Audit Report

OFFICE OF THE INSPECTOR GENERAL

MEDICAL FACILITY REQUIREMENTS-STOCKTON FLEET HOSPITAL PREPOSITIONING FACILITY

Report Number 93-047 January 28, 1993

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Department of Defense

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The following acronyms are used in this report:

ASD(HA).....Assistant Secretary of Defense (Health Affairs)
BRAC.....Base Realignment and Closure Act
DEPMEDS.....Deployable Medical Systems
DLA.....Defense Logistics Agency
DMFO.....Defense Medical Facilities Office
DMRD.....Defense Management Review Decision
FHSO.....Fleet Hospital Support Office
ISO.....International Standardization Organization
MILCON.....military construction
MTF.....military treatment facilities
NAVCOMSTA.....Naval Communications Station
NAVFAC.....Naval Facilities Engineering Command
OASD(HA).....Office of the Assistant Secretary of Defense (Health Affairs)

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

January 28, 1993

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)

SUBJECT: Audit Report on Medical Facility Requirements-Stockton Fleet Hospital Prepositioning Facility (Report No. 93-047)

We are providing this final report for your information and use. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, we request that the Assistant Secretary of Defense (Health Affairs) provide final comments on the unresolved recommendations and monetary benefits by March 29, 1993. See the "Status of Recommendations" section at the end of the Finding for the unresolved recommendations and the specific requirements for your comments.

As required by DoD Directive 7650.3, the comments must indicate concurrence or nonconcurrence with the finding and each recommendation addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated dates for completion of planned actions. If you nonconcur, you must state your specific reasons for each nonconcurrence. If appropriate, you may propose alternative methods for accomplishing desired improvements.

If you nonconcur with the estimated monetary benefits (Appendix D), or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. We also ask that your comments indicate concurrence or nonconcurrence with the internal control weaknesses highlighted in Part I.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Michael A. Joseph at (804) 766-9108 or Mr. Jack Armstrong at (804) 766-3265. The planned distribution of this report is listed in Appendix F.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

cc:
Secretary of the Navy
Director, Defense Logistics Agency

Office of the Inspector General, DoD

AUDIT REPORT NO. 93-047
(Project No. 2LF-0029) **January 28, 1993**

MEDICAL FACILITY REQUIREMENTS-STOCKTON FLEET HOSPITAL PREPOSITIONING FACILITY

EXECUTIVE SUMMARY

Introduction. Deployable Medical Systems (DEPMEDS) are shore-based hospitals capable of being transferred and set up at the rear of a theater of operations. The Navy has 17 DEPMEDS that have either a 250 or 500 patient bed capacity. The Navy proposed the construction of a $22 million prepositioning facility at Stockton, California, for the storage and maintenance of four DEPMEDS that will be used to support forces worldwide.

Objectives. The objective of the audit was to determine if construction of the fleet hospital prepositioning facility at the Naval Communications Station, Stockton, was planned and programmed to meet essential requirements economically, efficiently, and promptly. Applicable internal controls were also evaluated.

Audit Results. The Office of the Assistant Secretary of Defense (Health Affairs) plans to construct a DEPMEDS warehouse and support facilities that are not needed. DoD can save $7.1 million to $21.1 million by deferring the project pending results of an economic analysis and then using either available or alternate facilities for DEPMEDS storage.

Internal Controls. Policies, procedures, and controls were not in place to ensure that the most cost-effective facility for storing DEPMEDS was identified and that project requirements were adequately validated and revalidated during the planning process. Also, controls and procedures were not adequate to ensure that the warehouse project was submitted within supply system channels for programming and budgeting. See the finding for details on these weaknesses and Part I for details on the controls assessed.

Potential Benefits of Audit. We identified potential monetary benefits of $7.1 million to $21.1 million (see Appendix D).

Summary of Recommendations. We recommended that the planned construction project be coordinated with the Defense Logistics Agency (DLA) and that a comprehensive economic analysis be prepared to select the most cost effective and efficient alternative for storing the four DEPMEDS. We further recommended that the planned project be deferred pending results of the economic analysis. We also recommended a policy change to improve the medical military construction process.

Management Comments. The Assistant Secretary of Defense (Health Affairs) [ASD(HA)] and the Director, Defense Logistics Agency, partially concurred with the draft report recommendations. Management comments were not received from the Navy. As a result of the draft report, the Office of the ASD(HA), DLA, and the Navy held a joint meeting and developed a coordinated plan of action to correct the conditions reported. In its comments, the ASD(HA) outlined this plan and suggested changes to the draft report recommendations. The complete text of management comments is in Part IV of this report.

Audit Response. We believe the plan proposed by the ASD(HA) will correct the conditions reported, when implemented. Based on ASD(HA) and DLA comments, we modified one draft report recommendation to allow ASD(HA) to prepare the economic analysis instead of DLA. However, DLA will provide available storage input into the analysis and review the final product. Consistent with ASD(HA) comments, we are also recommending procedural changes that will require DLA involvement in future DEPMED storage projects. We request that ASD(HA) provide comments on the final report and the monetary benefits by March 29, 1993.

TABLE OF CONTENTS

	Page
TRANSMITTAL MEMORANDUM	1
EXECUTIVE SUMMARY	i
PART I - INTRODUCTION	1
Background	1
Objectives	1
Scope	1
Internal Controls	2
Prior Audits and Other Reviews	2
PART II - FINDING AND RECOMMENDATIONS	5
Construction Requirements	5
PART III - ADDITIONAL INFORMATION	19
APPENDIX A - Comparative Cost Analysis of Alternatives for Storing DEPMEDS In and Around San Francisco Bay Area	21
APPENDIX B - Map of DEPMEDS Storage Sites	23
APPENDIX C - Photographs of Warehouses Available at Sacramento Army Depot	25
APPENDIX D - Summary of Potential Benefits Resulting from Audit	27
APPENDIX E - Activities Visited or Contacted	29
APPENDIX F - Report Distribution	31
PART IV - Management Comments	33
Assistant Secretary of Defense (Health Affairs)	35
Defense Logistics Agency	41

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

PART I - INTRODUCTION

Background

Deployable Medical Systems. The Navy Fleet Hospital Program is responsible for providing medical support to Navy and Marine Corps forces engaged in combat operations. Deployable Medical Systems (DEPMEDS) are shore-based hospitals capable of being transferred and set up at the rear of a theater. DEPMEDS are generally stored, shipped, and assembled using International Standardization Organization (ISO) shipping containers. Navy DEPMEDS are designed in sizes of 250 or 500 bed hospitals. A 500-bed hospital utilizes 500 to 620 ISO containers depending on whether it is a full resuscitation and prompt care facility or comprehensive care facility. A 500-bed DEPMEDS covers approximately 22 acres of land when assembled. Each hospital contains facilities for surgery, blood banking, radiology, pharmacy, laboratory diagnostics, staff berthing, food service, laundry, supply, and public works. The Navy DEPMEDS planned for storage at Stockton include everything except blood, fuel, subsistence, and water.

DEPMEDS storage. The Navy currently has 17 DEPMEDS worldwide acquired at an average cost of $25 million each. In May 1992, 8 of the 17 DEPMEDS were located in or near the San Francisco Bay area. The Fleet Hospital Support Office (FHSO), a Naval Supply Systems Command activity, is located in Alameda, California, and is responsible for assembling, prepositioning, and maintaining medical war reserve assets worldwide for the Navy. FHSO's FYs 1990 and 1991 operating budgets totaled $28 million and $81 million, respectively. The increase in FY 1991 funding was for refurbishing the three Navy DEPMEDS utilized during Operation Desert Storm.

