



441 G St. N.W.
Washington, DC 20548

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Congressional Committees

Military Construction: Cost Increase Reports Submitted in Fiscal Years 2018 and 2019

Section 2853(f) of title 10, United States Code, as amended requires the Department of Defense (DOD) to notify the congressional defense committees and the Comptroller General of the United States (GAO) of any military construction project or military family housing project with a total authorized cost greater than \$40 million where DOD identified a cost increase of 25 percent or more.¹ In the notification reports, DOD is required to include the specific reasons for the cost increase and the specific organizations and individuals responsible, among other elements. Amended section 2853(f) also includes a provision for the Comptroller General of the United States to review each report submitted and validate or correct as necessary the information provided. As agreed upon with staff from your offices, this report examines the extent to which DOD's cost increase reports submitted to GAO in fiscal years 2018 and 2019 satisfy the required reporting elements of section 2853(f), which are presented in detail in table 1 below.

To examine the extent to which DOD's cost increase reports addressed each required reporting element set forth in section 2853(f), we performed a content analysis of the reports that DOD provided to us during fiscal years 2018 and 2019.² Two GAO analysts independently compared the information in each of the five cost increase reports with the 10 reporting elements established in 10 U.S.C. § 2853(f). Any disagreements between the analysts' results were resolved by a supervisor. We discuss the details of our scope and methodology in enclosure 1. The full text of section 2853(f) appears in enclosure 2.

We conducted this performance audit from October 2018 through January 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹*National Defense Authorization Act for Fiscal Year 2018*, Pub. L. No. 115-91, § 2821 (2017), *amending* 10 U.S.C. § 2853.

²DOD officials confirmed after the end of fiscal year 2019 that GAO had received all cost increase reports for that year.

The Air Force Reported Five Cost Increases of More than 25 Percent for Military Construction Projects over \$40 Million in Fiscal Years 2018 and 2019

We received one cost increase report in fiscal year 2018 and four in fiscal year 2019—all from the Air Force.³ Table 1 shows a comparison of the contents of the cost increase reports with the reporting requirements of section 2853(f). Enclosure 3 shows a description of each of these military construction projects, the authorized amounts for each project, and the primary causes of the cost increases, as described in each of the cost increase reports we received from the Air Force. All of these reports met most of the reporting requirements.

Table 1: Comparison of Contents of Military Construction Cost Increase Reports from Fiscal Years 2018 and 2019 against the Required Reporting Elements from 10 U.S.C. § 2853(f)

| Required Reporting Elements | F.E. Warren Air Force Base Weapons Storage Facility | Joint Base Andrews Presidential Aircraft Recapitalization Complex | Joint Base San Antonio-Lackland Airmen Training Complex Recruit Dormitory 5 | Joint Base San Antonio-Lackland Recruit Classroom and Dining Facility 3 | Eglin Air Force Base Advanced Munitions Technology Complex |
|--|---|---|---|---|--|
| Describe the specific reasons for the cost increase. | Addressed | Addressed | Addressed | Addressed | Addressed |
| Describe the specific organizations and individuals responsible for the cost increase. | Addressed | Addressed | Addressed | Addressed | Addressed |
| Describe any ongoing or completed proceedings or investigations into a government employee, prime contractor, subcontractor, or non-governmental organization that may be responsible for the cost increase and the status of such proceedings or investigations. | Addressed | Addressed | Addressed | Addressed | Addressed |
| If any proceedings or investigations resulted in final judicial or administrative action, include the following: In the case of a judicial or administrative action taken against a government employee, identify the individual's organization, position within the organization, and the action taken against the individual, excluding personally identifiable information about the individual. | N/A | N/A | N/A | N/A | N/A |
| In the case of a judicial or administrative action taken against a prime contractor, subcontractor, or non-governmental organization identify the prime contractor, subcontractor, or non-governmental organization and the action taken against the prime contractor, subcontractor, or non-government organization. | N/A | N/A | N/A | N/A | N/A |

³We received no cost increase reports for either fiscal year 2018 or fiscal year 2019 from the Army, the Navy, or the Marine Corps.

