

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

REPLACEMENT COMMISSARY CONSTRUCTION
PROJECT FOR THE NAVAL AIR STATION
PENSACOLA, FLORIDA

Report No. 94-197

September 29, 1994

Department of Defense

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Acronyms

DeCA
NAS

Defense Commissary Agency
Naval Air Station



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

September 29, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

**SUBJECT: Report on the Replacement Commissary Construction Project for
the Naval Air Station Pensacola, Florida (Report No. 94-197)**

We are providing this final report for your review and comments. The report discusses the need for building an \$11.8 million replacement commissary for the Naval Air Station Pensacola, Florida. The Defense Commissary Agency's comments on the draft report were considered in preparing the final report.

The Defense Commissary Agency comments were responsive to the intent of our recommendations and indicated that an additional analysis of the sales and personnel authorizations and an economic analysis of the planned construction project will be completed before final decisions are made. Based on the management comments and information received after the draft report was issued, we revised the report finding to reflect updated personnel strength projections and resultant increased sales for the replacement commissary project. DoD Directive 7650.3 requires that all recommendations and potential monetary benefits be promptly resolved. Therefore, we request that you provide the results of the analysis and additional comments on the potential monetary benefits by December 15, 1994. We also request that the Defense Commissary Agency defer contractual action pending our review of the the validation of the active duty and transient student personnel and of the economic analysis.

The courtesies and cooperation extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Robert J. Ryan, Audit Program Director, at (703) 604-9418 (DSN 664-9418), or Mr. Timothy J. Tonkovic, Audit Project Manager, at (804) 766-3319. Copies of this final report will be distributed to the activities in Appendix E. The list of audit team members is on the inside back cover of this report.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-197
(Project No. 3LA-0069.04)

September 29, 1994

REPLACEMENT COMMISSARY CONSTRUCTION PROJECT FOR THE NAVAL AIR STATION PENSACOLA, FLORIDA

EXECUTIVE SUMMARY

Introduction. We reviewed the planned FY 1994 construction of an \$11.8 million (80,000-square foot) commissary for the Naval Air Station Pensacola, Florida, that is slated to replace the 44,100-square foot commissary built in 1982. The proposed commissary is sized to accommodate Naval Air Station Pensacola patron sales and active duty patron sales expected to migrate from Naval Air Station Memphis, Tennessee. The 1993 Commission on Defense Base Closure and Realignment recommended the Naval Air Station Memphis, for realignment.

Objective. The overall objective of the audit was to determine whether new construction of DoD commissaries was justified and cost-effective. This quick-reaction report discusses the requirement for the replacement facility for Naval Air Station Pensacola.

Audit Results. DeCA planned to construct a replacement commissary for the Naval Air Station Pensacola that exceeded customer requirements. As a result, up to \$3.5 million may be spent unnecessarily if DeCA proceeds with the project.

Internal Controls. We did not include a review of internal controls as related to the objective because of the time sensitivity of the data reviewed. Internal controls 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. The exact amount of monetary benefits will be determined when DeCA validates the need for the project based on up-to-date personnel authorizations and sales projections; and when DeCA completes a comprehensive engineering evaluation and economic analysis that fully consider alternatives to new construction. Appendix C summarizes the potential benefits resulting from the audit.

Summary of Recommendations. We recommend that DeCA place the replacement commissary project on hold; base the size of the commissary renovation project on accurate and up-to-date sales projections and future personnel authorizations; and evaluate renovation of the existing Naval Air Station Pensacola commissary as an alternative to new construction.

Management Comments. DeCA concurred with the recommendation to place the Naval Air Station Pensacola replacement commissary project on hold until requirements have been fully determined and validated. DeCA stated that the Naval Air Station Pensacola replacement commissary project has been on hold since July 1993, pending resolution of issues related to the 1993 Commission on Defense Base Closure and Realignment decisions. DeCA nonconcurred with the recommendation to base the size of the commissary renovation project on accurate and up-to-date sales projections and future personnel authorizations. DeCA stated that without the benefit of an economic analysis, renovation may not be the only alternative to new construction. DeCA also

stated that sales projections and personnel authorizations have been updated four times and that another validation will be accomplished by October 1, 1994. DeCA concurred with the recommendation to complete an economic analysis after the requirements are validated and the proper size of the replacement commissary project has been determined. A discussion of DeCA's comments is in Part II, and the complete text of the comments is in Part IV.

Audit Response. We revised the finding based on management's comments and additional information received after the draft report was issued. We updated the projected authorized personnel strength at Naval Air Station Pensacola and the commissary sales that are projected to result from the personnel increase. We consider DeCA's plan to defer the construction project at Naval Air Station Pensacola and to conduct an economic analysis to be responsive to the recommendations. Although DeCA nonconcurred with the recommendation to base the size of a commissary renovation project on accurate and up-to-date sales projections and personnel authorizations, its planned actions to validate sales projections and personnel authorizations and complete the economic analysis, meet the intent of the recommendation. We request that DeCA provide the results of the analysis and comments on the potential monetary benefits by December 15, 1994. We also request that DeCA defer any contractual actions pending our review of its validation of active duty staff and transient student personnel and of the economic analysis.

