

Audit



Report

DEFENSE BASE REALIGNMENT AND CLOSURE BUDGET
DATA FOR MODERNIZATION OF BUILDING 196,
WASHINGTON NAVY YARD, WASHINGTON, D.C.

Report No. 98-199

September 11, 1998

Office of the Inspector General
Department of Defense

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Acronyms

BRAC	Base Realignment and Closure
GAO	General Accounting Office
GPRA	Government Performance Results Act
MILCON	Military Construction



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

September 11, 1998

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

SUBJECT: Audit Report on Defense Base Realignment and Closure Budget Data for
Modernization of Building 196, Washington Navy Yard, Washington, D.C.
(Report No. 98-199)

We are providing this audit report for review and comments. This report is one in a series about FY 1999 Defense base realignment and closure military construction costs.

Comments received from the Under Secretary of Defense (Comptroller) on a draft of this report conformed to the requirements of DoD Directive 7650.3. The directive requires that all recommendations be resolved promptly. Because the Navy did not respond to the draft report, we request that the Navy provide comments on the final report by October 13, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Wayne K. Million, at (703) 604-9312 (DSN 664-9312) (wmillion@dodig.osd.mil) or Ms. Bobbie Sau Wan, at (703) 604-9259 (DSN 664-9259) (bwan@dodig.osd.mil). See Appendix D for the report distribution. Audit team members are listed inside the back cover.

A handwritten signature in cursive script, which appears to read "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Project No. 98-199
(Project No. 8CG-5012.01)

September 11, 1998

Defense Base Realignment and Closure Budget Data for Modernization of Building 196, Washington Navy Yard, Washington, D.C.

Executive Summary

Introduction. This report is one in a series about FY 1999 Defense base realignment and closure military construction costs. Public Law 102-190, "National Defense Authorization Act for Fiscal Years 1992 and 1993," December 5, 1991, directs the Secretary of Defense to ensure that the amount of the authorization that DoD requested for each Defense base realignment and closure military construction project does not exceed the original estimated cost provided to the Commission on Defense Base Closure and Realignment (the Commission). If the requested budget amounts exceed the original project cost estimates provided to the Commission, the Secretary of Defense is required to explain to Congress the reasons for the differences. The Office of the Inspector General, DoD, is required to review each Defense base realignment and closure military construction project for which a significant difference exists from the original cost estimate and to provide the results of the review to the congressional Defense committees.

Audit Objectives. The overall audit objective was to determine the accuracy of Defense base realignment and closure military construction budget data. This report provides the results of the audit of one project, valued at \$7.4 million, related to the relocation of Naval Sea Systems Command to the Washington Navy Yard, Washington, D.C. A review of the management control program, as it applies to the overall audit objective, is reported in Inspector General, DoD, Report No. 98-175, "Summary Report on the Audit of Defense Base Realignment and Closure Budget Data for FYs 1997 and 1998," July 2, 1998. Therefore, an assessment of the adequacy of the management control program was not repeated for this audit.

Audit Results. The Navy did not adequately support requirements for project P-041U, "Building Modernization," valued at \$7.4 million, resulting from the relocation of Naval Sea Systems Command functions from Arlington, Virginia, to the Washington Navy Yard. As a result, the requirements and cost estimate of \$7.4 million for the proposed project need further analysis before the project is funded.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) place project P-041U on administrative withhold pending the Navy's completion of a valid and fully supported economic analysis. We further recommend that the Commander, Naval Facilities Engineering Command, conduct a valid and fully supported economic analysis to determine whether renovation of Washington Navy Yard Building 196 is the optimal alternative.

Management Comments. The Under Secretary of Defense (Comptroller) concurred and stated that funds for the project will be placed on administrative withhold pending audit resolution. We received no comments from the Navy on the draft report issued July 2, 1998. We request that the Navy comment on this report by October 13, 1998.

