in October, 1995. However, in February 1996, AETC had bids available from similar projects that showed that costs for the FY 1997 MILCON renovation project would be at least $8.0 million, $3.4 million more than the $4.6 million programmed amount. AETC should have disclosed this to the OUSD(C), and should have

revised the DD Form 1391 to reflect full funding to provide a complete and usable facility. AETC inappropriately planned to reduce the scope of the project to allow completion of work within funding limitations. This will result in only a partial renovation, will not provide a complete and usable facility, and may result in wasted funds.

Management Comments on the Finding and Audit Response

Management Comments on the Finding. The Air Force stated in comments to a draft of this report that AETC planned to use the $4.6 million funding to renovate an alternate facility that required less extensive work. Building 9410 was partially renovated in 1992 when the substructure and the first floor was upgraded. AETC estimated that building 9410 could be completed with the funds approved on project MPLS963247.

Audit Response. The alternate solution proposed by the Air Force and AETC is for a different building than originally intended. Although not identified on the DD Form 1391, the description of the required work was intended for building 5570. The change to a different building will require a significant revision in the required scope of work for the alternate building. When a scope reduction of more than 25 percent is anticipated, the revision must be approved by the OUSD(C); and a written notification of the facts relating to the reduction in scope must be submitted by the OUSD(C) to the appropriate committees of Congress.

Recommendations, Management Comments, and Audit Response

Revised Recommendations. As a result of management comments, we revised Recommendation 1 to the Under Secretary of Defense (Comptroller) to notify the applicable committees of Congress if the Air Force either revises the project scope or requests additional funding, either of which varies from the approved project by more than 25 percent. We also revised Recommendation 2 to require the Air Force to request appropriate approval for either incremental funding or variation in costs or scope.

1. We recommend the Under Secretary of Defense (Comptroller):

a. Place on administrative withhold, funds for FY 1997 military construction renovation project number MPLS963247 "Upgrade Troop Dormitory," until the Air Force submits a revised DD Form 1391 "Military Construction Project Data" that reflects complete military construction requirements and project costs.

b. If the revised project scope or cost varies by more than 25 percent of the amount approved for the project, notify the applicable committees of Congress.

Office of the Under Secretary of Defense (Comptroller) Comments. The Under Secretary of Defense (Comptroller) concurred with the draft recommendation and placed funding on administrative withhold, pending audit resolution.

2. We recommend the Commander, Air Education and Training Command revise the DD Form 1391 "Military Construction Project Data" to reflect complete military construction requirements and project costs; and if the costs or the scope varies by more than 25 percent, request appropriate approval for the proposed reduction in scope or increase in proposed costs as required by United States Code, title 10, section 2853, "Authorized Cost Variations."

Air Force Comments. The Air Force concurred with the intent of the draft recommendation. However, the Air Force did not agree that funds should be placed on administrative withhold. The Air Force stated that the Air Education and Training Command has submitted documentation to Headquarters Air Force to support a request to reauthorize FY 1997 Military Construction funds to upgrade an alternate project. The Air Force stated that Administrative withhold should not be implemented since the new Air Force solution offers the most viable option for continuing the vital upgrade, and is the best use of available funds. The Air Force stated that the proposed alternate project should be approved and a construction contract awarded by September 1997.

Audit Comments. The Air Force proposed actions to reauthorize funds for use on an alternate project may result in a scope reduction of more than 25 percent, and may violate United States Code, title 10, section 2853, "Authorized Cost Variance." The Air Force proposed to repair only two floors of an alternate similar facility, instead of a full renovation of the substructure and three floors, as stated in the DD Form 1391 for project number MPLS963247.

Reauthorization of FY 1997 Military Construction funds for use on the alternate project must be approved by the Under Secretary of Defense (Comptroller), to ensure that the revised project scope and costs are in compliance with DoD funding policy. Therefore, funds must remain on administrative withhold until the reauthorization is approved by the Under Secretary of Defense (Comptroller).

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

We reviewed the supporting documentation used to justify the requirements and cost for the planned FY 1997 MILCON renovation project number MPLS963247 "Upgrade Troop Dormitory" at Lackland AFB. The estimated cost of this project was $4.6 million. The scope of the audit is limited in that we did not review the management control program. The management control program will be discussed in a separate summary report.