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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

Introduction

Background

The Defense Commissary Agency (DeCA) plans to build a new \$11.8 million (80,000-square foot) commissary for the Naval Air Station (NAS) Pensacola, Florida, to replace a 44,100-square foot commissary built in 1982. The proposed replacement commissary will serve patrons from NAS Pensacola, the Naval Technical Training Center, Corry Station, and Saufley Field (an auxiliary landing field located 12 miles from NAS Pensacola). DeCA based the size of the commissary project on additional commissary capacity deemed necessary to accommodate personnel from NAS Memphis and NAS San Diego, that were recommended for realignment by the 1993 Commission on Defense Base Closure and Realignment.

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. FY 1993 sales at the NAS Pensacola commissary averaged \$1.98 million per month, as adjusted to 1982 dollars. DeCA projects that sales of \$3 million per month, as adjusted to 1982 dollars, will result when personnel from NAS Memphis and NAS San Diego are transferred to NAS Pensacola.

Commissary construction and renovation costs are paid from the commissary surcharge collection fund, a revolving fund that DeCA maintains through funds received by charging commissary patrons a 5-percent surcharge on their purchases. Personnel costs for commissary stores staffing are paid from appropriated Operations and Maintenance funds. In July 1993, the Morale, Welfare and Recreation Panel of the House Committee on Armed Services approved DeCA's FY 1994 construction program, which included an addition and alteration to the existing NAS Pensacola commissary. In June 1994, the Senate Committee on Armed Services and the Morale, Welfare and Recreation Panel of the House Committee on Armed Services approved expenditure of \$11.8 million for an addition and alteration at Pensacola. The construction program did not identify the Pensacola project as a replacement commissary project.

Objective

The overall objective of the audit was to determine whether new construction of DoD commissaries was justified and cost-effective. This report discusses the requirement for a replacement commissary for NAS Pensacola, Florida.

Scope and Methodology

The audit focused on the proposed FY 1994 construction of an 80,000-square foot commissary for NAS Pensacola. The project was selected for audit because it had the second highest dollar value in the FY 1994 DeCA construction program. We visited DeCA Headquarters at Fort Lee, Virginia; commissaries at NAS Pensacola, NAS Whiting Field, Eglin Air Force Base and Hurlburt Field; and other DeCA offices responsible for the construction approval and execution process. At those locations, we obtained actual and projected sales information; records on commissary maintenance, repair, and utility costs; commissary inspection reports; proposed site plans; and other information for the replacement commissary project. We also contacted various Navy and Marine Corps offices responsible for actual and planned active duty personnel authorizations for the NAS Pensacola area. We did not use computer-processed data or statistical sampling procedures to conduct this audit.

This economy and efficiency audit was made from February through May 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 and related internal controls.

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 D lists the organizations visited or contacted during the audit.

Prior Audits and Other Reviews

The Inspector General, DoD, has issued three reports concerning the validity of data used to justify replacement commissary projects.

Inspector General, DoD, Report No. 94-172, "Quick-Reaction Report on the Replacement Commissary Construction Project at Fort Bragg, North Carolina," August 1, 1994, showed that DeCA planned to construct a 100,000-square foot replacement commissary at Fort Bragg that was not required to satisfy customer requirements. The proposed 100,000-square foot commissary would replace the Mallonee Village commissary and supplement the existing 91,000-square foot Fort Bragg main commissary. The report recommended that DeCA place the replacement commissary construction project on hold until requirements have been fully determined and validated. The report also recommended that DeCA evaluate consolidation of the Mallonee Village facility with the Fort Bragg main commissary, to include renovation as an alternative to new construction, and that the evaluation include completion of an economic analysis and an up-to-date market research and analysis and patron survey. We also recommended that DeCA base the size of any commissary project on reasonable and up-to-date

Introduction

sales projections. The Director, DeCA agreed to defer the new commissary project pending a review of sales and demographic projections. The Director also stated that an economic analysis, to include expansion of the existing main commissary and an on-site engineer evaluation of the main commissary, would be conducted.

Inspector General, DoD, Report No. 94-100, "Quick-Reaction Report on the Commissary Construction Project at the Fitzsimons Army Medical Center, Denver, Colorado," May 16, 1994, showed that DeCA planned to construct an \$11.3 million (80,000-square foot) replacement commissary at the medical center, that exceeded customer requirements. The report recommended that DeCA defer the replacement commissary construction project until decisions on the replacement hospital construction project 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 that an economic analysis be completed. DeCA agreed to downsize the replacement commissary project to 70,000 square feet. DeCA did not concur with deferring the project. DeCA stated that extensive coordination had been conducted with the Department of the Army, DoD, congressional offices, and the Fitzsimons Army Medical Center to ensure that the hospital was a viable installation for long-term retention.