| Required Reporting Elements | F.E. Warren Air Force Base Weapons Storage Facility | Joint Base Andrews Presidential Aircraft Recapitalization Complex | Joint Base San Antonio-Lackland Airmen Training Complex Recruit Dormitory 5 | Joint Base San Antonio-Lackland Recruit Classroom and Dining Facility 3 | Eglin Air Force Base Advanced Munitions Technology Complex |
|--|---|---|---|---|--|
| Summarize any changes the Secretary concerned believes may be required to the organizational structure, project management and oversight practices, policy, or authorities of a government organization involved in military construction projects as a result of problems identified and lessons learned from the project. | Addressed | Addressed | Addressed | Addressed | Addressed |
| If any proceeding or investigation is still ongoing at the time the Secretary concerned submits the report a supplemental report must be provided to the congressional defense committees and the Comptroller General of the United States not later than 30 days after the proceeding or investigation has been completed. | N/A | N/A | N/A | N/A | N/A |
| If a proceeding or investigation resulted in final judicial or administrative action against a government employee, prime contractor, subcontractor, or non-governmental organization, the supplemental report shall identify the individual's organization, position within the organization and action taken: or in the case of a prime contractor, subcontractor, or non-governmental organization, the organization's identity and action taken. | N/A | N/A | N/A | N/A | N/A |
| Reports submitted under this subsection must be cosigned by the senior engineer authorized to supervise military construction projects and military family housing projects under 10 U.S.C. § 2851(a). | Did not address ^a | Addressed | Did not address ^a | Did not address ^a | Addressed |
| Submit required reports that identify cost increases of 25 percent or more for projects with a total authorized cost greater than \$40 million to the congressional defense committees and the Comptroller General of the United States not later than 180 days after the Secretary notifies the appropriate Congressional committees of the cost increase. | Did not address ^b | Addressed | Addressed | Addressed | Addressed |

Source: GAO analysis of Title 10 U.S. Code § 2853, paragraphs (2)(D) through (5) and DOD information. | GAO-20-261R

^aThese reports were not cosigned by the authorities identified in Memorandum from the Assistant Secretary of Defense for Energy, Installations, and Environment entitled *Updated Guidance for Authorized Cost and Scope of Work Changes* (June 29, 2018). The memorandum states that authority to cosign reports may not be delegated below the level of the Deputy Commander of the U.S. Army Corps of Engineers, the Commander of the Naval Facilities Engineering Command, the Director of the Air Force Civil Engineer Center, or the responsible U.S. Property and Fiscal Officer for the National Guard. DOD officials told us that the Air Force updated its procedures to ensure the appropriate senior engineer co-signer. Cost increase reports provided to us by the Air Force after that update had the appropriate co-signer.

^bThis report was sent by the Air Force 8 days after the 180 day requirement.

Agency Comments

We provided a draft of this report to DOD for review and comment. DOD did not provide comments on our draft report.

We are sending copies of this report to the appropriate congressional committees; the Secretary of Defense; and the Secretaries of the Army, Navy, and Air Force. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2775 or at FieldE1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report include Maria Storts (Assistant Director); Colin Chambers (Analyst-in-Charge); Joanne Landesman, Amie Lesser, Felicia Lopez; Ricardo Marquez; Steve Pruitt; and Michael Silver.

Sincerely yours,



Elizabeth A. Field

Director, Defense Capabilities and Management

Enclosures – 3

List of Committees

The Honorable James M. Inhofe
Chairman
The Honorable Jack Reed
Ranking Member
Committee on Armed Services
United States Senate

The Honorable John Boozman
Chairman
The Honorable Brian Schatz
Ranking Member
Subcommittee on Military Construction, Veterans Affairs, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Adam Smith
Chairman
The Honorable Mac Thornberry
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable Debbie Wasserman Schultz
Chairwoman
The Honorable John R. Carter
Ranking Member
Subcommittee on Military Construction, Veterans Affairs, and Related Agencies
Committee on Appropriations
House of Representatives

Enclosure I: Scope and Methodology

To describe the extent to which the Department of Defense's (DOD) cost increase reports for military construction projects over \$40 million with a cost increase of 25 percent or more addressed each of the reporting elements established in 10 U.S.C. § 2853(f), we performed a content analysis of the reports provided to us during fiscal years 2018 and 2019.