Methodology

We performed the audit using Office of Management and Budget, DoD, and Air Force guidance on planning and budgeting for MILCON projects. This audit did not rely on computer-processed data or statistical sampling procedures.

Audit Period, Standards, and Location

This economy and efficiency audit was made from August through September, 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 potential benefits resulting from the portion of the audit discussed in this report.

Summary of Prior Audits and Other Reviews

U.S. Army Audit Agency Report (Audit Report: A 96-218) "Audit of Barracks Requirements U.S. Army Signal Center and Fort Gordon, Fort Gordon, Georgia," was issued June 14, 1996. The audit found that barracks requirements for permanent party soldiers at Fort Gordon were significantly overstated. Training and Doctrine Command overstated the requirements because it incorrectly computed the number of unaccompanied enlisted soldiers who were authorized barracks space. Command counted all single soldiers as bachelors and included them when it computed barracks requirements. However, Army guidance prescribes that single soldiers receiving quarters at the "with dependant rate" (that is, primarily single parents) should not be included in barracks requirements.

By overstating barracks space requirements, Training and Doctrine Command incorrectly concluded that Fort Gordon was short of adequate barracks space and needed to a 300-person barracks at an estimated cost of $17.5 million. Army Audit Agency Recommended that Command cancel construction of the planned barracks complex at Fort Gordon.

Organizations and Individuals Visited or Contacted

We visited or contacted individuals and organizations within the DoD. Further details are available on request.

Appendix B. Background on Barracks Standards and Funding

Secretary of Defense Barracks Standard. On November 6, 1995, the Secretary of Defense approved a new standard for barracks space referred to as "one-plus-one". The "one-plus-one" standard is based on a maximum 47 gross square meter module consisting of two private living and sleeping areas with a shared bath. The Services are required to apply the new standard, as soon as possible, to new construction and to renovation projects for permanent party barracks. However, existing space is not considered inadequate solely because of the new standard, nor does the new standard apply to barracks for lodging transients, recruits, or entry-level trainees.

Secretary of Defense Quality of Life Initiative. On March 19, 1996, the Deputy Assistant Secretary of Defense (Installations) discussed the Secretary of Defense Quality of Life Initiative in a report to the House Committee on National Security, Subcommittee on Military Installations and Facilities. The report states that replacement or renovation of barracks is the largest single functional category within both the MILCON budget request and the repair and maintenance portion of the O&M budget request. The report states that this reflects the Secretary of Defense continuing five-year commitment to improving the quality of life for single military members. The report also states that Congress approved $251 million of MILCON funding and $322 million of O&M funding for barracks in FY 1996. In FY 1997, the Secretary's Quality of Life initiative added $201 million for barracks revitalization, $131 million MILCON and $70 million O&M.

Air Force Dormitory Master Plan. In February 1996, the Air Force awarded an Architect-Engineer Contract to develop a Dormitory Master Plan. The contractor will perform dormitory surveys at 79 Air Force installations and evaluate unaccompanied personnel housing requirements based on a common criteria. The Dormitory Master Plan will be used to validate current and future dormitory MILCON projects, to identify major Real Property Maintenance projects, and to establish construction priorities. As of August 1996, the contractor had made site visits to 10 Air Force Bases.

MILCON Funding. The House of Representatives Conference Report 104-724, "National Defense Authorization Act for Fiscal Year 1997," July 30, 1996, states that the condition of housing for unaccompanied personnel is in a state of deterioration. The report also states that according to a Defense Science Board Task Force on Quality of Life, 62 percent of the barracks and dormitories are unsuitable. The conferees recommended $201 million for the construction of new barracks and dormitories. Of this amount, the conferees recommended $4.6 million to upgrade a recruit dormitory at Lackland AFB. The conferees also urged the Secretary of Defense to address the need to reduce the backlog of MILCON requirements affecting the operational needs of the military departments and to enhance those programs that directly support improvements in the quality of life for military personnel.

O&M Funding. House of Representatives Conference Report 104-344, "Making Appropriations for the Department of Defense for the Fiscal Year Ending September 30, 1996, and for Other Purposes," dated November 15, 1995, addresses O&M funding for barracks renovation. The Conference Report states that the conferees agree with the Senate in providing $322 million of FY 1996 O&M funding for barracks renovation. Of this amount, the Air Force was allocated $100 million. The Air Force refers to this funding as "O&M Plus-up."

