Audit Report

OFFICE OF THE INSPECTOR GENERAL

REPLACEMENT COMMISSARY CONSTRUCTION PROJECT AT HANSCOM AIR FORCE BASE, MASSACHUSETTS

Report No. 95-002 October 4, 1994

Department of Defense

Additional Copies

To obtain additional copies of this report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 224-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

DoD Hotline

To report fraud, waste, or abuse, call the DoD Hotline at (800) 424-9098 or write to the DoD Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of writers and callers is fully protected.

Acronyms

DeCA	Defense Commissary Agency
AFB	Air Force Base

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

October 4, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Report on the Replacement Commissary Construction Project at Hanscom Air Force Base, Massachusetts (Report No. 95-002)

We are providing this final report for your review and comments. The report discusses the need for building an $11.0 million, 70,000-square foot replacement commissary at Hanscom Air Force Base, Massachusetts. Your September 7, 1994, comments on the draft report were considered in preparing the final report.

Your comments indicated that you will not finalize a position on the replacement commissary project and potential monetary impact on the current plan until after decisions by the 1995 Commission on Defense Base Closure and Realignment are known. At that time, you agreed to revalidate requirements and complete a detailed functional and economic analysis to determine a course of action on the project. We will track those actions in our audit followup system. No further response to this report is requested at this time.

The courtesies and cooperation extended to the staff are appreciated. If you have any questions on this audit, please contact Mr. Robert J. Ryan, Audit Program Director, at (703) 604-9418 (DSN 664-9418), or Mr. Timothy J. Tonkovic, Audit Project Manager, at (804) 766-3319. Copies of the final report will be distributed to the activities in Appendix D. The list of audit team members is on the inside back cover of this report.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 95-002 **October 4, 1994**
(Project No. 3LA-0069.05)

REPORT ON THE REPLACEMENT COMMISSARY CONSTRUCTION PROJECT AT HANSCOM AIR FORCE BASE, MASSACHUSETTS

EXECUTIVE SUMMARY

Introduction. We reviewed the planned construction of an $11.0 million (70,000-square foot) commissary at Hanscom Air Force Base, Massachusetts, that is slated to replace the 79,000-square foot commissary that opened in 1980. The proposed commissary is sized to accommodate Hanscom Air Force Base patron sales and patron sales expected to migrate from Fort Devens, Massachusetts, which is being closed pursuant to recommendations by the 1991 Commission on Defense Base Closure and Realignment. In May 1994, the Army and Air Force Exchange Service recommended that the Fort Devens commissary, which opened in 1991, be considered for conversion to an exchange mart.

Objective. The overall objective of the audit was to determine whether new construction of DoD commissaries was justified and cost-effective. This report addresses the requirement for the replacement commissary at Hanscom Air Force Base, Massachusetts.

Audit Results. The planned 70,000-square foot commissary at Hanscom Air Force Base is not required to satisfy customer requirements. As a result, up to $5.9 million may be spent unnecessarily if DeCA proceeds with the proposed construction.

Internal Controls. We did not include a review of internal controls as related to the objective because of the time sensitivity of the data reviewed. Internal controls in the construction approval process within DeCA will be addressed in a planned audit report on the overall management of commissary construction projects.

Potential Benefits. The exact amount of monetary benefits will be determined when DeCA validates the need for the project, based on accurate sales projections, and completes a comprehensive economic analysis that considers alternatives to new construction. Appendix B summarizes the potential benefits resulting from the audit.

Summary of Recommendations. We recommend that DeCA place the Hanscom Air Force Base replacement commissary construction project on hold until decisions on the Fort Devens commissary are finalized. We also recommend that DeCA base commissary construction requirements on future personnel authorizations and up-to-date sales projections, and evaluate renovation of the Hanscom Air Force Base commissary as an alternative to new construction.

Management Comments. DeCA concurred with the recommendation to place the Hanscom Air Force Base replacement commissary project on hold and to base commissary requirements on future personnel authorizations and up-to-date sales projections. DeCA concurred with the recommendation to evaluate renovation of the Hanscom Air Force Base commissary as an alternative to new construction. It stated that the present commissary will not economically meet customer requirements,

especially if further analysis shows the need for a smaller store. After decisions related to base realignment and closure issues and the Fort Devens exchange mart are known, DeCA will determine its course of action on the project. A discussion of DeCA's comments is in Part II, and the complete text of the comments is in Part IV.

