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GAO

Report to the Subcommittee on Military Construction, Committee on Appropriations, House of Representatives

October 2003

MILITARY HOUSING

Better Reporting Needed on the Status of the Privatization Program and the Costs of Its Consultants

GAO-04-111

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GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-04-111, a report to the Subcommittee on Military Construction, Committee on Appropriations, House of Representatives

Why GAO Did This Study

In 2000, Congress required the Department of Defense (DOD) to report quarterly on the services' expenditures for consultants in support of the military family housing privatization programs. GAO was asked to review the costs of the consultants DOD used to support privatizing housing for servicemembers and their families. This report discusses (1) the number of family housing units the services have privatized, particularly newly constructed or renovated units, and project to be privatized by fiscal year 2005; (2) the portion of privatization support costs used for consultants; (3) the services' consistency in the definition for privatization support and consultant costs; and (4) factors that limit an evaluation of how consultant fees for the military housing initiative compare among the services.

What GAO Recommends

GAO is recommending that DOD track the number of privatized units renovated and newly constructed and report this data to Congress. GAO is also recommending that DOD define housing privatization program support and consultant costs.

In written comments on a draft of this report, DOD agreed with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-111.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barry W. Holman at (202) 512-8412 or holmanb@gao.gov.

What GAO Found

Although DOD reported to Congress that the services plan to privatize most of their family housing by fiscal year 2005, DOD's reports do not provide decision makers with the number of privatized units that have been renovated or newly constructed. As of March 2003, the services had contracts privatizing about 28,000 family housing units and planned to privatize 140,000 units by fiscal year 2005. As a result of this privatization, about 7,600 units had been constructed or renovated. It can take developers several years to renovate existing housing or construct new units after they are privatized. As the program progresses, it will become increasingly important to have complete data on which to determine how quickly the privatization program is creating adequate family housing.

Costs for consultants are less than half of the services' privatization support costs. The services anticipate many privatization support and consultant costs to peak in fiscal year 2004 when the need for consultants diminishes once most privatization contracts are signed. Remaining support costs will then focus increasingly on managing the portfolio of the privatized housing.

The services are not consistent in their definitions for privatization support and consultant costs. The differences in the services' definitions for privatization support costs result in inconsistent budgeting for these costs. Also, the differences in the services' definitions for consultant costs result in inconsistent reporting of consultant costs in the department's quarterly housing privatization report to Congress. Further, the Office of the Secretary of Defense does not report its own program consultant costs in the quarterly report.

Several factors, such as differences in labor categories, hours, and skills mix that each consulting firm can use to accomplish work, limited our evaluation of how consultant fees for the military housing initiative compare among the services. Even though these factors hinder a comparative evaluation of consultant fees, service officials told us they believe that they have contracted with firms that provide the best value to the government based on their needs and that the consultants' fees are fair and reasonable.

Construction of Privatized Housing for Servicemembers and Their Families at Fort Meade, Maryland

Source: Photographs courtesy of Picerne Military Housing.

Contents

Letter 1

Results in Brief 2
Background 4
DOD Plans to Privatize Most Family Housing by 2005, but Its Reported Data Do Not Fully Show Progress in Eliminating Inadequate Housing 6
Consultant Costs Represent Less than Half of Total Privatization Support Costs 8
Military Services Use Inconsistent Definitions of Privatization Support and Consultant Costs 10
Several Factors Limit Evaluation and Comparison of Consultant Fees 13
Conclusions 14
Recommendations for Executive Action 15
Agency Comments and Our Evaluation 16
Scope and Methodology 16

Appendix I **Comments from the Department of Defense** 19

Tables

Table 1: Number of Newly Constructed or Renovated Privatized Units, as of March 31, 2003 8
Table 2: Reported Expenditures for Military Housing Privatization Consultants, as of March 31, 2003 12

Figures

Figure 1: Actual and Projected Number of Family Housing Units Privatized, Pre-Fiscal Year 2000 through 2008 7
Figure 2: Actual and Projected Military Housing Privatization Support and Consultant Costs, Pre-Fiscal Year 2000 through 2008 9

Abbreviations

DOD	Department of Defense
OSD	Office of the Secretary of Defense

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G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

October 9, 2003

The Honorable Joseph K. Knollenberg
Chairman
The Honorable Chet Edwards
Ranking Minority Member
Subcommittee on Military Construction
Committee on Appropriations
House of Representatives

The Department of Defense (DOD) has estimated that about 60 percent, or over 180,000 units, of its family housing inventory in the United States is inadequate, lacking modern amenities, and in need of renovation or replacement in 1998. DOD has determined that fixing this problem using only traditional military construction would cost as much as $16 billion and take over 20 years. Recognizing this problem, Congress provided DOD with new authorities to improve military housing more economically and at a faster rate than could be achieved through traditional military construction funding. Known as the Military Housing Privatization Initiative,[1] the basic premise behind this program is for DOD to use private sector investment capital and housing construction expertise to finance, own, operate, and maintain military housing. Under this program, the department can provide direct loans, loan guarantees, or co-investments of land or cash to encourage the private sector to use private investment funds to build or renovate housing for use by military servicemembers and their families. Under the privatization effort, for example, developers assume responsibility for existing military housing units included in the contracts and may demolish or renovate existing units and construct new units. For DOD, this program has represented a new way of doing business and has proven to be inherently complex to implement because of the extensive real estate, financial, and legal expertise required. As a result, DOD has relied on consultants to provide this expertise and help advance the program.