Appendix C. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
1.	Compliance with Regulations. Ensure disclosure of full project cost and requirements. Avoid expenditure of funds for a project that will not provide a complete and usable facility.	Amount of benefit could not be determined.
2., 3.	Compliance with Regulations. Ensure MILCON projects are based on valid requirements, reasonable cost estimates, and will provide a complete and usable facility.	Up to $4.6 million of FY 1997 MILCON funds put to better use.

Appendix D. Report Distribution

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

Appendix D. Report Distribution

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

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Senate Subcommittee on Military Construction, Committee on Appropriations
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Senate Committee on Governmental Affairs
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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

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)

DEC 9 1996

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
(DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE)

SUBJECT: Quick-Reaction Report on Military Construction for the Renovation of Unaccompanied Personnel Housing at Lackland AFB, Texas (Project No. 6CG-0072.01)

This responds to your November 22, 1996, memorandum requesting our comments on the subject report.

The audit states that the Air Force understated the costs to renovate a dormitory at Lackland AFB, Texas, and the project was not at the proper design level required for submission in the FY 1997 President's Budget.

The audit recommends that the USD(Comptroller) place the funds for the renovation of the dormitory on administrative withhold until the Air Force submits revised DD 1391 for the project and identifies the sources to cover the increased cost for this project.

We generally agree with the audit findings and recommendations. As a result, we have put the FY 1997 military construction funds for the dormitory at Lackland AFB on administrative withhold pending the resolution of this audit.

RONALD A. DAVIDSON
DEPUTY COMPTROLLER
(PROGRAM/BUDGET)

Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

FROM: HQ USAF/ILE
1260 Air Force Pentagon
Washington, DC 20330-1260

SUBJECT: DoD (IG) Draft Quick Reaction Report on Military Construction for the Renovation of Unaccompanied Personnel Housing at Lackland Air Force Base, Texas, 22 Nov 96 (Project No. 6CG-0072.01)

This is in reply to your memorandum dated 22 November 1996 requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report.

The Air Force concurs with overall intent and agrees the current budget, based on recent bid experience, is insufficient to completely renovate the proposed recruit dormitory as originally intended. However, the Air Force nonconcurs with the formulation of a majority of the audit findings. The Air Force has begun implementation of a viable alternative solution. Reference the attached Air Force comments. We look for your support.

ROBERT D. WOLFF, P.E.
Deputy Civil Engineer

Attachment:
Air Force Comments on DoD(IG) Draft Quick Reaction Report (Project No. 6CG-0072.01)

cc:
HQ AETC/CE
SAF/FMPF

Final Report Reference

AIR FORCE COMMENTS

ON

DOD(IG) DRAFT QUICK REACTION REPORT ON MILITARY CONSTRUCTION FOR THE RENOVATION OF UNACCOMPANIED PERSONNEL HOUSING AT LACKLAND AFB TX, 22 NOVEMBER 1996

(PROJECT NO. 6CG-0072.01)

Overview: The Air Force approved project MPLS963247, Upgrade Recruit Dormitory, at a Programmed Amount (PA) of $6.0 million in April 1995 and submitted it to the Office of the Secretary of Defense (OSD) as part of the formal Fiscal Year (FY) 1997 Air Force Military Construction (MILCON) program in October 1995. In February 1996, it became apparent the estimated cost of the project was understated due to recent bid experience of two $8 million short-notice FY96 recruit dormitories (part of the FY96 Congressional O&M plus-up program). At the same time, OSD initiated an inflation adjustment (cut) on the FY97 program which resulted in a further deduction to $4.6 million. With this reduced budget, the Air Force intended to reduce the scope and apply the limited funds to upgrade only the most critical building systems, which would still allow the dormitory to return to full operational use and then complete the remaining upgrade items with a future effort (O&M or MILCON). However, this approach was not the most desirable nor consistent with the current emphasis on quality of life. Prior to the DoD (IG) audit visit in August 1996, the Air Force had already developed a proposed alternative to redirect the $4.6 million from Bldg 5570 to Bldg 9410, another recruit dormitory that had previously had a portion of its major building components repaired.

