Audit Report

OFFICE OF THE INSPECTOR GENERAL

QUICK-REACTION REPORT ON THE COMMISSARY CONSTRUCTION PROJECT AT THE FITZSIMONS ARMY MEDICAL CENTER, DENVER, COLORADO

Report No. 94-100 May 16, 1994

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Department of Defense

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Acronyms

AFB	Air Force Base
DeCA	Defense Commissary Agency
FAMC	Fitzsimons Army Medical Center

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

May 16, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Quick-Reaction Report on the Commissary Construction Project at the Fitzsimons Army Medical Center, Denver, Colorado (Report No. 94-100)

We are providing this report for your review and comments. The report discusses the need for building an $11.3 million replacement commissary at the Fitzsimons Army Medical Center (FMAC), Denver, Colorado. Comments on a draft of this report were considered in preparing the final report.

We have revised the finding based on your comments; however, you are requested to reassess your position on deferring the proposed replacement commissary project. We recognize that the FAMC hospital replacement project is currently approved, but a DoD decision on a recent audit report questioning the need for that project is still pending. We will attempt to expedite that decision in order to clarify the future requirements for commissary support in the Denver area.

The Defense Commissary Agency initiated preliminary contractual actions even though our recommendation was to defer the construction project. After issuance of the draft report on March 23, 1994, the Defense Commissary Agency placed an advance notice in the Commerce Business Daily of its intention to request proposals for construction. A Deputy Secretary of Defense memorandum of September 18, 1993, stated, ". . . managers should be aware of the need to maintain an effective, credible audit decision process to preclude preemptive actions, such as proceeding with activities questioned in undecided audit reports." We request that further action be deferred until the open issue in this report is decided.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that you provide a response reconsidering the recommendation in this report by June 17, 1994.

The courtesies extended to the staff are appreciated. If you have any questions on this audit, please contact Mr. Robert J. Ryan, Audit Program Director, at (703) 692-3457, or Mr. Timothy J. Tonkovic, Audit Project Manager, at (804) 766-3319. Copies of the report will be distributed to the organizations listed in Appendix D. The list of audit team members is on the inside back cover of this report.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-100 **May 16, 1994**
(Project No. 3LA-0069.02)

QUICK-REACTION REPORT ON THE COMMISSARY CONSTRUCTION PROJECT AT THE FITZSIMONS ARMY MEDICAL CENTER, DENVER, COLORADO

EXECUTIVE SUMMARY

Introduction. During our audit of Defense commissary construction projects, we reviewed the planned construction of an $11.3 million (80,000 square foot) replacement commissary at the Fitzsimons Army Medical Center (FAMC), Denver, Colorado. The new commissary will replace a 26,000-square foot commissary built in 1918. The new commissary is sized to accommodate active duty and retired patron sales expected to migrate from the Lowry Air Force Base commissary, which is scheduled to close in August 1994.

Objective. The overall objective of the audit was to determine if new construction of DoD commissaries was justified and cost-effective. This quick-reaction report addresses the requirement for the replacement commissary at the FAMC.

Audit Results. The Defense Commissary Agency (DeCA) planned to construct a replacement commissary at the FAMC that exceeded customer requirements. Downsizing the replacement commissary to 70,000 square feet will result in potential monetary benefits of about $1 million. Deferring this project until the DoD resolves the FAMC replacement hospital issues and until the 1995 Commission on Defense Base Closure and Realignment (the Commission) completes its task could result in additional monetary benefits.

Internal Controls. Procedural weaknesses in the construction approval process within DeCA will be addressed in a planned audit report on the overall management of commissary construction projects.

Potential Benefits of Audit. We identified potential monetary benefits as a result of downsizing the replacement commissary project. Appendix B summarizes the potential benefits resulting from the audit.

Summary of Recommendations. We recommended that DeCA defer the replacement commissary construction project until decisions on the FAMC replacement hospital are finalized. We also recommended that, if a decision is made to proceed with the hospital project, the replacement commissary not exceed 70,000 square feet and an economic analysis be completed.

