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

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Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>BRAC</td>
<td>Base Realignment and Closure</td>
</tr>
<tr>
<td>COBRA</td>
<td>Cost of Base Realignment Actions</td>
</tr>
<tr>
<td>MILCON</td>
<td>Military Construction</td>
</tr>
<tr>
<td>NAVSEA</td>
<td>Naval Sea Systems Command</td>
</tr>
</tbody>
</table>
REPORT NO. 95-290

August 4, 1995

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER) COMMANDER, NAVAL SEA SYSTEMS COMMAND

SUBJECT: Audit of the Navy Cost Estimate for the Realignment of the Naval Sea Systems Command From Arlington, Virginia (Project No. 5CG-5032)

Introduction

We are providing this report for your information and use. The audit was made in response to a congressional request by Congressman Floyd D. Spence, regarding a Navy review of the scheduled move of the Naval Sea Systems Command (NAVSEA).

The Deputy Secretary of Defense requested the Navy review of cost estimates based on Senator Charles S. Robb's concern over the wide disparity between the Cost of Base Realignment Actions computer model (COBRA) estimate of $74.5 million and the Navy's economic analysis estimate of $218 million for the realignment of NAVSEA. The Deputy Secretary of Defense directed the Navy to review the cost estimates to provide assurance that the 1993 Defense base realignment and closure (BRAC) decision remained valid. The Inspector General, DoD, agreed to review the Navy results for accuracy and reasonableness.

Audit Results

The BRAC data and estimates used by the Navy for the decision to realign NAVSEA to White Oak were accurate and reasonable. The difference between the COBRA cost estimate and the economic analysis cost estimate was primarily because of differences in methodology and updated information.

We determined that the differences between the two cost estimates were supported and valid. The management controls that we reviewed were effective in that no material management control weakness was identified. A discussion of our review of the management control program is included in Enclosure 1.

Audit Objectives

The primary audit objective was to review for accuracy and reasonableness the Navy cost estimate for the realignment of NAVSEA from Arlington (Crystal City), Virginia. We also reviewed the management control program as it related to that audit objective.

The Navy has since recommended to the 1995 Commission on Defense Base Closure and Realignment that it realign NAVSEA to the Washington Navy Yard, Washington, D.C., and close the Naval Surface Warfare Center, White
Audit Background


BRAC Cost-Estimating Process. To develop cost estimates for the Commission, the Military Departments used COBRA. The COBRA uses standard cost factors to convert the suggested BRAC options into dollar values to provide a way to compare the different options. The Navy obtains COBRA input on cost and savings data by issuing scenario data calls directly to the Command in question.

The COBRA is not used for preparing BRAC budgets. Important differences exist in how cost data are developed for COBRA and budget submissions. Therefore, COBRA estimates should not be compared to implementing budgets, or to economic analyses. The following are some of the differences between COBRA estimates and BRAC budgets.

1. COBRA estimates are based, in part, on standard cost factors, which may differ from actual budget data.

2. COBRA costs are expressed in constant-year dollars; budgets are expressed in then-year dollars.

3. Recurring costs that occur regardless of whether or not a base closes are not included in the calculations for the COBRA cost estimate, but the budget and the economic analysis do include such recurring costs in their calculations.

NAVSEA Relocation to White Oak. The 1993 BRAC Commission recommended that NAVSEA relocate from leased space in Crystal City, Virginia, to Government-owned space within the National Capital region. Based on recommendations of the Commission, the NAVSEA realignment to
White Oak was determined to be the most feasible alternative on federally owned land, and COBRA estimated the cost to be $74.5 million.

**Lease/Purchase Offer.** Virginia public officials informed the Commission that the major property owners in the Crystal City area were prepared to propose attractive lease/purchase terms on the buildings occupied by the Navy. The Commission did not have the information or expertise to evaluate properly whether the offers provided the best value to the Government or whether they met the Navy’s requirements. The Commission stated that if, after careful scrutiny of the lease/purchase offer or other proposals, the Navy wishes to seek purchase of any facilities in lieu of relocating to White Oak, it can submit a recommended change concerning the NAVSEA realignment to the 1995 Commission.

