Audit Report

OFFICE OF THE INSPECTOR GENERAL

QUICK-REACTION REPORT ON THE AUDIT OF DEFENSE BASE REALIGNMENT AND CLOSURE BUDGET DATA FOR NAVAL STATION TREASURE ISLAND, CALIFORNIA

Report No. 94-108 May 19, 1994

Department of Defense

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Acronyms

BRAC	Base Realignment and Closure
COBRA	Cost of Base Realignment Actions
MILCON	Military Construction
NTC	Naval Training Center

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-2884

May 19, 1994

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

SUBJECT: Quick-Reaction Report on the Audit of Defense Base Realignment and Closure Budget Data for Naval Station Treasure Island, California (Report No. 94-108)

We are providing this report for your review and comments. This report is one in a series of reports on FYs 1994 and 1995 base realignment and closure military construction costs. The report addresses the closure of Naval Station Treasure Island, California, and the realignment of the Advanced Hull Technician School to the Naval Training Center Great Lakes, Illinois. We are issuing this as a quick-reaction report because time is limited for adjusting and resubmitting the budget information discussed in this report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. The Navy did not provide comments on a draft of this report. Therefore, we redirected Recommendations A.2., B.1., C.1., and D.1. to the Comptroller of the Department of Defense. We request that the Comptroller of the Department of Defense and the Commanding Officer, Southern Division, Naval Facilities Engineering Command, provide comments on the recommendations, monetary benefits, and internal control weaknesses by June 20, 1994.

We appreciate the courtesies and cooperation extended to the audit staff. If you have any questions on this audit, please contact Ms. Kimberley A. Caprio, Audit Project Manager, at (703) 692-3024 (DSN 222-3024). Appendix D lists the distribution of the report. The audit team members are listed inside the back cover.

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Report No. 94-108 **May 19, 1994**
(Project No. 4CG-5008.10)

QUICK-REACTION REPORT ON THE AUDIT OF DEFENSE BASE REALIGNMENT AND CLOSURE BUDGET DATA FOR NAVAL STATION TREASURE ISLAND, CALIFORNIA

EXECUTIVE SUMMARY

Introduction. Public Law 102-190, "National Defense Authorization Act for Fiscal Years 1992 and 1993," December 5, 1991, directs the Secretary of Defense to ensure that the amount of the authorization DoD requested for each military construction project associated with base realignment and closure does not exceed the original estimated cost provided to the Commission on Defense Base Closure and Realignment (the Commission). If the requested budget amounts exceed the original project cost estimates provided to the Commission, the Secretary of Defense is required to explain to Congress the reasons for the differences. A primary reason for differences is the time constraints imposed on the Military Departments for developing base realignment and closure military construction cost estimates. Tight schedules dictated by the base closure and realignment process made initial project documentation and the associated cost-estimating process extremely difficult.

The Inspector General, DoD, is required to review each base realignment and closure military construction project for which a significant difference exists from the original cost estimate and to provide the results of the review to the congressional Defense committees. For FYs 1994 and 1995 budget requests, we selected projects for which a difference of more than 10 percent exists between the original cost estimate and the current estimated budget amount. This year we also selected projects for which activities requested funding of more than $21 million.

This report is one in a series of reports about FYs 1994 and 1995 base realignment and closure military construction costs. We are issuing this as a quick-reaction report because time is limited for adjusting and resubmitting the budget information discussed in this report.

Objectives. The overall audit objective was to determine the accuracy of Defense base realignment and closure military construction budget data. This report provides the results of the audit of two projects: P-608T, "Building Modifications," valued at $7.5 million, and P-582T, "Bachelor Enlisted Quarters Reactivation," valued at $403,000. The projects were part of the Navy budget submission to realign the Naval Technical Training Center, Naval Station Treasure Island, California, to the Naval Training Center Great Lakes, Illinois. The audit also evaluated the implementation of the DoD Internal Management Control Program and assessed the adequacy of applicable internal controls. Project P-557S, "Hull Technician 'A' School," valued at $12.6 million, is related to the two projects in this report and is discussed in Report No. 94-109, "Quick-Reaction Report on the Audit of Defense Base Realignment and Closure Budget Data for the Naval Training Center Great Lakes, Illinois," May 19, 1994.

Audit Results. The Navy overestimated the base realignment and closure military construction requirements for project P-608T to renovate building 520 at the Naval Training Center Great Lakes. As a result, the $7.5 million programmed to renovate building 520 could be decreased by a total of $1.4 million (Finding A).

The Navy overstated the cost estimate for building 520. As a result, the base realignment and closure funds to renovate building 520 can be decreased by approximately $665,166 (Finding B).

The Navy incorrectly programmed the cost for project P-608T, $7.5 million, as part of the Naval Technical Training Center, Naval Station Treasure Island, realignment when, in fact, project P-608T was a cost of realigning the Advanced Hull Technician School at the Naval Training Center San Diego, California (Finding C).

The Navy duplicated the budget submission for project P-582T to renovate bachelor enlisted quarters at the Naval Training Center Great Lakes, resulting in the Navy overstating the programmed amount for project P-582T by $403,000 (Finding D).

Internal Controls. The audit identified material internal control weaknesses. Navy internal controls and management's implementation of the DoD Internal Management Control Program were not effective because they did not prevent or identify material internal control weaknesses in planning and programming requirements for base realignment and closure military construction projects. However, during the audit, the Commander, Naval Facilities Engineering Command, issued guidance establishing a requirement at all Naval Facilities Engineering Command field activities to validate Defense base realignment and closure military construction requirements and improve the budget estimating process. This policy, when fully implemented, should strengthen controls over base realignment and closure project estimates and correct the material internal control weaknesses. See Part I for the internal controls reviewed and Findings A, B, and D in Part II for details on the internal control weaknesses identified.