Specific report references and associated Air Force responses are detailed in the following paragraphs.

Revised

1. Reference Draft Audit Report, Executive Summary, Audit Results: "The Air Education and Training Command, Randolph Air Force Base, Texas, did not develop adequate data to support requirements and costs for the military construction project to renovate a 1,000 person dormitory on Lackland Air Force Base. Contracts for renovation of similar facilities show that the project should cost about $8.0 million. Engineers at the Air Education and Training Command stated the dormitory will be substandard after $4.6 million renovation, and additional funds will be required to complete the project. As a result, the $4.6 million approved for the project will not provide a complete and usable facility, and may result in wasted funds."

Nonconcur: AETC used the most current construction data available when the project was submitted for Bldg 5570 in April 1995. Later, more detailed estimates for similar facilities changed the circumstances; thereby, requiring a new execution strategy. This strategy, which applies the $4.6 million towards a different recruit dormitory (Dormitory 9410), allows completion of a comprehensive upgrade, does not waste funds, and results in complete and usable facilities.

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2. Reference Draft Audit Report, Executive Summary, Summary of Recommendations: "We recommend that the Under Secretary of Defense (Comptroller) place on administrative withhold, funds for the FY 1997 military construction project number MPLS963247 'Upgrade Troop Dormitory,' Lackland Air Force Base. We recommend that the Air Education and Training Command revise the DD Form 1391, 'Military Construction Project Data,' to show the complete military construction cost estimate and project requirements, and request appropriate funding for the project from the Under Secretary of Defense (Comptroller)." Revised

Concur with intent: The Air Force concurs with the intent to utilize the available $4.6M in the most efficient manner, but advises an alternative solution to complete quality of life renovations to another viable recruit dormitory. The Air Force nonconcurs with the report recommendation to place the project funds on administrative withhold as the new Air Force-accepted strategy has already begun implementation which will fully meet renovation requirements for a recruit dormitory (Bldg 9410). AETC has already submitted a revised DD Form 1391 to HQ USAF/ILEC as part of a proposed reauthorization package.

3. Reference Draft Audit Report, Part 1, Audit Background: "...The 37th Training Wing's long-range strategy is to upgrade two recruit housing and training dormitories each year, starting in FY 1997, using Military Construction (MILCON) and Operation and Maintenance (O&M) 'plus-up' funds...."

Concur with comment: Actually, the long-range plan started in FY96 when a contract was awarded to renovate two recruit dormitories funded with FY96 O&M "plus-up" funds appropriated by Congress specifically for dormitory requirements. NOTE: These contracts are the ones referred to throughout the Quick Reaction Report and these comments as the "similar facilities." These contracts were awarded in February 1996 after a quick-turn design started by 37th Training Wing in November 1995 through the Army Corps of Engineers. Report Revised to "FY 1996"

4. Reference Draft Audit Report, Part 1, Unaccompanied Personnel Housing Requirements and Costs: "The Air Education and Training Command (AETC), Randolph AFB, Texas, did not disclose the full project cost for MILCON project number MPLS963247, 'Upgrade Troop Dormitory,' Lackland AFB, to the Office of the Under Secretary of Defense (Comptroller) (OSD Comptroller) when requesting military construction funds. This condition occurred because AETC did not ask...for additional funding or approval to reduce project scope, even though cost for similar projects showed that...MPLS963247 could not be accomplished with the $4.6 million programmed amount...."

Nonconcur: See Air Force response to paragraph 5 below.

5. Reference Draft Audit Report, Part 1, Unaccompanied Personnel Housing Requirements and Costs, Support for Budget Estimates, paragraph 3: "Air Force Instruction 32-1021, 'Planning and Programming of Facility Construction Projects,' May 1994, states that Air Force Major Commands must validate each MILCON project and confirm that the DD Form 1391 data is accurate. Also, the regulation states that Major Commands must develop accurate cost estimates for the Air Force budget. As a minimum, these estimates should be based on completed requirements and management plan (RAMP) and a parametric model cost estimate or a 35 percent conventional design...."

