Audit Report

OFFICE OF THE INSPECTOR GENERAL

DEFENSE LOGISTICS AGENCY SPECIAL CONSTRUCTION CONTROLS FOR INSTALLATIONS AFFECTED BY THE 1995 DEFENSE BASE REALIGNMENT AND CLOSURE RECOMMENDATIONS

Report No. 95-245

June 21, 1995

Department of Defense

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Acronyms

BRAC	Base Realignment and Closure
DDMT	Defense Distribution Depot Memphis, Tennessee
DDRT	Defense Distribution Depot Red River, Texarkana, Texas
DLA	Defense Logistics Agency

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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Report No. 95-245

June 21, 1995

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF DEFENSE (ECONOMIC SECURITY)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit of Defense Logistics Agency Special Construction Controls for Installations Affected by the 1995 Defense Base Realignment and Closure Recommendations (Project No. 5CG-5029.01)

Introduction

We are providing this audit report for your information and use. This report is one in a series of reports discussing the effectiveness of special construction controls established by Military Departments and Defense agencies. The controls apply to construction at installations that appear on the Secretary of Defense 1995 list of recommendations for realignment and closure. This report focuses on the adequacy and implementation by the Defense Logistics Agency (DLA) of special construction controls mandated by the Assistant Secretary of Defense (Economic Security) to prohibit the new award of construction contracts and to screen existing construction projects for possible termination or suspension at installations appearing on the 1995 Defense base realignment and closure (BRAC) list.

Audit Results

DLA implementation of the special construction controls for reviewing planned and ongoing construction projects for installations appearing on the 1995 BRAC list were generally effective. DLA developed special construction controls and performed required reviews of planned and ongoing construction projects. On April 14, 1995, DLA provided the special construction controls and a list of projects no longer needed to the Assistant Secretary of Defense (Economic Security). On April 18, 1995, DLA suspended one ongoing project at Defense Distribution Depot Red River, Texarkana, Texas (DDRT), which is currently on the 1995 BRAC list. DoD could realize a one-time potential monetary benefit of $18.7 million in military construction funds and $19 million in procurement funds by terminating the project on July 1, 1995, if DDRT remains on the final 1995 BRAC list.

Audit Objectives

The overall objective of this audit was to determine whether the special construction controls for installations that appear on the DoD 1995 list of recommendations for realignment and closure were effective. The specific objective for the audit was to determine whether DLA took effective action to prohibit new award of FY 1995 and prior military construction funds, to screen military construction projects already under contract for possible termination, and to review planned military construction projects to identify projects not required if the 1995 BRAC list is approved.

Scope and Methodology

The audit evaluated special construction controls for installations appearing on the 1995 BRAC list to determine whether DLA:

- followed Assistant Secretary of Defense (Economic Security) guidance to develop special construction controls and to report results of the review of proposed and ongoing construction projects for installations on the 1995 BRAC list and

- initiated suspension or termination actions on construction projects that are no longer required as a result of 1995 BRAC actions.

Use of Statistical Sampling Methodology. The audit did not rely on statistical sampling procedures to review the special construction controls used by DLA.

Use of Computer-Processed Data. We relied on computer-processed data when reviewing cost data for proposed and ongoing DLA construction projects. We did not establish the reliability of the system that generated the cost data for the projects included in our review. However, we considered the data reliable because we verified cost data for two ongoing construction projects by comparing computer-processed data to source documents.

Audit Standards and Location. This program audit was conducted during April 1995 and was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. See Enclosure 1 for the potential benefits resulting from the audit. See Enclosure 3 for organizations visited or contacted.

Audit Background

BRAC Procedures and Recommendations. The Defense Base Closure and Realignment Act of 1990 (Public Law 101-510, Title XXIX, as amended) and Section 2787 of title 10, United States Code, established requirements and procedures for BRAC within DoD. The Secretary of Defense sent the 1995 BRAC recommendations to the 1995 Commission on Defense Base Closure and Realignment (1995 Commission) on February 28, 1995. DoD recommended that DLA close or realign eight installations, which included DDRT and Defense Distribution Depot Memphis, Tennessee (DDMT), and redirected one 1993 BRAC recommendation. On July 1, 1995, the 1995 Commission will provide the President a report containing the 1995 Commission's findings and conclusions based on a review and analysis of the DoD recommendations.

Guidance for Special Construction Controls. Assistant Secretary of Defense (Economic Security) memorandum, "Special Construction Controls for Installations Appearing on BRAC List," February 22, 1995, provided guidance for establishing and implementing special construction controls to evaluate construction projects planned for installations appearing on the 1995 BRAC list. Specifically, the controls were to accomplish the following:

- prohibit new award of FY 1995 or prior year military construction funds, including family housing construction;

- screen projects already under contract for possible suspension or termination as appropriate, prudently conserving resources where possible;

- assess construction investment planned for installations not slated for closure or realignment to determine whether BRAC recommendations may indirectly alter project justification;

- review FY 1996 military construction budget proposals, including family housing and BRAC construction, to identify projects that will not be required if the 1995 BRAC list is approved; and

- address long-term leases and pertinent off-budget investment areas such as nonappropriated funds.

