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Report No. D-2011-070

June 15, 2011

# Inspector General

United States  
Department of Defense



## Planning Needed on Special Purpose Entity Funds for the Guam Realignment

Derived from: Secretary of Defense Memorandum "Commander PACOM  
Perspective on Guam," November 15, 2010  
Declassify on: November 2, 2030

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### Acronyms and Abbreviations

ASN (EI&E)	Assistant Secretary of the Navy (Energy, Installations and Environment)
DON	Department of the Navy
GAO	Government Accountability Office
GOJ	Government of Japan
IG	Inspector General
JGPO	Joint Guam Program Office
NAVFAC	Naval Facilities Engineering Command
OHA	Overseas Housing Allowance
POM	Program Objectives Memorandum
PPV	Public-Private Venture
SPE	Special Purpose Entity
USMC	United States Marine Corps



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INSPECTOR GENERAL  
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ARLINGTON, VIRGINIA 22202-4704

June 15, 2011

MEMORANDUM FOR THE DEPUTY SECRETARY OF DEFENSE

SUBJECT: Planning Needed on Special Purpose Entity Funds for the Guam  
Realignment (Report No. D-2011-070) (U)

~~(FOUO)~~ We are providing this report for your review and use. The III Marine Expeditionary Force relocation to Guam is estimated to cost approximately \$10.27 billion, of which the government of Japan has agreed to provide \$6.09 billion. The government of Japan and DoD disagree on significant elements related to financing the construction and maintenance of family housing and utilities. We considered management comments on a draft of this report when preparing the final report.

~~(S)~~ Comments on the draft report did not conform to the requirements of DoD Directive 7650.3. However, DoD is considering alternative actions that may meet the intent of our recommendations. Therefore, additional comments to the final report are not required at this time. We revised recommendation 3 as a result of management comments to the draft report.

(U) We appreciate the courtesies extended to the staff. Please direct questions to me at (614) 751-~~(b)(6)~~

Amy J. Frontz  
Principal Assistant Inspector General  
for Auditing

Derived From: Secretary of Defense Memorandum "Commander PACOM  
Perspective on Guam," November 15, 2010  
Declassify On: November 2, 2030

SPECIAL WARNING

~~This report contains information exempt from disclosure under the Freedom of Information Act, 5 U.S.C. § 552(b)(3) and § 552(b)(5).~~

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# Results in Brief: Planning Needed on Special Purpose Entity Funds for the Guam Realignment (U)

## What We Did (U)

(U) Our audit objective was to determine whether DoD developed plans and procedures for the repayment of funds financed by the Special Purpose Entities (SPEs). The estimated cost for the III Marine Expeditionary Force relocation to Guam is approximately \$10.27 billion. The government of Japan (GOJ) has agreed to provide \$6.09 billion, which will include approximately \$3.29 billion in equity and loans to SPEs that will finance construction and maintenance of family housing and utilities.

## What We Found (U)

~~(FOUO)~~ DoD has not developed adequate plans and procedures for the repayment of SPE funds because the GOJ and DoD disagree on significant elements related to the current family housing and utility plans financed by the GOJ. Also, DoD plans include only its negotiating position. The “United States-Japan Roadmap for Realignment Implementation” and subsequent agreements and correspondence between the two governments did not clearly define the key elements related to the repayment of funds to the GOJ. As a result, the lack of agreement could impact the receipt of GOJ funds and plans to relocate U.S. Marine Corps (USMC) forces. DoD might have to alter technical solutions, identify additional sources of funds for family housing and utility costs, and establish a process to oversee the repayment of funds to the GOJ if the position agreed upon after negotiations is not the current DoD position.

## What We Recommend (U)

~~(FOUO)~~ The Commandant of the USMC, in coordination with the Assistant Secretary of the Navy (Energy, Installations and Environment)

(ASN[EI&E]) and the Executive Director, Joint Guam Program Office (JGPO), plan for the possibility that the GOJ funds will need to be repaid.

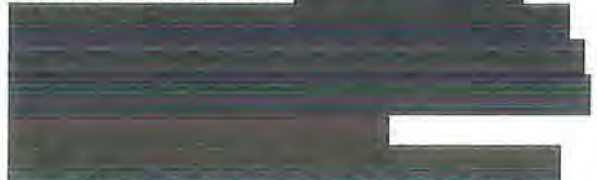
~~(FOUO)~~ The Executive Director, JGPO, complete an analysis identifying the similarities and differences between the Public-Private Venture and Private Finance Initiative models.

~~(FOUO)~~ The Commandant of the USMC perform a study quantifying the effect of the overseas housing allowance rental rate on the Department of the Navy budget.

~~(FOUO)~~ The Commandant of the USMC, in coordination with the Executive Director, JGPO, update the schedule for the USMC units’ occupation of the family housing units to ensure it corresponds to the detailed force relocation schedule and timeline for the III Marine Expeditionary Force units’ relocation from Okinawa to Guam.

## Management Comments and Our Response (U)

~~(S)~~ The Commandant of the USMC and the Office of the ASN (EI&E) partially agreed with the recommendations. <sup>OSD/JS - (b)(5)</sup>



Once DoD reaches a final decision on their plan of action, DoD should revisit the recommendations and implement those that apply.

### Recommendations Table (U)

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Commandant of the U.S. Marine Corps		1, 3, 4
Assistant Secretary of the Navy (Energy, Installations and Environment)		1, 2, 4
Executive Director, Joint Guam Program Office		1, 2, 4

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## Introduction (U)

### Objective (U)

(U) Our audit objective was to determine whether DoD developed procedures for monitoring and calculating the repayment of funds financed by the Special Purpose Entities (SPEs) for the construction and maintenance of housing and utilities in Guam. Specifically, we determined whether internal controls were in place to ensure accurate and timely repayment amounts. Because the formation of the SPEs was in the planning phase, our audit focused on internal controls related to processes and procedures for planning program operations and monitoring program performance. We conducted this audit in accordance with the requirements of Section 2835 of Public Law 111-84, the FY 2010 National Defense Authorization Act. Section 2835 of the Act, "Interagency Coordination Group of Inspectors General for Guam Realignment," places a duty on the Interagency Coordination Group to conduct, supervise, and coordinate audits and investigations of the treatment, handling, and expenditure of amounts appropriated or otherwise made available for military construction on Guam and of the programs, operations, and contracts carried out using such funds. See Appendix A for a discussion of the scope and methodology.

### Background (U)

(U) The "United States-Japan Roadmap for Realignment Implementation," dated May 1, 2006,<sup>1</sup> (the Roadmap) documented specific initiatives, plans, and implementation schedules for the realignment of U.S. Forces in Japan and related Japan Self-Defense Forces. The realignment includes relocating approximately 8,000 III Marine Expeditionary Force personnel and their approximately 9,000 dependents from Okinawa, Japan, to Guam by 2014.