Potential Benefits of Audit. Implementation of the recommendations will allow DoD to put approximately $2.4 million of FY 1994 BRAC MILCON funds to better use. Strengthening Navy internal controls will ensure the accuracy of budget estimates for military construction projects resulting from base realignments and closures and could result in additional monetary benefits. However, we could not quantify the amount. Appendix B summarizes the potential benefits resulting from audit.

Summary of Recommendations. We recommend that the Comptroller of the Department of Defense reprogram FY 1994 base realignment and closure military construction authorizations to accurately reflect costs associated with appropriate closing activities, and to put overstated funds to better use. We recommend that the Navy refrain from issuing a request for proposals pending the resolution of differences in specifications identified in this report.

Management Comments. The Navy did not provide comments on a draft of this report. Therefore, we redirected Recommendations A.2., B.1., C.1., and D.1., on reducing and realigning funding for base realignment and closure projects to the Comptroller of the Department of Defense. We request that the Comptroller of the Department of Defense and the Commanding Officer, Southern Division, Naval Facilities Engineering Command, provide comments on the recommendations, monetary benefits, and internal control weaknesses by June 20, 1994.

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

Part I - Introduction

Background

Initial Recommendations of the Commission on Defense Base Closure and Realignment. On May 3, 1988, the Secretary of Defense chartered the Commission on Defense Base Closure and Realignment (the Commission) to recommend military installations for realignment and closure. Using cost estimates provided by the Military Departments, the Commission recommended 59 base realignments and 86 base closures. On October 24, 1988, Congress passed, and the President signed, Public Law 100-526, "Defense Authorization Amendments and Base Closure and Realignment Act," which enacted the Commission's recommendations. Public Law 100-526 also establishes the DoD Base Closure Account to fund any necessary facility renovation or military construction (MILCON) projects for base realignments and closures (BRAC).

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

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

Military Department BRAC Cost-estimating Process. To develop cost estimates for the Commission, the Military Departments used the Cost of Base Realignment Actions computer model (COBRA). COBRA uses standard cost factors to convert the suggested BRAC options into dollar values to provide a way to compare the different options. After the President and Congress approve the BRAC actions, DoD realigning activity officials prepare DD Forms 1391, "FY 1994 Military Construction Project Data," for individual MILCON projects required to accomplish the realigning actions. COBRA provides cost estimates as a BRAC package for a particular realigning or closing base. The DD Form 1391 provides specific cost estimates for an individual BRAC MILCON project.

Required Defense Reviews of BRAC Estimates. Public Law 102-190, "National Defense Authorization Act for Fiscal Years 1992 and 1993," December 5, 1991, states that the Secretary of Defense shall ensure that the authorization amount that DoD requested for each MILCON project associated with BRAC actions does not exceed the original estimated cost provided to the Commission. If the requested budget amounts exceed the original project cost estimates provided to the Commission, the Secretary of Defense is required to explain to Congress the reasons for the differences. Also, Public Law 102-190

prescribes that the Inspector General, DoD, must evaluate significant increases in MILCON project costs over the estimated costs provided to the Commission and send a report to the congressional Defense committees.

Objectives

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

This report provides the results of the audit of two projects: P-608T, "Building Modifications," valued at $7.5 million, and P-582T, "Bachelor Enlisted Quarters Reactivation," valued at $403,000. The projects were part of the Navy budget submission to realign the Naval Technical Training Center, Naval Station Treasure Island, California, to the Naval Training Center (NTC) Great Lakes, Illinois.

Scope and Methodology

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

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

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

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

Audit Methodology for This Audit. We examined the FY 1994 BRAC MILCON budget request and documentation on the closure of the Naval Technical Training Center, Naval Station Treasure Island, and the realignment of the Advanced Hull Technician School located at NTC San Diego, California, to the NTC Great Lakes. Projects P-608T and P-582T were both identified on

the budget submission as part of the realignment of the Advanced Hull Technician School from Naval Station Treasure Island to NTC Great Lakes. The remaining projects, currently estimated at $34.5 million, are scheduled for implementation in FY 1996. We also interviewed officials at NTC San Diego; Naval Station Treasure Island; Southern Division, Naval Facilities Engineering Command; Commander, Pacific Fleet; and the Office of the Comptroller of the Navy (Navy Comptroller).

Specific Limitations for This Audit. The reported value of $403,000 for project P-582T to renovate the bachelor enlisted quarters was not a cost estimate supported by a DD Form 1391. Instead, the reported value represents a pro rata allocation of costs based on expected student attendance rates. Therefore, we reviewed only the method that the Navy used to allocate cost and not the cost estimate for the project.

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

Internal Controls

Internal Controls Reviewed. We evaluated Navy internal controls for validating BRAC MILCON requirements for project P-608T to renovate building 520 in support of the realignment of the Advanced Hull Technician School to NTC Great Lakes. We did not review internal controls over project P-582T to renovate bachelor enlisted quarters at NTC Great Lakes because the funds that were applied to project P-582T were outside the scope of this audit. Specifically, we reviewed Navy procedures for planning, programming, budgeting, and documenting the BRAC MILCON requirements on the realignment from the Naval Station Treasure Island. We also reviewed the DoD Internal Management Control Program as it applies to the audit objectives.

Internal Control Weaknesses Identified. The audit identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Navy internal controls and the implementation of the DoD Internal Management Control Program were not effective because they did not prevent or identify material internal control weaknesses in the accuracy of the BRAC requirement for MILCON project P-608T. We also examined the portion of the DoD Internal Management Control Program applicable to validating the accuracy of BRAC MILCON budget requirements. The program failed to prevent or detect the internal control weaknesses because BRAC funding was not an assessable unit.

Strengthening Navy internal controls will ensure the accuracy of budget estimates for military construction projects resulting from base realignments and closures and could result in additional monetary benefits. However, we could not quantify the amount.

