Audit Report

OFFICE OF THE INSPECTOR GENERAL

MILITARY CONSTRUCTION OF THE DEFENSE FINANCE AND ACCOUNTING SERVICE OPERATIONS FACILITY, COLUMBUS, OHIO

Report No. 96-010 October 17, 1995

Department of Defense

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Acronyms

DFAS	Defense Finance and Accounting Service
MILCON	Military Construction

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

October 17, 1995

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE COLUMBUS CENTER

SUBJECT: Audit Report on Military Construction of the Defense Finance and Accounting Service Operations Facility, Columbus, Ohio (Report No. 96-010)

We are providing this audit report for information and use. This report is one in a series of reports about the FY 1996 military construction for Defense agencies. We considered comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. If you have any questions on this audit, please contact Mr. Wayne K. Million, Audit Program Director, at (703) 604-9312 (DSN 664-9312) or Mr. Nicholas E. Como, Audit Project Manager, at (703) 604-9303 (DSN 664-9303). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

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Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 96-010 **October 17, 1995**
(Project No. 5CG-0055.01)

Military Construction of the Defense Finance and Accounting Service Operations Facility, Columbus, Ohio

Executive Summary

Introduction. This report is one in a series of reports on the FY 1996 military construction program for Defense agencies. This report discusses the requirements for the construction of the Defense Finance and Accounting Service operations facility, Columbus, Ohio. This report also discusses management controls that Defense Finance and Accounting Service headquarters should establish to manage the military construction program. The estimated construction cost of the Defense Finance and Accounting Service operations facility was $72.4 million.

Audit Objectives. The audit objectives were to determine whether the Defense Finance and Accounting Service Columbus Center properly planned and programmed the FY 1996 proposed military construction project and whether the decision for military construction was supported with required documentation, including an economic analysis. An additional audit objective was to evaluate management controls over the planning and programming of the FY 1996 proposed military construction project.

Audit Results. In general, the Defense Finance and Accounting Service Columbus Center properly planned and programmed construction requirements for the operations facility at Columbus. Military construction was supported with an economic analysis. However, management control procedures were not incorporated at the Defense Finance and Accounting Service headquarters to justify, review, and evaluate military construction requirements. As a result, two estimated costs for the Defense Finance and Accounting Service operations facility were overstated or unsupported. The cost estimate for rewarehousing material was overstated, and undefined Defense Finance and Accounting Service requirements may have resulted in overstated cafeteria costs. For details of the audit results, see Part I. Appendix B summarizes the potential benefits of the audit.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service, include the military construction program as an assessable unit in its management control program and establish procedures to justify, review, and evaluate military construction project requirements. We also recommend that the Director, Defense Finance and Accounting Service Columbus Center, reduce the rewarehousing cost estimate, reevaluate the cafeteria cost estimate after design is completed, and adjust the cost estimate for the operations facility when design requirements are definitized.

Management Comments. The Defense Finance and Accounting Service agreed to include the military construction program in its management control program, to establish procedures for military construction, and to reevaluate and adjust the cost estimate for building the cafeteria. The Defense Finance and Accounting Service will apply any savings to other costs of the project as needed. The Defense Finance and Accounting Service concurred with the recommendation to reduce the rewarehousing estimate, but added that the cost will be greater than the $200,000 stated in the report. See Part I for a complete discussion of management comments and Part III for the complete text of management comments.

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Part I - Audit Results

Audit Background

The report discusses the requirements for the construction of an operations facility for the Defense Finance and Accounting Service (DFAS) Columbus Center, Columbus, Ohio (DFAS Columbus Center). The proposed facility, estimated to cost $72.4 million, is one of 50 Defense agency military construction (MILCON) projects, totaling $379 million.