~~(FOUO)~~ To support the realignment effort, the government of Japan (GOJ) agreed to provide \$6.09 billion of the estimated \$10.27 billion that is needed. Of the \$6.09 billion, approximately \$2.8 billion would be in direct cash contributions for facilities and infrastructure development. Subsequent correspondence and agreements between the U.S. Government and the GOJ indicated that approximately \$3.29 billion would be equity and loans to SPEs to finance construction and maintenance of housing and utilities. The \$3.29 billion was comprised of \$2.55 billion in equity and loans to construct up to 3,520 houses on Guam and \$0.74 billion in loans to finance utilities infrastructure. Based on the U.S. Marine Corps (USMC) decreasing the number of required housing units to 2,739 and altering the type of financing, the \$2.55 billion decreased to approximately \$1.62 billion. As of May 2010, the total GOJ estimated contribution in financial instruments for SPEs was decreased to approximately \$2.36 billion.

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<sup>1</sup> (U) According to an Office of the Under Secretary of Defense for Policy official, the Guam relocation is one of 19 Agreed Implementation Plans associated with the Roadmap.

~~(FOUO)~~ According to the "Joint Guam Program Office Guam Military Realignment Overview," February 5, 2008, the DoD plans to reimburse GOJ contributions through overseas housing allowance (OHA) payments and utility rates. The OHA is a payment funded by the Military Personnel appropriation that compensates service members for the majority of their housing and utility expenses when living in non-DoD housing overseas. The OHA is comprised of three components: rental allowance, which is a monthly payment to cover rent or lease payments; utility/recurring maintenance allowance, which is a monthly allowance to cover the costs of utilities; and the move-in housing allowance, which is a lump-sum payment to purchase standard housing equipment to make the dwelling habitable.

### ***Special Purpose Entities (U)***

~~(FOUO)~~ The National Defense Authorization Act for FY 2010 defines an SPE as any private corporation, company, or partnership that the Secretary of Defense determines is capable of producing military family housing or providing utilities to support the realignment of military installations and the relocation of military personnel on Guam. SPEs will use GOJ provided financing for the construction and maintenance of military family housing and utilities infrastructure on Guam. Currently, DoD is planning for one housing SPE to design, construct, operate, manage, and maintain up to 2,739 housing units for the military families associated with the Guam realignment. DoD is also planning for three separate utility SPEs to make improvements to the water system, power system, and wastewater treatment plant.

~~(FOUO)~~ The Roadmap does not state how the SPEs should be structured in order to meet the DoD requirements for military family housing and utilities infrastructure. One model that can be used as the housing SPE structure is the Public-Private Venture (PPV) structure. A PPV is a joint venture that establishes a limited liability company with a non-governmental partner(s) and allows the Department of the Navy (DON) to have input in key decisions throughout the course of the 50-year land lease. Another structure that could be used is the Private Finance Initiative. A Private Finance Initiative provides for public projects to be financed and monitored by financial institutions. The GOJ uses the Private Finance Initiative model to finance construction projects in Japan.

### ***DOD Roles and Responsibilities (U)***

(U) On August 25, 2006, the Deputy Secretary of Defense established the Joint Guam Program Office (JGPO) to facilitate, manage, and execute requirements associated with the relocation of USMC assets from Okinawa, Japan, to Guam. JGPO coordinates the planning efforts and synchronizes funding requirements between DoD Components and other stakeholders. JGPO reports to the Assistant Secretary of the Navy (Energy, Installations and Environment) (ASN [EI&E]) and works closely with the governments of Japan and Guam, Guam Power Authority, Guam Waterworks Authority, Federal agencies, and Congress to manage the comprehensive realignment effort. JGPO must implement the terms and concepts that are agreed to by the U.S. Government and defined by the Office of the Under Secretary of Defense for Policy. JGPO receives planning assistance from the Naval Facilities Engineering Command (NAVFAC).

(U) NAVFAC assists JGPO in conducting analyses and developing an acquisition strategy for infrastructure needed to support DoD's operational requirements. NAVFAC is also the contracting office and agent responsible for executing all construction contracts related to the USMC realignment to Guam. NAVFAC will represent DoD as a housing SPE partner and will participate in decisions regarding the housing SPE structure and management. In addition, NAVFAC will represent the DON in the water, power, and wastewater service agreements with the Water SPE, Guam Power Authority, and Guam Waterworks Authority.

(U) The Headquarters, USMC, identifies all requirements associated with the realignment of III Marine Expeditionary Force remaining in Japan and those relocating to Guam. This includes preparing a force relocation schedule identifying the USMC units and the corresponding time those units will relocate to Guam. In addition, the Headquarters, USMC, will conduct normal programming and budgeting actions related to the realignment of III Marine Expeditionary Force. The programming and budgeting should include identifying costs related to planning, construction, sustainment, operations and maintenance, families, and other activities related to the realignment of III Marine Expeditionary Force.

## **Review of Internal Controls (U)**

~~(FOUO)~~ DOD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DOD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses for the Headquarters, USMC; ASN (EI&E); and JGPO. The Headquarters, USMC; ASN (EI&E); and JGPO did not adequately plan for the possible repayment of GOJ funds. In addition, JGPO did not adequately evaluate the housing SPE models. Furthermore, JGPO and Headquarters, USMC, did not ensure that the family housing phasing plan and the force relocation schedules aligned.

## **Finding. Status of Special Purpose Entity Plans and Agreements (U)**

~~(FOUO)~~ DoD has not developed adequate plans and procedures for the repayment of SPE funds. This occurred because the GOJ and DoD disagree on significant elements related to the current family housing and utility plans financed by the GOJ. Also, DoD plans include only its negotiating position. The significant elements related to the repayment of funds to the GOJ were not clearly defined in the Roadmap and subsequent agreements and correspondence between the two governments. Significant elements include the:

- definition of recoverability,
- SPE model to build military family housing,
- OHA rental allowance rate,
- funding of utilities infrastructure that benefits both the USMC and the citizens of Guam, and
- family housing units needed by the USMC.

~~(FOUO)~~ The lack of agreement and clarity may impact the receipt of GOJ funds and the USMC relocation date. DoD might have to alter technical solutions, identify additional sources of funds for family housing and utility costs, and document a process to oversee the repayment of funds to the GOJ if the position agreed upon after negotiations is not the current DoD position.

## **DOD's Current Plans for the Special Purpose Entities (U)**

~~(FOUO)~~ DoD has not developed adequate plans and procedures for the repayment of SPE funds. According to a JGPO official, it is not clear what role DoD will have in establishing internal controls for repayment of funds to the GOJ by the housing and utility SPEs. Current DoD plans assume that the housing and utility SPEs will not provide the GOJ the opportunity to receive any return on their investment until the housing and utility SPEs pay operating expenses, fund reserve and recapitalization accounts, and receive management and incentive fees.