In February 1994, DoD notified Congress of its decision to downsize the replacement hospital. On June 14, 1994, the Senate Armed Services Committee recommended a provision in the National Defense Authorization Act for FY 1995 that would terminate the construction authorization for the replacement hospital. On July 11, 1994, the Senate Committee on Appropriations recommended that \$31.5 million in design and site preparation funds for the replacement hospital be rescinded from the FY 1995 Military Construction appropriation bill.

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. Further, he has established a construction review committee within the Military Departments to validate each construction project.

Part II - Finding and Recommendations

Construction of a Replacement Commissary

DeCA planned to construct a replacement commissary for the Naval Air Station Pensacola that exceeded customer requirements. The condition occurred because DeCA did not have up-to-date information on planned DoD personnel increases and decreases; DeCA based the size of the replacement commissary on sales projections that will not materialize; and DeCA did not sufficiently consider renovation of the existing commissary as an alternative to new construction. As a result, as much as \$3.5 million could be spent unnecessarily if DeCA proceeds with the proposed construction project.

Background

In 1993, DeCA programmed a new 80,000-square foot commissary for NAS Pensacola to replace the existing 44,100-square foot facility built in 1982. DeCA project documentation for the \$11.8 million project stated that a larger commissary was needed to replace the inadequate existing facility and to provide additional sales area for future personnel increases.

Since 1991, DeCA has opened two new commissaries within 40 miles of the existing NAS Pensacola commissary. The commissaries are shown in Table 1.

Table 1. New Commissaries Within 40 Miles of the NAS Pensacola Commissary

<u>Installation</u>	<u>Distance to NAS Pensacola</u>	<u>Sales Area (square feet)</u>	<u>Year Opened</u>
Hurlburt Field	33 miles	29,100	1991
Whiting Field	38 miles	10,815	1992

Construction Plans. DeCA Project SO93MP03 for a new 80,000-square foot facility includes 47,500 square feet of sales area, which will more than double the existing 21,000-square foot sales area. The new commissary includes an administrative area; produce, meat, and dairy departments; a delicatessen, bakery, and frozen food area; and other operational support, staging, and receiving areas. The project also includes a refrigeration support system; contractor-furnished and -installed equipment; 452 patron and employee parking spaces; and paved access roads. The sites of the existing commissary and the proposed commissary, located on opposite sides of the Navy Exchange, are shown in Figure 1.

Construction of a Replacement Commissary

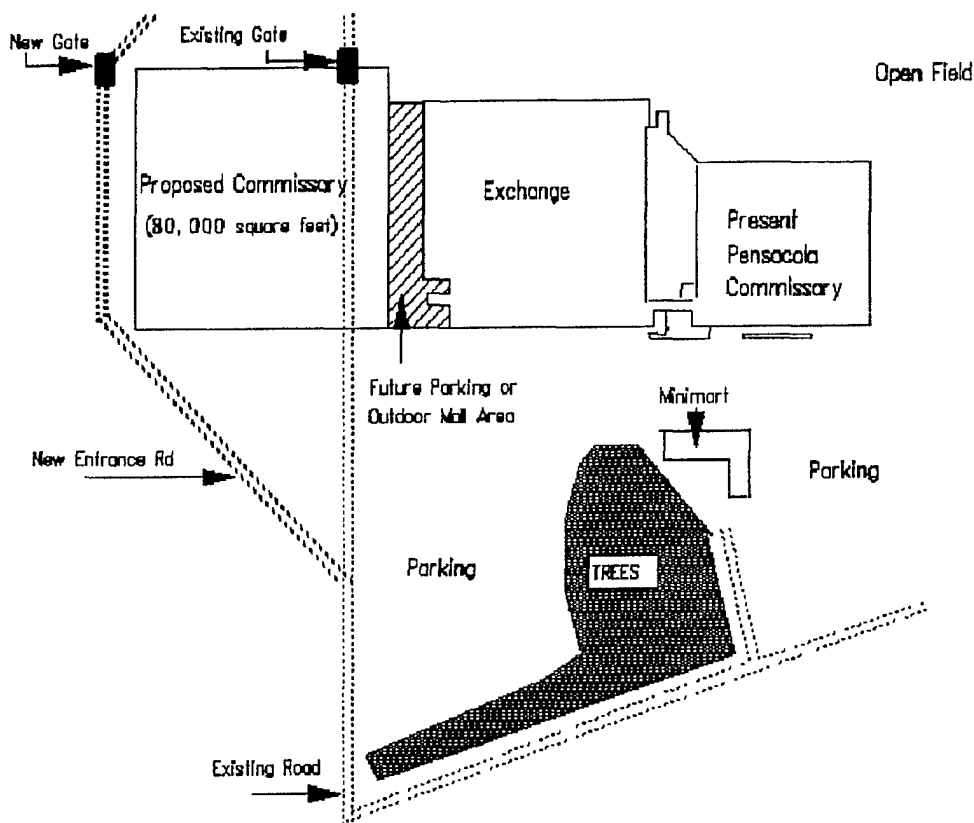


Figure 1. Site Plan Showing DeCA Proposed Commissary and Present Commissary

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.