Over time, Congress has expressed concern about the lack of progress with the military's housing privatization program and required the Office of the Secretary of Defense (OSD) to report quarterly to Congress on the

[1] The National Defense Authorization Act for Fiscal Year 1996 (P.L. No. 104-106), Feb. 10, 1996.

status of the services' housing privatization projects.[2] In 2000, Congress added another requirement that DOD report quarterly information on the services' expenditures for consultants due to its concern about the cost of implementing the program.[3] In turn, DOD has included this information in its *Military Housing Privatization Initiative Housing Privatization Report to the Congress*. The military services consider consultant costs as a type of privatization support costs—a category that includes other support costs for the program, such as civilian salaries, training, and travel.

In March 2003, you requested that we review the costs of consultants used by DOD to support privatizing military housing. In July 2003, we provided your offices with briefing materials on our preliminary findings. This report summarizes our findings. Specifically, it discusses (1) the number of family housing units the services have privatized, particularly those units newly constructed or renovated, and projected to be privatized by fiscal year 2005; (2) the portion of privatization support costs that are used for consultants;[4] (3) the services' consistency in the definition for privatization support and consultant costs; and (4) factors that limit an evaluation of how consultant fees for the military housing program compare among the services. In conducting our work, we interviewed Army, Navy, Marine Corps, and Air Force headquarters' officials to obtain information related to the status of the privatization program, the use and costs of consultants, and the variances in privatization support and consultant costs. We also interviewed and discussed these data and the results of our work with officials of OSD's Housing and Competitive Sourcing Office and the Office of the Under Secretary of Defense (Comptroller).

Results in Brief

Although DOD reported to Congress on its plans to privatize most of its family housing units by the end of fiscal year 2005, these reports do not provide decision makers with information on the number of units that have been renovated or newly constructed. As of March 2003, the military

[2] Conference Report (H.R. Conf. Rep. No. 105-647), July 24, 1998, accompanying H.R. 4059, Military Construction Appropriation Act, 1999 (P.L. No. 105-237), Sept. 20, 1998.

[3] Conference Report (H.R. Conf. Rep. No. 106-710), June 29, 2000, accompanying H.R. 4425, Military Construction Appropriation Act, 2001(P.L. No. 106-246), July 13, 2000.

[4] When we use the term "costs" throughout this report, we are referring to the recorded amount of funds obligated in the military services' program records.

services had signed contracts privatizing about 28,000 family housing units and planned to privatize a total of about 140,000 units by the end of fiscal year 2005. As a result of this privatization, about 7,600 units had been constructed or renovated as of March 2003.[5] It can take developers several years to renovate existing housing units or construct new units after the military housing is privatized. However, this type of information is not routinely tracked at OSD nor is it reported to Congress although the data are available at the installation level. As a result, decision makers do not have complete data to fully assess the housing privatization program's progress in creating adequate family housing and improving the living conditions of the servicemembers and their families.

Costs for consultants represent less than half of the services' total privatization support costs. Specifically, for fiscal year 2002, consultant costs were about $24 million, or 42 percent, of the services' total support costs of about $57 million. In addition to costs for consultants, the services incur other privatization support costs, such as costs for federal salaries, training, and travel activities. Some services also incur the cost of environmental assessments and land boundary surveys associated with the privatization of military housing activities. The services anticipate both privatization support and consultant costs to sharply decline after fiscal year 2004 when the need for consultants diminishes as the services privatize most of their planned family housing units.

The military services are not consistent in their definitions for privatization support and consultant costs and OSD had not defined these costs when it gave the services operational responsibility for the program in 1998. While the services consider the costs for consultants, federal civilian salaries, and training and travel activities as privatization support costs, they differ on the extent to which their costs for environmental assessments; land boundary surveys; and supervision, inspection, and overhead construction activities are to be considered support costs under the program. This has resulted in inconsistencies in the services' budgeting of privatization support costs. Also, the services are not consistent in their definitions for consultant costs, which results in inconsistencies in the services' data about these costs that are provided to OSD for use in its quarterly housing privatization report to Congress. In addition, the quarterly housing privatization reports have not included all consultant

[5] OSD officials estimate that 25 percent of the existing military family housing units that are privatized require no renovation.

costs for the housing privatization program, because OSD is not required to include its own consultant costs for the program in the report.

Several factors, such as differences in labor categories[6] and skills mix that each consulting firm can use to accomplish the needed work, limited our evaluation of how consultant fees for the military housing privatization program compare among the services. For example, the consultant with the lowest hourly fee does not always result in the lowest total cost because different consultant firms use a mix of staff with varying pay rates and charge different hours to complete the work. Officials from all of the services believe that they have contracted with firms that provide the best value to the government based on their needs and that the consultants' fees are fair and reasonable.