### ***Housing (U)***

~~(FOUO)~~ According to JGPO officials, the members of the housing SPE will include the GOJ, DoD, and a private entity. The GOJ will select the private entity to manage the project through a Request for Proposal process.<sup>2</sup> The DoD plans to use a PPV concept, which requires the private entity to design and construct up to 2,739 family housing units as well as operate and maintain those units for a lease period of 50 years. However, as a member of the housing SPE, the DoD wants to have approval over key decisions such as

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<sup>2</sup> (U) A Request for Proposal is used in acquisitions to communicate Government requirements to prospective contractors.

approving the housing SPE annual budget. The housing SPE annual budget will include plans for financing current operations as well as short-term and long-term repair and recapitalization costs. The operating income for the housing SPE will be derived from the OHA rental allowance that is paid to each Service member who resides in the housing. The OHA rental allowance reflects the market level of rent paid by military members living in the area.

### **Utilities (U)**

~~(FOUO)~~ According to JGPO officials, there will be three utility SPEs established to meet water, power, and wastewater requirements. In May 2010, DoD created two cost estimates for meeting utility requirements. The first estimate, \$846 million, was the cost needed to meet only USMC requirements. The second estimate, \$569 million, was the cost needed to support the "One Guam" approach. The "One Guam" approach supports Section 2832 of the FY 2010 National Defense Authorization Act, which states that the scope of utility infrastructure improvements on Guam should support those that incorporate the civilian and military infrastructure into a single grid, rather than simply supporting military installations. According to JGPO officials, the "One Guam" approach is more cost effective than creating stand-alone solutions to address only USMC requirements. In June 2010, DoD updated the cost estimates to support the utility requirements. The cost needed to fund the USMC requirement decreased to \$781 million and the cost needed to fund the "One Guam" approach increased to \$740 million.

~~(FOUO)~~ In order to implement the "One Guam" approach, JGPO plans to finance improvements for each utility system with GOJ funding. For water, DoD plans to have a direct contractual relationship with the water SPE that will be responsible for drilling wells and transmitting water to DoD customers. DoD plans to pay for water services provided by the water SPE through utility water rates. For power and wastewater, DoD will not have a direct relationship with the power and wastewater SPEs. The Guam Power Authority and Guam Waterworks Authority will have separate contracts with the power and wastewater SPEs to finance, construct, and operate the facility and equipment upgrades. DoD will be considered a customer of Guam Power Authority and Guam Waterworks Authority and will work with those authorities to establish service and rate agreements.

### **Government of Japan and DoD Plans for Significant Elements (U)**

~~(FOUO)~~ In correspondence exchanged between the GOJ and DoD, there was a disagreement and lack of clarity on significant elements related to the current family housing and utility plans financed by the GOJ. The significant elements include the:

- definition of recoverability,
- housing SPE structure,
- sufficiency of the OHA rental allowance rate,
- use of GOJ funds for the utilities SPEs, and
- family housing units needed by the USMC.

Disagreement on the significant elements may delay securing GOJ funds for family housing and utilities infrastructure and contribute to not meeting the relocation date.

### **Defining Recoverability (U)**

~~(FOUO)~~ According to the "U.S.-Japan Cost Sharing for the Relocation of USMC in Okinawa to Guam," May 1, 2006, both the GOJ and DoD agreed that a portion of the housing and utility cost is recoverable; however, the GOJ and DoD do not agree on the

*... GOJ and DoD agreed that a portion of the housing and utility cost is recoverable; however, the GOJ and DoD do not agree on the definition of "recoverable."*

definition of "recoverable." According to the GOJ responses regarding housing SPE considerations and roles and responsibilities issues, the GOJ believes that the term "recoverable" guarantees that DoD will repay the amount GOJ contributed to finance the housing and utility SPEs. Without a guarantee

of recoverability, the GOJ indicated that securing the equity and loans for the project may not be possible. According to Office of the Under Secretary of Defense for Policy and JGPO officials, the DoD position is that the GOJ is not guaranteed repayment of their contribution. However, current DoD plans may allow the GOJ to receive revenue from SPEs or Guam utilities that could lead to recovery of their funds.

~~(FOUO)~~ The "U.S.-Japan Cost Sharing for the Relocation of USMC in Okinawa to Guam," May 1, 2006, document did not define "recoverable," which allowed for the term to be interpreted differently by both governments. Both the GOJ and DoD continue to use the term "recoverable" in documentation and discussions despite disagreement on how the term should be defined. By not clearly defining the term "recoverable," the "U.S.-Japan Cost Sharing for the Relocation of USMC in Okinawa to Guam" and subsequent agreements and correspondence created a disagreement that may impact funding provided by the GOJ and is delaying progress in planning for the housing and utility infrastructure to relocate USMC forces. Currently, senior leaders from the Office of the Secretary of Defense and the ASN (EI&E) are discussing utility financing solutions, including the issue of recoverability, with the Ministry of Defense of Japan and the Japan Bank for International Cooperation. While negotiations are on-going, DoD needs to determine how the definition of recoverability will affect current housing and utility plans. If it is determined that a portion or the entire amount of GOJ contributions will require repayment, DoD will need to identify an office that will develop a process to monitor the repayment of GOJ funds. Identifying an office responsible for overseeing the repayment of SPE funds will help prevent further delays once agreements are in place.

### **Determining the Housing Special Purpose Entity Model (U)**

~~(FOUO)~~ The GOJ and DoD have not agreed to the SPE model that will be used to build military family housing on Guam. According to GOJ and DoD housing SPE correspondence, the GOJ does not agree that the SPE model should be the PPV model. The GOJ states that, "PPV may serve as a good reference for structuring the Guam Family Housing project, but all elements of the Guam Family Housing Project should be reviewed..." and differences from the Japanese model, Private Finance Initiative, should be identified.

~~(FOUO)~~ According to JGPO officials, the GOJ initially agreed to use the PPV model. However, there is no written agreement indicating that the PPV model will be used. In fact, the Roadmap does not specify the housing SPE model that would be used. Based on verbal agreements with the GOJ, JGPO officials stated that they did not perform an analysis identifying the similarities or differences between the PPV and Private Finance Initiative models. An analysis would support which model is best for the Guam Family Housing project and could help DoD personnel involved in negotiations secure GOJ equity and loans.