**Economic Analysis.** The Navy established a project team to develop the methodology for analyzing the unsolicited lease/purchase proposal. The project team agreed to use a net present value approach for comparing costs of the proposal with the approved realignment plan. The project team developed an economic analysis based on guidelines prescribed by Office of Management and Budget Circular No. A-94, "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs," for life cycle cost-effectiveness studies developed in support of DoD programs and projects. Additionally, Naval Facilities Engineering Command Pamphlet, P-442, "Economic Analysis Handbook," dated October 1993, was used as guidance. The objective was to compare the net present value costs of the two alternatives (reallocignment of NAVSEA to White Oak or the lease/purchase option) for providing suitable administrative office space to meet the needs of NAVSEA personnel.

**Results of Navy Analysis.** The original COBRA estimate to move NAVSEA to White Oak was $74.5 million. Data supporting an initial FY 1996 budget estimated a total costs of $230.1 million. The subsequent Navy economic analysis indicated that the total cost would be $218 million. The lease/purchase option of remaining on Crystal City was $298 million.

A detailed comparison of the COBRA estimate and the Navy economic analysis is presented in the table.

**Comparison of COBRA costs and the Subsequent Navy Economic Analysis**

<table>
<thead>
<tr>
<th>Type of Cost</th>
<th>COBRA Estimate</th>
<th>FY 1996 Budget</th>
<th>Economic Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military Construction</td>
<td>$34.6</td>
<td>$112.0</td>
<td>$104.7</td>
</tr>
<tr>
<td>Moving and Personnel</td>
<td>39.9</td>
<td>33.9</td>
<td>29.1</td>
</tr>
<tr>
<td>Remaining 4 Year Lease*</td>
<td>N/A</td>
<td>84.2</td>
<td>84.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$74.5</strong></td>
<td><strong>$230.1</strong></td>
<td><strong>$218.0</strong></td>
</tr>
</tbody>
</table>

*Such recurring costs are not included in COBRA cost estimates.
Discussion

COBRA Cost-Estimating Process. To determine the cost of realigning NAVSEA to White Oak, the Navy Base Structure Analysis Team office issued a scenario data call to NAVSEA to obtain the certified data used for the COBRA model estimate. The Navy submission to the BRAC 1993 Commission, which was based on COBRA data, showed that MILCON costs would total $34.6 million and moving and personnel costs would total $39.9 million, for a total one-time cost of $74.5 million.

NAVSEA Budget Planning for the Realignment. NAVSEA, in conjunction with Naval Facilities Engineering Command - Chesapeake Division, hired an architect-engineering firm to evaluate MILCON costs for the White Oak site after the scenario data call was completed. NAVSEA needed the architect-engineering firm's evaluations to prepare a budget for the realignment to White Oak and to prepare the DD Form 1391, "FY 1996 Military Construction Project Data," for the MILCON costs at White Oak. The NAVSEA FY 1996 budget plan for the realignment identified MILCON costs of $112 million and moving and personnel costs of $33.9 million. The difference in the COBRA estimate for MILCON costs of $34.6 million and the $112 million NAVSEA budget is because of the following.

- As a result of the architect-engineering firm's evaluation of the White Oak facilities, it was determined that the condition of existing buildings located at White Oak, and the actual total space requirements, would require significantly more renovations and reconfigurations than originally determined.

- Projected personnel loading numbers had been increased after the COBRA scenario data call.

Economic Analysis Development by a Navy Project Team. While the FY 1996 NAVSEA budget was being prepared, a project team was established to compare the costs of realigning to White Oak with the unsolicited proposal option of the lease/purchase of buildings occupied by the Navy in Crystal City. The project team worked independently of NAVSEA to develop MILCON costs and moving and personnel costs. The economic analysis determined that MILCON costs would be $104.7 million, moving and personnel costs would be $29.1 million, and Crystal City leases for the remaining 4 years would be $84.2 million. The total estimated cost would be $218 million.

COBRA Estimate Compared With Economic Analysis. The COBRA estimate was prepared using information available at the time. However, even using more current information, the Navy Base Structure Analysis Team stated that a reasonable return on investment would still be achieved by a NAVSEA move to White Oak. The difference between the COBRA cost estimate and the economic analysis cost estimate was primarily because of differences in methodology and updated information.