We compared the information in each of the five cost increase reports with the 10 reporting elements established in 10 U.S.C. § 2853(f). Two GAO analysts independently conducted the analysis, coding the information and entering it into a spreadsheet. Any disagreements in the coding were resolved by a supervisor. We assessed an element as "addressed" if the cost increase report addressed all parts of the required reporting element. We assessed an element as "partially addressed" if the report addressed one—but not all—parts of the element. We assessed an element as "not addressed" (N/A) if the report did not address the element or addressed the element incorrectly. We assessed an element as "not applicable" if the element was dependent upon another element for which the cost increase report explicitly stated that the primary condition for that element did not occur.

Enclosure II: 10 U.S.C. § 2853(f)

(f)(1) In addition to the notification sent under paragraph (1) of subsection (c) of a cost increase with respect to a project, the Secretary concerned shall provide an additional report notifying the congressional defense committees and the Comptroller General of the United States of any military construction project or military family housing project with a total authorized cost greater than \$40,000,000 that has a cost increase of 25 percent or more.

(2) The report under paragraph (1) shall include the following:

(A) A description of the specific reasons for the cost increase and the specific organizations and individuals responsible.

(B) A description of any ongoing or completed proceedings or investigation into a government employee, prime contractor, subcontractor, or non-governmental organization that may be responsible for the cost increase, and the status of such proceeding or investigation.

(C) If any proceeding or investigation identified in subparagraph (B) resulted in final judicial or administrative action, the following:

(i) In the case of a judicial or administrative action taken against a government employee, the report shall identify the individual's organization, position within the organization, and the action taken against the individual, but shall exclude personally identifiable information about the individual.

(ii) In the case of a judicial or administrative action taken against a prime contractor, subcontractor, or non-governmental organization, the report shall identify the prime contractor, subcontractor, or non-governmental organization and the action taken against the prime contractor, subcontractor, or non-governmental organization.

(D) A summary of any changes the Secretary concerned believes may be required to the organizational structure, project management and oversight practices, policy, or authorities of a government organization involved in military construction projects as a result of problems identified and lessons learned from the project.

(3) If any proceeding or investigation described in paragraph (2)(C) is still ongoing at the time the Secretary concerned submits the report under paragraph (1), the Secretary shall provide a supplemental report to the congressional defense committees and the Comptroller General of the United States not later than 30 days after such proceeding or investigation has been completed. If such proceeding or investigation resulted in final judicial or administrative action against a government employee, prime contractor, subcontractor, or non-governmental organization, the Secretary shall include in the supplemental report the information required by paragraph (2)(C).

(4) Each report under this subsection shall be cosigned by the senior engineer authorized to supervise military construction projects and military family housing projects under section 2851(a).

(5) The Secretary shall send the report required under paragraph (1) with respect to a project not later than 180 days after the Secretary sends to the appropriate committees of Congress the notification under paragraph (1) of subsection (c) of a cost increase with respect to the project.

(6) The Comptroller General of the United States shall review each report submitted under this subsection and validate or correct as necessary the information provided.

Enclosure III: The Five Air Force Projects for Which GAO Received Cost Increase Reports

Francis E. Warren Air Force Base Weapons Storage Facility

As described by the Air Force, the F.E. Warren Air Force Base weapons storage facility is a fiscal year 2016 military construction project to build an 86,000 square foot facility to accommodate special weapons at F.E. Warren Air Force Base. This project will consolidate maintenance and storage operations.

According to the Air Force, in fiscal year 2016 \$95 million was authorized for the project. Based on previous contractor bids received, the cost of the project is expected to be \$159 million, a \$64 million increase from the fiscal year 2016 authorization.

According to the Air Force, the primary causes for the cost increase included (1) a zero-deviation approach toward compliance with all applicable nuclear certification criteria, the cost implications of which were not fully appreciated or understood early in the program; (2) underestimation of costs for unique features and costs for specialized systems requiring a highly skilled workforce; and (3) a saturated construction market in the region coupled with very low regional unemployment, which have created significant competition for resources and driven up labor and material costs.

Joint Base Andrews Presidential Aircraft Recapitalization Complex

As described by the Air Force, the Joint Base Andrews Presidential Aircraft Recapitalization Complex project is for the construction of a new hangar complex to support the mission of two customized Boeing 747-8i aircraft. The project includes construction of a new aircraft parking apron and taxiway, along with fuel storage and hydrant fuel system. The complex will include administrative space for flight operations and mission planning, logistics, aircraft maintenance, flight kitchen, food storage, and other training and support areas.