Audit Response. DeCA's actions to place the construction project at Hanscom Air Force Base on hold are responsive to the recommendation. Although DeCA also concurred with the recommendation to evaluate renovation as an alternative to new construction, it stated that the existing commissary could not be economically renovated. We believe that conclusion should be specifically revisited in the further analyses. The completion and adequacy of the open agreed-upon actions will be tracked through our audit followup system and no additional comments were requested to this report.

Table of Contents

Executive Summary i

Part I - Introduction 1

Background 2
Objective 3
Scope and Methodology 3
Prior Audits and Other Reviews 3

Part II - Finding and Recommendations 7

Construction of a Replacement Commissary 8

Part III - Additional Information 15

Appendix A. Comparison of Costs for New Construction Versus Renovation 16
Appendix B. Summary of Potential Benefits Resulting From Audit 17
Appendix C. Organizations Visited or Contacted 18
Appendix D. Report Distribution 19

Part IV - Management Comments 21

Defense Commissary Agency Comments 22

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

The Defense Commissary Agency (DeCA) plans to build a 70,000-square foot facility to replace the 79,000-square foot existing commissary at Hanscom Air Force Base (AFB), Massachusetts that was built in 1980. The project, programmed for FY 1994 at $11.0 million, includes an increased sales area and is sized to accommodate sales expected to migrate from nearby Fort Devens which was selected for closure by the 1991 Committee on Defense Base Closure and Realignment.

Two other commissaries are located near Hanscom AFB. DeCA plans to open a new commissary at Portsmouth Naval Shipyard, Portsmouth, New Hampshire, in December 1994. The new 30,000-square foot commissary is about 70 miles from the Hanscom AFB commissary, and was designed to accommodate up to $500,000 in average monthly sales, as adjusted to 1982 dollars.

The 80,000-square foot Fort Devens commissary is located about 22 miles from Hanscom AFB. FY 1993 monthly sales, as adjusted to 1982 dollars, averaged $1.5 million. The Fort Devens commissary is being considered for conversion to an exchange mart. If selected, the commissary, which opened in July 1991, would become an exchange mart by April 1996, when the commissary is scheduled to close.

DeCA has established 10 standard commissary plans of varying sizes that are based on average monthly sales ranging from $50,000 to $5 million, as adjusted to 1982 dollars. The design range of the 10 standard commissary plans is from 12,000 to 100,000 square feet. FY 1993 sales, as adjusted to 1982 dollars, averaged $1.5 million per month at the Hanscom AFB commissary. DeCA projects sales will increase by $792,000 per month, as adjusted to 1982 dollars, as a result of the migration of patron sales to the new Hanscom AFB commissary when the Fort Devens commissary closes.

Commissary construction and renovation costs are paid by the Commissary Surcharge Collections Fund, a revolving fund maintained by charging commissary patrons a 5-percent surcharge on their purchases. The Morale, Welfare and Recreation Panel of the House Committee on Armed Services, approved the obligation of funds for the new Hanscom AFB commissary on June 30, 1994. Personnel costs for the staffing at commissary stores are paid from appropriated Operations and Maintenance funds.

Objective

The overall objective of the audit was to determine whether new construction of DoD commissaries was justified and cost-effective. This quick-reaction report addresses the requirement for the replacement commissary at Hanscom AFB, Massachusetts.

Scope and Methodology

The audit focused on the proposed FY 1994 construction of a 70,000-square foot commissary at Hanscom AFB. The project was selected for audit because of its significant dollar value in relation to the other FY 1994 programmed construction projects. We visited DeCA Headquarters at Fort Lee, Virginia, the Hanscom AFB and the Fort Devens commissaries located near Boston, Massachusetts, and other DeCA offices responsible for the construction approval and execution process. At those locations, we obtained actual and projected sales information, actual and planned numbers of personnel, commissary maintenance and repair costs, proposed site plans, and other information for the replacement commissary project. We did not use computer-processed data or statistical sampling procedures to conduct this audit.

This economy and efficiency audit was made from January to June 1994. We did not review internal controls related to our objective because of the time sensitivity of the data reviewed. Procedural weaknesses in DeCA's construction requirements and approval process will be addressed in a separate audit report on the overall management of commissary construction projects and related internal controls.