Audit Objectives

The audit objectives were to determine whether DFAS Columbus Center properly planned and programmed the FY 1996 proposed MILCON project and whether the decision for MILCON was supported with required documentation, including an economic analysis. An additional audit objective was to evaluate management controls over planning and programming the FY 1996 proposed MILCON project. See the finding for a discussion of the material management control weaknesses identified and Appendix A for a discussion of the audit scope and methodology.

Management Controls Over Military Construction

DFAS headquarters had not established management control procedures to justify, review, and evaluate its MILCON requirements. DFAS did not establish a management control program for MILCON requirements because, before 1993, DFAS was not responsible for justifying MILCON requirements. As a result, the construction cost estimates for the DFAS Columbus Center operations facility were overstated by at least $2.4 million, and future DFAS construction projects could also contain overstated or unsupported requirements.

Added Construction Requirements of DFAS

Organization of the Defense Finance and Accounting Service. DFAS was established in 1990 to consolidate the accounting and finance operations of the Military Departments and the Defense Logistics Agency. DFAS is responsible for DoD accounting and finance policies and procedures. The Military Departments and Defense agencies provided accounting personnel and support services, including facilities, to DFAS. In December 1991, the Defense Management Report Decision No. 910 directed DFAS to "capitalize" finance and accounting functions of the DoD Components by October 1, 1992. DFAS assumed ownership, command, and control of the people, resources, and assets involved in performing DoD finance and accounting functions. As a result of that management decision, DFAS also assumed responsibility for property management, including MILCON.

Current Facilities. The DFAS Columbus Center occupies eight buildings and five temporary facilities at two sites located in the Columbus, Ohio, area. The primary DFAS location is the Air Force Plant #85, Columbus, Ohio. The Air Force Plant was constructed more than 50 years ago and was shared with the McDonnell Douglas Corporation. The McDonnell Douglas Corporation vacated the site in March 1994. The DFAS Columbus Center occupies 635,000 square feet of administrative space, but is responsible for maintenance and security for the entire 2.9-million-square-foot facility. The second DFAS Columbus Center site is collocated at the Defense Construction Supply Center, Columbus, Ohio, and consists of portions of eight warehouses constructed more than 50 years ago.

Planned Construction at Other DFAS Locations. DFAS has programmed $185 million for FYs 1997 through 1999 to fund MILCON at 17 locations. The DFAS Columbus Center operations facility is the only FY 1996 project and was budgeted at $72.4 million.

Management Control Program Requirements

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that assets are used properly and programs are managed efficiently. The management control program should assign responsibility and accountability for management controls to the manager of each assessable unit. The directive further defines assessable units as, "any organizational, functional, programmatic, or other proper subdivisions suitable for evaluating systems of internal management controls, and identifying program and administrative activities of applicable nature and size to facilitate a meaningful assessment." MILCON at DFAS is a functional area suitable for evaluating management controls. Since 1993, DFAS has become responsible for funds identified for MILCON in support of its mission. Although the MILCON program at DFAS meets the criteria for an assessable unit in a management control program, no management controls had been established over MILCON.

Scope of Review of the Management Control Program. We reviewed the FY 1995 management control program, vulnerability assessment, and statement of assurance. Specifically, we reviewed the adequacy of management controls over the MILCON process.

Adequacy of Management Control Program. We identified a material management control weakness for DFAS as defined by DoD Directive 5010.38. Management controls for the MILCON process were not in place to ensure that cost estimates for the DFAS Columbus Center operations facility were based on current, valid requirements. DFAS headquarters had not identified MILCON as a separate assessable unit or as a part of any other assessable unit. Neither DFAS headquarters nor the DFAS Columbus Center had related policies or procedures to ensure that MILCON requirements were adequately justified, reviewed, and evaluated before certification. Recommendation 1., if implemented, will establish DFAS procedures and could result in future potential monetary benefits (Appendix B).