The Military Departments and Defense agencies were to provide to the Assistant Secretary of Defense (Economic Security) their implementation of the special construction controls by February 27, 1995. They were also to furnish a list by March 20, 1995, of FY 1996 and prior year construction projects that were no longer required, along with recommendations regarding construction funds that would no longer be needed.

Discussion

DLA developed special construction controls for installations to use when evaluating planned and ongoing projects for installations appearing on the 1995 BRAC list. We verified that DLA special construction controls contained the minimum requirements set forth in the Assistant Secretary of Defense (Economic Security) memorandum of February 22, 1995. However, as of April 7, 1995, DLA had not provided the Assistant Secretary of Defense (Economic Security) the information on those controls or the FY 1996 and prior year projects affected by the 1995 BRAC list.

DLA had reviewed five ongoing construction projects and nine construction projects planned for FY 1996. No action was required on 12 of the projects. However, DLA determined that two ongoing projects, a distribution operations center for DDRT and a general purpose warehouse for DDMT, were subject to suspension and possible termination because the installations appeared on the 1995 BRAC list.

Distribution Operations Center. On May 12, 1994, the Army Corps of Engineers awarded a contract for the construction of a 680,000-square-foot distribution operations center at DDRT. The DLA estimate to construct the building was $32.8 million. The project also included the requirement for an automated materiel handling system, valued at $19 million, that was financed from procurement funds. As of March 30, 1995, the Army Corps of Engineers estimated that approximately 20 percent of the construction was complete and $6.6 million had been billed against the construction contract. DLA performed

an economic analysis in March 1995 that showed that, by suspending the project immediately and subsequently terminating the project on July 1, 1995, if DDRT remains on the final 1995 BRAC list, DoD could save approximately $18.7 million in construction costs and $19 million in procurement funds. Based on our on-site verification of cost and construction progress, we believe that the DLA analysis is reasonable. However, as of April 7, 1995, DLA had not suspended or terminated the project.

General Purpose Warehouse. On March 30, 1993, the Army Corps of Engineers awarded a contract for the construction of a 208,000-square-foot general purpose warehouse at DDMT. The DLA estimate to complete the project was $6.9 million. As of April 6, 1995, the Army Corps of Engineers estimated that approximately 68 percent of the construction was complete and that $4.1 million had been billed against the contract. DLA performed an economic analysis in March 1995 that showed that, by suspending the project immediately and subsequently terminating the project on July 1, 1995, if DDMT remains on the final 1995 BRAC list, DoD could save an estimated $0.5 million. Based on that estimate, DLA concluded that little or no savings would be achieved by suspending or terminating the project at such a late phase. Based on our on-site verification of costs, construction progress, and DLA estimated savings, we agree with the DLA economic analysis and conclude that the project should be completed.

Conclusion

We believe that the DLA special construction controls met the general intent of the Assistant Secretary of Defense (Economic Security) guidance. The DLA developed special construction controls and performed required reviews of planned and ongoing construction projects. On April 14, 1995, DLA provided the Assistant Secretary of Defense (Economic Security) information on controls and the projects affected by the 1995 BRAC list. On April 18, 1995, DLA suspended the distribution operations center construction project at DDRT.

Management Comments

We provided DLA a draft of this report on April 18, 1995. The draft report recommended that DLA suspend the distribution operations center construction project at Defense Distribution Depot Red River, Texarkana, Texas, and provide a list of construction projects no longer needed to the Assistant Secretary of Defense (Economic Security) as required. DLA provided information, after we issued our draft report, indicating that it suspended the DDRT distribution operations center construction project and notified the Assistant Secretary of Defense (Economic Security) of its special construction controls. Because those actions occurred before the draft report date and satisfied the intent of our recommendations, we deleted the draft report recommendations, and management comments were not required. See Enclosure 2 for the complete text of the DLA actions.

We appreciate the courtesies extended to the audit staff. If you have any questions on this report, please contact Mr. Wayne K. Million, Audit Program Director, at (703) 604-9312 (DSN 664-9312), or Mr. John M. Delaware, Audit Project Manager, at (703) 604-9314 (DSN 664-9314). See Enclosure 4 for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Enclosures

Summary of Potential Benefits Resulting From Audit

Report Reference	Description of Benefit	Amount and/or Type of Benefit
Page 1	Economy and Efficiency. Cancel project to construct a Distribution Operations Center at Defense Distribution Depot Red River, Texarkana, Texas.	FY 1992 military construction funds of $18.7 million and FY 1995 procurement funds of $19 million put to better use.