Except as noted, the review was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Appendix C lists the organizations visited or contacted during the audit.

Prior Audits and Other Reviews

The Inspector General, DoD, has issued four reports questioning the validity of data used to justify replacement commissary projects.

Inspector General, DoD, Report No. 94-197, "Quick-Reaction Report on the Replacement Commissary Construction Project for the Naval Air Station Pensacola, Florida," showed that DeCA planned to construct an 80,000-square foot commissary that exceeded customer requirements. The report recommended that DeCA place the replacement commissary project on hold;

base the size of the commissary renovation project on accurate and up-to-date sales projections and future personnel authorizations; and evaluate renovation of the existing Naval Air Station Pensacola commissary as an alternative to new construction. DeCA concurred with the recommendation to place the Naval Air Station Pensacola replacement commissary project on hold until requirements have been fully determined and validated. DeCA nonconcurred with the recommendation to base the size of the commissary renovation project on accurate and up-to-date sales projections and future personnel authorizations. Although DeCA nonconcurred with the recommendation, its planned actions to validate sales projections and personnel authorizations and to complete the economic analysis, met the intent of the recommendation. DeCA concurred with the recommendation to complete an economic analysis after validating requirements and determining the proper size of the replacement commissary project.

Inspector General, DoD, Report No. 94-172, "Quick-Reaction Report on the Replacement Commissary Construction Project at Fort Bragg, North Carolina," August 1, 1994, showed that DeCA planned to construct a 100,000-square foot replacement commissary at Fort Bragg that was not required to satisfy customer requirements. The proposed 100,000-square foot commissary would replace the Mallonee Village commissary and supplement the existing 91,000-square foot Fort Bragg main commissary. The report recommended that DeCA place the replacement commissary construction project on hold until requirements have been fully determined and validated. The report also recommended that DeCA evaluate consolidation of the Mallonee Village facility with the Fort Bragg main commissary, to include renovation as an alternative to new construction, and that the evaluation include completion of an economic analysis and an up-to-date market research and analysis and patron survey. We also recommended that DeCA base the size of any commissary project on reasonable and up-to-date sales projections. The Director, DeCA, agreed to defer the new commissary project pending a review of sales and demographic projections. The Director also stated that an economic analysis, to include expansion of the existing main commissary and an on-site engineer evaluation of the main commissary, would be conducted.

Inspector General, DoD, Report No. 94-100, "Quick-Reaction Report on the Commissary Construction Project at the Fitzsimons Army Medical Center, Denver, Colorado," May 16, 1994, showed that DeCA planned to construct an 80,000-square foot replacement commissary at the medical center that exceeded customer requirements. The report recommended that DeCA defer the replacement commissary construction project until decisions on the replacement hospital construction project are finalized. We also recommended that, if a decision is made to proceed with the hospital project, the replacement commissary not exceed 70,000 square feet and that an economic analysis be completed. DeCA agreed to downsize the replacement commissary project to 70,000 square feet. DeCA did not concur with deferring the project. DeCA stated that extensive coordination had been conducted with the Department of the Army, DoD, congressional offices, and the Fitzsimons Army Medical Center to ensure that the hospital was a viable installation for long-term retention.

In August 1994, however, the Conference Committee on the National Defense Authorization Act for FY 1995 agreed on Section 2408, a significant modification of DoD authority to carry out the hospital project. Under Section 2408, the Secretary of Defense is required to submit a certification to the Congress by March 15, 1995 that the replacement facility is still needed before further action is taken on the hospital project.

Inspector General, DoD, Report No. 94-031, "Quick-Reaction Report on the Commissary Construction Project at the Naval Station, Guam," January 18, 1994, showed that DeCA planned to build a 60,000-square foot replacement commissary that exceeded customer requirements. The report recommended that the replacement commissary project be placed on hold until the Navy provided accurate, complete, and up-to-date planned force realignment and personnel reduction information; until DeCA revalidated the need for the project; and until an economic analysis was completed. The Director, DeCA, partially concurred with the report and agreed to downsize the commissary to 50,000 square feet. Additionally, the Director, DeCA, now requires that a formal economic analysis be completed for every new construction project. Further, he has established a construction review committee with the Military Departments to validate each construction project.