Objectives

The objective of the audit was to determine if construction of the fleet hospital prepositioning facility at the Naval Communications Station (NAVCOMSTA), Stockton, California, was planned and programmed to meet essential requirements economically, efficiently, and promptly. Applicable internal controls were also evaluated.

Scope

We reviewed the project requirements and prepared a life cycle cost analysis for the planned facility and three alternatives. In addition, we reviewed storage methods for DEPMEDS. We obtained and reviewed selected FY 1987 through FY 1992 budget, expenditure, and staffing data for the Sacramento Army Depot and the Navy DEPMEDS storage sites in and around the San Francisco Bay area. We also reviewed DoD's policies and procedures for storing DEPMEDS and justifying construction projects.

We compared the cost of alternatives to the planned Stockton project for storing DEPMEDS. We did not prepare a comprehensive economic analysis for each alternative, but did identify the major costs associated with each alternative. The alternatives were to: use current facilities, use Sacramento Army Depot, or lease commercial facilities. Cost information was obtained on maintenance and repairs for a 5-year period ending FY 1991. Cost estimates were also obtained on deferred maintenance and utilities. DoD engineers prepared cost estimates for building alterations and equipment purchases for the Sacramento alternative. DoD engineers also prepared utility estimates for the Sacramento alternative and the planned project. A realtor provided a cost estimate for leasing commercial warehouse space.

We performed our audit from March through July 1992. Appendix E lists the activities visited or contacted. This economy and efficiency audit was performed in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the IG, DoD, and accordingly included such tests of internal controls as were considered necessary.

Internal Controls

Controls assessed. We reviewed DoD's internal controls related to the construction project, including the controls established to monitor justification, prioritization, sizing, and processing the project. Internal controls related to the development of the equipment requirements were also reviewed. Although we do not consider the planned Stockton facility to be the most cost-effective alternative, we found the equipment specified in project justification to be reasonable.

Internal control weaknesses. The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. We found that controls within the Office of the Secretary of Defense and the Navy were not adequate to ensure that the construction project was properly justified and needed. Details of these conditions are discussed in Part II of this report. Recommendation 3. in the finding, if implemented, will correct the internal control weaknesses; however, the monetary benefit associated with the Recommendation cannot be determined. We did identify monetary benefits in the finding of $7.1 million to $21.1 million. A copy of the final report will be provided to the senior officials responsible for internal controls within the Office of the Assistant Secretary of Defense (Health Affairs) [OASD(HA)] and the Navy.

Prior Audits and Other Reviews

In the last 5 years, there have been no audits or other reviews of the project to construct a warehouse to store DEPMEDS at Stockton. However, IG Report No. 92-039, "Quick-Reaction Report on Construction of Nellis Air Force Base, Nevada,

Hospital," January 30, 1992, showed that the Defense Medical Facilities Office (DMFO), OASD(HA), had not validated project requirements. The report concluded that the Nellis construction project was not economically justified. The OASD(HA) nonconcurred with the reported conclusion; however, the Assistant Secretary did agree that his office would establish procedures to revalidate the requirements and the economic analysis for medical construction projects.

The Naval Audit Service is conducting an audit of Navy DEPMEDS operations (Project No. 91-0018), "Fleet Hospital Program." The objectives of the audit are to determine if wartime beds, prepositioning decisions, material stockage plans, and asset maintenance meet DEPMEDS readiness requirements. On May 27, 1992, the Naval Audit Service provided the Office of the Assistant Inspector General for Auditing, DoD, information that was used in preparing this report. The information addressed issues that could affect the need for constructing a new warehouse, and is discussed in this report under "Readiness requirements". The Naval Audit Service expects to issue its report in the fourth quarter of FY 1993.

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PART II - FINDING AND RECOMMENDATIONS

CONSTRUCTION REQUIREMENTS

The DMFO plans to construct a DEPMEDS warehouse and support facilities that are not needed. The Navy submitted the project to the wrong DoD activity for approval and funding. In addition, neither DMFO nor the Navy performed an economic analysis, properly examined other alternatives for storing DEPMEDS, or adequately validated project requirements. DoD can save $7.1 million to $21.1 million by deferring the project pending results of an economic analysis and then using either available or alternative facilities for DEPMEDS operations and storage.

DISCUSSION OF DETAILS

Background

DoD Guidance. DoD Instruction 7040.4, "Military Construction Authorization and Appropriation," March 5, 1979, specifies the requirements for the preparation, review, and approval of requests for the annual military construction authorization and appropriation. Specifically, the Instruction requires that:

o a special effort be made to efficiently utilize all existing DoD installations and facilities and

o an economic analysis be prepared and used as an aid to establish construction priorities and determine optimum allocation of resources to construction.

DoD Instruction 7041.3, "Economic Analysis and Program Evaluation for Resource Management," October 18, 1972, provides policy guidance and procedures for preparation and application of economic analysis for DoD programs. This Instruction states that a project justified on the basis of military necessity is not exempt from being subject to an economic analysis. An economic analysis is required for proposals involving a choice of two or more options to include doing nothing. The Instruction requires that an economic analysis will:

o systematically identify benefits, other outputs, and costs associated with missions and alternate ways to accomplish a program;

o evaluate alternate financing such as lease or buy; and,

o be initiated early in the acquisition process and updated as developments occur that could invalidate or significantly alter the cost-benefit relationship in the analysis.

Specific guidance for the planning and construction of DoD health care facilities is provided in DoD Instruction 6015.17, "Planning and Acquisition of Military Health Facilities," March 17, 1983. This Instruction authorizes the Health Facility Planning Review Committee (the Committee) to review and validate medical projects in the military construction program. The Instruction also requires that an economic analysis be prepared and that the most cost-effective alternative be selected. The Committee no longer exists. DMFO has assumed the Committee's duties. Draft changes to DoD Instruction 6015.17 (to be renamed "Procedures for the Planning, Programming, Budgeting, and Execution for Construction of Military Health Facilities") will require OASD(HA) to validate the requirements for a medical construction project at several points during the planning and programming process.

Planned construction project. DMFO is responsible for managing the construction of military treatment facilities (MTF). In December 1989, the Navy submitted plans for a new DEPMEDS facility to DMFO for approval and funding. The original plans approved by DMFO and Congress in FY 1991 provided for a $22 million, 120,000 square foot, high bay, and temperature and humidity controlled warehouse.

Ongoing plans still total 120,000 square feet, but now include a 20,000 square foot administrative building, 28,500 square foot maintenance facility, and 71,500 square foot warehouse. An 825 square foot cold storage room will be located in the maintenance facility for storing drugs. The warehouse portion includes a high bay area with 42,600 square feet of ISO container storage area. In the high bay area, the ISO containers will be block stored, five containers high, and moved by a bridge crane. The remaining 28,900 square feet will be break bulk (packaged but not in containers) storage. Although it plans to construct a new warehouse, FHSO intends to use three of its current warehouses to store vehicles and generators that cannot fit inside the planned facility.

Construction of the planned facility was scheduled to begin in early 1993 at the NAVCOMSTA located on Rough and Ready Island, Stockton, California. The planned facility will provide administrative offices, as well as assembly and storage space for four DEPMEDS (one 250 bed and three 500 bed hospitals). Two of the hospitals will be stored in ISO containers and two will be stored in break bulk. These four DEPMEDS are positioned to support Navy and Marine Corps forces worldwide and at the time of audit were stored in DoD facilities located at Alameda, Novato, Oakland, and Stockton, California.

