Audit Report

OFFICE OF THE INSPECTOR GENERAL

DEFENSE BASE REALIGNMENT AND CLOSURE BUDGET DATA FOR THE DEFENSE CONTRACT MANAGEMENT DISTRICT-WEST

Report No. 94-104 May 18, 1994

Department of Defense

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Acronyms

BRAC	Base Realignment and Closure
COBRA	Cost of Base Realignment Actions
DCMAO	Defense Contract Management Area Operations
DCMD-W	Defense Contract Management District-West
DLA	Defense Logistics Agency
MILCON	Military Construction
NAVFAC P-80	Naval Facilities Engineering Command Publication-80

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

May 18, 1994

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Defense Base Realignment and Closure Budget Data for the Defense Contract Management District-West (Report No. 94-104)

We are providing this report for your review and comments. This report is one in a series of reports on FYs 1994 and 1995 base realignment and closure military construction costs. The report addresses the relocation of the Defense Contract Management District-West from General Services Administration leased space in El Segundo, California, to the Long Beach Naval Shipyard, California.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. We provided a draft of this report to management for review. The Comptroller of the Department of Defense provided responsive comments to our recommendation and agreed to reduce the Defense Logistics Agency military construction authorization for FY 1994. The Defense Logistics Agency comments were generally responsive to the recommendations. We revised one recommendation based on Defense Logistics Agency comments. We request that the Comptroller of the Department of Defense and the Director, Defense Logistics Agency, provide final comments by July 18, 1994, in accordance with the response requirements listed at the end of the finding.

We appreciate the courtesies and cooperation extended to the audit staff. If you have any questions on this report, please contact Mr. Salvatore D. Guli, Audit Program Director, at (703) 692-3025 (DSN 222-3025) or Mr. Bruce A. Burton, Audit Project Manager, at (703) 692-3118 (DSN 222-3118). Appendix E lists the distribution of the report. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-104 **May 18, 1994**
(Project No. 4CG-5008.07)

DEFENSE BASE REALIGNMENT AND CLOSURE BUDGET DATA FOR THE DEFENSE CONTRACT MANAGEMENT DISTRICT-WEST

EXECUTIVE SUMMARY

Introduction. 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 military construction project associated with base realignment and closure 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. A primary reason for differences is the time constraints imposed on the Military Departments for developing base realignment and closure military construction cost estimates. Tight schedules dictated by the base closure and realignment process made initial project documentation and the associated cost-estimating process extremely difficult.

The Inspector General, DoD, is required to review each 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. For FYs 1994 and 1995 budget requests, we selected projects for which a difference of more than 10 percent exists between the original cost estimate and the current estimated budget amount. This year we also selected projects for which organizations requested funding of more than $21 million.

This report is one in a series of reports on FYs 1994 and 1995 base realignment and closure military construction costs.

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 the Defense Logistics Agency's budget data for a project valued at $14.3 million to relocate the Defense Contract Management District-West, El Segundo, California, to the Long Beach Naval Shipyard, Long Beach, California. The audit also evaluated the implementation of the DoD Internal Management Control Program and assessed the adequacy of applicable internal controls.

Audit Results. The Defense Logistics Agency overstated the current space requirements of the Defense Contract Management District-West. As a result, the estimated project costs of $14.3 million were overstated by about 56 percent (Appendix A).

Internal Controls. The internal controls applicable to the audit objectives were deemed to be effective in that the audit disclosed no material deficiencies. The portion of the DoD Internal Management Control Program we reviewed was effectively implemented. See Part I for a discussion of the internal controls reviewed.

Potential Benefits of Audit. Implementation of the recommendations will allow DoD to put to better use $8 million of military construction funds. Appendix C summarizes the potential benefits resulting from audit.

Summary of Recommendations. We recommended that the Comptroller of the Department of Defense reduce the Defense Logistics Agency's military construction authorization for FY 1994 by $8 million. We also recommended that the Director, Defense Logistics Agency, revise and resubmit DD Form 1391, "FY 1994 Military Construction Project Data," to reflect current requirements for the relocation of the Defense Contract Management District-West.

Management Comments. The Comptroller of the Department of Defense agreed that the funding for the relocation of the Defense Contract Management District-West should be reduced and the DD Form 1391 revised pending resolution of the relocation issues. The Director, Defense Logistics Agency, generally concurred with the finding and recommendations and questioned whether the audit space computation made allowances for special space requirements. The Director nonconcurred with the recommendation to purchase commercial office space if the 1993 Commission on Defense Base Closure and Realignment recommendations prove impossible to implement. The Director cited the legal requirement that Defense agencies be housed in real property facilities under the jurisdiction of a Military Department. A summary of management comments is in Part II and the full text of management comments is in Part IV of this report.

Audit Response. The Comptroller of the Department of Defense comments are responsive except for the effective date of the planned action. The Defense Logistics Agency comments meet the intent of our recommendations. As a result of Defense Logistics Agency comments, we revised our recommendation to have the Defense Logistics Agency conduct a survey of commercially available real estate by also requiring that the Defense Logistics Agency perform an assessment of available federally owned office space in the Los Angeles area. The survey and assessment would only be necessary should the 1993 Commission on Defense Base Closure and Realignment recommendations prove impossible to implement. We request comments from the Comptroller of the Department of Defense and the Director, Defense Logistics Agency, by July 18, 1994.