Command Efforts to Improve Internal Controls. In December 1993, the Commander, Naval Facilities Engineering Command, issued guidance establishing a requirement at all Naval Facilities Engineering Command field activities to validate BRAC MILCON requirements and improve the budget estimating process. Naval Facilities Engineering Command field activities full implementation of this policy should enhance controls over BRAC project estimates because the policy provides for applying the existing criteria to validate regular MILCON project requirements. Implementation of the DoD Internal Management Control Program will also be strengthened by including the validation of BRAC MILCON project requirements as an assessable unit. Because of the Commander, Naval Facilities Engineering Command, efforts, we made no recommendations concerning internal controls.

Prior Audits and Other Reviews

The Inspector General, DoD, issued Report No. 94-109, "Quick-Reaction Report on the Audit of Defense Base Realignment and Closure Budget Data for the Naval Training Center Great Lakes, Illinois," May 19, 1994, that addresses the $12.6 million of renovations to building 520 which are applicable to project P-557S, "Hull Technician 'A' School." The report states that the Navy overestimated the BRAC MILCON requirements for project P-557S by $1.8 million. The Navy did not provide comments on a draft of this report. Since 1991, 39 audit reports have addressed DoD BRAC issues. Appendix A lists selected DoD and Navy BRAC reports.

Part II - Findings and Recommendations

Finding A. Adequacy of Navy Cost Estimation Process

The Southern Division, Naval Facilities Engineering Command (Southern Division), responsible for identifying BRAC MILCON requirements for project P-608T, overestimated space and cost per square foot requirements for the renovation of building 520 at NTC Great Lakes. Also, Southern Division could not adequately justify the space and cost estimates. The overestimates occurred because Southern Division inappropriately included unusable space in estimates, did not consider estimates provided from other sources, and did not maintain adequate documentation to support estimates. As a result, the $7.5 million in estimated costs for renovating building 520 at NTC Great Lakes could be decreased by as much as $1.4 million.

Background

Renovation of Building 520 at NTC Great Lakes. Building 520 at NTC Great Lakes is undergoing renovation to house the Advanced Hull Technician School under project P-608T. The Advanced Hull Technician School will share building 520 with the Hull Technician School that is being realigned from the Naval Station Philadelphia under BRAC project P-557S, "Hull Technician 'A' School." The transfer of both schools to NTC Great Lakes permits consolidation of requirements and some sharing of classrooms, laboratories, and equipment for the welding classes (Figure 1).

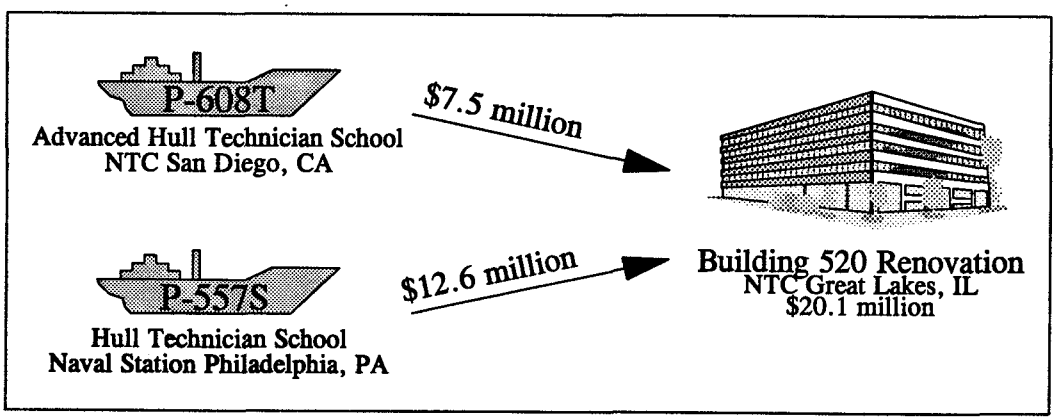

Figure 1. Consolidation of Hull Technician and Advanced Hull Technician Schools to NTC Great Lakes

Responsibility for Estimating Requirements. Southern Division was responsible for establishing cost estimates for BRAC MILCON requirements at NTC Great Lakes. Within a 2-week period during May 1993, a Southern Division team, employing a project manager, architect, facility planner, and

design engineer, identified BRAC MILCON requirements for 32 projects at NTC Great Lakes including building 520. The Southern Division team visited the sites of the activities being transferred to NTC Great Lakes and the facilities available at NTC Great Lakes to accommodate the realigning activities. With information derived from the visits, Southern Division developed facility requirements and estimated costs and prepared the DD Forms 1391 for the 32 projects.

Overestimated Requirements

Overestimation of Space Requirements. Southern Division requested that 66,200 square feet of existing space in building 520 be converted to applied instructional laboratory space at a cost of $7.5 million for the Advanced Hull Technician School under project P-608T. The Southern Division project manager stated that, because he was under time constraints, he estimated the square feet attributable to project P-608T to be 66,200 square feet. The 66,200 square feet represents the remaining space in building 520 that was not covered by the Hull Technician School, also located in building 520. We determined, however, that 8,100 of the 66,200 square feet is permanently sealed off in the basement of building 520 and therefore should not have been counted as part of the space needed. Therefore, the estimate for space requirements was overstated by 8,100 square feet.

Overestimation of Unit Cost Estimate. During the Southern Division analysis performed in May 1993, Southern Division estimated the conversion cost per square foot for the Advanced Hull Technician school to be $79. The architect assigned to the Southern Division team stated that he did not have data on projects in the Great Lakes area that were comparable to the renovation of building 520. Therefore, the architect stated that he relied on costs of new construction, adjusted for size and area cost factors specified in Military Handbook 1010A, "Cost Engineering: Policy and Procedures," August 1, 1992. He then applied a savings factor of 25 percent because the construction is not new but is a renovation of an existing building.