To aid Congress in its oversight of the military housing privatization program, we are making several recommendations to improve the consistency and completeness of reported privatization support and consultant costs. In written comments on a draft of this report, the Director for Housing and Competitive Sourcing within the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics agreed with our recommendations, stating the department is or plans to take steps to implement them.

Background

The 1996 Military Housing Privatization Initiative allows private-sector financing, ownership, operation, and maintenance of military family and unmarried junior servicemember (barrack) housing.[7] Under the program, the department can provide direct loans, loan guarantees, and other arrangements to encourage private developers to renovate existing housing or construct and operate housing either on or off military installations. Servicemembers, in turn, may use their housing allowance to pay rent and utilities to live in the privatized housing. Because the program

[6] Labor categories are positions or titles within a firm such as director, program manager, project manager, and financial analysts.

[7] While the services have considered barracks privatization over the past several years, they have not yet developed pilot project proposals to determine the feasibility and cost-effectiveness of private sector financing, ownership, operation, and maintenance of military barracks. Thus, the consultant activities discussed in this report are focused on the privatization of military family housing. See U.S. General Accounting Office, *Military Housing: Opportunities That Should Be Explored to Improve Housing and Reduce Costs for Unmarried Junior Servicemembers*, GAO-03-602 (Washington, D.C.: June 10, 2003).

represents a new way of doing business for both the military and the private sector, DOD has relied on consultants for a variety of advisory and assistance services. In completing privatization agreements, many financial, budgetary and other issues need to be resolved to the satisfaction of the government, developers, and private lenders before a deal can be closed. Further, each privatization agreement is different and involves unique issues. According to DOD officials, consultants provide the necessary expertise and assistance to help resolve these issues.

Initially, DOD established the Housing Revitalization Support Office in OSD to facilitate implementation of the military housing privatization program. This office established the financial and legal framework for the new initiative and provided assistance to the services as they began to consider housing privatization. Initial progress in implementing the program was slow and, in 1998, DOD shifted primary responsibility for implementing the program to the individual services. With this change, the Housing Revitalization Support Office was eliminated, and housing privatization oversight responsibility was assigned to a newly created office in OSD—now known as the Housing and Competitive Sourcing Office. This office establishes DOD policy for the program and monitors the services' implementation of the program.

Concerned about the lack of progress with the military's housing privatization program, Congress in 1998 required OSD to begin reporting quarterly on the status of all privatization projects for which funds had been appropriated.[8] In addition, in 2000, Congress required that DOD report information quarterly on expenditures for consultants used by the services to implement the program.[9] DOD now includes this information in its *Military Housing Privatization Initiative Housing Privatization Report to the Congress*. The report lists each privatization project, identifies the number of units to be privatized, shows the project milestones, and includes the cumulative amount spent on consultants by project and service.

Military construction appropriations fund the military housing privatization program, including privatization support and consultant expenditures. Privatization support includes costs for consultants, federal

[8] H.R. Conf. Rep. No. 105-647.

[9] H.R. Conf. Rep. No. 106-710.

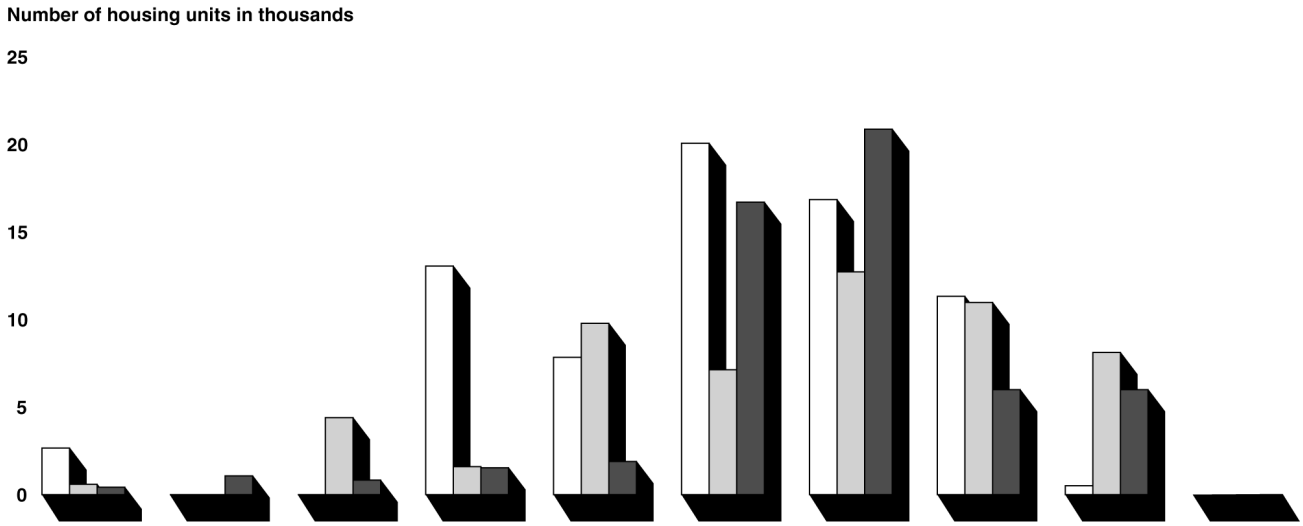
civilian salaries, and training and travel activities. Some of the services also include costs for environmental assessments; land boundary surveys; and supervision, inspection, and overhead construction activities. Consultant costs generally include costs for advisory and assistance activities, such as individual project development, solicitation development and preparation, pre-award evaluations of project proposals, and financial and real estate analysis.