### ***Reviewing and Adjusting the Overseas Housing Allowance (U)***

~~(FOUO)~~ The GOJ and DoD have not agreed on the OHA rental allowance rate that will be used to make payments to the housing SPE. According to GOJ and DoD housing SPE correspondence, the GOJ does not believe that the market-level OHA rental allowance rate will allow for recovery of their funds. The GOJ believes DoD should increase the OHA rental allowance rate above the market-level. According to a USMC official, DoD will not increase the OHA rental allowance rate at the request of the GOJ. DoD has agreed to review, and if necessary, adjust the OHA rental allowance rate every 3 months instead of the required 6 months.<sup>3</sup> This will allow the OHA rental allowance rate to more accurately reflect the market-level based on the current amount of rent paid by military members. In addition, the Joint Federal Travel Regulation, Volume 1, "Uniformed Service Members," states that the OHA paid cannot deviate from Federal policy unless the Secretary of the military department concerned and the Deputy Under Secretary of Defense (Military Personnel Policy) jointly authorize a different OHA rate.

~~(FOUO)~~ The Roadmap and "Agreed U.S.-Japan Sharing of Development Costs for USMC Relocation to Guam," September 14, 2006, do not indicate whether the OHA rental allowance rate will be affected by the relocation of USMC personnel or by the GOJ need for recovery of their funds. However, USMC officials expressed concern that the OHA rental allowance rate will increase due to the significant increase in population on the island of Guam. If the rental allowance rate increases, the USMC will need additional funding to cover the increase.

~~(FOUO)~~ The USMC should perform a study to quantify how much the OHA rental allowance rate could increase if the GOJ demands to increase the rate are met or if there is a significant increase in the population on Guam. Based on the results of the study, the USMC should include any estimated increases due to the significant increase in the population on Guam in future years' budget estimates.

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<sup>3</sup> (U) According to the DoD Per Diem, Travel and Transportation Allowance Committee, the OHA rental ceilings are normally reviewed and adjusted every 6 months.



### **Utilities Infrastructure Requirements (U)**

~~(FOUO)~~ The GOJ and DoD have not agreed to the extent to which GOJ funds will finance the "One Guam" approach. The GOJ has not agreed to finance utilities infrastructure that benefits both the USMC and the citizens of Guam. During July 2009 discussions with DoD, the GOJ stated that it is only responsible for funding the USMC requirements. DoD believes that the military buildup will result in rapid growth of the off-base population that will overwhelm the Guam utility infrastructure, which cannot be financed by Guam or its residents. While DoD recognizes that other Federal agencies have a responsibility to support Guam, DoD's position is that the GOJ should finance the "One Guam" approach because the USMC realignment will contribute to utility infrastructure problems on Guam. This position is supported by the U.S. Environmental Protection Agency, which indicated that the buildup will further exacerbate Guam's water and wastewater problems.

*The GOJ has not agreed to finance utilities infrastructure that benefits both the USMC and the citizens of Guam.*

~~(FOUO)~~ Both the Roadmap and the "Agreement Between the Government of Japan and the Government of the United States of America Concerning the Implementation of the Relocation of III Marine Expeditionary Force Personnel and Their Dependents from Okinawa to Guam," February 17, 2009, state the GOJ funds will be provided to support the "...facilities and infrastructure on Guam to enable the III MEF [Marine Expeditionary Force] relocation." However, neither document discusses who will finance the civilian infrastructure changes caused by the military realignment. If it is determined that the GOJ will not pay for the civilian infrastructure upgrades associated with the "One Guam" approach, DoD will need to identify additional sources of funding, identify funding within the DoD budget, or alter the proposed technical solutions so available funding is not exceeded.

### **Revising the Number of Family Housing Units (U)**

~~(FOUO)~~ The GOJ and DoD have not agreed to the revised number of family housing units. In July 2009, the GOJ expressed concern with the number of family housing units needed. The GOJ wanted to ensure that the family housing units required by DoD were consistent with the relocation schedule showing when residents would begin arriving on Guam. The GOJ indicated that funding could be impacted without a precise schedule and corresponding number of housing units. At that time, it was expected that 3,520 family housing units would be needed. It was not until April 2010 that DoD presented the GOJ with a new family housing requirement of up to 2,739 units. However, according to a JGPO official, the GOJ has not yet received a precise relocation schedule that supports the 2,739 units.

*The GOJ indicated that funding could be impacted without a precise schedule and corresponding number of housing units.*

~~(FOUO)~~ Since the development of the Roadmap between the GOJ and DoD, the USMC has updated, and continues to update, the force relocation schedule, which identifies the

units that will be moving to Guam. The force relocation schedule affects the number of family housing units that the USMC will need. In September 2006, the USMC estimated that 8,552 USMC personnel would be relocated and would need up to 3,520 family housing units. In June 2009, the USMC estimated that 8,962 USMC personnel would be relocated and would need up to 2,739 family housing units. However, neither of these personnel numbers corresponds to the June 2010 force relocation schedule of relocating 9,547 USMC personnel. In addition, the schedule for occupation of the family housing units does not appear to correspond to the June 2010 force relocation schedule.

~~(FOUO)~~ The Roadmap provided information on the units that will relocate to Guam. However, this document did not indicate how many Service members are in each unit or how many family housing units the USMC will need. An August 14, 2009, Housing SPE Considerations document did not identify which units would be relocating, but did state that the U.S. Government will consult with the GOJ on significant changes affecting the housing funded by GOJ contributions. In July and August 2009, the GOJ expressed concern with the timing of the relocation and relationship with the number of family housing units.

~~(FOUO)~~ The USMC and JPGO need to update the schedule for USMC occupation of the family housing units to ensure it corresponds to the detailed force relocation schedule and corresponding timeline for the USMC units' relocation. This would ensure construction of an accurate number of family housing units, solidify developmental funding needed for construction of the project, and identify the income stream to the housing SPE.

## Key Decisions Needed to Improve Special Purpose Entity Planning (U)

~~(FOUO)~~ Lack of agreement and clarity on key concepts related to the housing and utility infrastructure plans significantly impact DoD's ability to move forward with decisions on

*If other decisions occur, such as the repayment of GOJ funds, DoD might have to alter its technical solutions, identify additional sources of funds for housing and utility costs, and establish a process to oversee the repayment of funds to the GOJ.*

SPE planning. Disagreement on the significant elements may impact securing approximately \$2.36 billion in GOJ funds for family housing and utilities infrastructure and ultimately contribute to not meeting the planned relocation date. While DoD organizations have prepared technical solutions for meeting the housing and utility requirements on Guam, those solutions are based on only one scenario. If other decisions occur, such as the repayment

of GOJ funds, DoD might have to alter its technical solutions, identify additional sources of funds for housing and utility costs, and establish a process to oversee the repayment of funds to the GOJ. By beginning to plan for the possibility that the GOJ funds may not be used as DoD originally intended, DoD will be able to proceed more quickly with the formation of the SPEs once agreement on the elements is reached.

## Recommendations, Management Comments, and Our Response (U)

(U) Based on management comments, we revised Recommendation 3.