Part II - Finding and Recommendations

Construction of a Replacement Commissary

DeCA planned to construct a replacement commissary at Hanscom AFB that exceeds customer requirements. The condition occurred because DeCA based the size of the replacement commissary on sales projections that will not materialize; DeCA did not have current information on planned DoD active duty personnel reductions, and DeCA did not sufficiently consider renovation of the existing commissary as an alternative to new construction. As a result, as much as $5.9 million could be spent unnecessarily if DeCA proceeds with the proposed construction.

Background

The Hanscom AFB commissary is located in a warehouse that was renovated in 1980. The facility has 79,000 square feet with a sales area of 34,000 square feet. The facility operates 50 hours per week and is open 5 days per week.

In 1990, the Air Force Commissary Service programmed a new $10 million, 69,000-square foot commissary at Hanscom AFB to replace the existing 79,000-square foot commissary. The Air Force Commissary Service forwarded the construction plans to DeCA, when DeCA was established in 1991. When DeCA assumed responsibility for the project, the Air Force Commissary Service recommended that the project be converted from 69,000 square feet to a DeCA standard 70,000-square foot commissary. Both the Air Force Commissary Service and DeCA supported the replacement commissary project.

DeCA project documentation for the planned commissary stated that the interior of the existing facility is not properly configured to support current and projected sales volume. Additionally, documentation states that the commissary occupies substandard space in a building that is not conveniently located near a base shopping area and cannot be properly expanded.

Construction Plans. DeCA project NE91MP22 includes a new 70,000-square foot commissary that will be built adjacent to a proposed new base exchange in a community shopping area. The project is estimated to cost $11.0 million, which includes $2.2 million for equipment and $460,000 for design. In addition to the $11 million project cost, Hanscom AFB plans to spend approximately $265,000 of operation and maintenance funds to demolish concrete, asphalt, and two existing buildings that are on the proposed commissary construction site.

In addition to the sales area increasing from 34,000 square feet to 40,000 square feet, the commissary will have an administrative area; produce, meat, and dairy departments; a delicatessen, bakery, and frozen food area; and other operational support, product staging, and receiving areas. The project

also includes contractor-furnished and contractor-installed equipment; parking spaces for approximately 287 patrons and employees; walks, curbs, gutters, site work and landscaping.

Criteria

DoD Instruction 7041.3, "Economic Analysis and Program Evaluation for Resource Management," October 18, 1972, states that an economic analysis is required for proposals involving a choice between two or more options, even when one option is to maintain the status quo. Additionally, an economic analysis should be updated reflecting significant developments that invalidate or alter the cost-benefit relationships upon which previous decisions were made.

DeCA Directive 20-1, "Planning and Programming for Major and Minor Commissary Construction Projects," August 31, 1994, requires commissary sizing requirements to be based on average monthly sales projections, corrected for inflation to a 1982 base year. Projected average monthly sales are compared to 1 of 10 standard commissary definitive floor plans to determine authorized square footages. The 10 standard commissary floor plans are based on average monthly sales, as adjusted to 1982 dollars, and a 45-hour operating week. The 10 plans, with the required range of average monthly sales, are shown in Table 1.

Table 1. DeCA Standard Commissary Plans

Average Monthly Sales	Sales Area (SF)*	Nominal Design Range Size (SF)
$ 4,050,000 - $ 5,000,000	58,586	100,000
3,300,000 - 4,000,000	52,939	90,000
2,550,000 - 3,250,000	47,449	80,000
2,050,000 - 2,500,000	40,153	70,000
1,550,000 - 2,000,000	33,541	60,000
1,050,000 - 1,500,000	28,113	50,000
550,000 - 1,000,000	23,226	40,000
350,000 - 500,000	16,877	30,000
150,000 - 300,000	11,112	20,000
50,000 - 150,000	6,004	12,000

*SF = Square feet.

Sales Projections

DeCA based the size of the 70,000-square foot replacement commissary on sales projections that will not materialize. According to DeCA design criteria, average monthly sales should range from $2 million to $2.5 million, in 1982 dollars, to justify a 70,000-square foot commissary. Sales projections should be based on actual and projected sales to active duty personnel, retirees, dependents, as well as other authorized users.