Alternative Realignment. Based on the updated analysis, the Navy developed an alternative move to the Washington Navy Yard. It requested the 1995 Defense Base Closure and Realignment Commission to redirect the move.
Management Comments

We provided a draft of this report to you on July 3, 1995. Because the report contains no findings or recommendations, no comments were required, and none were received. Therefore, we are publishing this memorandum report in final form.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Wayne K. Million, Audit Program Director, at (703) 604-9312 (DSN 664-9312) or Mr. Henry P. Hoffman, Audit Project Manager, at (703) 604-9269 (DSN 664-9269). Enclosure 4 lists the planned distribution of this report. The audit team members are listed inside the back cover.

David K. Steensma
Deputy Assistant Inspector General for Auditing

Enclosures
Elements of the Audit

Scope and Methodology

Scope and Methodology. We examined FYs 1995, 1996, and 1997 BRAC military construction (MILCON) budget requests, economic analysis, and the 1993 COBRA estimate documentation for the NAVSEA realignment to White Oak. Specifically, we reviewed Naval procedures for planning, programming, budgeting, and documenting BRAC MILCON requirements applicable to the NAVSEA realignment.

Audit Period, Standards, and Locations. This program audit was performed during April and May 1995 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary. We did not use computer-processed data or statistical sampling procedures. Enclosure 3 lists the organizations visited or contacted.

Management Control Program Review

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of management controls related to the Navy cost estimate for the realignment of NAVSEA. We did not assess the adequacy of management's self-evaluation of those controls.

 Adequacy of Management Controls. Management controls applicable to the realignment of NAVSEA were deemed to be adequate in that we identified no material management control weaknesses.
Prior Audits and Other Reviews

One General Accounting Office report and two Naval Audit Service reports have been done relating to BRAC COBRA costs and the NAVSEA move to White Oak, respectively.


Naval Audit Service Report No. 95-0015, "Fiscal Year 1997 Military Construction Projects Stemming From Decisions of the 1993 Base Closure and Realignment Commission," April 17, 1995. The subject report states that NAVSEA submitted project P-004T, valued at $81.6 million, to construct a 653,000-square-foot building at White Oak. Justification for this project space was to accommodate approximately 4,100 personnel. Based on projected personnel strength in FY 2001, space for 3,813 personnel will be required. A reduction of 22,960 square feet that the Navy reviewers saw as unnecessary would reduce the scope of the project and the Navy can put about $2.3 million to better use.

Naval Audit Service Report No. 94-0007, "Fiscal Year 1995 Military Construction Projects Stemming From Decisions of the 1993 Base Closure and Realignment Commission", December 17, 1993. The subject report states that Project P-001T, valued at $41.9 million, was determined to be adequately supported. The project provides administrative offices and related support space for NAVSEA headquarters relocation to White Oak.
Organizations Visited or Contacted

Office of the Secretary of Defense

Assistant Secretary of Defense (Economic Security), Washington, DC
Deputy Assistant Secretary of Defense (Installations), Washington, DC
Directorate of Base Closure, Washington, DC

Department of the Navy

Under Secretary of the Navy, Washington, DC
Base Structure Evaluation Committee, Alexandria, VA
Director of Base Structure Analysis Team, Alexandria, VA
Assistant Secretary of the Navy (Installations and Environment), Washington, DC
Deputy Chief of Naval Operations (Logistics), Washington, DC
Assistant Secretary of the Navy (Installations and Environment), Washington, DC
Deputy Chief of Naval Operations (Logistics), Washington, DC
Facilities and Engineering Division, Washington, DC
Base Closure and Implementation Branch, Washington, DC
Naval Sea Systems Command, Washington, DC
Naval Facilities Engineering Command, Alexandria, VA
Chesapeake Division, Washington, DC
Auditor General, Department of the Navy, Falls Church, VA
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Enclosure 4
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Non-Defense Federal Organizations and Individuals

Chairman, Defense Base Closure and Realignment Commission
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 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

Honorable Barbara A. Mikulski, U.S. Senate
Honorable Charles S. Robb, U.S. Senate
Honorable Paul S. Sarbanes, U.S. Senate
Honorable John W. Warner, U.S. Senate
Honorable James P. Moran, U.S. House of Representatives
Honorable Constance A. Morella, U.S. House of Representatives
Honorable Floyd D. Spence, U.S. House of Representatives
Audit Team Members

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

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Wayne K. Million
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Eric A. Yungner
Sherry C. Hoda
Sara A. Sims
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B. DATE Report Downloaded From the Internet: 01/05/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAI-G-AUD (ATTN: AFTS Audit Suggestions) Inspector General, Department of Defense 400 Army Navy Drive (Room 801) Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

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