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Background

The Office of the Inspector General, DoD is performing audits of the Defense realignment and closure (BRAC) process. This audit is one in a series on FY 1999 BRAC military construction (MILCON) costs. For additional information on the audit process, see Appendix A. For background information on the BRAC process, see Appendix B.

Objectives

The overall audit objective was to determine the accuracy of BRAC MILCON budget data. The specific objectives were to determine whether the proposed project was a valid BRAC requirement, whether the decision for MILCON was supported with required documentation including an economic analysis, and whether the economic analysis considered existing facilities. A review of the management control program, as it applies to the overall audit objective is discussed in DoD Inspector General Report No. 98-175, "Summary Report on the Audit of Defense Base Realignment and Closure Budget Data for FYs 1997 and 1998," July 2, 1998. Therefore, an assessment of the adequacy of the management control program will not be repeated for this audit.

This report provides the results of the audit of BRAC MILCON project P-041U, "Building Modernization," valued at \$7.4 million, resulting from the relocation of Naval Sea Systems Command functions from Arlington, Virginia, to the Washington Navy Yard, Washington, D.C.

Renovation of Building 196

The Navy did not adequately support requirements for project P-041U, "Building Modernization," valued at \$7.4 million, resulting from the relocation of Naval Sea Systems Command functions from Arlington, Virginia, to the Washington Navy Yard. This condition occurred because the Navy failed to perform an adequate economic analysis to determine whether the planned renovation of Building 196 is the optimal choice of alternatives to accommodate the displaced Naval Computer and Telecommunications Station personnel. As a result, the project requirements and cost estimate of \$7.4 million for the proposed project need further analysis before the project is funded.

Project Background

The 1995 Commission on Defense Base Closure and Realignment recommended relocating Naval Sea Systems Command from Arlington, Virginia, to the Washington Navy Yard, Washington, D.C. As part of this relocation, the Navy decided to convert Washington Navy Yard Building 143, which currently accommodates Naval Computer and Telecommunications Station personnel and equipment, into a parking garage for Naval Sea Systems Command personnel. Project P-041U is a planned renovation and modernization of Washington Navy Yard Building 196 to accommodate the displaced Naval Computer and Telecommunications Station personnel.

Developing and Documenting an Economic Analysis

The Navy could not produce documentation to support that economic analysis for project P-041U had been performed. DoD Financial Management Regulation, volume 2B, section 0705, "Base Realignment and Closure Appropriation Submission Formats," states, "As a minimum, all renovation, upgrade, and replacement projects must be supported by an economic analysis." An economic analysis is to include a statement of the proposed task, assumptions made, a determination of the feasibility of the alternative approaches, and a cost/benefit analysis for each feasible alternative approach.

Navy personnel stated that an economic analysis had been performed, but could not produce any documentation to support the analysis. However, during the audit, Navy representatives prepared a new economic analysis, which compared the combined current and future costs for renovating Building 196 as opposed to construction of new facilities.

The newly prepared economic analysis that the Navy provided failed to adequately support the Navy decision to renovate Building 196 as the optimal alternative for accommodating the Naval Computer and Telecommunications Station personnel, rather than construct new facilities.

Economic Analysis Methodology. The analysis compared the estimated cost for renovation of Building 196, representing the initial renovation costs plus the present value of estimated utilities and other recurring costs for 25 years, with the estimated cost for construction of a new facility, taking into account the present value of its expected future cost. The economic analysis calculated the total cost (net present value) for renovation of Building 196 over 25 years to be \$20.5 million, and the total comparable cost for new construction to be \$22.6 million.