The construction project is funded by the FY 1992 military construction (MILCON) appropriation. The Naval Facilities Engineering Command (NAVFAC) is the construction agent and estimated, during the audit, that the construction contract would be awarded in December 1992. NAVFAC spent $2.4 million for

design of the proposed warehouse. In addition, the Navy planned to purchase new equipment at an estimated cost of $799,000 for the proposed warehouse.

When the project was initiated, the Navy intended to store 60 days of subsistence with each DEPMEDS. This proved to be very costly (as much as $15 million annually) when food exceeded its shelf life and had to be disposed of. Current Navy policy requires that 30 days of subsistence be stored in five DEPMEDS, and that these DEPMEDS be stored at overseas sites. The removal of subsistence from the four DEPMEDS to be stored at Stockton greatly reduces the potential for losses due to extreme temperatures.

Supply Function Consolidation

We do not believe that DMFO should plan, program, budget, or construct warehouse facilities unless the warehouse is an integral part of a MTF. The warehouse to be constructed at Stockton is not part of a MTF.

In Defense Management Review Decision (DMRD) 902, DoD decided to consolidate all DoD supply depots and operations into one organization, managed by the Defense Logistics Agency (DLA). One of the primary purposes of this consolidation was to better utilize DoD's storage capacity. DMRD 902 projected that through better storage utilization, DoD's construction program for storage facilities could be reduced by $230 million from FY 1990 through FY 1993. Congress subsequently prohibited the obligation of any FY 1991 MILCON funds for warehouse construction unless the Secretary of Defense certified that the requirement was valid.

We recognize that the planned project is to be funded with FY 1992 MILCON funds and warehouses constructed from these funds do not require special approval from the Secretary of Defense. However, the planned Navy DEPMEDS facility is a warehouse and should have been processed as such in the MILCON program. Instead, this project was described as a Fleet Hospital Prepositioning Facility and processed by the Navy through the DMFO channel. As a warehouse, the project should have been processed through Naval Supply System Command to DLA in keeping with the ongoing DoD supply consolidation. DLA has a better overview of DoD's future warehouse and storage requirements. Discussions with appropriate DLA personnel disclosed that warehouse space will become available in and around the San Francisco Bay area because of ongoing DoD supply consolidation.

Project Validation

Internal controls that would ensure the use of existing warehouse assets and adequate project validation were not followed when the project was processed through the medical instead of the supply chain of command. Neither DMFO nor the Navy prepared an economic analysis or adequately validated the justification for the

construction project. DMFO personnel stated that an economic analysis was not required because the warehouse was considered a readiness project. The justification for the warehouse stated that the DEPMEDS required a high level of readiness, which would be provided by the proposed project; however, readiness requirements were overstated. Further, DMFO personnel could not provide a DoD policy or instruction to support their decision to forego the economic analysis. As a result, other cost-effective methods to store the DEPMEDS were not adequately considered when the project was submitted to Congress.

Storage alternatives. The Navy DEPMEDS project manager stated that before proposing this project in FY 1989 he had considered storing DEPMEDS in existing facilities, but concluded that sufficient long term storage (Government or commercial) was not available in the San Francisco Bay area. However, he was unable to furnish evidence that he had conducted a review of possible alternative DEPMEDS storage locations.

Because an economic analysis was not performed to include the existing facilities and alternate actions, we reviewed storage alternatives to determine if they were more economical than constructing a new facility. We considered the Navy's DEPMEDS storage requirements in the San Francisco Bay area and analyzed the major costs associated with the warehousing alternatives we identified. Those alternatives were to use existing facilities, use the Sacramento Army Depot, or lease commercial warehouses. Each of the alternatives was more cost-effective than new construction. We estimated that savings ranging from $7.1 million to $21.1 million could be achieved if one of the three alternatives is selected. Appendix A of this report shows a cost comparison of the identified alternatives; however, we do not consider these to be the only possible alternatives to new construction.

Use of existing San Francisco Bay facilities. Using facilities occupied by FHSO would save DoD approximately $19.4 million over the cost of new construction (see Appendix A). At the time of our review, FHSO stored eight DEPMEDS in facilities in or near the San Francisco Bay area. More warehouse space will become available as a result of planned transfers of four DEPMEDS. We observed few operational inefficiencies by having operations divided between Alameda, Novato, Oakland, and Stockton (see map in Appendix B). However, infrastructure problems at Stockton, discussed in the planned facility alternative, are a concern when considering the use of existing facilities as a long-term storage solution.

Current Storage. Each of the DEPMEDS requires about 175,000 square feet of space if the ISO containers are single stacked. This provides area for maintenance and administrative functions, as well as storage. In high ceiling

warehouses where ISO containers can be stacked, the required square footage can be significantly reduced. If not stacked, the four DEPMEDS require approximately 700,000 square feet (4 x 175,000 square feet).

During our review, FHSO stored eight DEPMEDS in the San Francisco Bay area at the locations shown in the following schedule.

Bay Area Storage Locations

Location	Square Feet
Naval Air Station, Alameda	695,000
Hamilton Army Airfield, Novato	125,000
Naval Supply Center, Oakland	240,000
Naval Communications Station, Stockton	510,000
Total	1,570,000

The Navy plans to transfer four of the eight DEPMEDS to overseas locations by FY 1995. When this transfer is completed, much of the 1,570,000 square feet of warehouse space will be unoccupied. Our discussions disclosed that FHSO will soon lose 125,000 square feet of storage by the base closure at Novato. However, FHSO will retain 1,445,000 square feet, or 745,000 (106 percent) square feet more warehouse space than the 700,000 square feet needed for the four remaining DEPMEDS. This is a conservative estimate because ISO containers can be double stacked in many of these warehouse locations. This excess space would be available for contingencies and a portion could be converted to administrative spaces, if needed. The planned construction project specifies that ISO containers are to be stacked five high.

Operations. The project justification indicated that the Navy would like to have all DEPMEDS operations (administration, maintenance, and storage) in one location. The justification stated, "Failure to construct the project will result in continuing high maintenance and operating costs." DEPMEDS maintenance consists primarily of unloading ISO containers, inspecting the material, replacing damaged and overage items, and reloading the container. We saw no evidence that storing DEPMEDS in four locations significantly increased maintenance and operating costs.

The Alameda and Oakland DEPMEDS warehouses are only a 5- to 10-minute drive from the DEPMEDS administrative offices in Alameda. The Novato and Stockton warehouses are about 1 hour and 1 1/2 hours drive, respectively. Only three to six Navy personnel drive to these locations when periodic maintenance is being performed because contractors perform the maintenance. Navy personnel were provided a Government vehicle and commuted daily to Novato and Stockton. They were not given per diem.

When maintenance is performed at Stockton, the contractor sends 30 to 35 personnel, who receive per diem plus local mileage reimbursement. Utilizing the local per diem rate and the local mileage estimate provided by FHSO personnel, we estimated that the contractor performing maintenance on the DEPMEDS at Stockton would receive an additional $63,000 per periodic servicing cycle. The additional maintenance cost incurred by storing DEPMEDS at more than one location is insignificant compared to the average $25 million investment per DEPMEDS and does not justify the expenditure of $22 million to construct the planned Stockton facility.

As discussed earlier, additional warehouse space will become available at Alameda, Oakland, and Stockton after the other four DEPMEDS are relocated to overseas sites. FHSO could locate the entire DEPMEDS operation at one general location without building a new facility. As shown in the preceding storage schedule, the Navy has sufficient storage at the Naval Air Station, Alameda, (695,000 square feet) so the four DEPMEDS could be stored there.

Transportation. Access to truck and ship transportation is readily available to the DEPMEDS stored at Alameda, Novato, and Oakland. Rail transportation is available at Alameda and Oakland. There are significant weight restrictions on the one bridge into Rough and Ready Island, Stockton (see section titled, "Planned Stockton facility.") Additionally, the railroad tracks on Rough and Ready Island have deteriorated and are not usable. During mobilization, these conditions could significantly impede access to land transportation for the DEPMEDS material stored on this island.