DeCA bases commissary sizing requirements on average monthly sales projections, corrected for inflation to a 1982 base year. Projected average monthly sales are compared to 1 of 10 standard commissary definitive floor plans to determine authorized square footages. The 10 standard commissary floor plans are based on average monthly sales, as adjusted to 1982 dollars, and a 45-hour operating week. The 10 plans, with the required range of average monthly sales, are shown in Table 2.

Construction of a Replacement Commissary

Table 2. DeCA Standard Commissary Plans

<u>Average Monthly Sales</u>	<u>Sales Area</u> (square feet)	<u>Nominal Design Range Size</u> (square feet)
\$ 4,050,000 - \$ 5,000,000	58,586	100,000
3,300,000 - 4,000,000	52,939	90,000
2,550,000 - 3,250,000	47,449	80,000
2,050,000 - 2,500,000	40,153	70,000
1,550,000 - 2,000,000	33,541	60,000
1,050,000 - 1,500,000	28,113	50,000
550,000 - 1,000,000	23,226	40,000
350,000 - 500,000	16,877	30,000
150,000 - 300,000	11,112	20,000
50,000 - 150,000	6,004	12,000

Planned Personnel Authorizations

DeCA planned to construct a replacement commissary for NAS Pensacola that exceeded customer requirements, in part, because DeCA did not have information on current and future Navy personnel increases and decreases in the NAS Pensacola area. DeCA project documentation stated that the existing commissary was inadequate because NAS Pensacola was scheduled for a population increase of 7,463 active duty and transient student personnel as a result of the 1993 Commission on Defense Base Closure and Realignment decisions.

In May 1994, we obtained Navy ship-based and shore-based personnel authorizations for NAS Pensacola from the Bureau of Naval Personnel. The authorizations included about 1,000 staff personnel and about 2,000 students for training who are projected to move from NAS Memphis to NAS Pensacola.

In September 1994, we obtained updated manpower planning information from the Navy and Marine Corps. About 530 Marine Corps full-time staff personnel and about 1,500 training positions for Marine Corps students are projected to transfer from NAS Memphis. Additionally, about 40 full-time staff personnel and about 290 training positions for students are projected to transfer from NAS San Diego to NAS Pensacola. The cumulative effect of the full-time staff and student personnel increases between FY 1993 and FY 1997 is shown in Figure 2.

Personnel

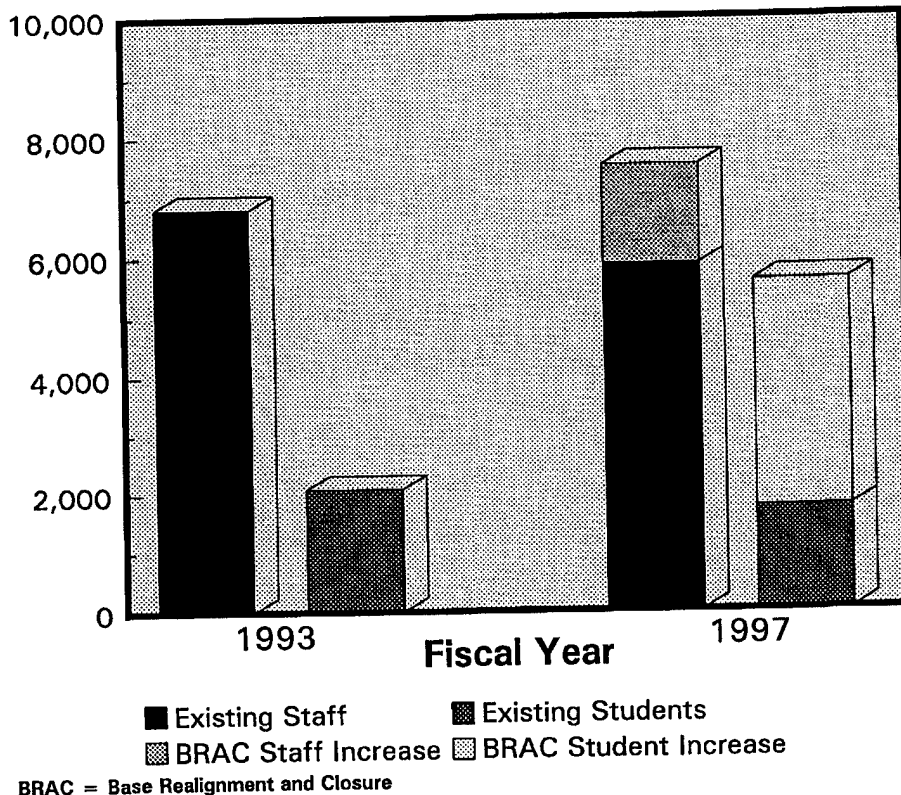


Figure 2. Comparison of FY 1993 and FY 1997 Active Duty and Transient Student Personnel Authorizations

Sales Projections

DeCA based the size of the 80,000-square-foot replacement commissary on sales projections that will not materialize. According to DeCA design criteria, average monthly sales should range from \$2.6 million to \$3.3 million, in 1982 dollars, to justify an 80,000-square foot replacement commissary.