DOD Plans to Privatize Most Family Housing by 2005, but Its Reported Data Do Not Fully Show Progress in Eliminating Inadequate Housing

Although DOD reported to Congress that the services plan to privatize most of their family housing units by the end of fiscal year 2005, these reports do not include the number of privatized units that have been renovated or newly constructed. Such data would show the program's progress in creating adequate family housing and the status of improvements to the living conditions of the servicemembers and their families. These renovation and construction numbers should accelerate over time.

As of March 2003, the military services had signed contracts privatizing about 28,000 family housing units and plan to privatize a total of about 140,000 units by the end of fiscal year 2005. The services plan to privatize 72 percent of their total family housing inventory, representing about 183,000 units, as shown in figure 1, by fiscal year 2007 instead of by 2010 as originally scheduled.

Figure 1: Actual and Projected Number of Family Housing Units Privatized, Pre-Fiscal Year 2000 through 2008



Fiscal year	Before 2000 (actual)	2000 (actual)	2001 (actual)	2002 (actual)	2003 (projected)	2004 (projected)	2005 (projected)	2006 (projected)	2007 (projected)	2008 (projected)
Cumulative total	3,672	4,744	9,970	26,166	45,695	89,630	140,119	168,438	183,065	183,065

Army (72,358 family housing units)
Navy/Marine Corps (55,350 family housing units)
Air Force (55,357 family housing units)

Sources: OSD's *Military Housing Privatization Initiative Housing Privatization Report to Congress,* April 2003, and other military service data.

As a result of these privatization contracts, as of March 2003 the services had constructed 4,396 new housing units and renovated 3,184 existing units—total of 7,580 units (see table 1).[10]

[10] Some privatization contracts also require the demolition of deteriorated military family housing.

Table 1: Number of Newly Constructed or Renovated Privatized Units, as of March 31, 2003

Service	Number of constructed units	Number of renovated units	Total
Army	1,064	2,484	**3,548**
Navy and Marine Corps	1,768	200	**1,968**
Air Force	1,564	500	**2,064**
Total units	**4,396**	**3,184**	**7,580**

Source: Military services' housing officials.

Note: Data on newly constructed or renovated units projected by fiscal year 2005 were not readily available.

We recognize it can take developers several years to renovate existing housing units or construct new ones after the military housing is privatized. However, data regarding this process, although maintained at the installation level, are not collectively tracked and reported to Congress by OSD. Thus, decision makers do not have complete data to fully assess the housing privatization program's progress. Furthermore, as the privatization program progresses, it will become increasingly important to have complete data on the status of actual renovation and new construction of privatized housing units on which to determine how quickly the program is creating adequate family housing and improving the living conditions of the servicemembers and their families.

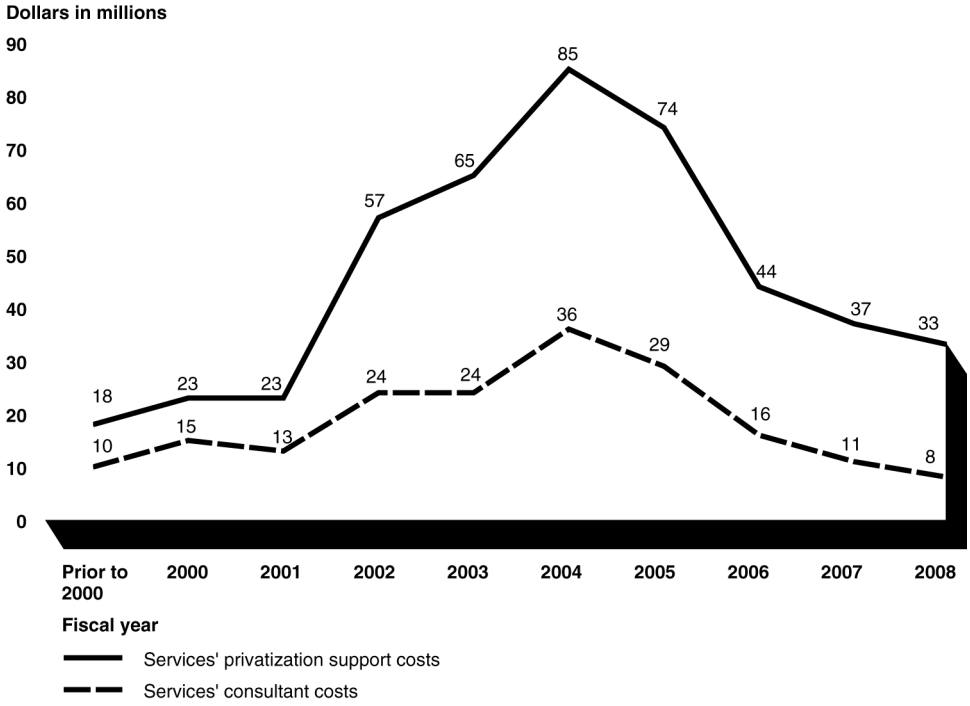
Consultant Costs Represent Less than Half of Total Privatization Support Costs