Sacramento Army Depot. DoD would save an estimated $21.1 million over the cost of new construction by using excess Army warehouses at Sacramento (see Appendix A). These warehouses will become available as a result of the Base Realignment and Closure Act (BRAC).

Facilities. The Sacramento Army Depot (the Depot) has eight warehouses, each 1,440 feet long and 180 feet wide, providing 2,073,600 square feet of storage. These warehouses are better maintained than the Navy's west coast DEPMEDS facilities. Two of the warehouses have humidity control and all are concrete structures with metal roof trusses, redwood roof sheathing, and new roofing (see photographs in Appendix C). Ample administrative spaces are also available to satisfy FHSO's needs. The Depot offers a cold storage facility, much larger than the proposed new construction, and a hazardous material building.

Utility and support services are readily available at the Sacramento warehouses. The city provides water and sewage and a public utility provides electricity and gas. The installation of meters at each warehouse will enable the Navy to identify its utility costs. FHSO could obtain the necessary personnel and

facility maintenance services by an inter-Service support agreement with McClellan Air Force Base, which is only 10 miles from the Depot.

Transportation. The Depot offers excellent DEPMEDS transportation opportunities. A major interstate highway is located nearby with a four-lane access road to the Depot. An active rail system runs through the Depot with railroad tracks located on each side of every warehouse. The deep water commercial port of Sacramento is only 10 miles away.

Availability. The Depot facilities will become available because the Depot is on the FY 1991 BRAC list. The complete closure for this facility is scheduled for FY 1997 with space becoming available as early as FY 1993. When we discussed this alternative with Navy and DMFO personnel, they expressed concern about the Sacramento alternative because DoD has not been successful in retaining properties on the BRAC list for other uses. Our discussion with personnel from the BRAC Office, Assistant Secretary of Defense (Production and Logistics), disclosed that the BRAC Office is reluctant to agree to keep open any portion of a facility shown on the BRAC list. We believe that such reluctance is unnecessary because Congress put the following clause in the BRAC legislation specifically providing for the transfer of facilities and portions of facilities within DoD at no cost.

> Before any action is taken with respect to the disposal or transfer of any real property or facility located at a military installation to be closed or realigned under this title, the Secretary shall notify all departments and other instrumentalities (including nonappropriated fund instrumentalities) within the Department of Defense of the availability of such property or facility, or portion thereof, and may transfer such property, facility, or portion, without reimbursement to any such department or instrumentality.

We contacted the Office of General Counsel, DoD, to obtain a legal opinion on the intent of this clause. The written opinion stated that as a matter of law, portions of the Depot could be transferred, with or without reimbursement, to the Department of the Navy or other entity within the DoD.

Support Costs. The FHSO expressed concerns about the potential high cost of support services because it may be the only tenant left on the Depot. However, we found that there will be other DoD activities at the Depot to share support services costs. The BRAC did not address closure for two areas already occupied by Army and Navy Reserves. Another 50 acres in the center of the Depot, including buildings and structures, have been designated for future Army Reserve use.

An Army tenant activity at the Depot could also share in the support services costs. The Army tenant is to be transferred to McClellan Air Force Base and receive an estimated $2.4 million for relocation expenses and renovation of existing facilities at McClellan. The facilities that the Army tenant will vacate are considered adequate. If the Army and Navy Reserves remained at the Depot, DoD could save $2.4 million in BRAC funds and provide greater sharing of support service costs.

Modifications. The Army moves ISO containers in and out of the warehouses as currently configured. However, moving the containers out in a military crisis, using the same configuration, would be a very slow and difficult process. Modifications to the warehouses and loading docks would significantly reduce this time. Based on an on-site inspection and a review of the as built drawings, the FHSO engineers estimated that two and a half warehouses would be needed to store and maintain four DEPMEDS. They estimated that modifications to these warehouses would cost about $990,000 and that about $875,000 in new equipment would be needed.

Lease of commercial warehouses. DoD could save approximately $7.1 million (discounted for 25 years) over the cost of construction if FHSO leases existing commercial warehouse space for the DEPMEDS (see Appendix A). The lease cost includes rental fee and building maintenance. We used the Depot cost estimates for warehouse modifications, utilities, moving, and additional equipment because we believe that these costs for the Depot alternative are comparable. The cost estimates for warehouse modifications, moving, and additional equipment were developed by FHSO engineers, and utility costs were provided by Depot engineers. We added the Depot costs for these items to the rental fee to determine the costs associated with the lease alternative.

Naval Supply Systems Command personnel stated that commercial warehouse space was not available when this DEPMEDS project was proposed. At our request, the FHSO made several inquiries and found commercial warehouse space available at a cost ranging from $2.40 to $3.60 per square foot annually. We also contacted a Bay area realtor in May 1992 who stated that there was excess commercial warehouse space available for lease in the Bay area. The realtor prepared a proposal for 524,000 square feet of warehouse space (double and triple stack capability), including administration space, near the Naval Air Station Alameda. The estimated price was $1.8 million annually.

Planned Stockton facility. Based on our cost analysis, constructing the planned Rough and Ready Island facility in Stockton is the least cost-effective alternative we reviewed. In addition to the major outlay of construction funds ($22 million), we believe the operating costs at this site will escalate rapidly because of potential support services and infrastructure

problems. As shown in Appendix A of this report, we estimate that it will cost $26.9 million (present value cost) to build and operate this facility over the next 25 years.

Support costs. The NAVCOMSTA, the host command for this installation, and other support activities occupy only 2 (4 percent) of the 47 warehouses on Rough and Ready Island. DLA and the U.S. General Services Administration occupy 40 (85 percent) of the total warehouses on the island. FHSO uses the remaining 5 (11 percent) warehouses. NAVCOMSTA personnel stated that sufficient funding had not been received to support the island infrastructure and the command wanted to move off the island. In FY 1992, FHSO reimbursed the NAVCOMSTA $59,900 for services and utilities provided. FHSO was not charged for fire and security services. In a June 1, 1992, NAVCOMSTA letter, FHSO was advised that in FY 1993 it would be charged proportionately for the fire and security costs based on the warehouses that it occupies. This will increase FHSO's costs by over $65,400 annually. We believe that FHSO will be responsible for more of the island's support costs in the future because of budget constraints. This will make the proposed warehouse more costly than previously estimated.

DLA personnel advised us that they plan to move off the island in 8 to 10 years. When this move occurs, the remaining activities will incur a much larger expense in supporting the island's infrastructure and support services. This was a major concern of FHSO when considering the Sacramento Army Depot alternative. We believe it is of greater concern with Stockton as a permanent site since there may be few or no other activities to share the costs of infrastructure repairs and support services.

Infrastructure. Much of Rough and Ready Island is man-made and below sea level. These conditions complicate construction and increase construction costs. The entire perimeter of the island is surrounded by seawalls and levies. The site planned for the proposed new warehouse is below the 100-year flood plain. Since the elevation is below sea level, the construction site will be built up 6 feet by trucking in backfill. Pilings will then be driven to support the proposed structures. The backfilling and pile driving account for part of the estimated high costs ($139.30 per square foot) to build the warehouse. In contrast, a DEPMEDS warehouse is being built at Cheatham Annex, Virginia, for $64.00 per square foot.