However, as of November 1993, the estimated conversion cost used for the realignment of the Hull Technician School from the Naval Station Philadelphia to building 520 was $68.70 per square foot. The estimated conversion cost for the Hull Technician School of $68.70 per square foot was established by the Northern Division, Naval Facilities Engineering Command, and Southern Division officials did not know how that unit cost was determined. Because the Advanced Hull Technician School will be collocated with the Hull Technician School within building 520, and renovations are not being differentiated in the plans between the two projects, we believe that it is appropriate to apply the $68.70 rate, rather than the $79 per square foot rate, to the Advanced Hull Technician School as well as to the Hull Technician School requirements.

Potential Cost Adjustments. We estimate that project P-608T is overstated by a total of $1.4 million based upon the following:

o The total of 66,200 square feet in building 520 is overestimated by 8,100 square feet.

o The unit conversion costs were overestimated by $10.30 per square foot ($79 - $68.70).

Tables 1 through 3 identify the calculations for the overstatements. The tables also include adjustments for contingency and supervision, inspection, and overhead costs. By overstating the project costs, Southern Division also overstated contingency and supervision, inspection, and overhead costs. Naval Facilities Engineering Command Instruction 11010.44E, "Shore Facilities Planning Manual," October 1, 1990, states that contingency costs are derived by applying 5 percent to the project costs. The supervision, inspection, and overhead costs are derived by applying 6 percent to the total of the project costs and contingency costs.

Table 1. Calculation of Overstatement of Costs Based on Square Foot Estimates

Overestimation: 8,100 square feet

8,100 square feet x $79 per square foot = $639,900

($639,900 x 1.05) x 1.06 = $712,209

Table 2. Calculation of Overstatement of Costs Based on Cost per Square Foot

Southern Division estimate	66,200 square feet
Less overstated amount	8,100
Total	58,100 square feet

58,100 sq. ft. x ($79 - $68.70) = $598,430

($598,430 x 1.05) x 1.06 = $666,053

Table 3. Calculation of Overstatement Based on Space Estimate and Costs

Overstatement based on space estimate	$712,209
Overstatement based on cost estimate	666,053
Total overstatement	$1,378,262

Adequacy of Documentation to Support Estimates

Responsibilities for Preparing Documentation. Naval Facilities Engineering Command Instruction 11010.44E specifies that Navy activities are responsible for the preparation of requirements. An engineering field division may prepare the requirement documentation; however, the activity is still responsible for ensuring its completeness. The instruction further states that requirements must be supported by data to justify the complete rationale for determining the requirement. The engineering field division should certify that sufficient data have been collected to allow design to proceed.

Adequacy of Documentation. We examined estimating procedures and supporting documentation prepared by Southern Division, as the field activity, to justify $7.5 million for project P-608T. Southern Division did not prepare or retain documentation required by Naval Facilities Engineering Command Instruction 11010.44E to support estimating procedures used or to support the rationale behind assumptions used for space requirements in building 520. Southern Division documentation also did not include sufficient justification to support the application of a $79 instead of $68.70 unit cost per square foot. Because Southern Division did not maintain adequate documentation to justify space or cost estimates, or to justify assumptions used for estimation purposes, internal controls were not adequate within Southern Division to verify that cost estimates on the DD Form 1391 were justified and adequately supported.

During the audit, the Commander, Naval Facilities Engineering Command, issued guidance establishing a requirement at all Naval Facilities Engineering Command field activities to validate Defense BRAC MILCON requirements and improve the budget estimating process. This policy, when fully implemented, should strengthen controls over BRAC project estimates and correct the material internal control weaknesses.

Conclusion

In our opinion, the team approach employed by Southern Division to estimate facility requirements enabled Southern Division to address a large number of BRAC MILCON projects within a short time. We believe that Southern Division has demonstrated a good faith effort to minimize costs associated with the BRAC actions by using existing buildings and by consolidating requirements where possible. We attribute the overestimates on project P-608T to Southern Division's attempting to prepare estimates under time constraints, to accounting for the renovation of the entire building rather than the space required, and to using a unit cost estimate that may be higher than necessary because of a lack of data on comparable buildings in the NTC Great Lakes area.

Southern Division plans to issue a request for proposals for the renovation of building 520 as soon as possible. We believe that the request for proposals should not be issued, or should be canceled if already issued, pending the resolution of the differences in specifications identified in this report.

Recommendations for Corrective Action

1. We recommend that the Commanding Officer, Southern Division, Naval Facilities Engineering Command, refrain from issuing the request for proposals for renovations of building 520 or cancel the request for proposals, if already issued, pending resolution of differences in specifications identified in this report.

2. We recommend that the Comptroller of the Department of Defense reduce the Navy FY 1994 base realignment and closure military construction authorization for project P-608T, "Building Modifications," by $1.4 million and reprogram the funds to other base realignment and closure military construction projects.

Management Comments

The Navy did not provide comments on a draft of this report. Therefore, we redirected Recommendation A.2. to the Comptroller of the Department of Defense. Also, we request that the Commanding Officer, Southern Division, Naval Facilities Engineering Command, provide comments on the final report.

Finding B. Building Modifications

Southern Division overstated the cost estimate to renovate building 520. The overstatement occurred because items that do not qualify for BRAC MILCON funds were included in the estimated project cost, costs for unnecessary repairs were included in the estimated project cost, and items more appropriately funded under different programs were included in the BRAC MILCON estimate. As a result, the estimated BRAC MILCON costs of $1.4 million to renovate building 520 can be decreased by $665,166 for project P-608T.

Qualifying for Use of BRAC MILCON Funds

Appropriate Use of BRAC MILCON Funds. Public Law 101-510, "Defense Base Closure and Realignment Act of 1990," November 5, 1990, states that BRAC MILCON funds are to be used for facility renovation to accommodate realignment actions. BRAC MILCON funds are not to be used to fund an activity's current deficiencies if the deficiencies are not a result of BRAC actions.