Hanscom AFB Commissary. In February 1993, DeCA projected that sales would increase 0.29 percent annually from FY 1993 through FY 1997. DeCA determined the increase by averaging the percentage change in average monthly sales for FYs 1984 through 1992. DeCA also projected a onetime sales increase of 10.32 percent for FY 1994 that would result from patrons spending more in a newer, larger, and more efficient commissary. Details of DeCA's projected sales are in Table 2.

Table 2. Hanscom AFB Commissary Sales

Fiscal Year	Actual Average Monthly Sales (in 1982 dollars)	Projected Average Monthly Sales (in 1982 dollars)	Percent Change
1983	$ 1,563,495		
1984	1,547,551		- 1.02
1985	1,534,666		- 0.83
1986	1,465,879		- 4.48
1987	1,396,267		- 4.75
1988	1,382,208		- 1.01
1989	1,420,899		2.80
1990	1,482,714		4.35
1991	1,595,934		7.64
1992	1,594,925		- 0.06
1993		1,599,589	0.29
1994		1,764,694	10.32
1995		1,769,855	0.29
1996		1,775,031	0.29
1997		1,780,222	0.29

Recent sales indicated a significant downward trend instead of an increase, as DeCA projected. Actual sales data, as adjusted to 1982 dollars, for FY 1993 were $1,508,444, a 5.4-percent reduction from FY 1992 sales. Average monthly sales for the first 6 months of FY 1994 were $1,385,867, an 8.1-percent reduction from FY 1993 sales. Average monthly projected sales of at least $2 million required to support a 70,000-square foot commissary at Hanscom AFB will probably not materialize based on recent sales data.

Fort Devens Commissary. The Hanscom AFB commissary justification included projected sales for the existing Hanscom AFB commissary and increased sales resulting from the closure of nearby Fort Devens. DeCA estimated that Hanscom AFB commissary sales would increase 44 percent, as a result of the 1991 Commission on Defense Base Closure and Realignment decision to close Fort Devens.

A 1991 DeCA patron survey showed that 51 percent of the Fort Devens commissary sales would migrate to the Hanscom AFB commissary when the Fort Devens commissary closes in 1996. DeCA estimated that average monthly sales, in 1982 dollars, would increase by $791,708 as a result of this sales migration. In May 1994 DeCA revised its calculations, based on a 1992 patron survey, and determined that sales from migration would be $792,058.

DeCA's patron survey did not measure the effect of proposed actions by DoD and the Army and Air Force Exchange Service on Hanscom AFB commissary sales. Section 363 of the 1993 National Defense Authorization Act authorized a limited test of nonappropriated fund instrumentalities to operate commissaries on installations slated for closure. The 1993 Act authorized the test at three locations and the 1994 Act specifically named Fort Devens as one of two additional exchange mart test sites.

The exchange marts will be operated by the Army and Air Force Exchange Service and will sell both exchange and commissary products. Under that concept, grocery food items would sell at cost plus 5 percent. The cost of grocery food items to patrons would not change because food items are presently sold in commissaries at cost plus a 5-percent surcharge.

In May 1994, the Army and Air Force Exchange Service recommended that the Fort Devens commissary be considered as one of the test locations authorized by the 1993 and 1994 Defense Authorization Acts. If chosen, the Fort Devens commissary would become an exchange mart by 1996, and the projected migration of commissary sales to Hanscom AFB probably will not occur.

Planned Personnel Reductions

DeCA planned to construct a replacement commissary at Hanscom AFB that exceeded customer requirements, in part, because DeCA did not have information on current and future personnel decreases in the Hanscom AFB area. In May 1994, we obtained active duty assigned personnel reports from the Hanscom AFB Director of Personnel. The reports showed that active duty personnel have decreased about 11.6 percent since the beginning of FY 1993. Air Force military authorizations obtained from the Hanscom AFB Manpower and Organization Branch showed that active duty personnel staffing levels are estimated to decrease 7.5 percent from FY 1994 to the end of FY 1998. Additionally, a patron survey completed in early 1992 projected that 4.4 percent

of the Hanscom AFB commissary patrons will migrate to the new commissary at the Portsmouth Naval Shipyard, New Hampshire, that is scheduled to open in December 1994.

Alternatives to New Construction

DeCA did not sufficiently consider renovation of the existing commissary as an alternative to new construction. DeCA can minimize its construction costs by renovating the existing Hanscom AFB commissary.