The seawalls and levies surrounding this island were constructed during the World War II era. During our tour of the five DEPMEDS warehouses on this island, we observed that an area in one warehouse had been roped off and was not used for storage. We were advised that the seawall in that area was unsound and had allowed significant soil erosion under the warehouse floor causing that area to be unsafe. In FY 1990, the estimated cost to repair this problem was over $234,000, and operating personnel expect that the seawall had further deteriorated.

Transportation. Rough and Ready Island has potential transportation problems. The island's railroad tracks have deteriorated to the point that they are no longer usable. The railroad bridge to the island is not certified for use. The San Joaquin River forms the northern boundary of the island and has the capability of handling container ships. However, there are no operating cranes on the island for loading cargo or containers. In addition, the depth of the river at the island's wharf is not deep enough to handle deep draft ocean going container ships. There is a commercial deep water port at Stockton approximately 1 mile away. However, as discussed in the following paragraph, moving ISOs to this port would be difficult and slow.

There is only one 225 foot long two-lane bridge to the island. The bridge is 50 years old and has been poorly maintained. As a result, the Navy placed restrictions on the bridge in May 1992. All truck traffic is limited to a speed of 10 miles per hour and only one truck carrying fully loaded ISOs is allowed on the bridge at a time. During mobilization, such restrictions could impede the movement of the DEPMEDS unless repairs are made to the bridge. At the time of our review, the Navy did not plan to correct those deficiencies.

Readiness requirements. DMFO did not adequately validate or revalidate the readiness requirements stated in the project description and justification. We found that the readiness requirements were overstated. Based on potential war plan changes and planned troop reductions, the locations and number of DoD DEPMEDS could be significantly affected. The Air Force has reduced its DEPMEDS and the Army is reconfiguring its DEPMEDS. The Office of the Chief of Naval Operations is reviewing the Navy's downsizing to determine the number of DEPMEDS required. After the number of DEPMEDS is determined, the prepositioning strategy may be revised to exclude the need to warehouse four DEPMEDS at Stockton. It would not be prudent to build a new facility to store DEPMEDS until the final number and location of DEPMEDS for the Navy is determined.

The Naval Audit Service is performing an in-depth audit of Navy DEPMEDS requirements and supply support. Based on our discussions with the Naval Audit Service auditors, we concluded that they believe that the DEPMEDS to be stored at Stockton will not be maintained in a fully deployable status. Two of the DEPMEDS are containerized and will be maintained on a 2- to 3-year cycle. The remaining two DEPMEDS will be stored in "break-bulk/on-the-shelf" condition and will require months to assemble before they are deployable. The actual readiness posture of the two break-bulk DEPMEDS is contrary to the statements made in the project's justification, which stated, "...the project would provide a consolidated warehouse so that the four DEPMEDS could be immediately deployable and in ready-to-integrate configurations."

Alternatives. The three alternatives to constructing the planned Stockton facility discussed in this report are not the only ones that should be considered. We limited our analysis to those alternatives because of time and resource limitations. However, a more comprehensive analysis might identify other feasible alternatives, some of which could be more cost-effective than those we selected.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

We recommend that the Assistant Secretary of Defense (Health Affairs):

1. Prepare a comprehensive economic analysis for the storage of the four Deployable Medical Systems to be warehoused on the west coast and select the most cost-effective and efficient alternative for storing the Deployable Medical Systems. The economic analysis should be coordinated with and rely on input from the Defense Logistics Agency on available storage. The economic analysis should include a comparison of such alternatives as use of existing facilities, use of the Sacramento Army Depot, lease of commercial facilities, construction of the planned Stockton facility, and any other alternatives that might be available.

Management comments. ASD(HA) and DLA partially agreed with draft report Recommendation 1., which proposed that DLA prepare the economic analysis. However, both ASD(HA) and DLA proposed that the recommendation be changed to have ASD(HA) prepare the analysis, with DLA providing available storage input and review. DLA also proposed that two additional alternatives (storage at Rough and Ready Island in facilities that will become available in FY 1995 and consolidation of the Military Departments' DEPMEDS storage) be considered.

Audit response. Actions planned by ASD(HA) and DLA satisfy the intent of the draft report recommendation. Therefore, we modified the recommendation to make ASD(HA) responsible for the economic analysis. We agree with DLA's comments that two additional alternatives for storing DEPMEDS be considered in the economic analysis. We request that ASD(HA) comment on revised Recommendation 1. in its response to the final report. The comments should include an estimated completion date. Additionally, we request that ASD(HA) comment on the estimated monetary benefits upon completion of the economic analysis.

2. Defer the Stockton project pending completion of the Navy's determination of Deployable Medical Systems requirements and the Assistant Secretary of Defense's (Health Affairs) economic analysis for this project.

Management comments. ASD(HA) agreed with the recommendation and is delaying the project pending completion of the economic analysis.

3. Revise DoD Instruction 6015.17 to delineate responsibilities for storing medical readiness assets. As a minimum, the revision should assign the responsibility for the storage of Deployable Medical Systems within the Continental United States to the Defense Logistics Agency.

Management comments. ASD(HA) partially concurred with draft report Recommendations 2.b. and 3. Draft report Recommendation 2.b. required revision of DoD Instruction 6015.17 to limit the involvement of ASD(HA) to direct health care facilities. Draft report Recommendation 3. required the Surgeon General of the Navy and the Naval Supply Systems Command to submit all DEPMED storage projects to DLA for planning, budgeting, and executing. After reviewing the draft report, personnel from OASD(HA), DLA, and the Navy, who were responsible for DEPMED management, developed procedures for assigning medical readiness asset storage responsibilities. As an alternative to Recommendations 2.b. and 3. in the draft report, ASD(HA) proposed that we consider the revised procedures. The procedures break down medical readiness requirements into prepositioned war readiness materials, immediate operational readiness assets, wartime readiness material storage, basic storage of fleet hospitals, and ward-convertible facilities. Under the procedures, DLA would be responsible for the storage of fleet hospitals. All fleet hospitals stored within the continental United States are maintained as DEPMEDS.

Audit response. The revised procedures proposed by ASD(HA) meet the intent of the two recommendations and would correct the internal control deficiency identified in Part II of this report. Based on management's comments, we modified and combined draft report Recommendations 2.b. and 3. into final report Recommendation 3. The modification requires delineation of responsibilities for managing medical readiness asset storage and assigns DLA the responsibility for DEPMED storage within the continental United States. We request that ASD(HA) comment on the revised recommendation in its response to the final report and provide a date that the proposed action will be completed.

Additional management comments. The ASD(HA) disagreed with the statement in our draft report that DMFO did not adequately validate or revalidate the environmental control requirements, such as air conditioning and humidity controls, as stated in the project justification. The ASD(HA) pointed out that when the project was originally justified, perishable supplies were to be stored with the DEPMEDS. The ASD(HA) agreed that if the Navy changes the storage requirements, then the design should be reanalyzed.

Audit response. We deleted the section of the report that addressed environmental controls. Since the project was originally justified, the Navy decided not to store subsistence with the four DEPMEDS planned for storage at Stockton. Current project plans do not include the air conditioning requirement for the Stockton facility.