Management Comments. The Director, DeCA, agreed to downsize the replacement commissary project to 70,000 square feet. The Director did not concur with deferring the project and stated that advance notice of the intention to request proposals for construction was advertised in the Commerce Business Daily on March 28, 1994. The Director also stated that DeCA has conducted extensive coordination with the Department of the Army, DoD, congressional offices, and FAMC to ensure that the FAMC was a viable installation for long-term retention. The Director concurred with the recommendation for an economic analysis and the analysis has been completed. A

discussion of the DeCA comments is in Part II and the complete text of the comments is in Part IV.

Audit Response. We consider DeCA's comments on our recommendation to defer the construction of the Fitzsimons Commissary until a final decision is made regarding the planned construction of the FAMC to be nonresponsive. We request that DeCA reconsider its decision to proceed with the project and that it provide additional comments on the unresolved recommendation by June 17, 1994. In the interim, we will work with the Office of the Secretary of Defense and the Army to obtain a DoD decision on the FAMC hospital replacement project, in accordance with DoD audit resolution procedures.

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

Part I - Introduction

Background

The Defense Commissary Agency (DeCA) plans to build an 80,000-square foot replacement commissary at Fitzsimons Army Medical Center (FAMC), Denver, Colorado. The $11.3 million project is planned to replace an existing 26,000-square foot commissary built in 1918. The size of the commissary was based partly on sales expected to result from the migration of retirees from the commissary at Lowry Air Force Base (AFB), which was recommended for closure by the 1991 Commission on Defense Base Closure and Realignment (the Commission).

DeCA has established 10 standard design commissary sizes, based on average monthly sales, as adjusted to 1982 dollars. The sizes of the standard design commissaries range from 12,000 to 100,000 square feet. Current sales at the FAMC commissary average $760,000 per month as adjusted to 1982 dollars. DeCA projects that retired patron sales of $1.5 million, as adjusted to 1982 dollars, will result from the migration of retired patrons to the new FAMC commissary when the Lowry AFB commissary closes in 1994.

Commissary construction and renovation costs are paid from the Commissary Surcharge Collections Fund, a revolving fund maintained by charging commissary patrons a 5-percent surcharge on their purchases. Approval to obligate the funds has been granted by the Morale, Welfare and Recreation Panel of the House Committee on Armed Services.

Objective

The overall objective of the audit was to determine if new construction of DoD commissaries was justified and cost-effective. This quick-reaction report addresses the requirement for the replacement commissary at FAMC, Denver, Colorado.

Scope and Methodology

The audit focused on the proposed construction of an 80,000-square foot commissary at FAMC, Denver, Colorado. We visited DeCA Headquarters, the DeCA Colorado Springs District, the FAMC and Lowry AFB commissaries, and other DeCA offices responsible for the construction approval and execution process. At those locations, we obtained actual and projected sales information; commissary maintenance, repair, and utility costs; commissary inspection reports; proposed site plans; and other information for the commissaries at

FAMC and Lowry AFB. We also contacted various Army and Air Force offices to obtain planned active duty personnel authorizations in the Denver metropolitan area. The audit did not rely on computer-processed data.

This economy and efficiency audit was made from November 1993 through February 1994. We did not review internal controls related to our objective because of the time sensitivity of the data reviewed. Procedural weaknesses in DeCA's construction requirements and approval process will be addressed in a separate audit report on the overall management of commissary construction projects.

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

Prior Audits and Other Reviews

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

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Part II - Finding and Recommendations

Construction of a Replacement Commissary

The Defense Commissary Agency planned to construct a replacement commissary at Fitzsimons Army Medical Center that exceeded customer requirements. The condition occurred because the Defense Commissary Agency did not have current information on planned DoD active duty personnel reductions, it based the size of the replacement commissary on sales projections that will not materialize, and it did not complete a detailed economic analysis considering alternatives to new construction. Additionally, ongoing restructuring and realignment actions were not adequately considered. As a result, approximately $1 million will be spent unnecessarily if the Defense Commissary Agency proceeds with the proposed construction.

