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

REPORT
NO. 92-082

April 24, 1992

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)

SUBJECT: Final Report on the Audit of Contract Award and Administration of Family Housing at Naval Station New York (Project 1CG-5010)

Introduction

This is our final report on the audit of Family Housing at Naval Station (NAVSTA) New York for your information and use. The Contract Management Directorate performed the audit from September 1991 through February 1992. The audit objective covered in this report was to evaluate contract award and administration procedures for two Section 801 build-to-lease housing projects and applicable internal management control procedures. Another objective of the audit was to evaluate the impact of planned force reductions on family housing requirements needed to support activities at NAVSTA New York, which was addressed in a Quick-Reaction report (see Prior Audit Coverage, page 3).

Discussion

The audit determined that:

- build-to-lease contracts were awarded using competitive acquisition procedures,

- solicitation bids were evaluated technically with contracts being awarded to the lowest bidder,

- administration of awarded build-to-lease contracts was found to be adequate and reasonable, and

- delay in construction of the two build-to-lease projects resulted from the builders' inability to obtain building permits.

We determined that the Navy administration procedures for the awarded build-to-lease contracts were in compliance with the Federal Acquisition Regulation (FAR). However, neither of the two build-to-lease contracts reviewed contained a termination for convenience clause. The exclusion of a termination for

convenience clause in Section 801 build-to-lease contracts was addressed in Audit Report No. 92-006, "DoD Leasing of Family Housing," October 16, 1991. The Assistant Secretary of Defense (Production and Logistics) agreed to consider use of the termination for convenience clause in future Section 801 build-to-lease contracts. Therefore, we concluded that no additional recommendations were necessary.

Scope of Audit

To accomplish our objectives, we examined the policies and procedures used by the Naval Facilities Engineering Command to determine how much family housing would be needed to support activities assigned to NAVSTA New York. We interviewed responsible officials from the Deputy Chief of Naval Operations (Logistics); the Commander, Naval Surface Forces, Atlantic Fleet; the Commander, Naval Surface Reserve Forces; and the Army family housing offices for DoD housing located at Fort Hamilton and Fort Totten. We also contacted 18 DoD activities within the NAVSTA New York area to verify actual housing requirements. The activities visited or contacted during the survey are listed in Enclosure 1.

We reviewed contract documentation located at Northern Division, Naval Facilities Engineering Command for two Section 801 build-to-lease contracts (totaling 1,183 units). These contracts were awarded in June 1989 and valued at $368 million over a 20-year period. The contract files were evaluated for compliance as prescribed by FAR Part 6, "Requirements for Full and Open Competition," and FAR Part 42, "Contract Administration," the requirements for awarding and administering the two build-to-lease contracts.

This economy and efficiency audit was performed from September 1991 through February 1992 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary. We verified the accuracy of reported manpower data (for both shore and afloat units) with computerized manpower data generated by the Commander, Naval Surface Forces, Atlantic Fleet and the Commander, Naval Surface Reserve Forces; and we determined the data was accurate.

Internal Controls

We reviewed the Navy management control procedures associated with acquiring Section 801 build-to-lease family housing and determined that there were no materiel internal control weaknesses as defined by DoD Directive 5010.38.

Background

In 1982, the Navy began planning the additional strategic homeporting program to alleviate overcrowding in existing ports and to accommodate expansion of the Fleet toward a 600-ship goal. NAVSTA New York, located on Staten Island, was one of nine originally planned homeports and the first port to reach operational capability. Seven ships, including the battleship USS IOWA, were originally planned for homeporting at NAVSTA New York. To satisfy the housing need, Northern Division, Naval Facilities Engineering Command awarded two Section 801 build-to-lease contracts during June 1989 for 1,183 housing units (1,000 units in the first contract and 183 units in the second) totaling about $368 million over a 20-year period. The housing for both contracts was originally scheduled for completion in June 1991. However, both contracts have experienced over 2 years of delays in beginning construction due to complications associated with each builder's inability to obtain building permits.

The DoD budget for fiscal year 1992 reflected a reduction in the Navy Fleet to 464 ships by fiscal year 1993. Reductions included the deactivation of four remaining battleships, which included the USS IOWA. This deactivation, combined with base realignment and closure actions, resulted in restructuring the plan as to what ships would be homeported at NAVSTA New York.