STATUS OF RECOMMENDATIONS

		Responses Should Cover:			
Number	Addressee	Concur or Nonconcur	Proposed Action	Completion Dates	Related Issues
1.	ASD(HA)	X	X	X	M 1/
2.	ASD(HA)				2/
3.	ASD(HA)	X	X	X	IC 3/

1/ M = potential monetary benefits

2/ No further comments required

3/ IC = material internal control weakness

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PART III - ADDITIONAL INFORMATION

APPENDIX A - Comparative Cost Analysis of Alternatives for Storing DEPMEDS In and Around San Francisco Bay Area

APPENDIX B - Map of DEPMEDS Storage Sites

APPENDIX C - Photographs of Warehouses Available at Sacramento Army Depot

APPENDIX D - Summary of Potential Benefits Resulting from Audit

APPENDIX E - Activities Visited or Contacted

APPENDIX F - Report Distribution

APPENDIX A: COMPARATIVE COST ANALYSIS OF ALTERNATIVES FOR STORING DEPMEDS IN AND AROUND SAN FRANCISCO BAY AREA

	Use of Existing Facilities (000)	Lease of Commercial Facilities (000)	Sacramento Army Depot (000)	Planned Construction Project (000)
Estimated Annual Operating and Maintenance Costs:				
Lease Costs	$ 100	$ 1,759	$ 0	$ 0
Maintenance and Repair	192	0	29	59
Utilities	30	80	139	53
Support and Security	95	0	95	95
Subtotal	$ 417	$ 1,839	$ 263	$ 207
Present Value of Annual Costs (for 25 years)	$ 3,972	$17,515	$2,505	$1,971
Estimated Investment Costs:				
New Construction and Alterations	$ 0	$ 990	$ 990	$22,000
Equipment	0	875	875	799
Deferred Maintenance	3,557	0	34	806
Change of Duty Station	0	0	941	941
Relocate DEPMEDS	0	415	415	375
Subtotal	$3,557	$ 2,280	$3,255	$24,921
Total	$7,529	$19,795	$5,760	$26,892

Note: For a description of how the cost estimates were obtained or determined, see the next page of this Appendix.

Estimated Annual Operating and Maintenance Costs:

1. Lease Costs. The lease cost for the existing facilities alternative was actual cost, and the lease cost for the commercial facilities alternative was a price quote provided by a commercial real estate broker.

2. Maintenance and Repair. Maintenance and repair costs are included in the price of the lease alternative, and are based on historical cost information obtained at the activities visited.

3. Utilities. Historical costs or engineering estimates

4. Support and Security. Costs are based on inter-Service agreements. Since the costs appeared reasonable, we used the same costs for the Sacramento Army Depot alternative.

5. Present Value of Annual Costs. A present value factor of 9.524 was applied to the subtotal of annual operating maintenance costs in accordance with DoD Instruction 7041.3. This factor is based on a 25-year economic life and 10-percent discount rate.

Estimated Investment Costs:

6. New Construction and Alterations. Engineering estimates.

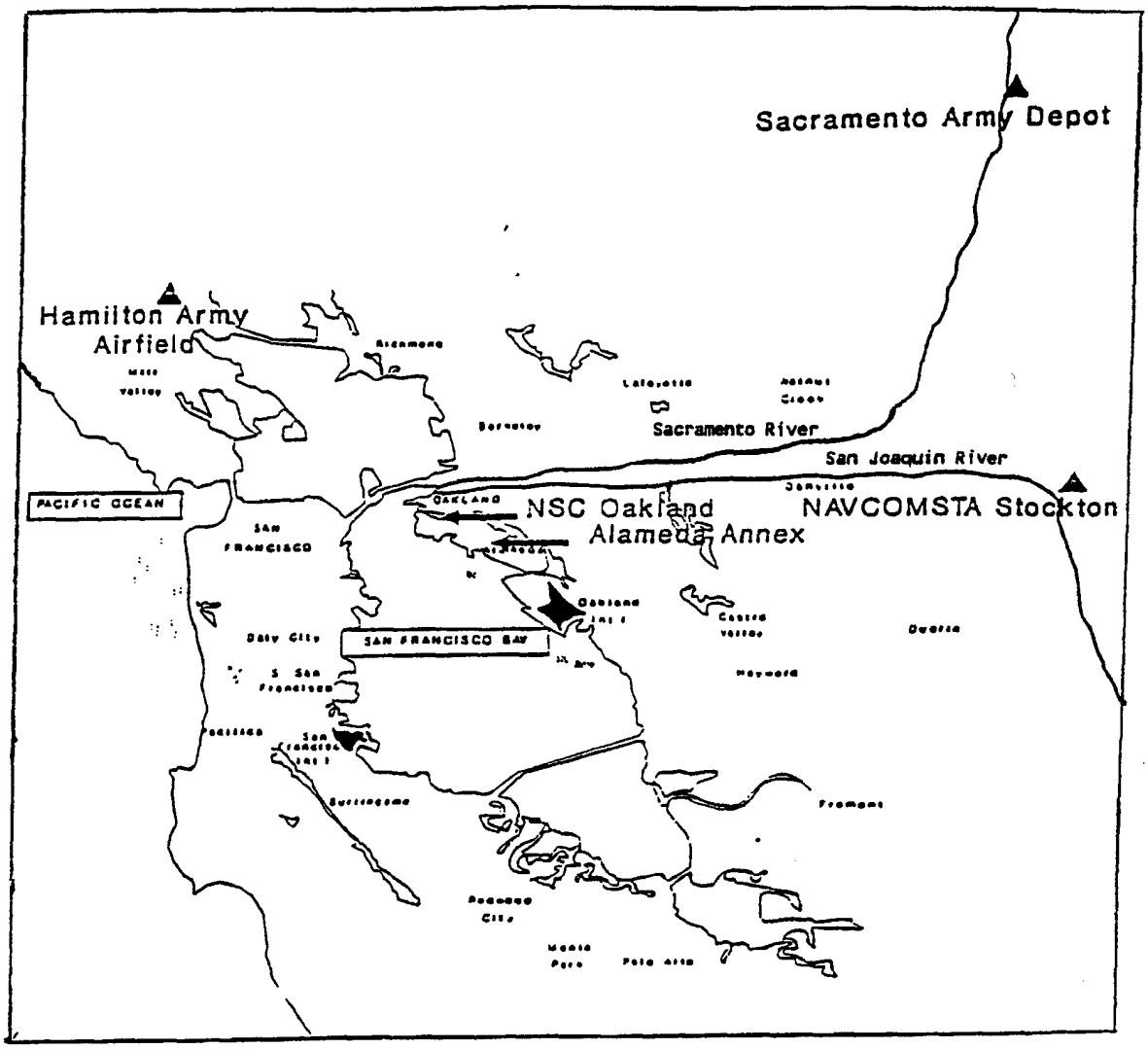
7. Equipment. Engineering estimates

8. Deferred Maintenance. Deferred maintenance costs were estimates for outstanding job orders or requests obtained from activities visited.

9. Change of Duty Stations. Auditor computations using standard (average) Navy budget estimates

10. Relocate DEPMEDS. Engineering estimates

APPENDIX B. MAP OF DEPMEDS STORAGE SITES DISCUSSED IN REPORT



Alameda to Oakland - 3 Miles
Alameda to Hamilton - 30 Miles
Alameda to Stockton - 75 Miles
Alameda to Sacramento - 93 Miles

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APPENDIX C. PHOTOGRAPHS OF WAREHOUSES AVAILABLE AT SACRAMENTO ARMY DEPOT

Inside Sacramento Army Depot Warehouse

Army Communications ISO Inside Sacramento Army Depot Warehouse

APPENDIX C. PHOTOGRAPHS OF WAREHOUSES AVAILABLE AT SACRAMENTO ARMY DEPOT (Cont'd)

End View of Typical Sacramento Army Depot Warehouse

APPENDIX D. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and efficiency and compliance. Prepare an economic analysis to identify the most cost-effective alternative for storing DEPMEDS.	Funds Put to Better Use. Military construction. Net savings ranging from $7.1 million to $21.1 million were identified.*
2.	Economy and efficiency. Defer construction of new DEPMEDS facility pending completion of Navy requirements review and an economic analysis.	Included with amount shown for Recommendation 1.
3.	Internal Controls. Revise instruction to define ASD(HA) and DLA's responsibilities for construction of DEPMEDS warehouse projects and require coordination between ASD(HA) and DLA.	Nonmonetary.