Economic Analysis. DeCA completed a cost estimate in FY 1993 that compared the cost of renovating the existing commissary with the cost for new construction. The cost estimate did not conform to the requirements of DoD Instruction 7041.3; therefore, a comparison of the costs for all alternatives with the costs for new construction was not available. For every commissary construction project, various alternatives to new construction, such as maintaining the status quo or leasing, may exist. Without considering those alternatives, DeCA could not perform a complete analysis of all alternatives and resources required to achieve its objectives.

In June 1992, DeCA regional personnel recommended that the existing commissary be renovated to satisfy projected patron requirements. In February 1993, DeCA Headquarters personnel reevaluated the Hanscom AFB requirements and recommended new construction instead of renovation. DeCA's analysis was based on a requirement for a 70,000-square foot commissary and showed that the existing commissary would have to undergo extensive renovation to meet DeCA standards. Although the cost of renovation and expansion of the existing commissary would save about $3.8 million and would cost 55 percent of new construction, DeCA recommended that a new commissary be built.

If Fort Devens is selected as a site for an exchange mart, limited sales will migrate to the Hanscom AFB commissary when the Fort Devens commissary closes. Hanscom AFB sales, without the migration sales from Fort Devens, would be about $1.3 million, in 1982 dollars. Those average monthly sales support a 50,000-square foot commissary with a 28,000-square foot sales area. The existing 79,000 square foot commissary could meet that requirement because it has a 34,000-square foot sales area and excess warehouse space.

Renovation Alternative. A DeCA architect, who developed the original cost estimate for renovation and expansion of the existing commissary, revised the estimate based on a 50,000-square foot requirement. The alternative, shown in Appendix A, would cost approximately $5.4 million, which is 48 percent of the cost of new construction.

of the Hanscom AFB commissary patrons will migrate to the new commissary at the Portsmouth Naval Shipyard, New Hampshire, that is scheduled to open in December 1994.

Alternatives to New Construction

DeCA did not sufficiently consider renovation of the existing commissary as an alternative to new construction. DeCA can minimize its construction costs by renovating the existing Hanscom AFB commissary.

Economic Analysis. DeCA completed a cost estimate in FY 1993 that compared the cost of renovating the existing commissary with the cost for new construction. The cost estimate did not conform to the requirements of DoD Instruction 7041.3; therefore, a comparison of the costs for all alternatives with the costs for new construction was not available. For every commissary construction project, various alternatives to new construction, such as maintaining the status quo or leasing, may exist. Without considering those alternatives, DeCA could not perform a complete analysis of all alternatives and resources required to achieve its objectives.

In June 1992, DeCA regional personnel recommended that the existing commissary be renovated to satisfy projected patron requirements. In February 1993, DeCA Headquarters personnel reevaluated the Hanscom AFB requirements and recommended new construction instead of renovation. DeCA's analysis was based on a requirement for a 70,000-square foot commissary and showed that the existing commissary would have to undergo extensive renovation to meet DeCA standards. Although the cost of renovation and expansion of the existing commissary would save about $3.8 million and would cost 55 percent of new construction, DeCA recommended that a new commissary be built.

If Fort Devens is selected as a site for an exchange mart, limited sales will migrate to the Hanscom AFB commissary when the Fort Devens commissary closes. Hanscom AFB sales, without the migration sales from Fort Devens, would be about $1.3 million, in 1982 dollars. Those average monthly sales support a 50,000-square foot commissary with a 28,000-square foot sales area. The existing 79,000 square foot commissary could meet that requirement because it has a 34,000-square foot sales area and excess warehouse space.

Renovation Alternative. A DeCA architect, who developed the original cost estimate for renovation and expansion of the existing commissary, revised the estimate based on a 50,000-square foot requirement. The alternative, shown in Appendix A, would cost approximately $5.4 million, which is 48 percent of the cost of new construction.

Conclusion

While we recognize that the Hanscom AFB commissary needs renovation, we do not believe that new construction, as planned by DeCA, is justified. Average monthly sales, without the Fort Devens migration sales, support a 50,000-square foot commissary. Based on the current sales data and a projected 7.5-percent reduction in active duty personnel authorizations from FY 1994 to FY 1998, it is unlikely that the current level of sales will continue.