Sales projections were based on sales to active duty personnel, retirees, dependents, as well as other authorized users. DeCA sales projections used to support the project included sales from the existing NAS Pensacola commissary; sales expected from the realignment of personnel from NAS Memphis and NAS San Diego, to NAS Pensacola; and sales to transient students.

Construction of a Replacement Commissary

DeCA's Commissary Sales Projection. In December 1993, DeCA projected that sales would increase 1.93 percent annually from FY 1994 through FY 1997. DeCA determined the increase by averaging the percentage change in average monthly sales for FYs 1984 through 1993. DeCA also projected a onetime sales increase of 12 percent for FY 1995, when the new store opens. Details of DeCA's actual and projected average monthly sales are in Table 3.

Table 3. NAS Pensacola Actual and Projected Average Monthly Commissary Sales

<u>Fiscal Year</u>	<u>Actual Average Monthly Sales</u> (in 1982 dollars)	<u>Projected Average Monthly Sales</u> (in 1982 dollars)	<u>Percent Change</u>
1984	\$1,695,700		
1985	1,675,400		-1.20
1986	1,624,792		-3.02
1987	1,799,141		10.73
1988	1,864,080		3.61
1989	1,916,460		2.81
1990	1,978,845		3.26
1991	2,081,400		5.18
1992	1,985,734		-4.60
1993	1,997,592		.60
1994		2,036,145	1.93
1995		2,282,987	12.12
1996		2,327,049	1.93
1997		2,371,961	1.93

The NAS Pensacola commissary experienced a 10.73-percent increase in average monthly sales from FY 1986 to FY 1987. The increase in sales was attributed to a 2-day increase in commissary operations, from 5 days to 7 days a week. The 10.73-percent increase in sales was responsible for the average percentage change in sales increase of 1.93 percent for the last 10 fiscal years. If the 10.73-percent 1-year increase in sales had not been included, the average percentage change in sales would be less than 1 percent.

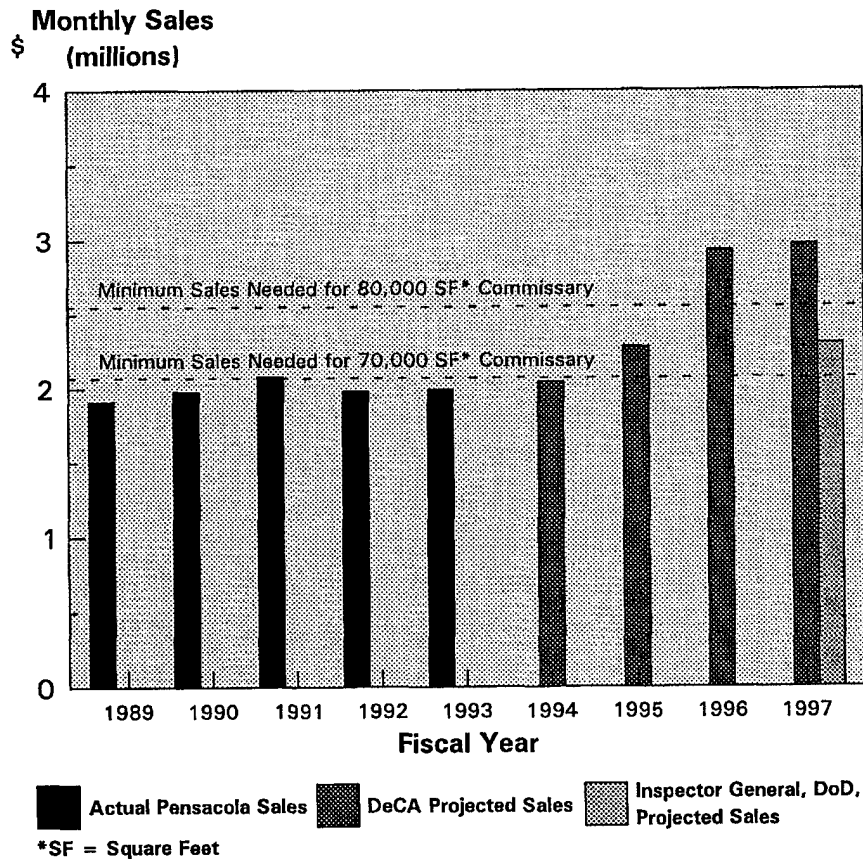
In addition to the \$2.4 million in projected FY 1997 average monthly sales, DeCA stated that future active duty staff and student personnel increases would generate an additional \$602,000 in average monthly sales, as adjusted to 1982 dollars. According to DeCA's sizing criteria, the combined projected sales of \$3 million justify an 80,000-square foot commissary.