Justification of Construction Cost Estimates

Although DFAS Columbus Center reasonably planned and programmed construction requirements for the operations facility and properly supported the construction decision with an economic analysis, implementing management control procedures would provide a vital assurance that construction requirements were properly justified, reviewed, and evaluated. Because such management control procedures were not in place at the DFAS Columbus Center, the rewarehousing cost estimate was overstated and cafeteria space and cost estimates for the operations facility were unsupported and could be overstated.

Rewarehousing Cost Estimate. The cost estimate for the operations facility included $2.6 million to rewarehouse displaced materials. Warehouses occupied by the Defense Depot Columbus were to be demolished to construct a parking lot for the DFAS Columbus Center operations facility. The Defense Logistics Agency prepared the estimate based on the cost of moving the materials to other depots. The Defense Depot Columbus subsequently planned to rewarehouse all the material in other buildings at the Defense Depot Columbus, at an estimated cost of $200,000. Therefore, the cost estimate to rewarehouse displaced materials was overstated by $2.4 million.

Cafeteria Space and Cost. As part of the operations facility cost estimate, $2.2 million was estimated for a 16,000-square-foot cafeteria. No specific criteria are available for the design of dining facilities for civilian personnel. Design is at the discretion of the user. Personnel at DFAS Columbus Center used Army cost criteria for noncommissioned officer open dining facilities to compute the cost per square foot for the DFAS Columbus Center operations facility cafeteria. The criteria were based on a full kitchen facility. DFAS Columbus Center personnel stated that the cafeteria would be set up as a less-than-full kitchen facility. No designs had been completed for the new cafeteria, and DFAS Columbus Center did not determine the specific equipment required for its cafeteria. Based on the undefined requirements of DFAS, our review indicated that the cafeteria estimate may be overstated. Even though we could not quantify any savings, anything less than a full kitchen facility designed for military open messes would require less than the $2.2 million currently estimated. DFAS had no management control procedures in place to review and ensure that exact user needs for the cafeteria would be determined and quantified for the cost estimate.

Recommendations and Management Comments

The Deputy Director for Resource Management, DFAS, provided consolidated management comments to the recommendations.

1. We recommend that the Director, Defense Finance and Accounting Service:

a. Include the military construction program in its management control program as an assessable unit.

b. Establish procedures to justify, review, and evaluate military construction project requirements.

DFAS Comments. The Deputy Director for Resource Management, DFAS, concurred with Recommendations 1.a. and 1.b. and assigned the responsibility to oversee as assessable units the facility and support services programs, including military construction programs, to the Deputy Director for Resource Management. DFAS has assigned the DFAS Columbus Center and the Plans and Management Deputy to develop, justify, and submit proposed military

construction projects in coordination with the U.S. Army Corps of Engineers for review and approval by the Director, DFAS. The Deputy Director for Resource Management is responsible for reviewing and approving program and budget requests before submission to the Director, DFAS.

2. We recommend that the Director, Defense Finance and Accounting Service Columbus Center:

a. Reduce the rewarehousing cost estimate by $2.4 million.

b. Reevaluate the cafeteria cost estimate after cafeteria design is completed.

c. Adjust the cost estimate for the operations facility when cafeteria design requirements are definitized.

DFAS Comments. The Deputy Director for Resource Management concurred with the intent of Recommendation 2.a. DFAS adjusted the rewarehousing cost estimate based on new cost estimates that DFAS believes are more accurate. DFAS will apply any savings realized to increased construction costs. DFAS concurred with Recommendations 2.b. and 2.c. and has reevaluated and adjusted the cost estimate for the cafeteria. Any resulting savings will be applied to future construction cost increases.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

We reviewed the estimation process for the DD Form 1391, "Military Construction Project Data," April 1994, for construction of the DFAS Columbus Center operations facility, estimated to cost $72.4 million. This audit was part of a review of the overall FY 1996 MILCON program budget submission for Defense agencies. For the DD Form 1391 submission, we:

- reviewed supporting documentation for the cost estimates on the DD Form 1391, including the economic analysis;

- reviewed existing DFAS Columbus Center facilities and other available facilities in the area; and

- interviewed personnel from the Army Corps of Engineers and personnel responsible for preparing cost estimates at DFAS Columbus Center and the Defense Construction Supply Center.