According to the services' budget data, costs for consultants are less than half of the services' total privatization support costs, actual and projected. For example, for fiscal year 2002 consultant costs were about $24 million, or about 42 percent, of the services' total support costs of about $57 million for their housing privatization efforts. Furthermore, the services incur other privatization support costs besides the costs for consultants, such as federal salaries, training, and travel. In addition, some services include the cost of environmental assessments and land boundary surveys in their privatization support costs.

As the services sign the contracts to privatize most of their family housing units, service officials said their privatization support costs would decline as the need for consultants diminishes. While these costs are expected to

decline, other assistance costs for portfolio management services[11] for the privatization program are expected to become a key component of the remaining support costs as more projects are completed. As figure 2 shows, the services project sharp declines in privatization support and consultant costs after fiscal year 2004.

Figure 2: Actual and Projected Military Housing Privatization Support and Consultant Costs, Pre-Fiscal Year 2000 through 2008



Sources: Army, Navy, Marine Corps, and Air Force budget data.

[11] Portfolio management services include monitoring and reporting activities on the financial, operational, and maintenance status of privatized housing units.

Military Services Use Inconsistent Definitions of Privatization Support and Consultant Costs

The military services are not consistent in their definitions for privatization support and consultant costs. The differences in the services' definitions for privatization support costs result in inconsistent budgeting for these costs. Also, the differences in the services' definitions for consultant costs result in inconsistent reporting of consultant costs in the department's quarterly housing privatization report to Congress. Furthermore, OSD does not report its own program consultant costs in the quarterly report.

Differences in the Services' Definitions for Privatization Support Costs Result in Inconsistent Budgeting

Since OSD had not defined privatization support costs when it gave the services operational responsibility for the program in 1998, the services individually defined them, resulting in inconsistencies in the types of costs included in the services' budgeting for privatization support. The Navy, for example, does not include the costs of environmental assessments and land boundary surveys as privatization support costs while the Army and the Air Force do. Similarly, the Army and the Navy do not include the costs for supervision, inspection, and overhead construction activities as privatization support costs while the Air Force does. Without a common definition, these differences in accounting lead to an increased variance in the services' reported costs and add difficulty for DOD and Congress to accurately determine total privatization support costs across the services.

According to officials in the Office of the Under Secretary of Defense (Comptroller), DOD does not have written budget guidance defining what types of privatization support costs should be included in the services' budget estimates. Thus, the services account for housing privatization support costs differently. For example, according to Navy officials, the Navy's privatization support budget account does not include costs for activities that the other services do, such as environmental assessments and land boundary surveys. As such, the Navy's privatization support expenses may not be as low as they appear in its budget. Navy has combined the management of the family housing program with its real estate, acquisition, and construction contracting expertise in the Naval Facilities Engineering Command—the command responsible for military construction. Thus, the costs for environmental assessments, land boundary surveys, and supervision, inspection, and overhead construction activities are part of how the command conducts its mission and are not captured in the Navy's privatization support budget. According to Navy officials, these activities are conducted and funded within the command and a budget request distinction is not made as to whether the costs for these activities are for a privatization housing project or a traditional

military construction project. For example, Navy's estimated $5 million costs for environmental assessments for its privatization housing efforts through 2008 will not be reflected in its privatization support account although this cost is in the other services' privatization support accounts. Similarly, the Army's expenses for construction supervision, inspection, and overhead activities are part of the developers' costs; and the Army does not reflect these costs in its privatization support budget, whereas the Air Force does.

DOD officials said that the budget inconsistencies have created a problem for the services. According to DOD officials, Congress has reduced the Army and the Air Force privatization support budgets due to the perception that their budgets are unreasonably high when compared with the Navy's.

Differences in the Services' Definitions for Consultant Costs Result in Inconsistent Reporting to Congress

Because OSD had not defined the types of costs to be included in determining consultant costs, the services define them differently, resulting in inconsistent reporting of consulting expenditures in the department's quarterly housing privatization report to Congress. Specifically, the services are beginning to contract for assistance in managing the portfolio of housing privatization projects to better ensure long-term program success. The Air Force views portfolio management as a contractor cost and, as such, is not including this expense in its consultant cost data to OSD for the quarterly housing privatization report. In contrast, the Army, the Navy, and the Marine Corps view portfolio management as a consultant cost; and this expense is included in the report to Congress. As a result, OSD is providing inconsistent service data regarding consultant costs in the department's quarterly housing privatization report to Congress. Furthermore, as costs for portfolio management are expected to become a key component of remaining support costs as the services privatize more housing, the inconsistent cost reporting will become more pronounced in the future.