DeCA's projected average monthly sales of \$3 million per month at NAS Pensacola will probably not materialize based on the last 10 years of sales data. Using corrected FY 1993 sales of \$1.98 million as a base year, we

Construction of a Replacement Commissary

computed our own sales projections for FY 1997. Our FY 1997 sales projection of \$2.3 million is based on projected patron sales of about \$2.1 million per month and transient student sales of about \$170,000 per month, in 1982 dollars. Appendix A shows that once active duty staff and transient student personnel transfers are effective, average monthly sales will be about \$2.3 million.

Figure 3. shows the historical relationship between FYs 1989 through 1993 NAS Pensacola sales increases and decreases, as adjusted to 1982 dollars, and DeCA projected sales for FYs 1994 through 1997, which it used to justify the project. The figure also shows sales projections of \$2.3 million for FY 1997 that we project will result from active duty staff and transient student personnel increases. FY 1997 projected average monthly sales of \$2.3 million justify a 70,000-square foot commissary.



**Figure 3. NAS Pensacola FYs 1989 through 1997
Actual and Projected Average Monthly Sales Compared to DeCA
Commissary Sizing Criteria**

Alternatives to New Construction

DeCA did not sufficiently consider renovation of the existing commissary as an alternative to new construction. DeCA can minimize its construction costs for the NAS Pensacola commissary by building an addition and continuing to use the existing facility.

Economic Analysis. DeCA completed a cost estimate that compared the cost of a 32,800-square foot addition with the cost for new construction. However, the cost estimate did not conform to the requirements of DoD Instruction 7041.3; therefore, a comparison of the costs for all alternatives with the costs for new construction was not available. For every commissary construction project, various alternatives to new construction, such as maintaining the status quo or leasing, may exist. Without considering those alternatives, a complete analysis of all alternatives and resources required to achieve DeCA's objectives could not be made.

Support Documentation for the Economic Analysis. A comprehensive economic analysis should include an on-site inspection of existing facilities that identifies required repairs. DeCA personnel did not have documentation, such as engineering evaluations or inspection reports, of the NAS Pensacola commissary. As a result, a detailed and documented comparison of the costs for additions to the existing facility with costs for new construction were not available.

Addition to Existing Commissary. In January 1993, DeCA personnel prepared a cost estimate for a 32,800-square foot addition and alteration to the existing NAS Pensacola commissary. Because the estimate was about \$9 million, or 78 percent of the cost of new construction, DeCA did not consider it a viable alternative.

DeCA can save commissary surcharge collection funds by continuing to use the existing 12-year-old commissary and by building a 25,900-square foot addition to the existing commissary. Using DeCA's January 1993 renovation costs (per square foot), we estimated that a 25,900-square foot addition, including new equipment, would cost about \$8.3 million. Appendix B compares new construction costs to costs for constructing a 25,900-square foot addition to the existing commissary. Our proposed alternative, shown in Figure 4, results in the renovation option being 70 percent of the total cost of new commissary construction as proposed by DeCA.