According to the Air Force, in fiscal year 2018 \$254 million was authorized for the project, to be appropriated incrementally. The first increment of \$124.9 million was appropriated in fiscal year 2018; the second increment of \$129.1 million was appropriated in fiscal year 2019; and the third increment of \$86 million was requested as part of the Air Force's Military Construction fiscal year 2020 budget request. In December 2018, a contract was awarded at \$339.3 million.

According to the Air Force, the primary causes for the cost increase included (1) an unexpected material escalation rate in a saturated construction market coupled with external forces affecting cost for large quantities of earth fill, deep foundations, structural steel materials, and specialized systems; (2) reduced available workforce and premium labor costs due to a restricted secure project in a saturated regional construction market with very low regional unemployment; and (3) a zero-deviation construction schedule approach to meet a firm aircraft delivery date with significant liquidated damage costs; and (4) cybersecurity requirements for industrial control systems.

Joint Base San Antonio-Lackland Basic Military Training Campus Airman Training Complex Dormitory 5 Facility

As described by the Air Force, the Joint Base San Antonio-Lackland Airman Basic Military Training Campus Airman Training Complex 5 facility is a project to build the fifth of eight

dormitories in the Recruit Housing and Training facility replacement program. Each facility includes dormitory and administrative spaces, drill pad, running track, exercises areas, war skills training areas, weapons cleaning pavilion, storage, and latrines.

According to the Air Force, in fiscal year 2016 \$71 million was authorized for the project. An additional \$20 million was provided for the project in fiscal year 2017 when bids came in at \$89 million. A second round of bidding resulted in a final project cost of \$110.6 million, approximately \$19.6 million more than the authorized project amount. The Air Force cancelled and reprogrammed amounts authorized for an additional dormitory in order to fund the additional \$19.6 million needed to award the contract.

According to the Air Force, the primary cause for the cost increase included (1) the original programmed amount was based on actual costs from previous Basic Military Training East Campus projects and did not adequately forecast future construction cost escalations in San Antonio; (2) the number of available subcontractors in San Antonio was reduced due to their relocation out of the area for recovery work related to Hurricanes Harvey, Irma, and Maria; and (3) a saturated construction market in the region, coupled with very low regional unemployment, created significant competition for resources, resulting in increased labor and material costs.

Joint Base San Antonio-Lackland Basic Military Training Campus Dining/Classroom Facility 3

As described by the Air Force, the project is to build the third of four dining hall and classroom buildings in the Recruit Housing and Training facility replacement program. Each facility consists of a serving area, kitchen, recruit dining area, laundry pickup, a minor clinic support area, and two floors of training classrooms.

According to the Air Force, in fiscal year 2016 \$35 million was authorized for the project. An additional \$10 million was provided in fiscal year 2017 at the request of the Air Force, based on anticipated market conditions. After contract bids the resulting final cost for the project was \$59.7 million, approximately \$14.7 more than the authorized project amount. The Air Force cancelled and reprogrammed amounts authorized for a dormitory to fund the additional \$14.7 million.

According to the Air Force, the primary causes for the cost increase included (1) the original programmed amount was based on actual costs from previous Basic Military Training East Campus projects and did not adequately forecast future construction cost escalations in San Antonio; (2) the number of available subcontractors in San Antonio was reduced due to their relocation out of the area for recovery work related to Hurricanes Harvey, Irma, and Maria; and (3) a saturated construction market in the region, coupled with very low regional unemployment, created significant competition for resources, resulting in increased labor and material costs.

Eglin Air Force Base Advanced Munitions Technology Complex

As described by the Air Force, the project is to construct a variety of buildings for the development of nano energetic/explosive technologies and the development, integration, rapid prototyping, and fielding of advance munitions.

According to the Air Force, in fiscal year 2017 \$75 million was authorized for the project. In February 2019, the Air Force submitted a cost and scope variation to the congressional committees for a cost increase of \$47.5 million. The first contract for a complete and usable segment of the project was awarded in March 2019, at a total cost of \$75.4 million. In its fiscal

year 2020 budget request, the Air Force requested additional amounts to fund the remaining project scope.

According to the Air Force, the primary causes of the cost increase include (1) escalated material costs; (2) reduced availability of workforce in the region; and (3) premium labor rates.

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