Background

In the early 1980s, the Army programmed a new 73,000-square foot commissary at FAMC. The Army planned to replace the existing 26,000-square foot commissary and adjacent 3,750-square foot administrative office at a cost of $10.3 million. In October 1989, the FAMC commissary operations were turned over to the Air Force Commissary Service. The Air Force Commissary Service forwarded the construction plans to DeCA, when it was established in October 1991. Both the Air Force Commissary Service and DeCA supported the replacement commissary project.

In September 1990, Congress approved the FAMC commissary project as part of DeCA's nonappropriated fund construction request. At that time, a 55,000-square foot replacement commissary was approved at a planned cost of $7.4 million. Later, Lowry AFB, located 4.5 miles from FAMC, was recommended for closure by the 1991 Base Closure and Realignment Commission. The commissary project was deferred so that the effect of the Lowry AFB commissary closure on the FAMC commissary could be considered in the project scope.

The Commission recommended that the 1001st Space Systems Squadron, the Defense Finance and Accounting Service, and the Air Force Reserve Personnel Center remain at Lowry AFB in cantonment areas. Although the 80,000-square foot commissary at Lowry AFB was remodeled in 1983, and is in excellent condition, no housing, community support, recreation or other base support facilities are scheduled to be retained when the base closes.

DeCA originally placed the FAMC commissary construction project in the 1993 program year but moved it to the 1995 program year because of concerns about future base realignment and closure actions. The Congress later requested reinsertion of the project into its 1993 program year as part of an agreement to approve DeCA's fiscal year 1993 construction program. At that time, the Congress was unaware of audit results indicating that the FAMC hospital replacement project was questionable.

Construction Plans

Project MW90MP02 at FAMC includes a new 80,000-square foot commissary to replace two existing commissary structures built in 1918. In addition to the commissary sales area, the 80,000 square feet include an administrative area, produce, meat and dairy departments; a delicatessen, bakery, and a frozen food area; and other operational support, staging, and receiving areas. The project also includes contractor-furnished and contractor-installed equipment, 467 patron and employee parking spaces, walks, curbs, gutters, site work and landscaping.

Criteria

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

DoD Regulation 1330.17-R, "Armed Services Commissary Regulations," April 1987, establishes uniform policies relating to the operation of the Defense commissary system and defines those who are authorized to use the commissary benefit. The primary consideration in authorizing commissary privileges is to provide an income benefit through savings or discount purchases on food and household items necessary to subsist and maintain the household of the military member and family for the inclusive period of compensated duty and service.

On December 4, 1991, the then Assistant Secretary of Defense (Production and Logistics) issued a policy on commissaries and exchanges affected by base closure actions. The policy stated, in part, that the principal purpose of those (commissaries and exchanges) resale activities is to support active duty military personnel. While reservists, retirees, and certain other nonactive duty people have been extended authorization to shop at commissaries and exchanges, retaining resale operations primarily for their use was not justified.

Planned Personnel Reductions

An 80,000-square foot replacement commissary is not needed at FAMC to satisfy customer requirements. DeCA did not have current information on planned DoD active duty personnel reductions and realignments in the Denver, Colorado, metropolitan area. We obtained the June 30, 1993, active duty personnel population from the Defense Manpower Data Center and determined that 9,272 active duty personnel resided within a 30-mile radius of FAMC. After closure of Lowry AFB, approximately 4,232 personnel (about a 54-percent reduction) will remain in the FAMC catchment area, as shown in Table 1.