Construction of a Replacement Commissary

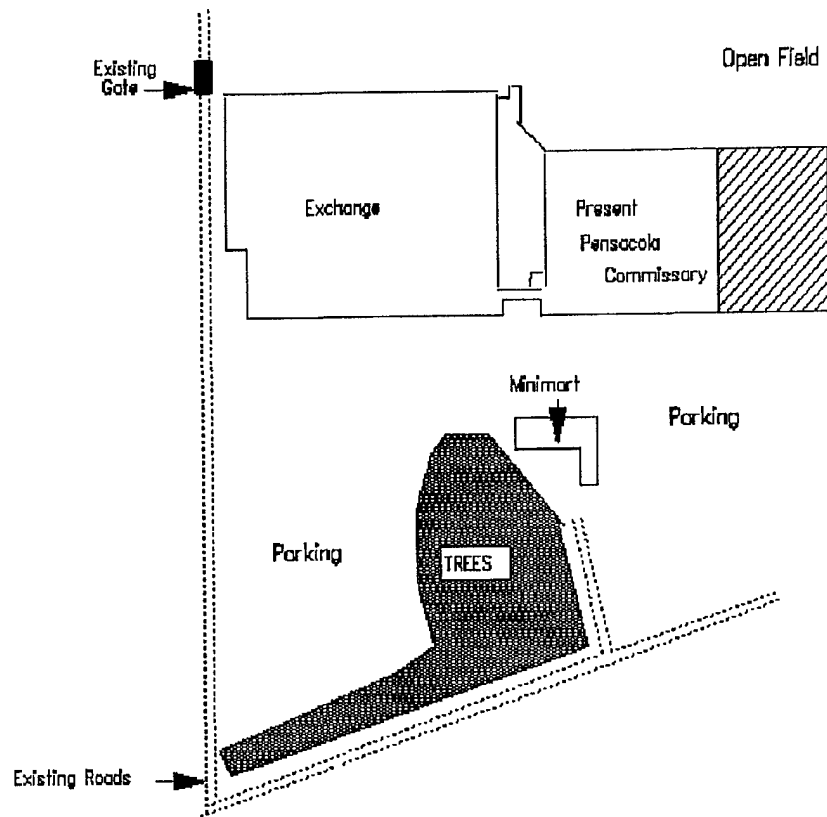


Figure 4. Present NAS Pensacola Commissary With Audit Proposed Addition

Conclusion

We recognize that the NAS Pensacola commissary may need to be renovated, but we do not believe that construction of a new 80,000-square foot commissary is justified. The documentation that DeCA provided does not fully support replacement of the existing commissary.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Commissary Agency, place the Naval Air Station Pensacola replacement commissary construction project on hold until requirements have been fully determined and validated.

Management Comments. DeCA concurred with the recommendation and stated that DeCA will not proceed with the project until issues related to the 1993 Commission on Defense Base Closure and Realignment decisions are resolved and requirements are validated.

2. We recommend that the Director, Defense Commissary Agency, base the size of a commissary renovation project on accurate and up-to-date sales projections and future personnel authorizations.

Management Comments. DeCA nonconcurred with the recommendation. DeCA did not agree that renovation is the only alternative to new construction without the benefit of an economic analysis. DeCA also stated that it has reviewed and updated assigned personnel numbers four times since the project was initiated and that the numbers have been reviewed and concurred with by the Navy Base Closure and Realignment Office and the Chief of Naval Operations.

Audit Response. Although DeCA nonconcurred with the recommendation, its actions to place the project on hold, revalidate sales and assigned personnel numbers, and complete an economic analysis are considered responsive and satisfy the intent of the recommendation. DeCA plans to validate the assigned personnel numbers by October 1, 1994. Upon completion of that validation, we request that DeCA provide us the results of the analysis for our review. No additional comments are required for this recommendation.

3. We recommend that the Director, Defense Commissary Agency, evaluate renovation of the Naval Air Station Pensacola commissary as an alternative to new construction. As part of the evaluation, complete an economic analysis that includes an engineering evaluation and inspection of the existing Naval Air Station Pensacola commissary to support renovation or new construction.

Management Comments. DeCA concurred with the recommendation and stated that when the project sizing has been revalidated, an economic analysis will be completed by November 30, 1994.

Part III - Additional Information

Appendix A. FY 1997 Projected Sales at NAS Pensacola Commissary After Base Realignment and Closure Personnel Increases

Average FY 1993 Monthly Sales (in 1982 Dollars)	\$1,984,138
Increase in Active Duty Staff - 713 Personnel	
o 392 married personnel spending an average of \$305 per month	119,560
o 321 single personnel spending an average of \$38 per month	12,198
Increase in Active Duty Students - 3,504 Personnel	
o 350 married personnel spending an average of \$305 per month	106,750
o 3,154 single personnel spending an average of \$20 per month	<u>63,080</u>
Projected FY 1997 NAS Pensacola Commissary Average Monthly Sales	<u>\$2,285,726</u>

Appendix B. Comparison of Costs for New Construction With Costs for Renovation

<u>Item</u>	<u>New Construction Cost</u> <u>(80,000-Square Feet)</u> (000)	<u>Renovation Cost</u> <u>(70,000-Square Feet)</u> (000)
<u>New Commissary</u>		
Primary facility	\$6,850	
Support	<u>1,371</u> ¹	
Subtotal	8,221	
<u>Renovation of Existing Commissary</u>		
Addition		\$2,849
Sales area conversion		450
Renovate support area		200
Renovate sales area		615
Renovate exit/entrance		36
Relocate mechanical room		150
Upgrade decor		88
New heating and air conditioning system		245
Demolition		100
Electrical		150
Miscellaneous		<u>60</u>
Subtotal		4,943
<u>Budget contingency</u>	<u>411</u>	<u>494</u>
Subtotal	8,632	5,437
<u>Supervision and Administration</u>	<u>259</u>	<u>163</u>
Subtotal	8,891	5,600
Installed Equipment	2,400	2,400 ²
Design Fees	<u>494</u>	<u>297</u>
Total	<u>\$11,785</u> ³	<u>\$8,297</u>
Estimated Cost Differential		<u>\$3,488</u> ⁴

¹Includes electric, water, sewer and gas service; paving; site improvements and monitoring system.

²Equipment costs are for an 80,000-square-foot commissary. Actual equipment costs should be less.