Prior Audit Coverage

The DoD Inspector General Report No. 92-034, "Quick-Reaction Report on the Audit of Family Housing at Naval Station New York," January 9, 1992, evaluated the impact of planned force reductions on family housing and determined whether two Section 801 build-to-lease projects, which were not under construction until December 1991, were still required. The report showed that, as the result of recent DoD force reductions and base realignment actions, family housing requirements for most of the housing units under construction were questionable. The report also identified 220 units of vacant DoD family housing that could be used to house Service members located in the adjacent New York City area. Reducing the two Section 801 build-to-lease contracts by 783 units would result in potential monetary benefits of $73 million in the initial 6 years of the 20-year contract lease period. The use of vacant DoD housing in the New York City area would result in a total of about $10.8 million in housing allowances being put to better use in a 6-year period. The report recommended that a bilateral change order be negotiated to change the number of units required for the two Section 801 contracts to 400 units, with options for additional units to meet future needs. The report also recommended that NAVSTA New York use vacant DoD family housing in the New York area to satisfy the needs of Service members requiring family housing. The Navy

nonconcurred with the recommendations, and the matter is being addressed through the audit mediation process as prescribed by DoD Directive 7650.3.

Report Staffing

We provided a draft of this report to the addresses on February 27, 1992. Because there were no recommendations, no comments were required of management, and none were received. Any comments on this final report should be provided by May 25, 1992.

We appreciate the courtesies and cooperation extended to the audit staff. If you have any questions on the report, please contact Mr. Wayne K. Million, Program Director, at (703) 614-6281 (DSN 224-6281) or Mr. Gary R. Padgett, Project Manager, at (703) 614-3459 (DSN 224-3459). Activities visited or contacted are listed in Enclosure 1. Copies of the final report will be distributed to activities listed in Enclosure 2. The names and titles of audit team members are shown in Enclosure 3.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Navy
Under Secretary of the Navy
Assistant Secretary of the Army (Installations, Logistics and Environment)
Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Deputy Assistant Secretary of Defense (Installations)

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

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

Department of the Navy

Chief of Naval Operations:
- Commander in Chief, U.S. Atlantic Command, Norfolk, VA
  - Commander, Naval Surface Forces, U.S. Atlantic Fleet, Norfolk, VA
    - Commanding Officer, Naval Station New York, NY
    - USS DONALD B. BEARY (FF 1085)
    - USS KIDD (DDG 993)
    - USS NORMANDY (CG-60)
    - USS NITRO (AE 23)
- Deputy Chief of Naval Operations (Logistics), Washington, DC

Commander, Naval Sea Systems Command, Washington, DC
- Commanding Officer, Naval Weapons Station, Earle, NJ

Chief of Naval Personnel, Washington, DC
- Commanding Officer, Naval Recruit District, New York, NY

Commander, Naval Reserve Forces, New Orleans, LA
- Commander, Naval Surface Reserve Forces, New Orleans, LA
  - Commanding Officer, Naval Reserve Center, Perth Amboy, NJ
  - Commanding Officer, Naval Reserve Center, Kearny, NJ

Commander, Naval Facilities Engineering Command, Washington, DC
- Commanding Officer, Northern Division, Naval Facilities Engineering Command, Philadelphia, PA

Commandant of the Marine Corps, Washington, DC
- Commanding General, Marine Corps Recruit Depot, Eastern Recruiting Region, Paris Island, SC
- Commanding Officer, 1st Marine Corps District, East Meadow, NY

Department of the Army

Military Traffic Management Command HQ, U.S. Army Garrison (Provisional), Bayonne, NJ
Ernie Pyle U.S. Army Reserve Center, Fort Totten, NY
New York Area Command and Fort Hamilton, Brooklyn, NY
Commanding Officer, U.S. Coast Guard Support Center New York, Governors Island, New York, NY

Department of the Air Force

3514 US Air Force Recruiting Squadron, McGuire Air Force Base, New Jersey

REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Assistant Secretary of Defense (Production and Logistics)
Comptroller of the Department of Defense
Deputy Assistant Secretary of Defense (Installations)
Director of Defense Procurement

Department of the Army

Assistant Secretary of the Army (Installations, Logistics and Environment)

Department of the Navy

Secretary of the Navy
Under Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Comptroller of the Navy
Naval Facilities Engineering Command
Auditor General, Naval Audit Service

Non-DoD

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Ranking Minority Member, Senate Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
Ranking Minority Member, House Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

List of Audit Team Members

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