Table 1. Active Duty Population Within a 30-Mile Radius of FAMC

	As of June 30, 1993	After Closure of Lowry AFB
Army	2,533	2,462
Navy	624	603
Air Force	5,683	896
Marine Corps	330	192
Other	102	79
Total	9,272	4,232

Sales Projections

DeCA based the size of the 80,000-square foot replacement commissary on sales projections that will not materialize. Projected sales include sales to active duty personnel, retirees and dependents, as well as other authorized user personnel. According to DeCA design criteria, average monthly sales should be at least $2.55 million, as adjusted to 1982 dollars, to justify an 80,000-square foot commissary. The FAMC replacement commissary justification included projected sales from the existing FAMC commissary and sales expected to migrate as a result of the closure of Lowry AFB.

Fitzsimons Army Medical Center. DeCA used a 10-percent annual increase projection factor to forecast average monthly sales increases from FY 1992 through FY 1996, while actual experience, generally, showed a downward trend. From FY 1983 to FY 1991, actual sales decreased 3.28 percent, which

was determined by averaging the percentage change in monthly sales. Details of the actual and projected sales, computed by DeCA in July 1991, are shown in Table 2.

Table 2. Fitzsimons Army Medical Center Commissary Sales

Fiscal Year	Average Monthly Sales (Adjusted to 1982 Dollars)	Percent Change
1983	$ 1,023,602	
1984	1,022,297	- .13
1985	983,230	- 3.82
1986	882,028	- 10.29
1987	818,520	- 7.20
1988	718,366	- 12.24
1989	676,747	- 5.79
1990	659,611	- 2.53
1991	763,811	15.80
1992	840,192 *	10.00
1993	924,212 *	10.00
1994	1,016,633 *	10.00
1995	1,118,296 *	10.00
1996	1,230,126 *	10.00

* Projected

From FY 1990 through FY 1991, the FAMC commissary experienced a 15.8 percent increase in average monthly sales. That increase was responsible for the average percentage change in sales decrease of only 3.28 percent for FYs 1983 through 1990. If the 15.8 percent 1-year increase in sales had not been included, the average annual percentage decrease in sales would be 6 percent.

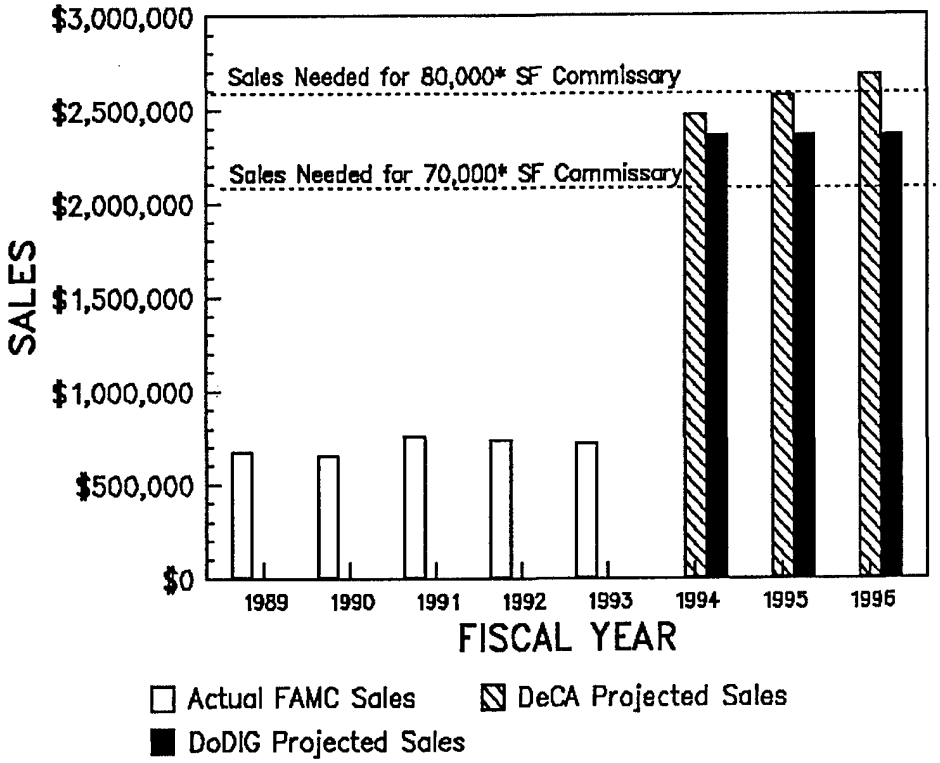
Actual sales data for FYs 1992 and 1993 showed that sales, as adjusted to 1982 dollars, were $743,667 and $723,800, respectively. Those sales indicate a downward trend instead of the 10-percent yearly increase in sales as projected by DeCA.