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Nonconcur: AETC validated the DD Form 1391 and confirmed the cost and data were accurate based on available information at the time the project was submitted to the Air Force (April 1995) and OSD (October 1995). AETC had completed a RAMP and had a parametric-equivalent estimated cost of $6 million. The estimate was based on costs from previous completed projects repairing specific systems of similar 1,000-person recruit dormitories on Lackland AFB. It was only after the 100% design estimates for two similar FY96 O&M projects were received (February 1996), that it became apparent the original parametric cost estimate was too low.

6. Reference Draft Audit Report, Part 1, Unaccompanied Personnel Housing Requirements and Costs, Prior Renovation Projects: "...AETC used the design and bid information from these two FY96 O&M renovation projects to support the requirements and cost for the FY97 MILCON renovation project."

Revised

Nonconcur with comment: AETC used FY92 and FY95 awarded projects to build the programming requirement for the FY97 project. AETC did not have the new design and bid information until February 1996, five months after project submission to OSD. This was the first time AETC realized the $6 million estimate submitted to OSD and Congress was too low.

7. Reference Draft Audit Report, Part 1, Unaccompanied Personnel Housing Requirements and Costs, MILCON Project Documentation: "AETC did not complete an adequate design to support the scope of work for the FY97 MILCON renovation project. Therefore, AETC was not in compliance with DoD regulation 7000.14-R and Air Force Instruction (AFI) 32-1021, which require that, as a minimum, a 35 percent conventional design, or a 10 percent design and a parametric model cost estimate be completed before the project is submitted to the OSD Comptroller for funding approval. AETC had completed a 10 percent design and a RAMP. However, AETC had not prepared a more detailed 35 percent conventional design to show the scope of work and specific elements of the facility to be renovated.

AETC stated the 35 percent design was not needed because the design for two FY96 O&M renovation projects was used to establish the scope of work and validate requirements for the FY97 MILCON renovation project...."

Concur with comment: Concur that a 35% conventional design was not completed. However, AETC did comply with DoD Regulation 7000.14-R and AFI 32-1021 by having a 10% design with a RAMP and a parametric cost estimate of $6 million when the project was submitted to OSD Comptroller for funding approval in October 1995. The parametric cost estimate was based on costs from previous projects (FY92 and FY95) which repaired specific systems of similar 1,000-person recruit dormitories on Lackland AFB. DoD Regulation 7000.14-R and AFI 32-1021 requires, as a minimum, a 35% conventional design or a 10% design and a parametric model cost estimate be completed before the project is submitted to the OSD Comptroller for funding approval.

Revised

8. Reference Draft Audit Report, Part 1, Unaccompanied Personnel Housing Requirements and Costs, MILCON Project Documentation, paragraph 2: "...The scope of work in the design for the FY96 O&M renovation projects is significantly different than the scope of work that AETC actually intended for the FY97 MILCON renovation project...."

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Nonconcur with comment: The scope of the FY97 MILCON project as originally conceived was the same as the FY96 O&M projects at the time it was submitted to OSD in October 1995 at a cost of $6 million. See Air Force response at subparagraph 11a.

Revised

9. Reference Draft Audit Report, Part 1, Unaccompanied Personnel Housing Requirements and Costs, Project Cost Estimate, paragraph 1: "AETC did not develop a reasonable cost estimate for the FY97 MILCON renovation project. AETC did not comply with Office of Management and Budget Circular Number A-11, which requires that agencies request full funding in MILCON budget requests. AETC based the MILCON renovation project cost estimate on bids from two similar FY96 O&M renovation projects. These FY96 O&M renovation projects cost $8.0 million each. Based on the costs for these two FY96 O&M renovation projects, AETC estimated that the FY97 MILCON renovation project would also cost about $8.0 million...."

Nonconcur: AETC complied with OMB Circular Number A-11 and had completed a 10% design with a RAMP and a parametric cost estimate when the project was submitted to OSD Comptroller for funding approval in October 1995. See Air Force response to above paragraph 7.

10. Reference Draft Audit Report, Part 1, Unaccompanied Personnel Housing Requirements and Costs, Summary: "...DoD Regulation 7000.14-R and OMB Circular A-11 require that the full cost of military construction projects be identified at the time the project is submitted for funding. Also, the 35 percent design should be complete prior to the project being submitted to the OSD Comptroller for funding approval..."

Nonconcur. See Air Force response to paragraphs 7, 8, and 9.