Table of Contents

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

Part I - Introduction

Background

Initial Recommendations of the 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. Using cost estimates provided by the Military Departments, the Commission recommended 59 base realignments and 86 base closures. On October 24, 1988, Congress passed, and the President signed, Public Law 100-526, "Defense Authorization Amendments and Base Closure and Realignment Act," which enacted the Commission's recommendations. Public Law 100-526 also establishes the DoD Base Closure Account to fund any necessary facility renovation or military construction (MILCON) projects for base realignments and closures (BRAC).

Subsequent Commission Requirements and Recommendations. Public Law 101-510, "Defense Base Closure and Realignment Act of 1990," November 5, 1990, reestablished the Commission. Public Law 101-510 chartered the Commission to meet during calendar years 1991, 1993, and 1995 to verify that the process for realigning and closing military installations was timely and independent. The law also stipulated that realignment and closure actions must be completed within 6 years after the President transmits the recommendations to Congress.

The 1991 Commission recommended that 34 bases be closed and 48 bases be realigned, resulting in an estimated net savings of $2.3 billion during FYs 1992 through 1997, after a one-time cost of $4.1 billion. The 1993 Commission recommended that 130 bases be closed and 45 bases be realigned, resulting in an estimated net savings of $3.8 billion during FYs 1994 through 1999, after a one-time cost of $7.4 billion.

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 (COBRA). COBRA 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 DD Forms 1391, "FY 1994 Military Construction Project Data," for individual MILCON projects required to accomplish the realigning actions. COBRA 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.

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 requests for each MILCON project associated with BRAC actions does not exceed the original estimated cost provided to 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. Also, Public Law 102-190 prescribes that the Inspector General, DoD, must evaluate significant increases in MILCON project costs over the estimated costs provided to the Commission and send a report to the congressional Defense committees.

Objectives

The overall audit objective was to determine the accuracy of Defense BRAC MILCON budget data. The specific objectives were to determine whether the proposed projects were valid BRAC requirements, whether the decision for MILCON was supported with required documentation including an economic analysis, and whether the analysis considered existing facilities. The audit also evaluated the implementation of the DoD Internal Management Control Program and assessed the adequacy of applicable internal controls.

This report provides the results of the audit of the Defense Logistics Agency (DLA) project, valued at $14.3 million, to relocate the Defense Contract Management District-West (DCMD-W) from General Services Administration leased space in El Segundo, California, to the Long Beach Naval Shipyard, California.

Scope and Methodology

Limitations to Overall Audit Scope. COBRA develops cost estimates as a realignment and closure package for a particular realigning or closing base and does not develop estimates by individual BRAC MILCON project. Therefore, we were unable to determine the amount of cost increases for each individual MILCON project concerning a BRAC.

Overall Audit Selection Process. We compared the total COBRA cost estimates for each BRAC package with the Military Departments' and the Defense Logistics Agency's FYs 1994 through 1999 BRAC MILCON $2.6 billion budget submission. We selected BRAC packages for which:

o the package had an increase of more than 10 percent from the total COBRA cost estimates to the current total package budget estimates or

o the submitted FYs 1994 and 1995 budget estimates were more than $21 million.

Specific Audit Limitations for This Audit. We examined the FY 1994 BRAC MILCON budget request and justification for the one MILCON project totalling $14.3 million for the relocation of DCMD-W to the Long Beach Naval Shipyard. No other DCMD-W projects remain to be implemented.

Audit Standards, Potential Benefits, and Locations. This economy and efficiency audit was made from January through March 1994 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of internal controls considered necessary. The audit did not rely on computer-processed data or statistical sampling procedures. See Appendix C for the potential benefits resulting from the audit. Appendix D lists the organizations visited or contacted during the audit.

Internal Controls

Internal Controls Reviewed. The audit reviewed internal controls over validating BRAC MILCON requirements for the relocation of DCMD-W from El Segundo to the Long Beach Naval Shipyard. Specifically, we reviewed DLA's procedures for planning, budgeting, and documenting the BRAC MILCON requirements for the relocation project, which included interviews with DLA BRAC program personnel. We found no material internal control weaknesses. We also reviewed the DoD Internal Management Control Program as it applied to the audit objectives and found it to be effectively implemented.

Prior Audits and Other Reviews

Since 1991, 36 audit reports have addressed DoD BRAC issues. Appendix B lists selected IG, DoD, and Navy BRAC reports.

Part II - Finding and Recommendations

Relocation of the Defense Contract Management District-West

The DLA FY 1994 BRAC MILCON budget request for $14.3 million for the construction of a new DCMD-W administrative facility and warehouse at the Long Beach Naval Shipyard overstated DCMD-W space requirements. DLA overstated the space requirements because DLA did not adhere to Navy criteria for projecting allowable authorized space. In addition, DLA did not revise its budget request to consider DLA's projected decline in DCMD-W authorized personnel strength and the resulting cancellation of plans to construct a new DCMD-W warehouse. As a result, the requested project costs of $14.3 million can be decreased by $8 million (Appendix A). Further, project costs may decrease even more if DLA pursues other options such as obtaining a facility through land-swap negotiations between the Navy and the Port Authority/City of Long Beach (the Port Authority) or renovating an existing facility on Long Beach Naval Shipyard as alternatives to satisfy DCMD-W administrative requirements. If the 1993 Commission recommendations prove impossible to implement, DLA should identify suitable federally owned real estate that may be available or consider requesting DoD to purchase a building from the private sector.