Lowry Air Force Base. The FY 1993 average monthly sales for the Lowry AFB commissary were $3.4 million. Average monthly sales (excluding troop issue support sales), as adjusted to 1982 dollars, were $2.7 million. Lowry AFB commissary personnel estimated that about 70 percent of the average monthly commissary sales were to retired patrons. A patron survey dated July 1, 1991, showed that 73.4 percent of the retired patrons will shop at the new FAMC commissary when Lowry AFB closes in 1994. Using that data, we

determined that the increase in retired patron sales at the new FAMC commissary will be about $1.39 million per month, as adjusted to 1982 dollars (see Appendix A).

Combined Sales Data. Table 3. shows the historical relationship between FYs 1989 through 1993 FAMC sales increases and decreases, as adjusted to 1982 dollars. Projected FAMC sales, based on DeCA's calculations used to justify the project, are shown for FYs 1994 through 1996. We also included our own sales projections for FYs 1994 through 1996 that are based on a smaller active duty patron base than the one used by DeCA. Projected sales from the migration of retirees to the FAMC commissary after closure of Lowry AFB are also included.

Table 3. FYs 1989 through 1993 Actual FAMC Monthly Sales and FYs 1994 through 1996 Projected Monthly Sales (Includes Migration Sales Resulting from the Closure of Lowry AFB)



*SF = Square foot.

Because DoD active duty personnel authorizations are scheduled to decrease 54 percent, we believe that average monthly sales at the new FAMC commissary will be about $2.36 million. As shown in Appendix A, those sales include about $1.89 million for retired patrons and $469,000 for active duty patrons.

Projected active duty and retired patron sales support a 70,000-square foot commissary. Average monthly sales of $2.55 million required to support an 80,000-square foot commissary at FAMC will not materialize based on past actual sales data and pending reductions in active duty personnel.

Economic Analysis

DeCA did not perform an economic analysis in compliance with DoD Instruction 7041.3; therefore, a comparison of the costs for alternatives with the costs for new construction was not available. For every commissary construction project, various alternatives to new construction may exist. Alternatives to new construction include maintaining the status quo; altering an existing structure, or adding space for delicatessens, bakeries, or other concessions.

Other Information

In September 1992, a new 450 bed hospital was scheduled to replace the existing hospital at FAMC. Inspector General, DoD, Report No. 94-063, "Medical Treatment Facility Requirement - Fitzsimons Army Medical Center," March 21, 1994, showed that the replacement facility was not economically justified and not needed to satisfy the local work load. Additionally, by reducing the graduate medical education programs and utilizing civilian facilities near patients' homes when it is cost-effective rather than referring them to the hospital, potential monetary benefits of $102.6 million could be achieved during the next 6 years. Actions taken by the Under Secretary of Defense for Acquisition and Technology on October 26, 1993, and subsequent clarification memorandums from his staff, reduced the scope of the project from 450 beds to no more than 200 beds. The estimated cost dropped from $517.5 million to $301.4 million. Even with the reduced scope, the project is not economically justified and not needed to satisfy local workload requirements.