* $7.1 million net savings is derived by $22 million reduction in MILCON funds (97X0500) offset by $1 million for new construction and alterations, less $13.8 million for operations and maintenance costs (present value) (17X1804) and $.1 million for equipment procurement (17X1810).

* $21.1 million net savings is derived by $22 million reduction in MILCON funds offset by $1 million for new construction and alterations, less $.1 million for equipment procurement and savings of $.2 million for operations and maintenance costs.

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APPENDIX E. ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Secretary of Defense, Legal Counsel, Washington, DC
Assistant Secretary of Defense (Health Affairs), Washington, DC
  Defense Medical Facilities Office, Falls Church, VA
  Defense Medical Standardization Board, Fort Detrick, MD
Assistant Secretary of Defense (Production and Logistics), Washington, DC

Department of the Army

Office of the Surgeon General, U.S. Army, Falls Church, VA
Sacramento Army Depot, Stockton, CA
Hamilton Army Airfield, Novato, CA

Department of the Navy

Deputy Chief of Naval Operations (Logistics), Washington, DC
Bureau of Medicine and Surgery, Washington, DC
Auditor General, Naval Audit Service, Falls Church, VA
  Director, Naval Audit Service, Western Region, San Diego, CA
Commander, Naval Supply Systems Command, Alexandria, VA
  Fleet Hospital Support Office, Alameda, CA
  Naval Supply Center, Cheatham Annex, Williamsburg, VA
  Naval Supply Center, Oakland, CA
Commander, Naval Telecommunications Command, Washington, DC
  Naval Communications Station, Stockton, CA
Commander, Naval Facilities Engineering Command, Alexandria, VA
  Naval Facilities Engineering Command, Western Region, San Bruno, CA
Hunters Point Naval Shipyard, San Francisco, CA
Naval Air Station, Alameda, CA

Department of the Air Force

Office of the Surgeon General, Washington, DC

Defense Agencies

Headquarters, Defense Logistics Agency, Cameron Station, Alexandria, VA
  Director of Distribution, Western Region, Tracy, CA
  Defense Depot, Ogden, UT
  Defense General Supply Center, Richmond, VA

APPENDIX E. ACTIVITIES VISITED OR CONTACTED (Cont'd)

Non-DoD Activities

Director, General Services Administration, Western Region, Stockton, CA

Non-Government Activities

CB Commercial Real Estate Group, Inc., Oakland, CA
John Berry Organization, Business and Real Estate Investments, Alameda, CA

APPENDIX F. REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Health Affairs)
Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense

Department of the Navy.

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Defense Agencies

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

Non-DoD Activities

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, Director for Logistics Issues

Chairman and Ranking Minority Member 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 Governmental Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

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PART IV - MANAGEMENT COMMENTS

Assistant Secretary of Defense (Health Affairs)

Defense Logistics Agency

ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS) COMMENTS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D C. 20301-1200

HEALTH AFFAIRS

DEC 14 1992

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Medical Facility Requirements-Stockton Fleet Hospital Facility (Project No. 2LF-0029)

I have reviewed the findings in the subject draft report and generally concur with the four recommendations. Detailed comments to the report are attached.

Project construction advertisement has been put on hold pending results of a construction economic analysis (EA) that is currently underway. The Defense Medical Facilities Office (DMFO) has undertaken the responsibility of performing the EA. This is due to the level of knowledge required for medical readiness projects and specific information the planners have already collected on this project.

Partial concurrence is given regarding Deployable Medical Systems (DEPMEDS) warehouse construction planning, programming, budgeting, and executing being performed by Defense Logistics Agency (DLA). Defense Management Review Decision No. 902 places all supply depot resources performing distribution functions (to include storage and warehousing) under a single manager-DLA. Therefore, it is clear that DLA should become an integral part of the medical readiness program from a distribution management perspective. Still, because of the unique requirements of medical readiness projects, DMFO will remain responsible for some medical readiness management. A brief explanation of the extended scope of the medical readiness program is provided in Recommendation 2B. With regards to DEPMEDS, these responsibilities would include: (1) performing and coordinating with DLA economic analyses examining storage alternatives and (2) coordinating with DLA on storage programming, budgeting and execution actions, as required.

I appreciate the opportunity to review and comment on the draft report. I will continue to apprise you of the status of the EA until the final report has been submitted for your review. If you have any questions concerning my response, my point of contact is LCDR F.S. Stevenson, Project Manager, OASD(HA)DMFO, who may be reached at (703) 756-0902.

Enrique Mendez, Jr., M.D.

Attachment:
As Stated

ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS) COMMENTS (cont'd)

RECOMMENDATION 1. We recommend that the Director, Defense Logistics Agency (DLA), prepare a comprehensive economic analysis (EA) for the storage of the four Navy Deployable Medical Systems (DEPMEDS) to be warehoused on the west coast and select the most cost-effective and efficient alternative for storing the DEPMEDS. The EA should include a comparison of such alternatives as use of existing facilities, use of the Sacramento Army Depot, lease of commercial facilities, construction of the planned Stockton facility, and any other alternatives that might be available.

RESPONSE 1. PARTIALLY CONCUR.

Since 1986, Defense Medical Facilities Office (DMFO) has been tasked with the planning, programming and execution of medical readiness projects. To program for these projects, an organization must be acutely aware of the medical readiness mission and requirements.

DMFO is fully cognizant of the DEPMEDS systems, and integral part of the overall Medical Readiness Program. This knowledge is critical to understanding the requirements of any major medical readiness facility project, such as the Stockton warehousing project. In addition the DMFO project manager has reviewed the design and planning documentation on this project for three years. Unique requirements such as supply replenishment spaces, stacking heights, mechanical equipment, power ventilation, and controlled humidity/temperature equipment requirements are well-known. It was agreed that for all such future storage requirements the Military Departments will first seek DLA support in available facilities before a construction project is initiated by either DMFO or DLA.

As such, both DMFO and DLA agree that a reasonable approach at this late stage of project development would be for DMFO to be responsible for preparing a comprehensive EA on the Stockton project. DLA would provide input regarding available DLA-managed storage facilities and maintenance capability and review the Draft and Final EA results.

PROPOSED ACTION 1.

EA WILL BE PERFORMED BY DMFO VICE DLA. (DLA involved in review).

2

RECOMMENDATION 2A. Defer the Stockton project pending completion of the Navy's determination of DEPMEDS requirements and the DLA's EA for the project.

RESPONSE 2A. CONCUR.

DMFO concurs with respect to delaying the project pending completion of the EA and will initiate the EA as the most appropriate agency.

PROPOSED ACTION 2A.

Action complete. Project construction advertisement has already been put on hold pending the EA results.

RECOMMENDATION 2B. Revise the MILCON Program (DoDI 6015.17) to limit involvement to direct health care facilities.

RESPONSE 2B. PARTIALLY CONCUR.

As stated, the organization responsible for the medical readiness projects must be acutely aware of the medical readiness arena.

The Medical Readiness Program provides comprehensive medical support to reinforcing forces engaged in combat operations. This program is a single, integrated system that reaches from the forward areas of the combat zone in the theater of operations to the Continental United States. The assets required for the missions at each level of care in theater are extensive. Requirements range from nine types of mobile medical resources operating at the third echelon (MASH, CASH, EVAC, etc) to the fixed contingency facilities in the communication zone (4E).

For the purposes of this discussion, medical readiness requirements can be broken down into five types- 1) prepositioned war readiness materials (PWRM), 2) immediate operational readiness assets, 3) wartime readiness material storage, 4) basic storage of fleet hospitals, and 5) ward-convertible facilities.