Background

1993 Commission Recommendation to Relocate DCMD-W. The 1993 Commission recommended that DCMD-W either relocate from El Segundo to the Long Beach Naval Shipyard or obtain office space in exchange for Government land. An exchange could be made between the Navy and the Port Authority. The exchange would result from the closure of the Naval Station Long Beach.

DCMD-W Existing Facilities and Location. DCMD-W, currently located in General Services Administration leased space in El Segundo, is co-located with the Defense Contract Management Area Operations (DCMAO)-El Segundo. DLA is currently paying $4.6 million per year for the leased space; the lease expires in March 1996. DLA plans to relocate DCMAO-El Segundo along with DCMD-W but will fund the costs associated with relocating the DCMAO-El Segundo using other than BRAC MILCON funds.

Planned Construction for DCMD-W. Existing space was not available at the Long Beach Naval Shipyard to accommodate the space requirements of both DCMD-W and DCMAO-El Segundo. Therefore, the DLA BRAC MILCON budget request, the DD Form 1391, of $14.3 million for DCMD-W included construction of a new building. DCMD-W, however, was hoping that the land-swap negotiations between the Navy and the Port Authority would provide DCMD-W with a building and eliminate the need for new construction.

Navy Space Planning Criteria for Office Space. Naval Facilities Engineering Command Publication-80 (NAVFAC P-80), "Facility Planning Criteria for Navy and Marine Corps Shore Installations," October 1982, describes the space allowances for administrative-office-type buildings and identifies the maximum average net office space allowed per building occupant.

DLA Space Requirements Planning

NAVFAC P-80 Floor Area Planning Guidance. NAVFAC P-80 provides guidance to Navy space planners for calculating space required based on number of known building occupants. NAVFAC P-80 specifies two different floor areas as follows:

o The average net office floor area per building occupant will not be less than 80 square feet or more than 90 square feet.

o The average net floor area per building occupant will not be less than 115 square feet or more than 130 square feet.

Net floor area provides space for special purpose rooms, conference rooms, local reproduction facilities, storage, a snack stand and minor food service space, mail rooms, central files, and rooms not used directly as office space.

To compute gross floor area, NAVFAC P-80 states that the net floor area should be multiplied by an adjustment factor to compensate for common circulation, mechanical equipment spaces, and wall thicknesses. The factor should range from 1.12 for efficiently laid out buildings to 1.25 for buildings with a less-efficient layout or with unusual constraints.

DLA Proposed Administrative Facility for DCMD-W. The DLA MILCON budget request overstated the DCMD-W space requirements for the relocation of DCMD-W from General Services Administration leased space in El Segundo to a newly constructed facility at the Long Beach Naval Shipyard. DLA proposed 78,500 square feet to accommodate DCMD-W, which exceeded the space allowances specified in NAVFAC P-80.

Original DCMD-W Floor Area Requirement. According to the DLA original projection of 407 personnel, using the NAVFAC P-80 guidance, the total area DLA requested should not have exceeded 59,259 square feet. The 59,259 square feet is derived from a maximum of 130 square feet of net floor area per building occupant, and includes a net-to-gross adjustment factor of 1.12. DLA applied a 1.175 adjustment factor in arriving at the 78,500 square feet stated on its DD Form 1391. Because the project involves potential construction of a new building, the layout of the building should have been designed for optimum efficiency, and thus DLA should have applied the 1.12 adjustment factor.

Reduced DCMD-W Floor Space Requirement. We calculated a further reduction to floor area requirements because DCMD-W revised its authorized personnel projection downward from 407 to 318 personnel. As a result, the total space requirements should not exceed 46,300 square feet of gross floor area. The 46,300 square feet is derived from a maximum of 130 square feet of net floor area per building occupant and the 1.12 adjustment factor to convert net floor area to gross floor area.

Relocation of the DCMD-W Warehouse. DLA is no longer contemplating relocation of the DCMD-W warehouse in Bell, California, to a newly constructed warehouse at the Long Beach Naval Shipyard. As a result of DCMD-W's anticipated personnel reduction and the planned future implementation of a direct order and delivery system, which will enable DCMD-W activities to order and receive their supplies directly, the need for DCMD-W warehouse space will be greatly diminished. Therefore, as of March 1994, DLA determined that relocating the DCMD-W warehouse to Long Beach Naval Shipyard would not be cost-effective. The warehouse relocation portion of the project, which entailed construction of a 52,500-square-foot warehouse costing more than $2.9 million, should be eliminated from the DLA DD Form 1391.

Alternatives to New Construction

While DLA may perceive new construction to be the only feasible means to relocate DCMD-W within the frame work of the 1993 Commission's recommendations, it is the most expensive option to accomplish the move. Also, the land available for new construction at the Long Beach Naval Shipyard may possibly be contaminated. If so, the costs of clean-up would make this option even more expensive. DLA has two possible alternatives to new construction that would comply with the Commission's recommendation. DLA could either obtain a facility for DCMD-W as a result of the land-swap negotiations, or arrange to renovate an existing building at the Long Beach Naval Shipyard.