Actions Taken by the Defense Logistics Agency

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

IN REPLY REFER TO MMD

14 APR 1995

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (ECONOMIC SECURITY)

SUBJECT: Special Construction Controls for Installations Appearing on BRAC List

In reply to your memorandum of 22 February 1995 on this subject, enclosed is a copy of the special controls imposed for the Agency's facilities and equipment investments affected by BRAC 95 recommendations.

The Defense Logistics Agency has one unawarded Military Construction (MILCON) project affected by these recommendations. This FY 95 project is associated with a BRAC 93 project to relocate personnel of the Defense Contract Management District-West to the Long Beach Naval Shipyard. Design of this project has not started and will be held pending further evaluation.

We have also screened all proposed FY 96 MILCON and Family Housing projects for potential BRAC effects. All projects remain justified.

There are two prior-year MILCON projects under construction that are affected by these recommendations:

a. FY 92 Distribution Operations Center, Defense Distribution Depot, Red River, Texas. Current working estimate is $32.8 million.

b. FY 91 General Purpose Warehouse, Defense Distribution Depot, Memphis, Tennessee. Current working estimate is $6.9 million.

Attachment

14 APR 1995

MMD PAGE 2
SUBJECT: Special Construction Controls for Installations Appearing on BRAC List

If the Secretary's recommendations are approved, these facilities would no longer be required. We have evaluated these two projects and based upon our best preliminary estimates sufficient savings can be achieved by suspending the FY 92 Distribution Operations Center at Red River, TX. As such, we intend to suspend work on the Red River Distribution Operations Center pending the BRAC Commission decision. In the case of the General Purpose Warehouse project at Memphis, TN, we feel this project has progressed well beyond the stage at which a savings could be achieved and we will, therefore, continue this project to completion. As soon as firm and accurate savings can be identified, we will notify you of the balance of remaining MILCON funds that can be made available to the Department from the Red River project.

Ed Straw

1 Encl

EDWARD M. STRAW
Vice Admiral, SC, USN
Director

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

IN REPLY REFER TO MMDI

27 MAR 1995

SUBJECT: Special Management Controls for Installations Appearing on BRAC 95 Recommendations List

TO: Commanders, DLA Inventory Control Points
Commanders, Defense Distribution Regions
Commanders, DLA Service Centers
Commander, Defense Contract Management Command

1. The Assistant Secretary of Defense for Economic Security has directed the implementation of special management controls for facilities and equipment investments at installations recommended by the Secretary of Defense for realignment or closure. The following controls are effective immediately.

a. Military Construction (MILCON) projects under contract have been screened for possible suspension or termination as appropriate, prudently conserving resources where possible. Project # DDMT9002 at Memphis will be completed and Project # DDRT9201 will be suspended, as a result of this screening.

b. MILCON or BRAC projects under design should be reviewed to determine if BRAC 95 recommendations alter project scope or justification. Affected projects should proceed to the next design milestone and stop pending a determination by the HQ BRAC Executive Group. No new awards of FY 95 or prior-year MILCON funds will be made unless approved by this headquarters.

c. Project approvals for all Real Property Maintenance (RPM) and minor construction projects under design or pending awards are hereby revoked. Each project should be revalidated by the appropriate approval authority, taking into consideration the results of BRAC 95 recommendations. Projects should be executed, modified, delayed, or cancelled based on this revalidation review. Projects in progress should be screened for possible suspension or termination as appropriate.

MMDI PAGE 2 27 MAR 1995
SUBJECT: Special Management Controls for Installations Appearing on BRAC 95 Recommendations List

d. Each contract to install equipment at BRAC-affected sites should be reviewed to determine whether it is more economical to terminate the contract or complete it. Projects in design or procurement should be cancelled unless continuation is justified and approved by HQ.

e. Activities preparing to renew long-term leases or to enter into new lease agreements will contact us before proceeding. We will provide additional guidance on a case-by-case basis.

2. Conserving DLA's scarce resources for facilities and equipment investments is essential if we are to address deficiencies at enduring installations. These special management controls will be supplemented or modified when further information on BRAC 95 decisions becomes available.

3. For further information or coordination, contact me at DSN 284-6355 or commercial (703) 274-6355. The FAX number is DSN 284-8650.

BRIAN J. McKENNA
Colonel, USA
Assistant Executive Director
(Installations)

cc:
AQ
CA
FO
GC
MM
MMD
MMS
MMDB
MMSB
CAAJ

Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC

Department of the Army

Army Corps of Engineers, Fort Worth District, Eastern Area Office, Bossier City, LA
Army Corps of Engineers, Mobile District, Mobile, AL

Defense Organizations

Defense Logistics Agency, Alexandria, VA
- Defense Distribution Depot Memphis, TN
- Defense Distribution Depot Red River, Texarkana, TX

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Assistant Secretary of Defense (Economic Security)
  Deputy Assistant Secretary of Defense (Installations)
Assistant to the Secretary of Defense (Public Affairs)

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Auditor General, Department of the Army

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Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Audit Team Members

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

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