1. ~~(FOUO)~~ We recommend the Commandant of the U.S. Marine Corps, in coordination with the Assistant Secretary of the Navy (Energy, Installations and Environment), and the Executive Director, Joint Guam Program Office, plan for the possibility that the government of Japan funds will have to be repaid. The plan should include:

- a. ~~(FOUO)~~ identifying an office that will develop a process to monitor repayment of the government of Japan funds.

### *USMC Comments (U)*

~~(FOUO)~~ The Commandant of the USMC partially agreed and indicated that NAVFAC Special Ventures Acquisition would be responsible for monitoring any repayment to the housing SPE and that funds recovered by the GOJ would be through the housing SPE. He added that the utility SPE, Guam Waterworks Authority, or Guam Power Authority would be responsible for repaying any agreed upon utility loans.

- b. ~~(FOUO)~~ determining how the repayment would affect current housing and utility plans to include:

- (1) ~~(FOUO)~~ whether additional sources of funding will be needed. If additional sources of funding are needed, identify by housing or utility project, the anticipated costs associated with such project, along with the proposed funding source should the funding fall outside DoD.

### *USMC Comments (U)*

~~(FOUO)~~ The Commandant of the USMC partially agreed and indicated that the current bilateral agreement requires the GOJ to fund the housing requirements and the utility improvements related to the Marines relocation from Okinawa to Guam. If the bilateral agreement is renegotiated, additional sources of funding would then be sought. The USMC believed that planning for additional sources of funding could lead to problems in negotiations between the GOJ and U.S. Government regarding funding responsibility.

- (2) ~~(FOUO)~~ the effects on the Department of the Navy budget.

### *USMC Comments (U)*

~~(FOUO)~~ The Commandant of the USMC partially agreed and stated that adjustments to the budget are made based on changing programming costs of the Guam realignment and Congressional changes. However, the USMC would not incorporate any contingencies in the budget process without a formal defined requirement.

- (3) ~~(FOUO)~~ the effects on the proposed technical solutions.

**USMC Comments (U)**

~~(FOUO)~~ The Commandant of the USMC agreed and stated that the USMC is developing alternative technical solutions that would provide for the recovery of the family housing SPE funds without the need for additional funding. The estimated completion of those plans is March 31, 2011.

**ASN (EI&E) Comments (U)**

~~(FOUO)~~

OSD/JS - (b)(6)



2. ~~(FOUO)~~ We recommend that the Executive Director, Joint Guam Program Office, complete an analysis identifying similarities and differences between the Public-Private Venture and Private Finance Initiative models for use by DoD personnel involved in the negotiations with the government of Japan.

**ASN (EI&E) Comments (U)**

~~(FOUO)~~ The Office of the ASN (EI&E) commented on behalf of the Executive Director, JGPO. The Office of the ASN (EI&E) partially agreed and stated that a process combining the Private Finance Initiative and the Military Housing Privatization Initiative is being developed by the DoD and Japanese Ministry of Defense. The Office of the ASN (EI&E) contends that although a study has not been conducted, aspects of both models will be used in the solicitation process. The Office of the ASN (EI&E) believes their discussions with the Japanese Ministry of Defense meet the intent of the recommendation to perform a study.

3. ~~(FOUO)~~ We recommend that the Commandant of the U.S. Marine Corps perform a study quantifying the effect of an inflated overseas housing allowance rental rate on the Department of the Navy budget, to include the effects due to the

government of Japan's request to inflate the rate and a significantly increased population on Guam. Results of the study on the significantly increased population of Guam should be included in future years' budget estimates in order to comply with applicable budget guidance.

***USMC Comments (U)***

~~(FOUO)~~ The Commandant of the USMC partially agreed and believes that the USMC should consider the natural increases in the OHA due to the increase in population from the relocation. However, the Commandant indicates that until the dollar amount can be determined, the OHA funds would not be included in the budget. The Commandant also stated that the USMC is opposed to "artificially" increasing OHA for the purposes of housing SPE recoverability.

4. ~~(FOUO)~~ We recommend that the Commandant of the U.S. Marine Corps, in coordination with the Executive Director, Joint Guam Project Office, update the schedule for the U.S. Marine Corps occupation of the family housing units to ensure it corresponds to the detailed force relocation schedule and timeline for the III Marine Expeditionary Force units' relocation from Okinawa to Guam.

***USMC Comments (U)***

~~(FOUO)~~ The Commandant of the USMC agreed that the schedules should correspond. The Commandant stated that the unit-occupation schedule would be updated as the proposed force laydown is refined, progress is made on the Futenma Replacement Facility in Okinawa, Japan, and construction timelines for Guam are finalized. No specific details and estimated timelines for when these two schedules will correspond were provided.

***ASN (EI&E) Comments (U)***

~~(FOUO)~~ <sup>OSD/JS - (b)(5)</sup>  


***Our Response to the Management Comments (U)***

~~(S)~~ The Commandant of the USMC and the Office of the ASN (EI&E) partially agreed with Recommendations 1, 2, and 3 that required planning for the possibility that GOJ funds will need to be repaid; performing an analysis of the PPV and Private Finance Initiative models; and quantifying the effect of the overseas housing allowance rental rate on the Department of the Navy budget. For Recommendation 4, they agreed to coordinate the family housing occupancy and force relocation schedules. After we issued the draft report, we became aware that DoD is considering several alternative courses of action that will effect the Marine Corps laydown in the Pacific. The course of actions being considered will impact the Guam realignment, which may impact the structure and need for SPEs. The final decision may result in meeting the intent of our recommendations, or some or all of the recommendations in the draft report may be

overcome by events. Once DoD makes a final decision on its course of action, we believe that DoD should revisit the recommendations in the report and implement those that apply to the action. Therefore, we are not requesting additional comments on the preceding recommendations, but instead request that the Deputy Secretary of Defense inform the DoD OIG of the final decision for the laydown plans for the realignment of Marine Corps personnel from Okinawa, Japan to Guam.

### Other Matters of Interest (U)

~~(FOUO)~~ The USMC did not include an estimated increase of approximately \$105.4 million in the FY 2012 POM for the Military Personnel appropriation. This increase is for OHA that will be paid to USMC Service members relocating from Okinawa, Japan, to Guam. The FY 2012 POM includes estimated costs for FY 2012 through FY 2016. The DoD Financial Management Regulation, volume 2A, chapter 1, "General Information," states that it is DoD policy to include the most likely or expected full costs for the current year, biennial budget years, and out-year estimates for all appropriations, including Military Personnel, in the POM. The Military Personnel appropriation funds the OHA paid to the service members.