Audit Period, Standards, and Locations

We performed this economy and efficiency audit during May and June 1995 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Appendix C lists the organizations visited or contacted.

Prior Audits and Other Reviews

No prior audits or other reviews related to the MILCON process at the DFAS Columbus Center had been performed.

Appendix B. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount or Type of Benefit
1	Management Controls. Establishes control procedures over military construction process.	Nonmonetary.
2	Economy and Efficiency. Reduces estimated cost of construction.	Reducing estimated costs would result in at least $2.4 million of FY 1996 MILCON funds put to better use.

Appendix C. Organizations Visited or Contacted

Office of Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC
Deputy Assistant Secretary of Defense (Installations), Washington, DC

Department of the Army

Headquarters, U.S. Army Corps of Engineers, Washington, DC
  Louisville District, KY

Other Defense Organizations

Headquarters, Defense Finance and Accounting Service, Arlington, VA
  Columbus Center, Columbus, OH
Headquarters, Financial Services Organization, Indianapolis, IN
  Financial Systems Activity, Columbus, OH
Defense Construction Supply Center, Columbus, OH
Defense Reutilization and Marketing Office, Columbus, OH

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Economic Security)
  Deputy Assistant Secretary of Defense (Installations)
Assistant to the Secretary of Defense (Public Affairs)
Director, Administration and Management
Director, Defense Logistics Studies Information Exchange

Department of the Army

Commander, U.S. Army Corps of Engineers
Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Columbus Center

Non-Defense Federal Organizations

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

Non-Defense Federal Organizations (cont'd)

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

Part III - Management Comments

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

DFAS-HQ/CE

SEP 20 1995

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
ATTN: DIRECTOR, CONTRACT MANAGEMENT
DIRECTORATE

SUBJECT: Audit Report on Military Construction of the Defense Finance and Accounting Service Operations Facility, Columbus, Ohio (Project No. 5CG-0055.01)

This is provided in response to your request to comment on the Draft DoDIG subject report dated July 14, 1995. DFAS responses to each recommendation are provided in the attachment.

For additional information contact Mr. Norman Noe, (703) 607-2821.

Bruce M. Carnes
Deputy Director for
Resource Management

Attachment

RECOMMENDATIONS AND RESPONSES

RECOMMENDATION 1a. We recommend that the Director, Defense Finance and Accounting Service include the military construction program in its management control program as an assessable unit.

DFAS RESPONSE. Concur.

The Deputy Director for Resource Management has been assigned responsibility to oversee facility and support services programs as assessable units, including the DFAS Military Construction (MILCON) program. Assigned duties and responsibilities include but are not limited to the following: planning, programming and budgeting; overseeing prioritization; controlling funds; acting as the Agency spokesperson; testifying on projects before Congress; and reprogramming allocated funds and manpower as necessary to satisfy unforeseen requirements.

Technical support and engineering assistance for the DFAS capital projects is provided through an Interservice Support Agreement (ISA) with the U.S. Army Corps of Engineers (COE). Support includes: the design development of the scope of work, assembling the procurement package, the solicitation effort leading to contract award, contract award, and contract administration of capital projects.

RECOMMENDATION 1b. We recommend that the Director, Defense Finance and Accounting Service establish procedures to justify, review, and evaluate military construction project requirements.

DFAS RESPONSE. Concur

It was not until the summer of 1994 that DFAS had a Military Construction (MILCON) project for submission in support of a DFAS Center, and at the same time DFAS began development of projects in support of the Agency's new Operating Locations (OPLOCs).