Obtaining Office Space Through a Land Swap. The Navy is negotiating a land swap with the Port Authority for the Naval Station Long Beach, which is closing in 1994. If the land swap occurs, the Port Authority will obtain all or most of the Naval Station Long Beach property. In return, the Navy will obtain office space for the functions in the Naval Station Long Beach that will remain open to support the Long Beach Naval Shipyard and could possibly obtain office space for DCMD-W.

Using existing office space obtained in a land-swap would be far less costly for DCMD-W than new construction. However, the Navy believes that the negotiations with the Port Authority will not be completed for at least a year and a half because the Port Authority is likely to delay agreement until after the Commission announces the 1995 BRAC list. The 1995 BRAC list may include the Long Beach Naval Shipyard. If the Commission recommends Long Beach Naval Shipyard for closure, the Port Authority may occupy the entire Naval Station and Naval Shipyard properties at no cost.

Possible Contamination of Naval Station Long Beach. In addition, DLA must consider the issue of contamination at Naval Station Long Beach. Portions of Naval Station Long Beach are known to be contaminated, and as of March 1994, the costs of clean-up are unknown. The cost to clean up the Naval Station Long Beach, plus the cost to relocate the elements from the Naval Station Long Beach that remain open, may equal or exceed the value of the Naval Station property, leaving no remaining value to exchange with the Port Authority for DCMD-W office space.

Moving Into An Existing Facility. Another option available to DCMD-W is to relocate to an existing facility at the Long Beach Naval Shipyard. Originally, the Long Beach Naval Shipyard did not have enough office space to accommodate in one building both DCMD-W, with its original authorized personnel requirement, and DCMAO-El Segundo. As of March 1994, DLA plans to keep DCMAO-El Segundo and DCMD-W together. Because the DCMD-W requirement has decreased from 78,500 square feet to 46,300 square feet, an existing facility at the Long Beach Naval Shipyard may now be capable of housing DCMD-W alone. The Commission's recommendation required only DCMD-W to relocate; the Commission did not address relocating DCMAO-El Segundo. Therefore, if office space is available at the Long Beach Naval Shipyard, and if an economic analysis determines that moving DCMD-W to existing office space on the Long Beach Naval Shipyard is the most cost-effective option, then DCMD-W should move to the Long Beach Naval Shipyard space, regardless of whether the office space can also accommodate DCMAO-El Segundo.

Purchasing Commercial Office Space

As of March 1994, downtown Long Beach and other locations in the near vicinity to the Long Beach Naval Shipyard were experiencing an excess of vacant office space. Facilities are available for purchase at very favorable rates. Should all alternatives of the BRAC recommendations prove to be unworkable, an office building could probably be purchased on the open market at an amount comparable to our reduced BRAC recommendation.

Potential Benefits Resulting From Purchase. The original 10-year lease for the DCMD-W space at El Segundo is due to renew on March 20, 1996. The agreement provides the Government the option to renew the lease for two additional 5-year periods. Without considering rent increases for the option periods, the combined rent through March 2006 would be $55 million. We calculated the combined rent using $4.6 million per year, the annualized rent amount as of February 1994. The current costs of purchasing an office building from the private sector range in price from $60 to $80 per square foot. A 50,000-square-foot office building could be procured at a cost of between

$3 million and $4 million. Compared with continued leasing, the Government would save millions of dollars per year by identifying available federally owned real estate and exploring mechanisms that could be used for DoD to purchase a building from the private sector. DLA should be prepared for this contingency should BRAC recommendations prove impossible to implement.

Recommendations, Management Comments, and Audit Response

Revised Recommendation. Based on management comments, we revised Recommendation 2.e. to modify the reference to the purchase of commercial real estate and added the requirement to assess available federally owned real estate in the Los Angeles area.

1. We recommend that the Comptroller of the Department of Defense reduce and reprogram by $8 million the FY 1994 military construction authorization for the relocation of the Defense Contract Management District-West.

Management Comments. The Comptroller of DoD concurred with our recommendation to reduce funding for the project pending the resolution of the issues. DLA also commented on the recommendation, stating that reducing funding did not allow for any special space requirements such as administrative and support space.

Audit Response. The Comptroller of the Department of Defense comments are responsive. However, we request the Comptroller of DoD to provide a specific date for completing the corrective action in its comments on the final report. DLA comments on the funding computation used in the recommendation were incorrect. The use of net floor area in our audit computation already allows for special space areas. Net floor area computations are designed to include space requirements for administrative and support space.

2. We recommend that the Director, Defense Logistics Agency:

a. Revise and resubmit a DD Form 1391, "FY 1994 Military Construction Project Data," adhering to the space allowances stated in the Naval Facilities Engineering Command Publication-80 to reflect the current requirements and estimated costs for the relocation of the Defense Contract Management District-West.

b. Determine whether any existing buildings at the Long Beach Naval Shipyard can be renovated to accommodate the reduced personnel requirements of the Defense Contract Management District-West.

c. After completing Recommendations 2.a. and 2.b., perform an economic analysis to determine the most cost-effective of the available options to relocate the Defense Contract Management District-West. These options include new construction, renovating an existing facility, or obtaining office space through land swap.

d. Further reduce military construction authorization based on results of Recommendations 2.b. and 2.c.

e. Conditional on the inability to implement the 1993 Defense Commission on Base Closure and Realignment recommendations to relocate the Defense Contract Management District-West to the Long Beach Naval Shipyard or to space obtained from a land swap between the Navy and the Port Authority/City of Long Beach, conduct a survey of the Los Angeles-area real estate market and an assessment of the Los Angeles-area federally owned real estate to identify suitable office space to accommodate the Defense Contract Management District-West. Determine if mechanisms exist for DoD to purchase a building for use by DLA.