~~(FOUO)~~ Currently, there are seven USMC Service members assigned to Guam who receive monthly OHA. According to USMC officials, the number of Service members relocating to Guam will range from 8,552 to 9,708. This will significantly increase the total amount of OHA required to pay Service members residing in privatized housing on Guam. The USMC prepared a Guam Housing Phasing Plan to show the number of Service members that will reside in privatized housing units for FY 2014 through FY 2019. The table shows the estimated increase in the annual OHA for FYs 2014, 2015, and 2016. These estimates are based on the Guam Housing Phasing Plan and the OHA rates as of April 2010 with a 3 percent annual inflation rate.

~~(FOUO)~~ Table. Estimated Increases in Overseas Housing Allowance

Fiscal Year	Number of USMC Service Members in Privatized Housing	Increased Amount
2014	306	\$13,149,716
2015	768	34,007,703
2016	1277	58,245,856
<b>Total</b>		<b>\$105,403,275</b>

~~(FOUO)~~ USMC officials agreed that the FY 2012 POM did not include the estimated OHA increase due to the Guam relocation. By not including these estimates in the FY 2012 POM, the USMC did not comply with the DoD Financial Management Regulation requirements. However, because the USMC has implemented the FY 2012 POM, we believe that implementing Recommendation 3 will prevent the exclusion of OHA increases in future year's budget estimates. Therefore, we do not plan to make any additional recommendations.

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## Appendix. A. Scope and Methodology (U)

(U) We conducted this performance audit from February 2010 through October 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

(U) Our audit objective was to determine whether DoD developed procedures for monitoring and calculating the repayment of funds financed by the SPEs and whether internal controls were in place for the repayment amounts. The Government Accountability Office (GAO) defines internal controls as an integral component of an organization's management that provides reasonable assurance of achieving effective and efficient operations. Internal controls include processes and procedures for planning program operations and monitoring program performance.

(U) Since the U.S. Government is continuing to negotiate with the GOJ on significant elements related to the housing and utility SPEs that affect the projected funds flow, the audit did not focus on the timeliness and accuracy of repayment amounts. Instead, the audit focused on whether planning is occurring on an on-going basis, organizations' roles and responsibilities are defined, payment plans to the utility and housing SPEs exist, and force management plans are incorporated in the payment process.

(U) To accomplish the audit objective, we met with officials in several offices and reviewed:

- policies and procedures in the following offices for monitoring and calculating the payment of funds financed by the housing and utility SPEs:
  - Office of the Deputy Under Secretary of Defense, Installations and Environment;
  - Office of the Under Secretary of Defense for Policy;
  - Office of the Assistant Secretary of the Navy (Financial Management and Comptroller);
  - JGPO;
  - NAVFAC Marianas, Pacific, and Special Venture Acquisition;
  - Headquarters, USMC;
  - Defense Finance and Accounting Service; and
  - Defense Travel Management Office.
- agreements between the U.S. Government and the GOJ, proposed force relocation lists, Guam housing SPE phasing plans, OHA rates and guidelines, projected future funds flow for the housing SPE project, and current plans and preferred approaches for the water, power, and wastewater infrastructure to determine what



plans were developed for payment to the housing and utility SPEs and to assure these plans were consistent with the agreements between the U.S. Government and the GOJ and with USMC requirements.

- applicable laws and regulations, including the United States Code, Joint Federal Travel Regulation, FY 2010 National Defense Authorization Act, FY 1996 National Defense Authorization Act, and DoD Financial Management Regulation to determine requirements for the overseas housing allowance, housing and utilities privatization, and budgeting for estimated future years costs.

## **Use of Computer-Processed Data (U)**

(U) We did not use computer-processed data to perform this audit.

## **Prior Coverage (U)**

(U) During the last 5 years, the GAO, the Department of Defense Inspector General (DoD IG), and the Naval Audit Service have issued seven reports discussing planning efforts for the relocation of USMC personnel to Guam and privatized military housing. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Naval Audit Service reports are not available over the Internet.

### **GAO (U)**

(U) GAO Report No. GAO-09-653, "Defense Infrastructure: Planning Challenges Could Increase Risks for DoD in Providing Utility Services When Needed to Support the Military Buildup on Guam," June 30, 2009

(U) GAO Report No. GAO-09-352, "Military Housing Privatization: DOD Faces New Challenges Due to Significant Growth at Some Installations and Recent Turmoil in the Financial Markets," May 15, 2009

(U) GAO Report No. GAO-07-1015, "Defense Infrastructure: Overseas Master Plans Are Improving, but DoD Needs to Provide Congress Additional Information about the Military Buildup on Guam," September 12, 2007

(U) GAO Report No. GAO-06-438, "Military Housing: Management Issues Require Attention as the Privatization Program Matures," April 28, 2006

### **DoD IG (U)**

(U) DoD IG Report No. D-2007-069, "Force Structure Changes in the U.S. Pacific Command - Programming for Increased Annual Costs," March 12, 2007

~~SECRET~~

***Navy (U)***

(U) Naval Audit Service Report No. N2009-0038, "Status of the Department of the Navy Processes and Controls Regarding the Management of the Government of Japan Funds Related to the Marine Corps' Relocation," July 9, 2009

(U) Naval Audit Service Report No. N2008-0030, "Status of Internal Controls at the Joint Guam Program Office," April 8, 2008

~~SECRET~~

## Appendix. B. Classified Document List (U)

- (U) Derived From: Secretary of Defense Memorandum "Commander PACOM Perspective on Guam," November 15, 2010  
Declassify On: November 2, 2030

# Commandant of the United States Marine Corps Comments (U)



DEPARTMENT OF THE NAVY  
HEADQUARTERS UNITED STATES MARINE CORPS  
3000 MARINE CORPS PENTAGON  
WASHINGTON, DC 20350-3000

IN REPLY REFER TO  
7510  
RFR-80  
29 Nov 10

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL, DEFENSE BUSINESS  
OPERATIONS, DEPARTMENT OF DEFENSE INSPECTOR  
GENERAL

Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL (DODIG) REPORT,  
D2010-D000FC-0161.000, "PLANNING NEEDED ON SPECIAL  
PURPOSE ENTITY FUNDS FOR THE GUAM REALIGNMENT," DATED 2  
NOVEMBER 2010

Ref: (a) DODIG email of 2 November 2010

1. In accordance with reference (a), the Marine Corps has  
reviewed the subject draft report and provides comments at the  
enclosure.

2. For questions regarding this response, you may contact

[REDACTED]

A handwritten signature in cursive script, appearing to read "C. K. Dove", is positioned above the typed name.