Independent Study Cost Analysis. Southern Division hired an architect-engineering firm to conduct an independent study of building 520. The independent architect-engineering firm provided its results and cost analyses, including costs for renovating building 520, to Southern Division on January 14, 1994. Based on the cost analyses provided by the firm, Southern Division overstated the cost estimate to renovate building 520. The cost analyses included items that do not qualify for BRAC MILCON funds, costs for unnecessary repairs, and costs for items that are more appropriately funded under different programs.

Table 4 shows the total costs proposed by the independent architect-engineering firm study and the amounts questioned by the audit team.

Table 4. Audit Team Questioned Costs of Independent Study Estimate

Cost Element	Costs Proposed by Independent Study	Costs Questioned
Argon tank	$ 180,320	$180,320
Shower facilities	57,736	24,653
Windows	817,015	263,487
Heat Recovery	300,000	129,000
Subtotal	$1,355,071	$597,633
Contingency costs (5 percent of item cost)		29,882
Supervision, inspection and overhead costs (6 percent of item + contingency costs)		37,651
Subtotal		$ 67,533
Total	$1,355,071	$665,166

Inappropriate Use of BRAC MILCON Funds

Items That Do Not Qualify for BRAC Funds. Two items, plus applicable contingency, supervision, inspection, and overhead costs, do not qualify for BRAC MILCON funding because BRAC MILCON funds are to be used only for renovations directly tied to supporting realignment actions:

o An argon tank, valued at $180,320, should not have been included in BRAC MILCON cost estimates because the Advanced Hull Technician School at NTC San Diego currently rents its argon tank.

o The Advanced Hull Technician School's portion of shower facilities, valued at $24,653, should not have been included in BRAC MILCON cost estimates because the Advanced Hull Technician School at NTC San Diego does not have shower facilities.

The Advanced Hull Technician School will be collocated with the Hull Technician School within building 520 at NTC Great Lakes. However, the Hull Technician School realignment is being handled under a separate BRAC MILCON project outside the scope of this audit. Because it is difficult to differentiate the applicability of repairs to either the Advanced Hull Technician School or the Hull Technician School, we allocated the costs for the unnecessary repairs to the two projects according to the square feet identified to each project as a percent of the total square feet within building 520. Specifically, we used 43 percent to calculate the percent of questioned costs applicable to the Advanced Hull Technician School. The 43 percent is based on

the 66,200 square feet identified in Finding A as applicable to the Advanced Hull Technician School compared with a total of 155,100 total square feet in building 520.

Unnecessary Repairs. An independent architect-engineering firm proposed replacing all of the windows in building 520 at a cost of $817,015. We questioned the Southern Division engineer in charge of project P-608T about the need to replace all of the windows in building 520. He contacted the independent architect-engineering firm, which stated that only 20 to 25 percent of the windows need to be replaced. The 75-percent reduction in needed windows represents a cost reduction of approximately $612,761, assuming that 25 percent of the windows need replacing. By applying the 43 percent to the questioned costs for 75 percent of the windows, total questioned costs applicable to project P-608T are $263,487.

Items More Appropriately Funded Under Other Programs. The plans to renovate building 520 included a value engineering proposal to install a heat recovery system to use waste heat generated by the welders to pre-heat outside air that is replacing air lost through the welders' ventilation exhaust system. The heat recovery system, valued at about $300,000, was included as part of the budget estimate for BRAC MILCON funds for renovation of building 520. The Navy Energy Conservation Investment Program seeks to achieve the maximum reduction in energy consumption for the dollar invested. Projects that provide documented energy cost savings may be eligible for funding under the Energy Conservation Investment Program. Energy Conservation Investment Program funds can be used to modify an existing energy system or building that qualifies for MILCON funds.

We believe that the cost of the heat recovery system appears to be more appropriately funded under the Navy Energy Conservation Investment Program than under the BRAC MILCON. Therefore, by applying the 43 percent rule of thumb to the $300,000 to identify the overstatement of funds applicable to project P-608T, we calculated a total of $129,000, that should not be included in the BRAC MILCON.

Related Costs Included in Project Estimates. Cost estimates that Southern Division submitted for BRAC MILCON included contingency and supervision, inspection, and overhead costs. Specifically, the costs for proposed projects included an additional 5 percent for contingency costs and 6 percent times the project plus contingency costs and supervision, inspection, and overhead costs. If proposed projects should not be included in budget estimates for BRAC MILCON funds, the contingency and supervision, inspection, and overhead costs also should not be included. Considering the total of $597,633 of questioned costs, we calculated an additional $67,533 in contingency and supervision, inspection, and overhead costs. Therefore, the BRAC MILCON funding should be reduced by a total of $665,166 to reflect both the nonqualifying items and applicable contingency and supervision, inspection, and overhead costs.

Recommendations for Corrective Action

1. We recommend that the Comptroller of the Department of Defense reduce the Navy FY 1994 base realignment and closure military construction authorization for project P-608T, "Building Modifications," by $665,166 for nonqualifying items, and reprogram the funds to other base realignment and closure military construction projects.

2. We recommend that the Commanding Officer, Southern Division, Naval Facilities Engineering Command, request $300,000 in funds for the heat recovery system from Navy Energy Conservation Investment Program funds.

Management Comments

The Navy did not provide comments on a draft of this report. Therefore, we redirected Recommendation B.1. to the Comptroller of the Department of Defense. Also, we request that the Commanding Officer, Southern Division, Naval Facilities Engineering Command, provide comments on the final report.