Defense Logistics Agency Comments. On Recommendation 2.a., DLA concurred and stated efforts are underway to study and compile the latest requirements. Revised DD Forms 1391 will be prepared and submitted. DLA partially concurred with Recommendation 2.b. to determine whether existing buildings at the Long Beach Naval Shipyard can be renovated to meet DCMD-W needs. However, DLA noted that the conversion ratio, that is, the factor used to convert net square footage to gross square footage, may rise from 12 percent (used in the audit computation) to as high as 25 percent. DLA concurred with Recommendation 2.c. and will perform an economic analysis as recommended. DLA also partially concurred with Recommendation 2.d., stating that the recommendation presupposes that the Navy will be able to make warehouse space available to DLA for renovation. On Recommendation 2.e., DLA nonconcurred by stating that, under Federal law, DLA cannot purchase a building in the private sector. DLA further noted that the audit recommendation would require DLA to violate the Base Closure Act provision that DoD Components take no action that would be inconsistent with Commission recommendations.

Audit Response. On Recommendation 2.b., DLA action meets the intent of our recommendation. The actual conversion ratio would depend on the building selected for renovation. We believe that because DCMD-W space requirements have been further reduced, existing office space that was not previously considered with the original higher space requirements may be available at the shipyard. DLA referred to warehouse space in Recommendation 2.d. Our recommendation was directed to any suitable office space, not warehouse space. DCMD-W reduced office space needs may open up new space options not previously considered. If new space options do materialize, DoD may further reduce the funding authorization as recommended. DLA's nonconcurrence with draft Recommendation 2.e. notes that action under the recommendation would require DLA to violate two statutes. Accordingly, we have modified the reference to DLA purchasing commercial real estate. Recommendation 2.e. is to be accomplished in the event DLA is unable to implement the 1993 Commission recommendation to relocate DCMD-W to the Long Beach Naval Shipyard. The projected amount of leasing costs under the current General Services Administration lease, $55 million through 2006, are substantial. We still believe a commercial real estate survey would be useful in a making future fiscally sound rent-versus-buy decisions, should the 1993 Commission recommendation prove impossible to implement. We have revised draft Recommendation 2.e. to also include an assessment of federally owned real estate in the Los Angeles area so that the survey would provide decisionmakers with all available options. In it comments on the final report, we request DLA to provide a date for the completion of the action to be taken in response to Recommendations 2.b. and 2.c. We ask DLA to reconsider its position on Recommendation 2.d. and to provide additional comments on revised Recommendation 2.e.

Response Requirements Per Recommendation

Responses to the final report are required for the addresses shown for the items indicated in the table below.

	Response Should Cover:		
Addressee	Concur/ Nonconcur	Proposed Action	Completion Date
1. DoD Comptroller			X
2.b. DLA			X
2.c. DLA			X
2.d. DLA	X	X	X
2.e. DLA	X	X	X

Part III - Additional Information

Appendix A. Original Costs, Revised Costs, and Military Construction Authorization Reductions

	Original Costs On DD Form 1391	Revised Costs	Estimated MILCON Authorization Reductions
Headquarters Building	$ 8,608,000	$5,076,795[1]	$3,531,205
Warehouse Building	2,972,000	0	2,972,000
Supporting Facilities	1,276,000	558,447[2]	717,553
Subtotal	$12,856,000	$5,635,242	$7,220,758
Contingency (5 percent)	643,000	281,762	361,238
Estimated Contract Cost	$13,499,000	$5,917,004	$7,581,996
Supervision, Inspection and Overhead (6 percent)	810,000	355,020	454,980
Total	$14,309,000	$6,272,024	$8,036,976

[1] The revised cost for the Headquarters Building was determined by multiplying 318 personnel by 130 square feet, the maximum average net floor area per building occupant allowed by NAVFAC P-80. Then, to convert the net area to gross area, a factor of 12 percent of the net area was added, resulting in a gross square footage of 46,300 square feet. The cost was then determined by multiplying the 46,300 square feet by $109.65, the unit cost on the DD Form 1391.

[2] The revised cost for the supporting facilities was calculated by using 11 percent of the cost of the Headquarters Building. The 11 percent was derived by using the same percentage of supporting facilities cost as shown on the original DD Form 1391.