Economic Analysis Assumptions. The economic analysis was flawed because it incorporated several assumptions without adequately supporting the reasonableness of those assumptions. For example, it was assumed that new construction could save 33 percent for maintenance costs and 25 percent for utilities costs. However, no support was provided to establish the reasonableness of those assumptions. Because projected maintenance and utilities costs constitute a significant portion of the economic analysis, even a small deviation from the assumed maintenance and utility costs could result in an entirely different economic analysis conclusion. This is especially true considering the fact that the projected total cost for renovation of Building 196 (\$20.5 million) is very close to the projected total cost for new construction (\$22.6 million). While the economic analysis favors the decision to renovate Building 196, the analysis is incomplete because there is no documentation supporting major assumptions made within the analysis.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Under Secretary of Defense (Comptroller) place \$7.4 million for project P-041U on administrative withhold pending the Navy's completion of a valid and fully supported economic analysis that supports completion of the project.

Under Secretary of Defense (Comptroller). The Under Secretary of Defense (Comptroller) stated that funds for the project will be placed on administrative withhold pending audit resolution.

2. We recommend that the Commander, Naval Facilities Engineering Command, conduct a valid and fully supported economic analysis to determine whether renovation of Washington Navy Yard Building 196, is the optimal alternative to accommodate the Naval Computer and Telecommunications Station personnel relocated from the Building 143.

Management Comments Required. The Navy did not respond to a draft of this report in time for comments to be incorporated into the final report. If comments are received, we will consider them as comments on the final report.

Appendix A. Audit Process

Scope

Work Performed and Limitations to Overall Audit Scope. We examined the FY 1999 BRAC MILCON budget request and supporting documentation for space requirements for the relocation of Naval Sea Systems Command from Arlington, Virginia, to the Washington Navy Yard, Washington, D.C. We examined the FY 1999 BRAC MILCON budget request, economic analysis, and supporting documentation for project P-041U, "Building Modernization," valued at \$7.4 million.

DoD-wide Corporate Level Government Performance And Results Act (GPRA) Goals. In response to the GPRA, the Department of Defense has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

Objective: Fundamentally reengineer the Department and achieve a 21st century infrastructure.

Goal: Reduce costs while maintaining required military capabilities across all DoD mission areas. (DoD-6)

General Accounting Office High Risk Area. The General Accounting office (GAO) has identified several high risk areas in the DoD. This report provides coverage of the Defense Infrastructure high risk area.

Methodology

Audit Type, Dates, and Standards. This economy and efficiency audit was performed from March 1998 through May 1998 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. The audit did not rely on computer-processed data or statistical sampling procedures.

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

Management Control Program

Our review of management controls over BRAC MILCON projects is discussed in DoD Inspector General Report No. 98-175, "Report on the Audit of Defense Base Realignment and Closure Budget Data for FYs 1997 and 1998," July 2, 1998.

Prior Coverage

Four summary reports have been issued for the audits of BRAC budget data for FYs 1992 through 1998. Details on those reports, and the numerous audit reports that they summarize, are available upon request. Also see the IG, DoD Home Page at: WWW.DODIG.OSD.MIL.

Appendix B. Background of Defense Base Realignment and Closure

Commission on Defense Base Closure and Realignment. On May 3, 1988, the Secretary of Defense chartered the Commission on Defense Base Closure and Realignment (the Commission) to recommend military installations for realignment and closure. Congress passed Public Law 100-526, "Defense Authorization Amendments and Base Closure and Realignment Act," October 24, 1988, which enacted the Commission's recommendations. The law also established the Defense Base Closure Account to fund any necessary facility renovation or MILCON projects associated with BRAC. Public Law 101-510, "Defense Base Closure and Realignment Act of 1990," November 5, 1990, reestablished the Commission. The law also chartered the Commission to meet during calendar years 1991, 1993, and 1995 to provide a fair process that will result in a timely closure and realignment of military installations inside the United States. In addition, the law stipulates that realignment and closure actions must be completed within 6 years after the President transmits the recommendations to Congress.

Required Defense Reviews of BRAC Estimates. Public Law 102-190, "National Defense Authorization Act for Fiscal Years 1992 and 1993," December 5, 1991, states that the Secretary of Defense shall ensure that the authorization amount that DoD requested for each MILCON project associated with BRAC actions does not exceed the original estimated cost provided to the Commission. Public Law 102-190 also states that the Inspector General, DoD must evaluate significant increases in BRAC MILCON project costs over the estimated costs provided to the Commission, and the Secretary of Defense shall send a report to the congressional Defense committees.