A December 1992, Flag Officer Graduate Medical Education Committee report disclosed that because of the ongoing base closures and troop reductions, the number of physicians in DoD would be reduced by 6 percent. The impact of those reductions on the Army's overall Graduate Medical Education Program has not been determined. However, the Acting Secretary of the Army stated that graduate medical education trainees at FAMC will have to be reduced by about 35 percent.

The construction of an 80,000-square foot replacement commissary is planned at a time when the patron base is declining, forces are being restructured and realigned, and budget reductions are occurring. The commissary project should be deferred until the final scope of the planned replacement hospital at FAMC is determined and the 1995 Commission completes its task.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Commissary Agency, defer construction of commissary project MW90MP02 until decisions on the Fitzsimons Army Medical Center Graduate Medical Education program downsizing, and 1995 Commission on Defense Base Closure and Realignment recommendations are finalized; and at that time, size the replacement commissary project based on reasonable, complete, and up-to-date sales projections not to exceed 70,000 square feet.

Management Comments. The Director, DeCA, concurred with downsizing the project to 70,000 square feet and agreed that monetary benefits of approximately $1 million would be realized. The Director did not concur with deferring the project and stated that the project was advertised in the Commerce Business Daily on March 28, 1994. The Director also stated that DeCA had conducted extensive coordination with the Department of the Army, DoD, congressional offices, and FAMC to ensure that the FAMC was a viable installation for long-term retention. The complete text of management's comments is in Part IV.

Audit Response. The Director, DeCA's comments were not responsive to the recommendation and did not provide justification for continuing the replacement commissary project. At a minimum, the replacement commissary project should be discontinued pending resolution of the FAMC replacement hospital issues and the 1995 Commission decisions.

DeCA's statement that the existing commissary is sited in the footprint of the new hospital may be in error. The location of the new downsized replacement hospital has not been determined. In January 1994, the Under Secretary of Defense for Acquisition and Technology stated that the goal is to begin construction of the replacement hospital in FY 1996. Facilities' officials at FAMC have confirmed that replacement hospital construction will begin in late FY 1996 or early FY 1997.

After issuance of the draft report, DeCA placed an advance notice of the intention to request proposals for construction in the Commerce Business Daily on March 28, 1994. Pending the results of the 1995 Commission and a final determination on the scope of the planned replacement hospital at FAMC, we consider any further contractual actions to be premature.

We request that the Director, DeCA, reconsider the recommendation in replying to this final report.

2. We recommend that the Director, Defense Commissary Agency, defer construction of commissary project MW90MP02 until an economic analysis is completed.

Management Comments. The Director, DeCA, concurred with the recommendation, and DeCA performed its own analysis of the project. The analysis indicated that there were no possible alternatives to new construction.

Audit Response. We have reviewed and accept DeCA's alternative analysis, performed by DeCA in lieu of an economic analysis. We agree that there are no feasible alternatives to new construction, if the requirements are validated.

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Part III - Additional Information

Appendix A. Inspector General, DoD, Projected Sales for the FAMC Replacement Commissary

Retired Patron Sales Projected to Migrate from LAFB*

Average 1993 Monthly LAFB Sales	$ 3,379,000
Adjusted to 1982 Dollars	x .80
Subtotal	2,703,200
LAFB Retired Patron Sales (70 percent)	x .70
Subtotal	1,892,240
Sales Projected to Migrate (73.4 percent)	x .734
LAFB Retired Patron Sales Projected to Migrate to FAMC	$ 1,388,904

Existing FAMC Commissary Retired Patron Sales

Average 1993 Monthly FAMC Sales	$ 904,750
Adjusted to 1982 Dollars	x .80
Subtotal	723,800
FAMC Retired Patron Sales (70 percent)	x .70
FAMC Retired Patron Sales	$ 506,660