Based on the economic decision to develop MILCON projects to support Columbus Center and the new OPLOCs, DFAS began developing a full fledged MILCON program. The establishment of a long-term MILCON program coupled with the DoDIG recommendation to establish procedures, provided the impetus for the assignment of responsibilities for the review and approval of MILCON projects. DFAS assigned functional proponency to the Columbus Center and Plans and Management Deputate for the Columbus Center and the OPLOC projects respectively. As functional proponents those activities were then tasked to develop, justify and submit proposed Military Construction (MILCON) projects in coordination

with the U.S. Army Corps of Engineers for review and approval by the Director, DFAS.

The Deputy Director for Resource Management is assigned responsibility to review and approve program and budget requests prior to submission to the Director, DFAS for approval. As an additional measure, DFAS established a DFAS Resource Advisory Council (DRAC) to review and prioritize all projects and provide advise and recommendations to the Deputy Director for Resource Management and ultimately to the Director, DFAS.

RECOMMENDATION 2a. We recommend that the Director, Defense Finance and Accounting Service Columbus Center reduce the rewarehousing cost estimate by $2.4 million.

DFAS RESPONSE. Concur.

The initial estimate for the project was done before the final FY 1993 Base Closure and Realignment Commission recommendations were approved by the Congress. As a result, the proposed material move to Memphis, Tennessee is not necessary. Rewarehousing costs have been adjusted on the DD 1391 to reflect the movement of materials to other local Defense Construction Supply Center (DCSC) locations.

Actual rewarehousing costs will not be known until the contract is awarded in mid-1996. We estimate the cost will be more than the $200 thousand figure quoted in the audit report. Therefore, we will be required to make some final adjustments once the exact figure is known. Additionally, any savings realized by the reduction in the estimated rewarehousing costs should be applied to areas of uncontrollable increases in construction costs. Specific examples are provided in the DFAS Response to Recommendation 2c.

RECOMMENDATION 2b. We recommend that the Director, Defense Finance and Accounting Service Columbus Center reevaluate the cafeteria cost estimate after cafeteria design is completed.

DFAS RESPONSE. Concur.

DFAS Columbus Center has significantly reduced the space and equipment dedicated to the cafeteria. The original estimate of $2.2 million has been reduced to meet the overall financial constraints of the project without sacrificing support to employees. However, the savings associated with the reduction in the cafeteria scope should be applied to areas of uncontrollable increases in construction costs instead of simply being

eliminated. these funds should be retained for use in the project until such time as we have received adequate assurances through the bidding process that that the elimination of these funds will not sacrifice mission requirements.

RECOMMENDATION 2c. We recommend that the Director, Defense Finance and Accounting Service Columbus Center adjust the cost estimate for the operations facility when cafeteria design requirements are defined.

DFAS RESPONSE. Concur.

DFAS has adjusted warehousing and cafeteria costs in accordance with the proposed recommendations. DFAS would like the option of applying these savings to the overall cost of the project since exact construction costs could exceed current projections. The projected cost overruns have been identified by the Corps of Engineers - Louisville District in a report from the project designer, Hellmuth, Obata and Kassabaum, Inc. (HOK). The major construction costs that have exceeded the inflation factors used in the original construction estimate for the DD 1391 documentation are as follows:

1. The price for steel fabrication has increased from $650 to $933 per ton, increasing total project by $1.19 million.

2. Labor rates in the skilled crafts have increased by 10.2 percent above the inflation rate adding an estimated $1.86 million.

3. Environmental cleanup of the demolition phase of the MILCON has a projected increase of $.9 million. These and other factors have led to an estimated cost increase of over $5.0 million. DFAS has implemented several initiatives, including a Value Engineering Program to enhance the capability of constructing the building within established budgetary constraints. To date preliminary estimates indicate DFAS is within budget.

Any proposed reduction in the $2.2 million in relocation funds coupled with these dramatic increases could seriously jeopardize this project. For these reasons, request retention of all of the funds, at least until assurances are received that contractors can perform the required construction within established cost estimates.

Audit Team Members

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

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