Also, important in explaining inconsistencies and variances in consultant costs among the services is the organizational placement of the privatization program and the number of projects per service. For instance, the Navy's consulting costs are less than the other services because it has combined the management of its program with its real estate, acquisition, and construction contracting expertise in the Naval Facilities Engineering Command. According to Navy and OSD officials, that decreases the Navy's need for consultants. Then again, according to

Air Force officials, the Air Force's consulting costs are higher than the other services, when its contractor's portfolio management costs are included, because it has more privatization projects needing consultant assistance and advice. Currently, the Air Force plans on 53 family housing privatization projects whereas the Army and the Navy are planning on 27 and 37 projects, respectively.

The services reported in the quarterly housing privatization report to Congress that they had spent about $73 million, in total, on consultants associated with its housing privatization efforts as of March 31, 2003 (see table 2). The extent of their expenditures varied, with the Army expending $34 million, more than twice the amount expended by the Navy and the Marine Corps.

Table 2: Reported Expenditures for Military Housing Privatization Consultants, as of March 31, 2003

Dollars in millions

Service	Amount
Army	$34.0
Navy and Marine Corps	14.4
Air Force	24.2
Total	**$72.6**

Source: OSD's *Military Housing Privatization Initiative Housing Privatization Report to Congress*, April 2003.

OSD Does Not Report Its Own Consultant Costs in the Quarterly Housing Privatization Report

OSD does not, and is not required to, include its own costs for consultants associated with its implementation of the military housing privatization program in the quarterly report to Congress. Officials within OSD's Housing and Competitive Sourcing Office stated that OSD has not reported about $10 million in consultant costs since the beginning of the program in 1996. These consultant costs were not in direct support of a particular installation and most occurred when OSD had centralized control over the program. With the transfer of operational responsibility for the program to the individual services in 1998, OSD's consultant costs have decreased significantly, currently averaging about $1 million a year. These consultant costs are mostly to assist OSD design program evaluation criteria and to help with budget scoring requirements.

Several Factors Limit Evaluation and Comparison of Consultant Fees

Although housing privatization fees paid to individual consultants vary among the services, several factors limit an evaluation and comparison of these fees. Such factors include the differences in labor categories, hours, and skills mix that each consulting firm can use to describe the work they need to do to accomplish the work specified by the services, such as the following:

- **Labor categories**. Despite some commonalities (e.g., program manager and financial analyst), the services for the most part list different labor categories and staff positions in their consultant contracts. The Air Force, for example, identified 22 labor categories for each of its five consultants, while the Navy and Army listed 5 and 7 labor categories, respectively.

- **Labor and hour mixes**. Each consulting firm generally emphasizes a different mix of staff and anticipated number of labor hours, depending on the needed work. As such, contracting with a consultant with lower hourly fees will not necessarily result in the lowest total cost because the different consultant firms use a mix of staff with varying hourly pay rates and charge different hours to complete the work. Air Force data, for example, showed that one firm, which charges higher average hourly fees, planned to dedicate fewer labor hours to a proposed task than another firm, which charges a lower average hourly fee. The particular mix of staff and labor hours proposed by both firms led to only a 3 percent cost variance for a proposed project of about $780,000. In addition, Air Force data showed that two firms proposed that its senior managers dedicate considerably fewer hours to the project although charging higher hourly fees, while another firm proposed that its senior managers dedicate considerably more hours to the project but charge significantly lower hourly fees. Thus, a comparison of consultant fees in isolation could create a misleading assessment.

- **Scope of work**. Different scopes of work within the various housing privatization projects may generate different labor mixes or entirely new labor categories for a particular consultant, making comparison difficult. For example, the Air Force uses two different sets of labor categories for the same firm—one for the portfolio management work and another, which is slightly different, for the privatization support work.

- **Capacities**. Consulting firms have different capacities—some are small businesses while others are global enterprises—and each firm has different capabilities and expertise. According to Air Force data, for example, the firms charging the lowest average hourly fee at the managerial level have only six Air Force family housing privatization

projects between them. However, Air Force officials told us they believe these firms are small businesses operating at capacity and cannot take on another project, despite having lower fees than some of the other consulting firms.

Even though these factors limit a comparative evaluation of consultant fees, service officials told us they believe that their particular consultant fees are fair and reasonable because they (1) awarded their consultant contracts competitively; (2) examined consulting rates published by the General Services Administration, particularly those in its Management, Organizational, and Business Improvement Services Schedule,[12] to assist in determining if the rates were reasonable; and (3) selected consultants through "best value" determinations. In striving to obtain best value, service officials said that the services select firms offering the most advantageous deal to the government and that cost is only one of several evaluation considerations. Past performance and the capability to perform the proposed work, among other considerations, are evaluated alongside fee considerations in assessing contract awards. As a result, service officials said that they have contracted with firms that provide the best value to the government based on their needs.