Appendix B. Summary of Prior Audits and Other Reviews

Inspector General, DoD

Report No.	Report Title	Date
94-103	Air Force Reserve 301st Fighter Wing Covered Aircraft Washrack Project, Carswell Air Reserve Base Texas.	May 18, 1994
94-040	Summary Report on the Audit of Defense Base Closure and Realignment Budget Data for FYs 1993 and 1994	February 14, 1994
93-100	Summary Report on the Audit of Defense Base Closure and Realignment Budget Data for FYs 1992 and 1993.	May 25, 1993

Naval Audit Service

023-S-94	Military Construction Projects Budgeted and Programmed for Bases Identified for Closure or Realignment.	January 14, 1994
028-C-93	Implementation of the 1993 Base Closure and Realignment Process.	March 15, 1994

Appendix C. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and Efficiency. Reduces the FY 1994 MILCON authorization for overstated requirements.	Funds put to better use of $8 million for FY 1994 Base Closure Account.
2.a.	Compliance. Results in more accurate estimates of the requirements and costs of the BRAC MILCON project.	Nonmonetary.
2.b.	Economy and Efficiency. Determines whether existing buildings at the Long Beach Naval Shipyard can accommodate the requirements of DCMD-W.	Nonmonetary.
2.c.	Economy and Efficiency. Determines through an economic analysis the most cost-effective option to relocate DCMD-W.	Nonmonetary.
2.d.	Economy and Efficiency. Further reduces the DLA MILCON authorization based on results of Recommendations 2.b. and 2.c.	Undeterminable until outcome of Recommendations 2.b. and 2.c. is known.
2.e.	Economy and Efficiency. Surveys federally owned real estate and commercial buildings for availability.	Nonmonetary.

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Deputy Assistant Secretary of Defense (Economic Reinvestment and BRAC), Under
Secretary of Defense for Acquisition and Technology, Washington, DC

Department of the Navy

Base Closure Implementation Branch, Chief of Naval Operations, Washington, DC
Naval Facilities Engineering Command, Alexandria, VA
Southwest Division, San Diego, CA
Commander in Chief, Pacific Fleet, Long Beach Naval Shipyard, CA

Defense Organizations

Defense Logistics Agency, Alexandria, VA
Defense Contract Management District-West, Defense Contract Management
Command, El Segundo, CA

Other Government Organization

General Services Administration, Washington, DC

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Under Secretary of Defense for Personnel and Readiness
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Assistant Secretary of Defense (Economic Security)
Assistant to the Secretary of Defense (Public Affairs)
Deputy Assistant Secretary of Defense (Economic Reinvestment and BRAC)

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Installations and Environment)
Commander in Chief, Pacific Fleet
  Commander, Long Beach Naval Shipyard
Comptroller of the Navy
Commander, Naval Facilities Engineering Command
  Commander, Southwest Division
Auditor General, Naval Audit Service

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
  Commander, Defense Contract Management Command
    Commander, Defense Contract Management District-West
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations

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

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 Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations
Senator Barbara Boxer, U.S. Senate
Senator Dianne Feinstein, U.S. Senate
Congresswoman Jane Harman, U.S. House of Representatives
Congressman Steve Horn, U.S. House of Representatives

Part IV - Management Comments

Comptroller of the Department of Defense Comments

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

(Program/Budget)

APR 28 1994

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD IG

SUBJECT: Quick-Reaction Report on the Audit of Defense Base Closure and Realignment Budget Data for the Defense Contract Management District-West (Project No. 4CG-5008.07)

This responds to your April 4, 1994, memorandum requesting our comments on the subject report.

The audit recommends that the DoD Comptroller reduce funding for the project supporting the relocation of the Defense Contract Management District-West from leased space in El Segundo, CA, to the Long Beach Naval Shipyard, CA, by $8 million and revise the DD Form 1391 accordingly.

We agree that funding for this project should be reduced and the DD Form 1391 revised pending resolution of these issues.

[illegible]

[illegible]

[illegible]

Defense Logistics Agency Comments

APR 29 '94 12:39 FROM DLA-CI PAGE.001

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

28 APR 1994

IN REPLY REFER TO DDAI

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Quick-Reaction Report on the Audit of Defense Base Closure and Realignment Budget Data for the Defense Contract Management District-West (Project No. 4CG-5008.07)

This is in response to your 4 April 1994 request.

Jacqueline G. Bryant

JACQUELINE G. BRYANT
Chief, Internal Review Office

6 Encl

cc:
AQC
MMDI
FOX
FOB
CAAJ (BRAC)

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL	# of pages ▸ 8
To Bruce Burton	From E. Snider
Dept./Agency DoDIG	Phone # 274-1065
Fax # 692-3029	Fax # 617-7890

NSN 7540-01-317-7368 5099-101 GENERAL SERVICES ADMINISTRATION

APR 29 '94 12:39 FROM DLA-CI PAGE 002

TYPE OF REPORT: AUDIT

PURPOSE OF POSITION: INITIAL POSITION

AUDIT TITLE & NO: Quick-Reaction Report on the Audit of Defense Base Closure and Realignment Budget Data for the DCMDW (Project No. 4CG-5008.07)

FINDING: a. The DLA FY 1994 BRAC MILCON budget request for $14.3 million for the construction of a new DCMD-W administrative facility and warehouse at the Long Beach Naval Shipyard overstated DCMD-W space requirements. DLA overstated the space requirements because DLA did not adhere to Navy criteria for projecting allowable authorized space. In addition, DLA did not revise its budget request to consider DLA's projected decline in DCMD-W authorized personnel strength and the resulting cancellation of plans to construct a new DCMD-W warehouse. As a result, the requested project costs of $14.3 million can be decreased by $8 million (Appendix A).

b. Further, project costs may decrease even more if DLA pursues other options such as renovating an existing facility on Long Beach Naval Shipyard or obtaining a facility through land-swap negotiations between the Navy and the Port Authority/City of Long Beach (the Port Authority) as alternatives to satisfy DCMD-W administrative requirements.

c. If the 1993 Commission recommendations prove impossible to implement, DLA should consider purchasing a building from the private sector.