³Programmed amount is \$11.8 million.

⁴Actual savings will be determined after completion of the engineering evaluation and economic analysis.

Appendix C. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and Efficiency. Defers commissary construction until requirements have been determined.	Nonmonetary.
2.	Economy and Efficiency. Determines valid requirements.	Nonmonetary.
3.	Economy and Efficiency. Requires completion of an engineering evaluation and economic analysis to evaluate alternatives to new construction, to consider use of existing facilities, and to determine required renovation costs.	Funds put to better use. As much as \$3.5 million in Commissary Surcharge Collection Funds (97X8164.6400) not required. The exact amount is undeterminable pending revalidation of project requirements and consideration of offset costs for renovation of the existing commissary.

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Personnel and Readiness, Washington, DC
Defense Manpower Data Center, Arlington, VA and Monterey, CA

Department of the Navy

Bureau of Naval Personnel, Washington, DC
Chief of Naval Education and Training, Pensacola, FL
Naval Technical Training Center, Corry Station, Pensacola, FL
Naval Air Station Pensacola, FL
Headquarters, Marine Corps, Washington, DC

Defense Organizations

Defense Commissary Agency, Headquarters, Fort Lee, VA
Design and Construction Division, Lackland Air Force Base, Texas
East Service Center, Ft Lee, VA
Southern Region, Maxwell Air Force Base, AL
Commissary Resale Store, Eglin Air Force Base, FL
Commissary Resale Store, Hurlburt Field, FL
Commissary Resale Store, Naval Air Station Pensacola, FL
Commissary Resale Store, Naval Air Station Whiting Field, FL

Appendix E. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Department of the Navy
Comptroller of the Navy
Commander, Naval Facilities Engineering Command

Department of the Air Force

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Defense Organizations

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

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

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

Senate Subcommittee on Military Construction, Committee on Appropriations

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Subcommittee on Military Construction, 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

House Subcommittee on Military Installations and Facilities, Committee on
Armed Services

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Part IV - Management Comments

Defense Commissary Agency Comments



REPLY TO
ATTENTION OF

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
FORT LEE, VIRGINIA 23801-6300

AUG 23 1994

IR

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

SUBJECT: Quick-Reaction Report on the Replacement Commissary
Construction Project for the Naval Air Station
Pensacola, Florida (Project No. 3LA-0069.04)

Reference: DoDIG Memorandum, dtd August 3, 1994, SAB.

Attached is the DeCA reply to the recommendations provided in
subject report. At this time, we cannot comment on monetary
benefits from your report until a final decision is made after our
evaluation of the construction project. If you have any questions,
please contact Mr. Ben Mikell at (804) 734-8103.

A handwritten signature in black ink, appearing to read "R. McCoy", is written over a horizontal line.

RONALD P. McCOY
Colonel, USAF
Chief of Staff

Attachments:
As Stated

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Quick-Reaction Report on the Replacement Commissary Construction Project for the Naval Air Station Pensacola, Florida (Project No. 3LA-0069.04)

Recommendation 1. Place the Naval Air Station Pensacola replacement commissary project on hold until requirements have been fully determined and validated.

Action Taken. Concur. Execution of the project has been on hold since July, 1993 pending resolution of issues related to BRAC. DeCA will not proceed with project execution until the issues are satisfactorily resolved and requirements are validated.

Recommendation 2. Base the size of a commissary renovation project on accurate and up-to-date sales projections and future personnel authorizations.

Action Taken. Nonconcur. By the wording of your recommendation you have evidently concluded that renovation is the only solution. We do not concur without the benefit of an economic analysis. Regarding sales and BRAC realignments, since this project was initiated, we have reviewed and updated the figures 4 times. The latest set of BRAC figures were provided in July, 1994 from CNET. They were reviewed and concurred with by the Navy BRAC office (N44) and Naval Operations (N41). These numbers are significantly different from those included in the report and we are attempting to validate them. This will be accomplished by October 1, 1994.

Recommendation 3. Evaluate renovation of the Naval Air Station Pensacola Commissary as an alternative to new construction. As a part of the evaluation, complete an economic analysis that includes an engineering evaluation and inspection of the existing Naval Air Station Pensacola Commissary to support renovation or new construction.

Action Taken. Concur. As with all our projects, an evaluation was made in the early stages of this one to determine the desirability, feasibility and economics of expansion/upgrade versus new construction. Once we have revalidated the project sizing we will conduct an economic analysis and determine the appropriate course as discussed above. This will be accomplished by November 30, 1994.

Audit Team Members

Shelton R. Young
Robert J. Ryan
Timothy J. Tonkovic
Suzanne M. Hutcherson
Shari D. Patrick
Elmer J. Smith

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Replacement Commissary Construction Project for the Naval Air Station Pensacola, Florida

B. DATE Report Downloaded From the Internet: 03/15/99

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 03/15/99

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