Military Department BRAC Cost-Estimating Process. To develop cost estimates for the Commission, the Military Departments used the Cost of Base Realignment Actions computer model. The Cost of Base Realignment Actions computer model uses standard cost factors to convert the suggested BRAC options into dollar values to provide a way to compare the different options. After the President and Congress approve the BRAC actions, DoD realigning activity officials prepare a DD Form 1391, "FY 1999 Military Construction Project Data," for each individual MILCON project required to accomplish the realigning actions. The Cost of Base Realignment Actions computer model provides cost estimates as a realignment and closure package for a particular realigning or closing base. The DD Form 1391 provides specific cost estimates for an individual BRAC MILCON project.

Limitations and Expansion to Overall Audit Scope. Because the Cost of Base Realignment Actions computer model develops cost estimates as a BRAC package and not for individual BRAC MILCON projects, we were unable to determine the amount of cost increases for each individual BRAC MILCON project. Additionally, because of prior audit efforts that determined potential problems with all BRAC MILCON projects, our audit objectives included all large BRAC MILCON projects.

Overall Audit Selection Process. We reviewed the FY 1999 BRAC MILCON \$264.1 million budget submitted by the Military Departments and the Defense Logistics Agency. We excluded projects that were previously reviewed by DoD audit organizations. We grouped the remaining BRAC MILCON projects by location and selected all projects in the budget. We also reviewed those BRAC MILCON projects that were not included in the previous budget submissions, but were added as part of the FY 1999 BRAC MILCON budget package.

Appendix C. Invalid or Partially Valid Projects

Table C-1. Causes of Invalid or Partially Valid Project

Project Location	Project Number	Causes of Invalid Project		Causes of Partially Valid Project	
		Overstated	Unsupported	Overstated	Unsupported
Washington Navy Yard	P-041U		X		

Table C-2. Recommended Changes in Project Estimates

Project Location	Project Number	Amount of Estimate on DD Form 1391 (thousands)	Recommended Amount of Change	
			Invalid Projects (thousands)	Partially Valid Projects (thousands)
Washington Navy Yard	P-041U	\$7,350	\$7,350	
Total		\$7,350	\$7,350	
Total Invalid and Partially Valid Projects				\$7,350

Appendix D. Report Distribution

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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

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Commander, Naval Facilities Engineering Command
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
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Senate Subcommittee on Military Construction, Committee on Appropriations
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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 Government Management, Information, and Technology,
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

Office of the Under Secretary of Defense Comments



COMPTROLLER
(Program/Budget)

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



September 3, 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD IG

SUBJECT: DoD IG Draft Audit Report Defense Base Realignment and Closure Budget Data for
Modernization of Building 196, Washington Navy Yard, Washington, DC
(Project No. 8CG-5012.01)

This responds to your July 2, 1998 memorandum requesting our comments on the subject report.

The audit recommends that the USD (Comptroller) place \$7.4 million on administrative withhold for the Building Modernization project at the Washington Navy Yard associated with the relocation of the Naval Sea Systems Command from Arlington, Virginia. The audit contends that the project is unsupported because the Navy did not perform an adequate economic analysis to determine whether the planned renovation of Building 196 is the optimal choice of alternatives to accommodate the displaced Naval Computer and Telecommunications Station personnel.

Since we understand the issue is in dispute, we will place the funds for the project on administrative withhold pending audit resolution. If it is determined that the audit finding is indeed accurate, we will realign any saving identified to other Base Realignment and Closure requirements, as appropriate.


Henry B. Sodano
Director for Construction

Audit Team Members

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

Paul J. Granetto
Wayne K. Million
Bobbie Sau Wan
Marc A. Pederson
Stevenson A. Bolden