Conclusions

The military housing privatization program was established for a faster creation of quality housing for military servicemembers and their families. As such, the Secretary of Defense has directed the military services to increase their use of privatization and eliminate their inadequate housing inventory, moving the completion date for the privatization up from 2010 to 2007. However, until the number of renovated or newly constructed housing units under privatization are routinely tracked and reported to Congress, it will be difficult to adequately assess the impact of the privatization program. Further, as the program progresses and additional privatized units are expected to be under contract, more complete and informative data on the number of privatized housing units that have been renovated or newly constructed will become increasingly important to decision makers. Such data are needed to determine how quickly the privatization program is creating adequate family housing and improving the living conditions of servicemembers and their families.

[12] The *Management, Organizational, and Business Improvement Services Schedule* is a list of commercial firms contracted by the General Services Administration to provide management and consulting services to federal agencies.

Until OSD provides a common definition of the types of cost to be included in determining privatization support costs, including consultant costs, the military services will continue to budget inconsistently for privatization support costs and OSD will continue to use inconsistent data from the services to report consultant costs in its quarterly housing privatization report to Congress. Similarly, without an OSD determination of whether portfolio management costs are costs that should be included as consultant costs, the services will continue to provide OSD with inconsistent data on consultant costs for its quarterly report to Congress. Furthermore, until OSD includes its own program consultant costs in the department's quarterly housing privatization report, Congress will not have complete knowledge of the total housing privatization consultant costs. Without consistent and complete information, Congress and DOD cannot make the most informed decisions regarding the appropriateness of support and consultant costs requested and expended in support of the military housing privatization program.

Recommendations for Executive Action

To illustrate the number of inadequate housing units eliminated and of new or renovated units brought on line through the military housing privatization program, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology and Logistics to track the supporting data and report the number of privatized units renovated and newly constructed to the Congress on a periodic basis.

To provide for more consistent and complete data on military housing privatization support costs, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller), in consultation with the Housing and Competitive Sourcing Office, to define privatization support costs for the military services. Specifically, this definition should address the differences in how the services consider the costs of environmental assessments; land boundary surveys; and supervision, inspection, and overhead construction activities associated with the housing privatization program.

To provide for more consistent and complete data on privatization consultant costs, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology, and Logistics, in consultation with the Under Secretary of Defense (Comptroller), to (1) define consultant costs, including a determination of the inclusion of portfolio management costs, for the military services; and (2) include OSD's own program consultant costs associated with its efforts to

privatize military housing in the department's quarterly housing privatization report to Congress.

Agency Comments and Our Evaluation

In written comments on a draft of this report, the Director for Housing and Competitive Sourcing within the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics agreed with our recommendations, stating the department is or will be taking steps to implement them. In reference to our recommendation to track supporting data and report on the number of privatized units renovated and newly constructed, DOD concurred with the recommendation, stating it is essential that project progress be monitored. However, DOD stated that its semi-annual *Program Evaluation Plan* report is a more appropriate vehicle to track this data than the quarterly reporting specified in our draft report and has initiated steps to do so. We believe the collection and periodic reporting of this data to the Congress, regardless of the reporting format, will benefit decision makers to better assess the housing privatization program's progress in creating adequate family housing and improving the living conditions of the servicemembers and their families. Accordingly, we modified our recommendation to recognize the potential for greater flexibility in reporting. DOD's comments are included in appendix I of this report.

Scope and Methodology

We performed our work at the headquarters offices responsible for implementing the privatization program for the Army, the Navy, the Marine Corps, and the Air Force. At each location, we interviewed officials cognizant of the program and reviewed applicable policies, procedures, and documents. We also interviewed officials at the Air Force Center for Environmental Excellence in San Antonio, Texas, which has responsibility for executing Air Force contracts for consultant assistance with the military housing privatization program. We also discussed our analyses with officials of OSD's Housing and Competitive Sourcing Office and the Office of the Under Secretary of Defense (Comptroller). For the military housing privatization program, our analyses mostly covered 1996—the beginning of the military housing privatization program—through 2008 when the services expect to have privatized all of their planned housing.

To determine the number of projects and family housing units the services have privatized and project to privatize since program inception to fiscal year 2008, we interviewed service officials and obtained relevant data. We obtained data for the number of projects and units already privatized from

OSD's Military Housing Privatization Initiative Housing Privatization Report to Congress. However, because project execution schedules for future projects change regularly and the services told us several future project dates are tentative, we requested the latest estimates of projects and units to be privatized from the services. Army and Air Force officials provided us with their privatization schedules while Navy officials told us to use their fiscal year 2004 budget request data. In addition, the services provided data on the number of units newly constructed or renovated as of March 31, 2003, but stated that estimated data was not readily available for fiscal years 2004 through 2008.

To identify the portion of privatization support costs used for consultants, we obtained and analyzed budget data from the services for actual and projected amounts covering fiscal years 1996 through 2008. The services identified those activities that they considered to be a privatization support cost and consultant cost. We did not validate these recorded budget amounts.