LAFB and FAMC Active Duty Patron Sales

Average 1993 LAFB and FAMC Monthly Sales	$ 4,283,750
Adjusted to 1982 Dollars	x .80
Subtotal	3,427,000
Active Duty Patron Percentage (30 percent)	x .30
Subtotal	1,028,100
Less: Active Duty Sales (54 percent personnel reduction)	558,875
Remaining Active Duty Patron Sales	$ 469,225

Summary

LAFB Retired Patron Sales Projected to Migrate to FAMC	$ 1,388,904
FAMC Retired Patron Sales	506,660
Remaining Active Duty Patron Sales	469,225
Inspector General, DoD Projected FAMC Sales	$ 2,364,789

*LAFB = Lowry Air Force Base

Appendix B. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and Efficiency. Defer commissary construction until decisions on the FAMC hospital are finalized, and revise requirements to reflect valid requirements.	$1 million in Commissary Surcharge Collections funds (97X8164.6400) will be put to better use as a result of revising requirements and downsizing the project to 70,000 square feet. Additional funds may be put to better use pending the Director, DeCA's reconsideration of the recommendation.
2.	Economy and Efficiency. Performance of an economic analysis will evaluate alternatives to new construction.	Monetary benefit is shown under Recommendation 1.

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Assistant Secretary of Defense (Personnel and Readiness), Defense Manpower Data Center, Arlington, VA, and Monterey, CA

Department of the Army

Buckley Air National Guard Base, Aurora, CO
Fitzsimons Army Medical Center, Denver, CO

Department of the Air Force

Program Management Office, Air Force Base Disposal Agency, Washington, DC
Lowry Economic Recovery Project Office, Lowry Air Force Base, Denver, CO
Lowry Air Force Base, Denver, CO

Defense Organizations

Defense Commissary Agency, Headquarters, Ft. Lee, VA
Defense Commissary Agency, Colorado Springs District, Peterson Air Force Base, CO
Defense Commissary Agency, Design and Construction Division, Lackland Air Force Base, TX
Fitzsimons Army Medical Center, Commissary Resale Store, Denver, CO
Lowry Air Force Base, Commissary Resale Store, Denver, CO

Appendix D. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

Secretary of the Army
Inspector General, Department of the Army

Department of the Navy

Auditor General, Naval Audit Service

Department of the Air Force

Auditor General, Air Force Audit Agency

Defense Organizations

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

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office
- National Security and International Affairs Division, Technical Information Center
- National Security and International Affairs Division, Defense and National Aeronautics and Space Administration Management Issues
- National Security and International Affairs Division, Military Operations and Capabilities Issues

Non-Defense Federal Organizations (Cont'd)

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 Panel on Morale, Welfare, and Recreation; Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

Part IV - Management Comments

Defense Commissary Agency Comments

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
FORT LEE, VIRGINIA 23801-6300

APR 5 1994

REPLY TO
ATTENTION OF

IR

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

SUBJECT: Quick-Reaction Report on the Commissary Construction Project at the Fitzsimons Army Medical Center Denver, Colorado (Project No. 3LA-0069.02)

Reference: DoDIG Memorandum, dtd March 23, 1994, SAB.

In response to referenced memorandum, we do not intend to place the project on hold; however, the scope of the project will be reduced to a 70,000 square foot store. We estimate this will result in a monetary savings of approximately $1 million.

The attached provides our responses to your recommendations. If you have any questions, please contact Mr. Ben Mikell at (804) 734-8103.

RICHARD E. BEALE, JR.
Major General, USA
Director

Attachments:
As Stated

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Quick-Reaction Report on the Commissary Construction Project at the Fitzsimons Army Medical Center Denver, Colorado (Project No. 3LA-0069.02)

Recommendation We recommend that the Director, Defense Commissary Agency defer construction of commissary project NW90MP02 until:

1. Decisions on the Fitzsimons Army Medical Center Graduate Medical Education program, downsizing, and 1995 Base Realignment and Closure Commission recommendations are finalized and at that time, size the replacement commissary project based on accurate, complete, and up-to-date sales projections not to exceed 70,000-square feet.