C. K. DOVE  
By direction  
of the Commandant,  
United States Marine Corps



DEPARTMENT OF THE NAVY  
HEADQUARTERS UNITED STATES MARINE CORPS  
3000 MARINE CORPS PENTAGON  
WASHINGTON, DC 20350-3000

IN REPLY REFER TO:  
FSD  
23 Nov 10

Ms. Patricia A. Marsh, CPA  
Assistant Inspector General, Defense Business Operations  
Department of Defense Inspector General

Via: Programs and Resources Department, Fiscal Division, Code  
RFR

Re: Project No. D2010-D000FC-0161.000, "PLANNING NEEDED ON  
SPECIAL PURPOSE ENTITY FUNDS FOR THE GUAM REALIGNMENT"

Dear Ms. Marsh,

Thank you for the opportunity to review and comment on the Draft Report of the DOD IG proposed report on Special Purpose Entity (SPE) funding. Headquarters Marine Corps (HQMC) and Joint Guam Program Office (JGPO) provided your office via Ms. Kendall A. Miller, a consolidated review and comment letter on the Discussion Draft of the DOD IG proposed report on 7 September 2010. As the Draft final report indicates that the vast majority of these prior comments were not addressed or incorporated, many of the comments contained herein are repetitive.

Comment on DODIG Recommendations.

~~(FOUO)~~ **RECOMMENDATION 1.** In coordination with the Assistant Secretary of the Navy (Energy, Installations and Environment), and the Executive Director, Joint Guam Program Office, plan for the possibility that the government of Japan funds will have to be repaid. The plan should include:

a. ~~(FOUO)~~ identifying an office that will develop a process to monitor repayment of the government of Japan funds.

~~(FOUO)~~ **USMC RESPONSE:** Partially Concur. NAVFAC continues to refine the housing pro formas with Japan so they can show recovery of the investment. Pro formas and cost estimates continue to be refined for both the housing requirements and each of the utility projects, which take into consideration impacts to the DOD OHA requirement, O&M costs and utility rates. In the event funds are recovered by Japan, it would be through the SPE who would receive OHA paid by the individual Marine to the SPE. NAVFAC Special Venture Acquisition manages all of the Navy Housing PPV projects, would be responsible for managing this project and thereby would monitor any repayment to the SPE. DOD would pay for utilities through utility rates either to an SPE or

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to GWA/GPA directly. The SPE and/or GWA/GPA would be responsible for repaying any agreed upon utility loans.

b. ~~(FOUO)~~ determining how the repayment would affect current housing and utility plans to include:

(1) ~~(FOUO)~~ whether additional sources of funding will be needed. If additional sources of funding are needed, identify by housing or utility project, the anticipated costs associated with such project, along with the proposed funding source should the funding fall outside DOD.

~~(FOUO)~~ **USMC RESPONSE:** Partially concur. The bilateral agreement requires Japan to fund the family housing requirements and the utility improvements associated with the relocation of Marines from Okinawa to Guam. In the event the bilateral agreement is re-negotiated, then additional sources of funding should be sought. Any detailed planning suggested in this recommendation at this time carries the real potential to subvert on-going negotiations with the GOJ over SPE funding responsibility.

(2) ~~(FOUO)~~ the effects on the Department of the Navy budget.

~~(FOUO)~~ **USMC RESPONSE:** Partially Concur. The Marine Corps continues to adjust activities based on relevant "real-world" considerations affecting the programming costs associated with the Guam Realignment. As a practical matter, the Marine Corps must routinely plan for Congressional adjustments to the budget (through Defense Appropriations). However, in the absence of a formal and defined requirement, the Marine Corps will not officially incorporate this "contingency" into the budgeting process.

(3) ~~(FOUO)~~ the effects on the proposed technical solutions.

~~(FOUO)~~ **USMC RESPONSE:** Concur. The Marine Corps has commenced developing alternative technical solutions/negotiation positions that would jointly or in various combinations provide for recovery of the family housing Special Purpose Entity (SPE) funds without the need for additional sources of funding. Estimate plan to be complete by 31 March 2011.

~~(FOUO)~~ **RECOMMENDATION 2.** Perform a study quantifying the effect of an inflated overseas housing allowance rental rate on the Department of the Navy budget, to include the effects due to the government of Japan's request to inflate the rate and a significantly increased population on Guam. Results of the study should be included in future years' budget estimates.

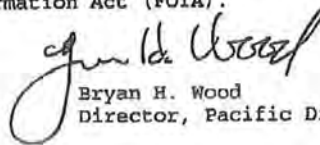
~~(FOUO)~~ **USMC RESPONSE:** Partially Concur. The Marine Corps needs to quantify the effect of overseas housing allowance (OHA) rental rate on the Department of Navy Budget. Natural increases in OHA resulting from a significantly increased population on Guam need to be considered. The Marine Corps remains opposed to "artificially" increasing OHA for the purpose of Family Housing SPE recoverability. Finally, formal inclusion of OHA funds in the POM process is simply not viable until such time as a legitimate requirement and corresponding dollar amount to be appropriated can be determined.

~~(FOUO)~~ **RECOMMENDATION 3.** In coordination with the Executive Director, Joint Guam Project Office, update the schedule for the Marine Corps occupation of the family housing units to ensure it corresponds to the detailed force relocation schedule and timeline for the III Marine Expeditionary Force units' relocation from Okinawa to Guam.

~~(FOUO)~~ **USMC RESPONSE:** Concur. However, it must be reiterated that the proposed force relocation schedule is inextricably linked to Tangible Progress on the Futenma Replacement Facility in Okinawa. The unit-occupation schedule will be updated as the proposed force laydown is refined, tangible progress is made on the Futenma Replacement Facility in Okinawa, and infrastructure build-out timelines on Guam are developed and finalized.

As a closing comment on the general tone and tenor of the report, the interpretation of the audit subject area has essentially resulted in several analytical conclusions and subsequent recommendations that are either erroneous or untimely, (most notably when associated with the topic of SPE "recoverability").

Due to on-going negotiations with the Government of Japan, the final report should be withheld from release to the public under the Freedom of Information Act (FOIA).



Bryan H. Wood  
Director, Pacific Division (PP&O)

Revised, Page 14

# Assistant Secretary of the Navy (Energy, Installations and Environment) Comments (U)

Final Report  
Reference



DEPARTMENT OF THE NAVY  
THE ASSISTANT SECRETARY OF THE NAVY  
(ENERGY, INSTALLATIONS & ENVIRONMENT)  
1000 NAVY PENTAGON  
WASHINGTON DC 20350-1000

MAR 21 2011

## MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL


**SUBJECT:** Report on Planning Needed on Special Purposes Entity Funds for the Guam Realignment (Project No. D2010-D000FC-0161.000)

This is the Department of the Navy's (DON's) response to the subject draft report: Planning Needed on Special Purposes Entity Funds for the Guam Realignment (Project No. D2010-D000FC-0161.000). DON's comments on the draft report are attached.