Finding C. Budget Submission

The Navy Comptroller incorrectly included $7.5 million for the renovation of existing buildings at NTC Great Lakes as part of the cost to close Naval Station Treasure Island. The error occurred because Southern Division incorrectly identified the Naval Technical Training Center at the Naval Station Treasure Island as part of the Advanced Hull Technician School realignment on the DD Form 1391, when in fact the school is located at NTC San Diego, and not at the Naval Station Treasure Island. As a result, the Navy Comptroller budget submission for closing the Naval Station Treasure Island should be decreased by $7.5 million, and the budget submission for NTC San Diego should be increased by $7.5 million.

Advanced Hull Technician School Realignment

The realignment of the Advanced Hull Technician School at NTC San Diego was originally combined on the DD Form 1391 with the realignment of the Damage Control School at the Naval Station Treasure Island and assigned project P-600T, "Applied Instruction Building." The Damage Control School is part of the Naval Technical Training Center located at the Naval Station Treasure Island. On the original DD Form 1391, the narrative for project P-600T listed both the realignment of the Advanced Hull Technician School and the realignment of the Damage Control School. The two school realignments were later separated into two projects. Project P-600T identified the requirement for the Damage Control School realignment, while a new number, P-608T, was assigned to the requirement for the Advanced Hull Technician School realignment. When Southern Division prepared the DD Form 1391 for project P-608T, Southern Division continued to include both the Naval Station Treasure Island and NTC San Diego. However, no link exists between the Advanced Hull Technician School realigning from NTC San Diego and the training facilities located at the Naval Station Treasure Island.

The Advanced Hull Technician School consists of two series of courses, non-destructive testing and advanced welding. Both series consist of applied instruction (hands-on laboratory training) and classroom instruction. Also, students are trained in inspection techniques to assure quality welding as an integral part of the functional training (Figures 2 through 5).

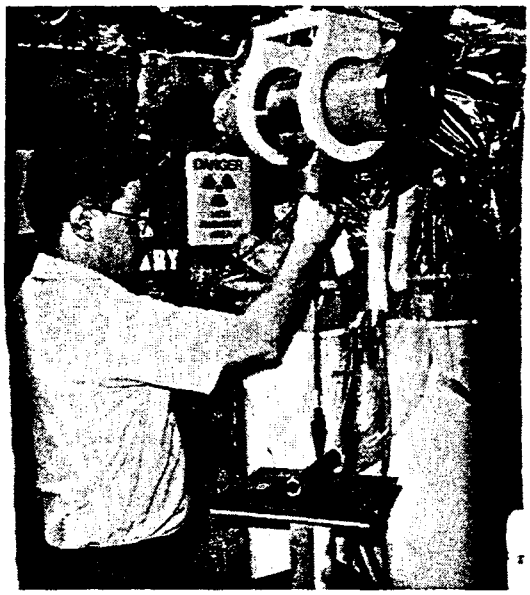

Figure 2. Radiograph Composition

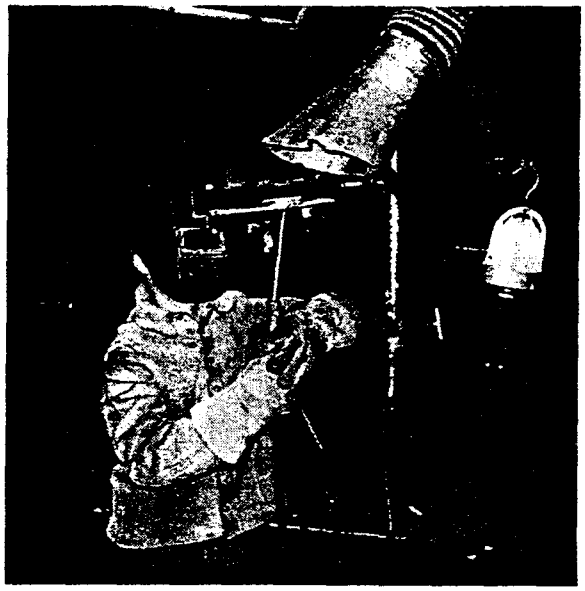

Figure 3. Non-Nuclear Component Welder

Figure 4. Classroom Instruction

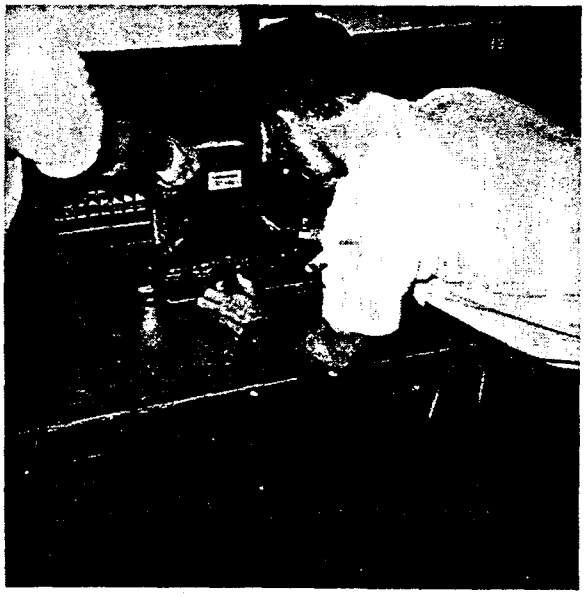

Figure 5. Magnetic Particle Inspection

Figure 2. Radiograph Composition

Figure 3. Non-Nuclear Component Welder

Figure 4. Classroom Instruction

Figure 5. Magnetic Particle Inspection

Accuracy of Budget Submission

The Navy Comptroller budget submission to DoD incorrectly included $7.5 million as BRAC MILCON costs for the Naval Station Treasure Island because the DD Form 1391 that Southern Division submitted to the Navy Comptroller attributed the $7.5 million to the Naval Station Treasure Island. Instead, the $7.5 million should have been included in the budget submission for NTC San Diego. Therefore, the Navy Comptroller budget submission to DoD for the Naval Station Treasure Island was overstated by $7.5 million and the submission for NTC San Diego was understated by $7.5 million.