2. An economic analysis is completed in accordance with DoD Instruction 7041.3, "Economic Analysis and Program Evaluation for Resource Management."

Action Taken. We partially concur with the first recommendation and concur with the second recommendation.

1. We do not agree to deferring the project. It was advertised in the Commerce Business Daily on March 28, 1994. As shown in the attached chronology of events, DeCA has conducted extensive coordination with the host Service, DoD, and Congressional offices to ensure that the Fitzsimons AMC was a viable installation for long term retention and that the commissary project represented a judicious use of surcharge funds. High level DoD support and the authorization to expend funds on the hospital project reinforces that view. Since construction of the hospital is projected in FY96, we must have the new commissary operational before then. The existing facility is sited in the footprint of the new hospital and will be demolished. DeCA will continue to closely monitor the status of Fitzsimons AMC to ensure that should a change in the situation warrant termination of the project, we can do so at the earliest possible time. We agree to reduce the scope of the proposed project.

2. Our analysis indicates there are no viable alternatives to new construction.

CHRONOLOGY OF EVENTS
FITZSIMONS COMMISSARY PROJECT
MARCH 30, 1994

-- The Fitzsimons project was first approved by Congress as part of the FY90 NAF Report in September 1990. It was not executed due to BRAC91 impacts.

-- In May 1991, the project was increased in scope from the approved 55,000 square feet to 80,000 square feet. This was due to the closure of the Lowry AFB.

-- The revised Fitzsimons project, at $11.3M($3.3M BRAC), was reprogrammed for FY93 but deferred due to the uncertain future of the new hospital.

-- The Army was requested to validate the long term status of Fitzsimons in July 1991. They did so on October 1, 1991.

-- Predesign work was authorized in October 1992.

-- BRAC93 closure list released in March 1993 did not include Fitzsimons.

-- In April 1993, the Fitzsimons project was reinserted into the FY93 program as a backup project with the approval of Mr. David Berteau, Acting ASD(P&L). This was a Quid Pro Quo arrangement for approval of DeCA's FY93 construction program.

-- About the same time direction was received from OSD that no construction was to be initiated without OSD concurrence. OSD was concerned that Fitzsimons would not survive BRAC95.

-- On July 29, 1993, the HASC, MWR Panel approved the construction of the new Fitzsimons Commissary and indicated that the construction would use only surcharge money. The $3.3M BRAC funds requested was not addressed in their letter, but the effect was that we were not to use BRAC funds for this project so that it would not be delayed due to other BRAC funding issues.

-- On August 26, 1993, Under Secretary of Defense John M. Deutch expressed support for the new hospital at Fitzsimons. Revised design parameters were to be forwarded to him by September 15.

-- With the movement on the hospital issue, DeCA proceeded to develop the RFP package for construction of the new commissary.

-- On January 7, 1994, DeCA requested concurrence to advertise and award the project from Carolyn H. Becraft, DASD (PSF&E).

-- DeCA was given verbal authority to proceed with advertisement and award of the project on March 10, 1994.

-- DASD (HSO) authorized the Corps Of Engineers to complete a 35% design for the revised scope hospital on March 11, 1994. Construction start is expected in 1996.

-- On March 17, 1994 the DoDIG requested that DeCA delay advertisement until after March 24.

-- On March 21, 1994 our design and Construction Division was instructed to reduce the project scope to 70,000 square feet.

-- Project was advertised in the Commerce Business Daily on March 28, 1994.

-- There continues to be significant Congressional interest in seeing that this project is executed as soon as possible.

Audit Team Members

Shelton R. Young	Director, Logistics Support Directorate
Gordon P. Nielsen	Deputy Director
Robert J. Ryan	Audit Program Director
Timothy J. Tonkovic	Audit Project Manager
Suzanne Hutcherson	Senior Auditor
Shari D. Patrick	Auditor
Elmer J. Smith	Auditor