Information developed during the audit showed that Air Force personnel authorizations are declining, that sales projections will not materialize, and that the Fort Devens commissary may become an exchange mart by 1996. Based on that information, we believe that as much as $5.9 million in savings (see Appendix A) can be realized by revisiting the plans and authorizations granted to date for the Hanscom AFB commissary project.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Commissary Agency, place the Hanscom Air Force Base replacement commissary construction project on hold until decisions on the Fort Devens exchange mart are finalized; and at that time, base commissary requirements on future personnel authorizations and up-to-date sales projections.

Management Comments. DeCA concurred with the recommendation and stated that the project has been on hold since March 1994. DeCA does not plan to reactivate the project until base realignment and closure issues are resolved and requirements are revalidated.

2. We recommend that DeCA evaluate renovation of the Hanscom Air Force Base commissary as an alternative to new construction. As part of the evaluation, complete an economic analysis that includes an engineering evaluation and inspection of the existing commissary.

Management Comments. DeCA concurred with the recommendation, and evaluated the existing commissary when the replacement project was received from the Air Force Commissary Service. DeCA's evaluation showed that the existing structure could not support DeCA's operational needs. DeCA stated that the present 79,000-square foot commissary will not economically meet requirements, especially if the validated requirements support a smaller commissary. It plans to build the commissary in conjunction with a new exchange, which would increase patronage and could result in reduced construction costs. After the effect of decisions on base realignment and closure

actions and the Fort Devens exchange mart are known, DeCA will conduct a detailed functional and economic analysis to determine the course of action on the project. The complete text of management's comments is in Part IV.

Audit Response. Although DeCA concurred with the recommendation, it stated that the existing 79,000-square foot commissary will not economically meet requirements, especially if a smaller store is needed for the long term.

After a 1991 Hanscom AFB commissary site inspection, DeCA personnel recommended that the existing commissary be renovated and expanded. In June 1992, the Director, DeCA Northeast Region, recommended renovation because the existing commissary was a sound structure capable of being enlarged at a cost less than that required to construct a commissary. In February 1993, DeCA completed a cost estimate that compared renovation and expansion of the existing commissary to construction. DeCA claimed that the existing commissary would need extensive modification and renovation to meet its standards. The cost estimate showed that renovation of the existing 79,000-square foot commissary would cost 55 percent of the cost to build a 70,000-square foot commissary. DeCA Directive 20-1 states that when estimated renovation costs exceed 50 percent of the estimated cost for new construction, new construction may be the preferred alternative. As a result, DeCA personnel recommended new construction, in part, because the cost of renovation would exceed 50 percent of the cost of construction.

Renovation of the existing commissary is more economical than construction, and may well cost less than 50 percent of new construction. Sales projections support a 50,000-square foot commissary and renovation of the existing commissary would save up to $5.9 million and satisfy patron requirements. Additionally, renovation would further benefit the commissary patron because the existing sales area is 6,000 square feet larger than the DeCA standard sales area allowed for a new 50,000-square foot commissary. In any case, we believe the renovation option should again be explicitly considered in the agreed-upon analyses. The completion and adequacy of the actions taken to implement the audit recommendations will be tracked through the Inspector General, DoD, audit followup system.

Part III - Additional Information

Appendix A. Comparison of Costs for New Construction Versus Renovation

Item	New Construction Cost (70,000 Square Feet) (000)	Renovation Cost (50,000 Square Feet) (000)
New Commissary		
Primary facility	$7,321	
Support	400 [1]	
Subtotal	7,721	
Renovation of Existing Commissary		
Renovate sales area		$2,568
Renovate/construct support area		150
Expand front end, parking and resurface existing parking		250
Expand receiving area and provide dock levelers		55
Construct walkway		120
Renovate meat and produce areas		70
Construct meat coolers		40
Construct new facade		80
Subtotal	7,721	3,333
Budget Contingency	386	333
Subtotal	8,107	3,666
Supervision and Administration	243	111
Construction cost	8,350	3,777
Installed equipment	2,200	1,320
Design fees	460	300
Demolition cost	265 [2]	
Total	$11,275	$5,397
Estimated Cost Differential	$5,878 [3]	

[1]Includes electric, water, sewer and gas service; paving and walks; site improvements and demolition.
[2]Appropriated operation and maintenance funds to demolish concrete, asphalt and two buildings.
[3]Actual savings will be determined after completion of the engineering evaluation and economic analysis.