DLA COMMENTS:

a. PARTIALLY CONCUR. We agree there are potential savings. At this point we are unable to specify the savings for the following reasons:

1. A recent study performed by DCMDW (copy previously provided to the DoD IG) determined that it was not cost-effective to move the warehouse from its current location. The requirement for warehouse space will be reduced upon implementation of a direct order and delivery system for each activity currently serviced by the warehouse. A comparison of costs for continuing the warehouse lease at its current location with costs of new warehousing construction, indicated it is more economical to continue leasing current warehouse space than build new space. Revised DD Form 1391 will reflect a reduction of warehouse space in the MILCON requirements.

2. Further, as a result of an ongoing organizational reconfiguration which will result in streamlining, the number of personnel employed at DCMDW will be less than originally projected in the DD1391s. Efforts are currently underway to determine requirements based on the reconfigured organization and the assimilation of additional workload from DCMD Northcentral. (As a result of implementing a BRAC 93 recommendation, DCMD Northcentral will be disestablished at the end of June 1994.) The revised DD1391s will reflect a reduced figure for administrative and support space due to the reduced number of personnel.

It should be noted that the IG recommendation does not allow for any special space requirements. In accordance with Navy Facilities Engineering Command Publication - 80, special space requirements are to be added to the

APR 25 '94 12:42 FROM DLA-[illegible] PAGE 223

administrative and support space. The DCMDW requires additional space to accommodate existing units such as the command and control center, health and safety clinic, computer processing center, credit union, etc. The space estimated by the IGs does not provide for these special space requirements. Therefore, the recommended IG reduction must be revised to accommodate costs for special space requirements. The revised DD1391s will reflect the requirement for special space.

b. and c. Responses to recommendations reflect DLA's position on these items.

(The DoD IG found no material internal control weaknesses.)

ACTION OFFICER: Lucy M. Daris
PSE REVIEW/APPROVAL: CAAJ(BRAC)
COORDINATION: AO, MMDI, POX, O. Coleman, DDAI, 26 Apr 94
Bryant, 28 Apr 94, DDAI

DLA APPROVAL: 2 6 APR 1994

[illegible]

Lt. [illegible] JR.
Major [illegible]
Principal Deputy Director

APR 29 '94 12:40 FROM DLA-CI PAGE 004

TYPE OF REPORT: AUDIT

PURPOSE OF POSITION: INITIAL POSITION

AUDIT TITLE & NO: Quick-Reaction Report on the Audit of Defense Base Closure and Realignment Budget Data for the DCMDW (Project No. 4CG-5008.07)

RECOMMENDATION 2.a: Recommend that the Director, Defense Logistics Agency, revise and resubmit a DD Form 1391, "FY 1994 Military Construction Project Data," adhering to the space allowances stated in the Naval Facilities Engineering Command Publication-80 to reflect the current requirements and estimated costs for the relocation of the DCMDW.

DLA COMMENTS:

CONCUR. Efforts are currently underway to study and compile the latest requirements. Upon its completion revised DD Forms 1391s will be prepared and submitted.

The DoD IG found no material internal control weakness.

DISPOSITION:
(x) Action is Ongoing. Estimated Completion Date: 30 Oct 94
( ) Action is Considered Complete.

ACTION OFFICER: Lucy M. Daris
PSE REVIEW/APPROVAL: CAAJ(BRAC)
COORDINATION: AQ, MMDI, FOX, O Coleman, DDAI, 26 Apr 94
Bryant, DDAI, 27 Apr 94

DLA APPROVAL:

Lawrence P. Farrell

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

TYPE OF REPORT: AUDIT

PURPOSE OF POSITION: INITIAL POSITION

AUDIT TITLE & NO: Quick-Reaction Report on the Audit of Defense Base Closure and Realignment Budget Data for the DCMDW (Project No. 4CG-5008.07)

RECOMMENDATION 2.b: Recommend that the Director, Defense Logistics Agency, determine whether any existing buildings at the Long Beach Naval Shipyard can be renovated to accommodate the reduced personnel requirements of the DCMDW.

DLA COMMENTS:

PARTIALLY CONCUR. The DLA BRAC Office has requested space to house DCMDW from the Navy BRAC Office. (A copy of the letter was furnished to the DoD IGs.) The Navy BRAC Office is currently trying to determine how to accommodate DCMDW requirements. Various alternatives, including the feasibility of renovating existing buildings at the Long Beach Naval Shipyard, are being pursued.

Of note is that DLA may house DCMDW at Long Beach in an existing building provided by the Navy. However, the building most likely will require renovation to accommodate the DCMDW. A cost analysis will be performed to determine the appropriate conversion factor. However, in accordance with NAVFAC P-80, the conversion ratio of net to gross will most likely increase from 12% (which the DoD IG used in its calculations) to a higher limit not to exceed 25%.

The DoD IG found no material internal control weaknesses.