To analyze the services' consistency in defining privatization support and consultant costs, we compared budget data provided by the services and noted differences in what they considered privatization support and consultant costs. We met with service officials to discuss those differences and possible reasons for these differences. To report data on the services' cumulative expenditures as of March 31, 2003, for military housing privatization consultants, we used the department's latest quarterly housing privatization report dated April 2003. We interviewed OSD and service officials about the reporting requirements for the quarterly housing privatization report and corresponding budget guidance on privatization support and consultant costs. In addition, we met with officials from the Office of the Under Secretary of Defense (Comptroller) to obtain their views on our privatization support and consultant cost analyses.

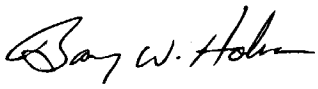
To assess how consultant fees for the military housing privatization program compare among the services, we reviewed and analyzed the services' consultant contracts and individual task orders, noting the hourly fees charged by each consultant. We obtained data from the appropriate General Services Administration federal supply schedule for Management, Organizational, and Business Improvement Services Schedule and made fee comparisons. We also interviewed service officials to discuss their assessment process for evaluating consultant fees and selecting consultants. Finally, we interviewed officials from the Air Force's Brooks City Base, San Antonio, Texas, and from the Army's Fort Sam Houston,

San Antonio, Texas, to discuss DOD's use of consultants in similar privatization activities.

In performing this review, we did not validate DOD's reported housing requirements or privatization information. We conducted our work from April 2003 through July 2003 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Commandant of the Marine Corps; and the Director, Office of Management and Budget. We will also make copies available to others upon request. In addition, the report is available at no charge on GAO's Web site at www.gao.gov.

Please contact me on (202) 512-8412, or my Assistant Director, Mark Little, at (202) 512-4673 if you or your staff have any questions regarding this report. Major contributors to this report were Laura Talbott, Shawn Arbogast, Jason Aquino, Jane Hunt, and R.K. Wild.



Barry W. Holman, Director
Defense Capabilities and Management

Appendix I: Comments from the Department of Defense

Report number now GAO-04-111 to reflect new fiscal year.

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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ACQUISITION, TECHNOLOGY AND LOGISTICS

6 OCT 2003

Mr. Barry Holman
Director, Defense Capabilities and Management
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr Holman,

This is the Department of Defense (D0D) response to the GAO draft report GAO-03-1063, "MILITARY HOUSING: Better Reporting Needed on the Status of the Privatization Program and the Costs of Consultants," dated August 15, 2003, (GAO Code 350426).

Thank you for allowing us to comment on your draft report. I consider the report a very helpful evaluation of the costs we incur on consultants to ensure the financial and structural soundness of our privatization projects.

I concur with your recommendations that the Department better define consultant costs and that the Housing and Competitive Sourcing Office include its own consultant costs in the quarterly report to Congress. I also concur with your recommendation to track supporting project data and report on the number of privatized units renovated and newly constructed. The Program Evaluation Plan (PEP) is the most appropriate vehicle for tracking such data on executed projects.

J K Sikes

Joseph K. Sikes
Director, Housing and Competitive Sourcing

GAO-03-1063/GAO CODE 350426

"MILITARY HOUSING: BETTER REPORTING NEEDED ON THE STATUS OF THE PRIVATIZATION PROGRAM AND THE COSTS OF ITS CONSULTANTS"

DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATIONS

See p. 15.

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology, and Logistics to track the supporting data and report on the number of privatized units renovated and newly constructed in the Department's quarterly housing privatization report to Congress.

DoD RESPONSE: Concur. Monitoring the progress of our projects is essential. This function is primarily performed at the installation level. In order to provide management oversight, the Housing and Competitive Sourcing Office has initiated steps to track important project and program data in its semi-annual Program Evaluation Plan (PEP) report. That report, which was first issued in December 2001, tracks over 100 project data elements, including renovated and newly constructed units. The PEP report is a more appropriate vehicle for tracking data on executed projects than the quarterly report to Congress, which is intended to provide a prospective view of projects to be executed.

See p. 15.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense (Comptroller), in consultation with the Housing and Competitive Sourcing Office, to define privatization support costs for the Military Services. Specifically, this definition should address the differences in how the Services consider the costs of environmental assessments; land boundary surveys; and supervision, inspection, and overhead construction activities associated with the housing privatization program.

DoD RESPONSE: Concur. The Housing and Competitive Sourcing Office will work with the Comptroller to define privatization support costs for the Military Services.

See p. 15.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology, and Logistics, in consultation with the Under Secretary of Defense (Comptroller), to (1) define consultant costs, including a determination of the inclusion of portfolio management costs, for the Military Services; and (2) include OSD's own consultant costs associated with its efforts to privatize military housing in the Department's quarterly housing privatization report to Congress.

DoD RESPONSE: Concur. The Housing and Competitive Sourcing Office will work with the Comptroller to define consultant costs and include its own consultant costs in the quarterly report to Congress.

(350426)

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