~~(FOUO)~~ The Department appreciates the opportunity to comment on this draft report. We partially concur with the Department of Defense Office of Inspector General's (DoDIG's) recommendations to complete an analysis identifying similarities and differences between the Public-Private Venture and Private Finance Initiative models, to perform a study on the effects of inflated housing allowances, and to update the schedule for the United States Marine Corps occupation of the family housing units.

~~(FOUO)~~ We do not concur with DoDIG's recommendation directing the Commandant of the U.S. Marine Corps, in coordination with the Assistant Secretary of the Navy (Energy, Installations and Environment) and the Director of the Joint Guam Program Office, to plan for the possibility that the Government of Japan (GOJ) funds will be repaid. Such a recommendation runs counter to the United States Government's official position and the intent of the Roadmap Agreement, which states that GOJ might have the opportunity to recover their investment, but has no guarantees for repayment.

For the full text of DON's comments and information to be exempted from public release, TAB D and E are attached for the Inspector General's consideration.

  
Roger M. Natsuhara  
Acting

Attachments:  
As stated.

Available upon  
request

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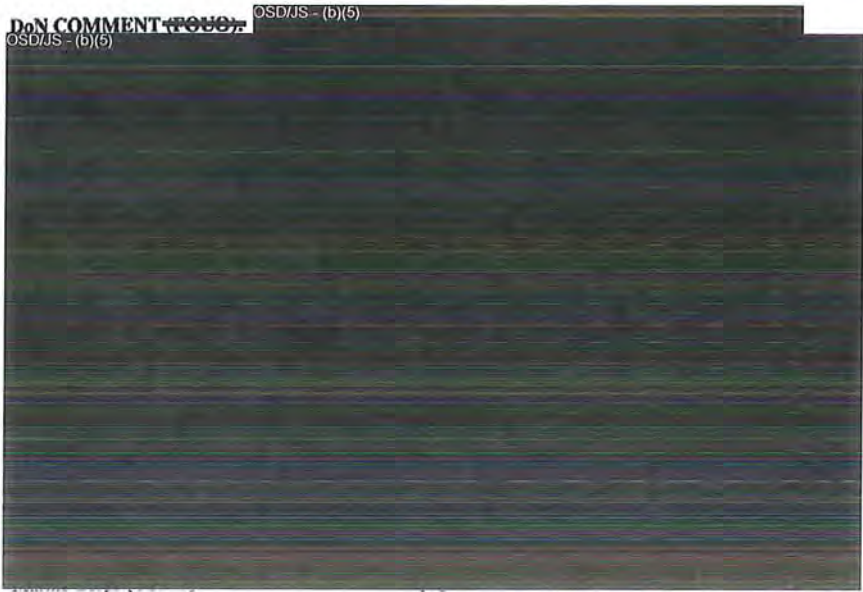
INSPECTOR GENERAL DEPARTMENT OF DEFENSE DRAFT REPORT  
DATED 2 NOVEMBER 2010  
PROJECT D2010-D000FC-0161.000

"PLANNING NEEDED ON SPECIAL PURPOSE ENTITY FUNDS FOR THE GUAM  
REALIGNMENT"

ASSISTANT SECRETARY OF THE NAVY (ENERGY, INSTALLATIONS AND ENVIRONMENT)  
COMMENTS ON THE DOD IG DRAFT RECOMMENDATIONS

RECOMMENDATION 1. ~~FOUO~~ We recommend the Commandant of the U.S. Marine Corps, in coordination with the Assistant Secretary of the Navy (Energy, Installations and Environment), and the Executive Director, Joint Guam Program Office, plan for the possibility that the Government of Japan funds will have to be repaid. The plan should include:

- a. identifying an office that will develop a process to monitor repayment of the Government of Japan funds.
- b. determining how the repayment would affect current housing and utility plans to include:
  - (1) whether additional sources of funding will be needed. If additional sources of funding are needed, identify by housing or utility project, the anticipated costs associated with such project, along with the proposed funding source should the funding fall outside DOD.
  - (2) the effects on the Department of the Navy budget.
  - (3) the effects on the proposed technical solutions.

~~DoN COMMENT-FOUO~~ <sup>OSD/JS - (b)(5)</sup>  
~~OSD/JS - (b)(5)~~  


~~PRE-DECISIONAL FOR OFFICIAL USE ONLY NOT RELEASABLE~~

Attachment (1)

OSD/JS - (b)(5)



**RECOMMENDATION 2. (FOUO)** We recommend that the Executive Director, Joint Guam Program Office, complete an analysis identifying similarities and differences between the Public-Private Venture and Private Finance Initiative models for use by DOD personnel involved in the negotiations with the government of Japan.

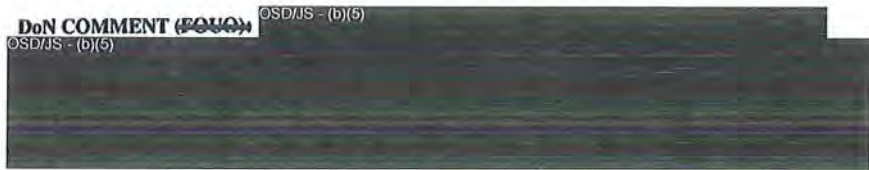
**DoN COMMENT (FOUO):** (Partially concur. Currently, the MOD and DOD are integrating components of the Private Finance Initiative (PFI) and the Military Housing Privatization Initiative (MHPI) into an agreed upon process that will guide implementation of the SPE Housing effort. The first step is developing an agreed upon solicitation process. It is DoN's position that the current discussions with MOD meet the intent of the recommendation.

**RECOMMENDATION 3. (FOUO)** We recommend that the Commandant of the U.S. Marine Corps perform a study quantifying the effect of an inflated overseas housing allowance rental rate on the Department of the Navy budget, to include the effects due to the government of Japan's request to inflate the rate and a significantly increased population on Guam. Results of the study should be included in future years' budget estimates.

**USMC COMMENT:** The Headquarters United States Marine Corps provided their comments under a separate memorandum to the Assistant Inspector General, Defense Business Operations Department of Defense Inspector General dated 29 November 2010.

**RECOMMENDATION 4. (FOUO)** We recommend that the Commandant of the U.S. Marine Corps, in coordination with the Executive Director, Joint Guam Project Office, update the schedule for the U.S. Marine Corps occupation of the family housing units to ensure it corresponds to the detailed force relocation schedule and timeline for the III Marine Expeditionary Force units' relocation from Okinawa to Guam.

**DoN COMMENT (FOUO)** OSD/JS - (b)(5)



**DoN ADDITIONAL COMMENTS:** Attached is the draft report with our recommended changes.

~~PRE-DECISIONAL - FOR OFFICIAL USE ONLY - NOT RELEASABLE~~

Attachment (1)

Revised, Page 14

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Inspector General  
Department of Defense

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