Revised and Expanded

11. Reference Draft Audit Report, Part 1, Unaccompanied Personnel Housing Requirements and Costs, Recommendation for Corrective Actions: "1. We recommend the OSD Comptroller place on administrative withhold, funds for FY97 military construction... until the Air Force submits a revised DD Form 1391.... 2. We recommend...AETC revise the DD Form 1391...to reflect complete military construction requirements and costs; and request that either funding for the complete project requirements, or approval for incremental funding...."

a. Concur with intent: The FY97 project was developed for recruit dormitory, Bldg 5570, as part of a seven-dormitory upgrade program. The recruit dormitories are about 30 years old and have significant structural and utility problems in their subbasements. Two dorms (Bldgs 9410 & 9310) received subbasement and 1st floor upgrades with FY92 and FY95 MILCON projects. Three dorms (Bldgs 6275, 9085, & 5570) are to be upgraded in total (2nd and 3rd floors included) with FY96 and FY97 Congressional O&M plus-up funds. The FY97 MILCON project had a Programmed Amount (PA) of $6.0 million based on estimated costs at the time. In January 1996, Program Budget Decision (PBD) 604 imposed an inflation adjustment which AETC applied to the FY97 project, reducing the PA to $4.6M. After the project had been submitted, we received cost estimates from two similar recruit dorms being funded with the FY96 Congressional O&M plus-up funds. The 100% design estimates and award for these two FY96 dorm projects exceeded $8 million each. With this fresh information,

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dorm and the $4.6 million would require a greater scope reduction. The DD Form 1391 was general enough to cover a reduced scope and was not changed at that time. However, the Air Force needed a viable execution strategy. The initial decision was to reduce the scope of work. This was subsequently changed to redirect the project funds to another viable dormitory.

b. The kitchen and crawl space in recruit dormitory, Bldg 9410, were previously altered with the FY92 MILCON project. Much of this project was "alteration" work in the kitchen that could only be done with MILCON at the time. The remaining desired repair of the 2nd and 3rd floors was to be accomplished at a later date. With new programming rules, all recruit dorm work can now be classified as repair and be accomplished with either MILCON or O&M. All current upgrades are programmed as repair.

c. Because of the changed circumstances, the Air Force developed a new execution strategy to retain the valid $4.6 million FY97 MILCON project and keep the overall recruit dormitory upgrade plan on schedule. Two options were available: 1) the Air Force could have completed a phased repair in Bldg 5570, similar to the first two dorms in FY92 and FY95, by rescoping the FY97 MILCON project. This would require us to program a follow-on project later as funds permitted; 2) the Air Force could redirect the FY97 MILCON project to complete the remaining 2nd and 3rd floor repairs of Bldg 9410 now. With the opportunity of FY97 Congressional O&M funds becoming available to complete a full upgrade of Bldg 5570, the second option using the MILCON for Bldg 9410 became the clear choice.

d. The work in Bldg 9410 will not revisit previously accomplished work but will address the remaining necessary work on the 2nd and 3rd floors, as the first floor and crawl space have already been completed with FY92 MILCON funds. The FY97 project will address the fire protection, electrical and mechanical systems upgrade for these two floors. The latrines and associated plumbing will also be upgraded. Windows will be reglazed, minor roof work will be done, and the interior finishes will be upgraded. Along with this, all necessary lead-based paint, asbestos, mercury, and Polychlorinated Biphenyls abatement will be accomplished. The design agent plans to revise the design and award a construction contract by 30 September 1997.

e. The Air Force's alternative solution allows the seven-dorm upgrade program to continue. Although not as originally planned, all work is vital and necessary and must be funded and executed as soon as practical. The new Air Force strategy is the most appropriate use of the MILCON funds available and should proceed on schedule.

Revised Recommendation 2

f. AETC has submitted a package, including new DD Form 1391, to HQ USAF/ILEC requesting reauthorization of the FY97 MILCON for upgrade of Bldg 9410 at the revised scope. After appropriate approvals, AETC plans to award the FY97 MILCON project by September 1997. Administrative withhold should not be implemented since the new Air Force solution offers the most viable option for continuing the vital upgrade of these critical basic recruit dormitories, results in complete and usable facilities, and is the best use of available funds.

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