Recommendation for Corrective Action

We recommend that the Comptroller of the Department of Defense realign the budget submission to accurately reflect costs associated with the appropriate closing activity by reducing the budget submission for the Naval Technical Training Center at the Naval Station Treasure Island by $7.5 million, and by increasing the budget submission for the Naval Training Center San Diego by $7.5 million.

Management Comments

The Navy did not provide comments on a draft of this report. Therefore, we redirected Recommendation C.1. to the Comptroller of the Department of Defense.

Finding D. Bachelor Enlisted Quarters Reactivation

Both the Chief of Naval Education and Training and the Commander in Chief, U.S. Pacific Fleet, submitted budget requests to the Navy Comptroller for a portion of the costs for project P-582T, "Bachelor Enlisted Quarters Reactivation," to renovate bachelor enlisted quarters at NTC Great Lakes. The Naval Facilities Engineering Command prepared a combined DD Form 1391 for $10.4 million for the Navy Comptroller for project P-582T. As a result, the Navy Comptroller programmed $10.4 million for project P-582T, which should be decreased by $403,000.

Background

Project P-582T accommodates the closing of NTC San Diego and NTC Orlando, Florida, and realigns other Navy schools to NTC Great Lakes by reactivating 19 buildings to provide quarters for enlisted personnel. The project reactivates existing barracks spaces to accommodate bachelor students and staff being transferred to NTC Great Lakes. The Naval Technical Training Center, located at the Naval Station Treasure Island, will be also be realigned to NTC Great Lakes. Figure 6 demonstrates the consolidation of the schools to NTC Great Lakes.

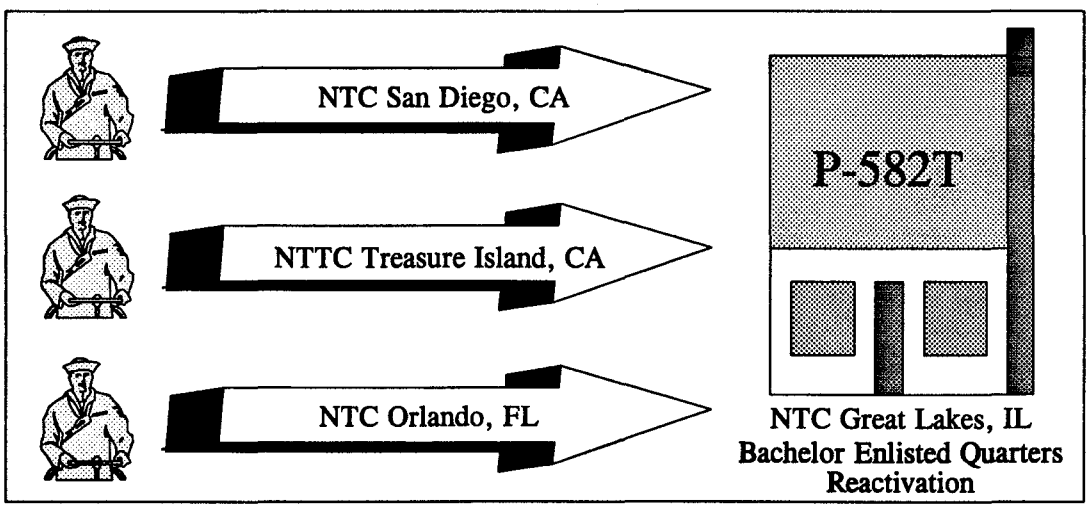

Figure 6. Consolidation of the Bachelor Enlisted Quarters to NTC Great Lakes

Sources of Amounts Reported

The Chief of Naval Education and Training submitted a $10-million budget request to the Navy Comptroller for project P-582T that included costs for NTCs Orlando and San Diego and the Naval Technical Training Center Treasure Island. In addition, the Commander in Chief, U.S. Pacific Fleet, as the major claimant for the Naval Station Treasure Island, concurrently submitted a budget request to the Navy Comptroller for project P-582T for $403,000. The Naval Facilities Engineering Command prepared a combined DD Form 1391 for $10.4 million, and the Navy Comptroller programmed that amount for project P-582T.

The Chief of Naval Education and Training, however, already included the scope of the requirements for the Naval Technical Training Center Treasure Island in its budget request for $10 million. As a result, the amount that the Navy Comptroller programmed for project P-582T was overstated by $403,000. Figure 7 demonstrates the flow of documents.