DMRD 902 discusses the consolidation of Service depots with DLA. Depot functions are described in detail and appear to imply that basic storage of fleet hospitals (#3) fall under the domain of DLA.

DLA has indicated overseas requirements, PWRM (#1), and ward-convertible facilities (#5) are not their responsibility. PWRM require storage at the medical facility. Ward-convertible facilities require helicopter pads, pavement, oxygen generators, utility and sewage hookups that are not under the cognizance of DLA. Immediate operational readiness assets require immediate deployment with the air wing, etc.

In other words, the only area of responsibility agreed upon by all agencies was type #3.

PROPOSED ACTION 2B. DMFO remain the facilities program manager for all assets that are an integral part of a medical facility (#1 prepositioned material and #5 ward-convertible assets), and require overseas stationing. DLA become responsible for basic storage of fleet hospitals (#4). DLA and DMFO will coordinate regarding immediate operational readiness assets (#2) and wartime readiness material storage (#3).

RECOMMENDATION 3. We recommend that the Surgeon General of the Navy, in coordination with the Commander, NAVAL SUPPLY SYSTEMS COMMAND, submit DEPMEDS warehouse construction projects to the DLA for planning, programming, budgeting, and executing.

RESPONSE 3. PARTIALLY CONCUR.

DLA should become an integral part of the medical readiness program from a storage planning and execution standpoint. Future DEPMEDS storage requirements and alternatives will be fully coordinated with DLA.

PROPOSED ACTION 3. Services will continue to submit medical readiness projects to DMFO. This will allow the Services to continue to submit all facility requirements to one agency. (This is to avoid submittal confusion.) DMFO will coordinate with DLA early in the planning process concerning availability of proposed facility requirements, etc. DMFO will plan, program, budget, and execute projects that involve prepositioned war material storage, ward-convertible assets, and overseas stationing. DLA will program, budget, and execute projects that involve basic storage of fleet hospitals. DMFO and DLA will coordinate on projects involving immediate operational requirements and wartime materials storage facilities.

This will ensure the military medical readiness mission is not jeopardized and will continue to reflect the accurate and inclusive needs of the Services.

Due to force restructuring, prospects for any type of medical readiness storage project in the near future are dismal. It is believed this proposed plan is the optimum solution in the unlikely event a future occurrence may arise for such a facility.

ADDITIONAL COMMENTS

ENVIRONMENTAL CONTROLS: We strongly disagree with the statement that the DMFO did not adequately validate or revalidate the environmental control requirements as stated in the project description and justification. Our analysis indicates that the dry-bulb temperature equals or exceeds 75 degrees Fahrenheit (F) for 69 days during April to November each year. (Reference: Tri-Service Engineering Weather Data Publication P-89 dated (1 July 1978). If the storage area, as required by the Fleet Hospital Storage and Support Facilities Planning and Design Criteria for The Fleet Hospital Program, is to be maintained at 86 degrees F maximum, the ventilation air must be supplied at 76 degrees F (10 degree temperature differential). This methodology applies for pure ventilation and requires tremendous movement of filtered air. In case of air conditioning, the temperature differential is generally increased to 20 degrees to reduce in half the movement of large quantities of air which in turn reduces the operating and maintenance cost. In this project, if no environmental controls were provided, the temperature will exceed the storage requirements 69 days per year and destroy all perishable supplies that require strict environmental controls. It may be true that favorable weather conditions exist in the Bay area for DEPMEDS storage and that other warehouses may not be air conditioned. But the published data indicates that the temperature can reach as high as 109 degrees F. This means the temperature inside the warehouse can reach a minimum of 119 degrees F even if it is properly ventilated. Sound engineering practice requires that building systems be designed to meet the environmental controls required to meet mission requirements. The mission at the time was to store perishable supplies. This excessive temperature sustained for a few hours can cause havoc not only to human life but also on the contents stored therein. These requirements were thoroughly reviewed and validated by the technical experts in the DMFO, the Navy and private consultants. If the Navy changes the storage requirements we agree that the design should be reanalyzed. Also, your report should discuss whether a comparison was made to assure similar types of contents were stored in the unconditioned warehouses.

DEFENSE LOGISTICS AGENCY COMMENTS

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

IN REPLY REFER TO DLA-CI

03 DEC 1992

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Medical Facility Requirements-Stockton Fleet Hospital Prepositioning Facility, (Project No. 2LF-0029)

This is in response to your 30 September 1992 request.

1 Encl

JACQUELINE G. BRYANT
Chief, Internal Review Division
Office of Comptroller

cc:
DLA-O

TYPE OF REPORT: AUDIT DATE OF POSITION: 3 Dec 92

PURPOSE OF POSITION: INITIAL POSITION

AUDIT TITLE: Draft Report on Medical Facility Requirements-Stockton Fleet Hospital Prepositioning Facility (Project No. 2LF-0029)

RECOMMENDATION 1: Recommend that the Director, Defense Logistics Agency prepare a comprehensive economic analysis for the storage of the four Navy Deployable Medical Systems (DEPMEDS) to be warehoused on the west coast and select the most cost-effective and efficient alternative for storing the DEPMEDS. The economic analysis should include a comparison of such alternatives as use of existing facilities, use of the Sacramento Army Depot, lease of commercial facilities, construction of the planned Stockton facility and any other alternatives that might be available.

DLA COMMENTS: Partially concur. But this is not a DLA action. We agree that an economic analysis (EA) should be accomplished to determine the most cost effective and efficient alternative for storing the DEPMEDS. However, the EA is the responsibility of the requiring/sponsoring Service/activity. Either Defense Medical Facilities Office (DMFO) or the Navy should prepare the EA, with input from DLA on DoD's storage capacity and space availability. The requiring Service/activity is best suited to do the EA since DEPMEDS requirements do differ by Service. If 120,000 square feet of warehouse space is required on Rough & Ready Island, it could be made available in one or two dedicated warehouses in FY 95. In addition, to the recommended alternatives to be examined, the Navy should assess the potential for additional DoD savings through consolidation of the Service's DEPMEDS storage and maintenance programs under DLA. DLA currently provides storage and modification, assembly, disassembly and/or repair services on a reimbursable basis to Army and Navy DEPMEDs programs and Navy Mobile Medical Augmentation Readiness Team Blocks at Defense Distribution Depots Ogden, Susquehanna (Mechanicsburg facility) and/or Richmond.

Estimated Completion Date: DLA will support the DMFO EA development process and timeframe; estimated completion date will have to be established by DMFO. This is not considered a DLA material weakness.

INTERNAL MANAGEMENT CONTROL WEAKNESSES
(x) Nonconcur (Rationale must be documented and maintained with your copy of the response)
( ) Concur; however, weakness is not considered material (Rationale must be documented and maintained with your copy of the response)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: $7.1 million to $21.1 million
DLA COMMENTS: Not applicable to DLA
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: Glenn Kirby, DLA-OWS
PSE APPROVAL: James J. Grady, Jr., DLA-OD, 19 Nov 92

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TEAM MEMBERS

Shelton R. Young, Director, Logistics Support Directorate
Michael A. Joseph, Program Director
Jack L. Armstrong, Project Manager
Sanford W. Tomlin, Team Leader
Shari D. Patrick, Auditor
Helen J. Janssen, Auditor
G. Paul Johnson, Auditor

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Medical Facility Requirements-Stockton Fleet Hospital Prepositioning Facility

B. DATE Report Downloaded From the Internet: 05/15/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): **OAIG-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

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ **Preparation Date 05/15/99**

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.