DISPOSITION:
(x) Action is Ongoing. estimated Completion Date: Action cannot be completed until the Navy has identified space to DLA.
( ) Action is Considered Complete

ACTION OFFICER: Lucy M. Daris
PSE REVIEW/APPROVAL: CAAJ(BRAC) 28 APR 1994
COORDINATION: AQ, MMDI, FOX, O Coleman, DDAI, 26 Apr 94
JBryant, DDAI, 28 Apr 94
DLA APPROVAL:

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

APR 29 '94 12:41 FROM DLA-DI PAGE 005

TYPE OF REPORT: AUDIT

PURPOSE OF POSITION: INITIAL POSITION

AUDIT TITLE & NO: Quick-Reaction Report on the Audit of Defense Base Closure and Realignment Budget Data for the DCMDW (Project No. 4CG-5008.07)

RECOMMENDATION 2.c: Recommend that the Director, Defense Logistics Agency, after completing Recommendations 2.a and 2.b, perform an economic analysis to determine the most cost-effective of the available options to relocate the DCMDW. These options include new construction, renovating an existing facility or obtaining office space through land swap.

DLA COMMENTS:

CONCUR. An economic analysis will be performed after 2b is accomplished.

The DoD IG found no internal control weaknesses.

DISPOSITION:
(x) Action is Ongoing. Estimated Completion Date: Action cannot be accomplished until Navy has notified DLA of potential relocation sites.
( ) Action is Considered Complete

ACTION OFFICER: Lucy M. Daris
PSE REVIEW/APPROVAL: CAAJ(BRAC)
COORDINATION: AQ, MMDI, FOX, O Coleman, DDAI, 26 Apr 94
DLA APPROVAL: Bryant, DDAI, 28 Apr 94

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

APR 29 '94 12:42 FROM DLA-CI PAGE.027

TYPE OF REPORT: AUDIT

PURPOSE OF POSITION: INITIAL POSITION

AUDIT TITLE & NO: Quick-Reaction Report on the Audit of Defense Base Closure and Realignment Budget Data for the DCMDW (Project No. 4CG-5008.07)

RECOMMENDATION 2.d: Recommend that the Director, Defense Logistics Agency, further reduce military construction authorization based on results of Recommendations 2.b and 2.c.

DLA COMMENTS:

PARTIALLY CONCUR. The recommendation presupposes that the Navy will be able to make warehouses available to DLA for renovation and that it will prove to be more cost effective to renovate. If the warehouses were to be in a deteriorated state, it might be more cost-effective to build rather than renovate. Therefore any further reduction in DLA's military construction, if any, will be pursued only after project costs are determined. (Since a determination of costs will be accomplished after the Navy advises us of how they plan to accommodate our requirements and revised DD Form 1391s prepared to reflect the actual project, this recommendation is considered complete.)

The DoD IG found no internal control weaknesses.

DISPOSITION:
( ) Action is Ongoing. estimated Completion Date: Action cannot be accomplished until Navy identifies a relocation site.
(x) Action is Considered Complete

ACTION OFFICER: Lucy M. Daris
PSE REVIEW/APPROVAL: CAAJ(BRAC)
COORDINATION: AQ, MMDI, FOX, O Coleman, DDAI, 26 Apr 94
DLA APPROVAL: Boyt, DDAI, 28 Apr 94

LAWRENCE P. FARRELL, JR.
Major General, USAF
Principal Deputy Director

Final Report Reference

TYPE OF REPORT: AUDIT

PURPOSE OF POSITION: INITIAL POSITION

AUDIT TITLE & NO: Quick-Reaction Report on the Audit of Defense Base Closure and Realignment Budget Data for the DCMDW (Project No. 4CG-5008.07)

Revised. RECOMMENDATION 2.e: Recommend that the Director, Defense Logistics Agency, conditional on the inability to implement the 1993 Defense commission on Base Closure and Realignment recommendations for relocating the DCMDW to the Long Beach Naval Shipyard or to space obtained from a land swap between the Navy and the Port Authority/City of Long Beach, consider purchasing a building from the private sector. Conduct a survey of the Los Angeles area commercial real estate market to identify suitable office space to accommodate the DCMDW.

DLA COMMENTS:

NONCONCUR: Since 10 U.S.C. 2682 requires that real property facilities occupied by Defense Agencies must be under the jurisdiction of a Military Department, DLA is not permitted to own a building. Therefore, DLA cannot initiate purchase of a building from the private sector.

Further, the Commission recommended that DLA: "relocate the Defense Contract Management District, El Segundo, California, to Long Beach Naval Shipyard, Los Angeles, California, OR space obtained from exchange of land for space between the Navy and the Port Authority/City of Long Beach." The recommendation was based, in part, on a Commission finding that there was an "apparent abundance of available buildings on DoD installations or other federally owned buildings." Implementation of this DoD IG recommendation would require that DLA violate the General Directive in Section 2925 of the Base Closure Act that in carrying out Commission recommendations we "TAKE NO ACTION THAT IS INCONSISTENT WITH SUCH RECOMMENDATIONS."

The DoD IG found no material internal control weaknesses.

DISPOSITION:
( ) Action is Ongoing. estimated Completion Date:
(x) Action is Considered Complete

ACTION OFFICER: Lucy M. Daris
PSE REVIEW/APPROVAL: CAAJ(BRAC)
COORDINATION: AQ, MMDI, FOX, O Coleman, DDAI, 26 Apr 94
Bryant, DDAI, 28 Apr 94
DLA APPROVAL:

LAWRENCE P. FARRELL, JR.
Major General, USAF
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Bruce A. Burton	Audit Project Manager
Steven I. Case	Senior Auditor
LaNita C. Matthews	Auditor
John A. Seger	Auditor
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