

GAO

Briefing Report to the Honorable
Frank H. Murkowski,
United States Senate

May 1987

MILITARY CONSTRUCTION

The Letterkenny Army Depot Retrieval System



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National Security and
International Affairs Division

B-226488

May 21, 1987

The Honorable Frank H. Murkowski
United States Senate

Dear Senator Murkowski:

This report responds to your July 14, 1986, letter regarding the U.S. Army's funding and acquisition of an Automated Storage and Retrieval System at the Letterkenny Army Depot, Chambersburg, Pennsylvania. We examined the Letterkenny material handling modernization project to determine if it was properly classified by the Army for funding as equipment rather than as a construction project which would have required congressional approval.

Specifically, you asked us to review certain allegations presented to you in two letters from a constituent. His concerns centered around the legality of an Army contract to build and install an automated material handling facility adjacent and attached to the Letterkenny Missile and Electronics Division building. He noted that a \$9.1 million Automated Storage and Retrieval System project is housed in a 40,000 square foot building for which less than \$200,000 in military construction funds were spent. Your constituent provided several examples of items that he believes should have been classified and funded as military construction.

BACKGROUND

The Letterkenny Automated Storage and Retrieval System facility comprises about 40,000 square feet of floor space. A rack-supported structure (with protective skin) accounts for about 6,200 square feet, or approximately 15 percent of the facility. Normal military construction comprises about 85 percent of the facility, or 33,800 square feet of floor space. Most of the building is independent of the material handling and storage system and would remain standing without that system.

The total Letterkenny project--both equipment and facility--costs about \$9.1 million. Of that total, about \$8.9 million came from the Army Industrial Fund's Asset Capitalization

Program (the Depot Systems Command's equivalent of equipment procurement funds), and about \$140,000 came from Real Property Maintenance Appropriation funds. The Army estimated that the structure in question cost about \$1.8 million but that only about \$130,000 was properly funded as military construction.

FUNDING AND ACQUISITION
CLASSIFICATION OF
LETTERKENNY SYSTEM INCORRECT

The Army incorrectly classified and funded the \$1.8 million Letterkenny Automated Storage and Retrieval System building as equipment rather than as a military construction project. This use of equipment funds circumvents established legislative review and approval procedures for military construction. In addition, the incorrect classification and funding of military construction violates the funding purposes restriction applicable to appropriated funds and the Antideficiency Act.

The Department of Defense (DOD) defines military construction as "the erection, installation, or assembly of a new facility; the addition, expansion, extension, alteration, conversion, or replacement of an existing facility. Includes equipment installed and made a part of such facilities, and related site preparation, excavation, filling and landscaping, or other land improvements." A facility is defined as a "separate individual building, structure, or other real property improvement." The Letterkenny facility, a new, individual building attached to an existing building, was funded primarily as an equipment purchase although it meets these basic military construction definitions.

During the Letterkenny project's conceptual phase in 1981, the Army classified the facility as equipment because it was designed to consist mainly of unique, high-rise storage racks to which a protective weatherproof skin was attached. The Army determined that DOD definitions of construction did not apply to the Letterkenny facility since the exterior skin--the walls and roof--could not stand alone (without the erected storage racks) and did not form a separate building usable for other purposes. Since the planned building could only be used for housing this particular material handling system, the Army considered the storage racks' attached weatherproof skin an integral part of the system's equipment.

By 1984, however, when the system's performance specifications were finalized, the Letterkenny facility consisted of nearly all conventional construction; it was an individual building

that could be used for other purposes. At this design stage, high-rise storage racks (with protective skin) comprised only a small part of the facility. Despite this change from the conceptual plan, the Army acquired the majority of the Letterkenny facility as an equipment procurement.

The Federal law addresses two important appropriations concerns: the application of appropriations and the limitations on their expenditure and obligation. Specifically, 31 U.S.C. 1301 (a) states that

"Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law."

Since the Army incorrectly classified and funded the Letterkenny Automated Storage and Retrieval System building as an equipment acquisition rather than a military construction project, it spent Army Industrial Fund (AIF) funds that were not available for this purpose. The construction costs that were improperly charged to AIF funds violated the funding purposes restriction of 31 U.S.C. 1301 (a).

31 U.S.C. 1341 (a), the Antideficiency Act, states in part:

"(1) An officer or employee of the United States Government . . . may not . . . make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation."

Military construction funds were not appropriated to be used to build the Letterkenny Automated Storage and Retrieval System building. Therefore, the improperly charged funds violated the Antideficiency Act.

Army informs the Congress
about Letterkenny material
handing modernization

During March 1986, a Deputy Assistant Secretary of the Army notified the Congress by letter that

"the Army Materiel Command is procuring automated storage and retrieval systems [including the Letterkenny project], that in the final form, resemble a building. These systems include high density storage racks . . . and, when required, a weather-proof exterior skin."

In April 1986, the Army provided the House Committee on Armed Services with a special congressional briefing that described the Letterkenny facility as a unique, high-rise, rack-supported structure (with undefined related processing areas) being procured as equipment. Contrary to both the Army's letter and briefing, the construction at Letterkenny was primarily for a conventional building that met DOD and Army criteria for construction projects.

CURRENT STATUS OF
DEPOT MODERNIZATION

The Letterkenny project is 1 of 11 projects scheduled at eight locations under the Depot Systems Command's material handling and storage modernization program. While the Letterkenny project is complete and awaiting acceptance, the Depot Systems Command has delayed similar depot modernization programs at two locations, in order to conduct an investigation into the Letterkenny facility. Begun as a result of a command internal review during the summer of 1986, this ongoing investigation concerns the project's acquisition and funding. The Army plans to use the results of this investigation to help determine future funding classifications for material handling and storage systems.

CONCLUSIONS

The Letterkenny Automated Storage and Retrieval System was installed within a building specifically constructed to contain it and, therefore, the facility should have been classified as a military construction project, not as an equipment acquisition. The Army's expenses in completing the Letterkenny project should have been charged to appropriations available for military construction and not to AIF funds. By improperly charging construction costs to AIF funds, the Army has violated the funding purposes restriction of 31 U.S.C. 1301 (a). Because the Army expenditures should have been from military construction monies and such monies had not been appropriated, it has violated the Antideficiency Act.

RECOMMENDATION

We recommend that the Secretary of the Army take the administrative actions necessary to report the Army's violation of the Antideficiency Act, 31 U.S.C. 1341 (a).

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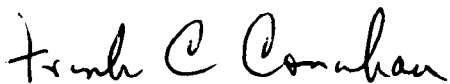
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We performed our work from October to December 1986 in accordance with generally accepted government auditing standards.

We discussed the contents of this briefing report with officials of the Departments of Defense and the Army. Their comments were incorporated where appropriate. As requested, we did not obtain official agency comments.

We are sending copies of this report to the Secretaries of Defense and the Army and other interested parties. Should you need additional information or have questions, please contact Thomas J. Brew, Associate Director, on (202) 275-4133.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

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