Appendix B. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and Efficiency. Defer commissary construction until requirements have been determined.	Monetary benefit is shown under Recommendation 2.
2.	Economy and Efficiency. Completion of an economic analysis and engineering evaluation will evaluate alternatives to new construction, consider use of existing facilities, and determine required renovation costs.	Funds put to better use. As much as $5.6 million in Commissary Surcharge Collection Funds (97X8164.6400) and $265,000 in Air Force Operation and Maintenance funds (funding citation to be determined) could be put to better use. The exact amount is undeterminable pending revalidation of project requirements and consideration of any offset costs.

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Personnel and Readiness, Washington, DC
Defense Manpower Data Center, Arlington, VA, and Monterey, CA

Department of the Air Force

Hanscom Air Force Base, Bedford, MA

Defense Organizations

Army and Air Force Exchange Service, Headquarters, Dallas, TX
Defense Commissary Agency, Headquarters, Ft. Lee, Petersburg, VA
Defense Commissary Agency, Design and Construction Division, Lackland Air Force Base, San Antonio, Texas
Fort Devens, Commissary Resale Store, Ayer, MA
Hanscom Air Force Base, Commissary Resale Store, Bedford, MA

Non-Government Organizations

Miller Dyer Spears, Inc., Boston, MA

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Personnel and Readiness
Comptroller of the Department of Defense
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, Central Imagery Office
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
U.S. General Accounting Office
  National Security and International Affairs Division, Technical Information Center
  National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues

Appendix D. Report Distribution

National Security and International Affairs Division, Military Operations and Capabilities Issues

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
Senate Subcommittee on Military Construction, Committee on Appropriations
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Subcommittee on Military Construction, Committee on Appropriations
House Committee on Armed Services
House Panel on Morale, Welfare and Recreation, Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations
House Subcommittee on Military Installations and Facilities, Committee on Armed Services

Part IV - Management Comments

Defense Commissary Agency Comments

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
FORT LEE, VIRGINIA 23801-6300

REPLY TO
ATTENTION OF

SEP 7 1994

IR

MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE,
400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Quick-Reaction Report on the Replacement Commissary Construction Project at Hanscom Air Force Base, Massachusetts (Project No. 3LA-0069.05)

Reference: DoDIG Memorandum, dtd August 19, 1994, SAB.

Attached is the DeCA reply to the recommendations provided in subject report. At this time, we cannot comment on monetary benefits from your report until a final decision is made after our evaluation of the construction project. If you have any questions, please contact Mr. Ben Mikell at (804) 734-8103.

RONALD P. McCOY
Colonel, USAF
Chief of Staff

Attachments:
As Stated

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Quick-Reaction Report on the Replacement Commissary Construction Project at Hanscom Air Force Base, Massachusetts (Project No. 3LA-0069.05)

Recommendation 1. Place the Hanscom Air Force Base replacement commissary project on hold until decisions on the Fort Devens exchange mart are finalized; and at that time, base commissary requirements on future personnel authorizations and up-to-date sales projections.

Action Taken. Concur. DeCA has had this project on hold since March 1994 for exactly the reasons addressed in the recommendation. We have not progressed beyond the soil investigations stage of design. We have no plans to reactivate the project until all aspects of the project need are revalidated after BRAC95.

Recommendation 2. Evaluate renovation of the Hanscom Air Force Base Commissary as an alternative to new construction. As a part of the evaluation, complete an economic analysis that includes an engineering evaluation and inspection of the existing commissary.

Action Taken. Concur. Evaluation of the existing commissary was performed when the project was received from AFCOMS. The analysis at that time showed that the existing structure could not adequately support DeCA's operational needs. We believe that a converted warehouse of 79,000 SF will not economically meet our requirements, especially if further analysis shows the need for a smaller store. We also intended to construct this commissary in conjunction with AAFES construction of a new exchange to form a new shopping center which would increase patronage and could result in reduced construction costs. AAFES has also put their project on hold pending BRAC95 impacts.

When all pertinent data is available after BRAC95 (Ft. Devens type of operation, personnel staffing levels, unit restationing, etc), we will conduct a detailed functional and economic analysis to determine our course of action on this project.

Audit Team Members

Shelton R. Young
Robert J. Ryan
Timothy J. Tonkovic
James R. Knight
Eva M. Zahn