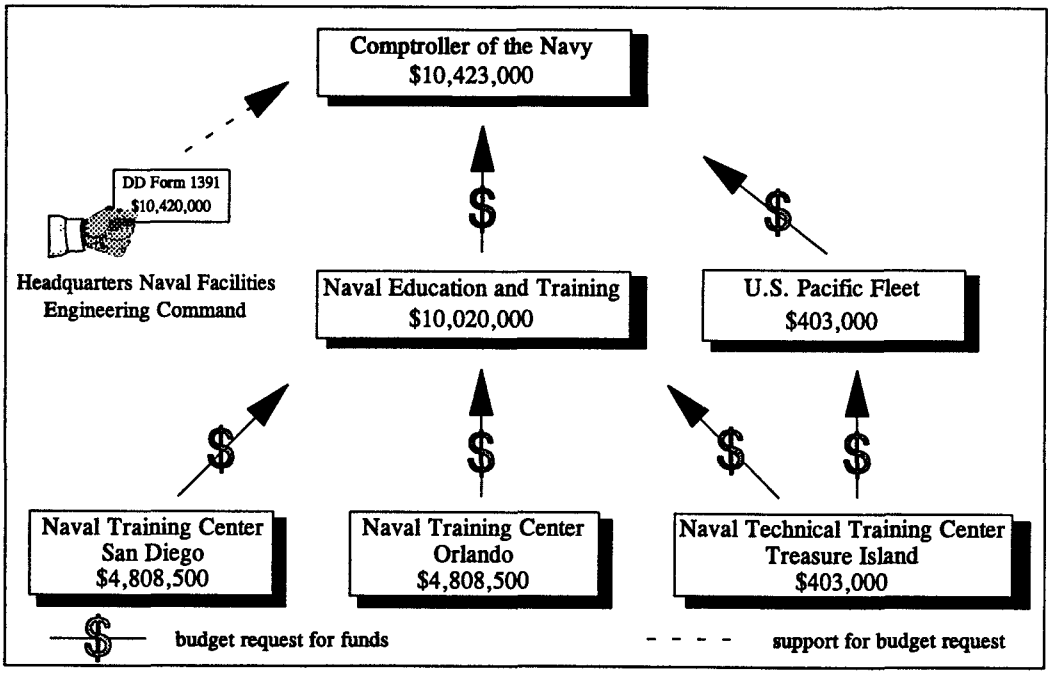

Figure 7. Combined Budget Request Submissions Result in Overstatement of Project P-582T Funding Requirements

Recommendation for Corrective Action

We recommend that the Comptroller of the Department of Defense reduce the Navy's FY 1994 budget request for base realignment and closure military construction authorization for project P-582T, "Bachelor Enlisted Quarters Reactivation," by $403,000 and reprogram the funds to other base realignment and closure military construction projects.

Management Comments

The Navy did not provide comments on a draft of this report. Therefore, we redirected Recommendation D.1. to the Comptroller of the Department of Defense.

Part III - Additional Information

Appendix A. Summary of Prior Audits and Other Reviews

Inspector General, DoD

94-109	Defense Base Realignment and Closure Budget Data for the Naval Training Center Great Lakes, Illinois	May 19, 1994
94-107	Griffiss Air Force Base, New York, Defense Base Realignment and Closure Budget Data for Military Construction at Other Sites	May 19, 1994
94-105	Defense Base Realignment and Closure Budget Data for a Tactical Support Center at Naval Air Station Whidbey Island, Washington	May 18, 1994
94-104	Defense Base Realignment and Closure Budget Data for the Defense Contract Management District West	May 18, 1994
94-103	Air Force Reserve 301ST Fighter Wing Covered Aircraft Washrack Project, Carswell Air Reserve Base, Texas	May 18, 1994
94-040	Summary Report on the Audit of Defense Base Closure and Realignment Budget Data for FYs 1993 and 1994	February 14, 1994
93-100	Summary Report on the Audit of Defense Base Closure and Realignment Budget Data for Fiscal Years 1992 and 1993	May 25, 1993

Naval Audit Service

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

Appendix B. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.	Economy and Efficiency. Refrains from issuing request for proposals, or cancel if already issued, for renovations of building 520.	Undeterminable.*
A.2.	Economy and Efficiency. Reduces FY 1994 BRAC MILCON budget for project P-608T and reprogram to other uses.	FY 1994 Base Closure Account funds of up to $1.4 million put to better use.
B.1.	Economy and Efficiency. Reduces FY 1994 BRAC MILCON budget for project P-608T because of nonqualifying items or unnecessary repairs.	FY 1994 Base Closure Account funds of up to $665,166 put to better use.
B.2.	Economy and Efficiency. Requests funds for the heat recovery system from Energy Conservation Investment Program funds.	Nonmonetary.
C.	Program Results. Realigns $7.5 million in budgets to accurately reflect appropriate closing activity.	Nonmonetary.
D.	Economy and Efficiency. Reduces overstated funds on project P-582T by amount duplicated in budget submission.	FY 1994 Base Closure Account funds of up to $403,000 put to better use.

*Benefits realized during future budget decisions and budget requests.

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of the Under Secretary of Defense for Acquisition and Technology, Washington, DC
Comptroller of the Department of Defense, Washington, DC

Department of the Navy

Chief of Naval Operations, Washington, DC
- Deputy Chief of Naval Operations (Logistics), Washington, DC

Comptroller of the Navy, Washington, DC
Chief of Naval Education and Training, Pensacola, FL
- Naval Training Center Great Lakes, IL
- Fleet Combat Training Center San Diego, CA
- Service School Command, Naval Training Center, San Diego, CA
- Fleet Combat Training Center, Pacific, Detachment Treasure Island, CA

Naval Facilities Engineering Command, Alexandria, VA
- Southern Division, Charleston, SC

Naval Audit Service, Arlington, VA

Non-Defense Federal Organization

General Accounting Office, Washington, DC

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisitions and Technology
Comptroller of the Department of Defense
Assistant Secretary of Defense (Economic Security)
  Deputy Assistant Secretary of Defense (Economic Reinvestment and Base Realignment and Closure)
Assistant Secretary of Defense (Force Management and Personnel)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Secretary of the Navy
Commander In Chief, Pacific Fleet
  Commander, Naval Station Treasure Island
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Installations and Environment)
Comptroller of the Navy
Deputy Chief of Naval Operations (Logistics)
Chief of Naval Education and Training
  Commander, Naval Training Center Great Lakes
  Commanding Officer, Service School Command San Diego
Commander, Naval Facilities Engineering Command
  Commanding Officer, Southern Division
Auditor General, Naval Audit Service

Department of the Air Force

Auditor General, Department of the Air Force

Unified Command

Commander In Chief, Pacific Command

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations and Individuals

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

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

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

Senator Carol Moseley-Braun, U.S. Senate
Senator Paul Simon, U.S. Senate
Congressman John Porter, U.S. House of Representatives

Audit Team Members

Paul J. Granetto	Director, Contract Management Directorate
Richard B. Jolliffe	Audit Program Director
Kimberley A. Caprio	Audit Project Manager
Gerald L. Werking	Senior Auditor
Suellen Geekie	Auditor
Velma Booker	Administrative Support