

August 9, 2002



Defense Infrastructure

Bulk Fuel Infrastructure Military
Construction and Maintenance,
Repair, and Environmental Project
Review Process: Navy
(D-2002-137)

Department of Defense
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Quality

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Acronyms

DESC	Defense Energy Support Center
DLA	Defense Logistics Agency
FISC	Fleet and Industrial Supply Center
MILCON	Military Construction
MR&E	Maintenance, Repair, and Environmental
NAS	Naval Air Station
NAVPETOFF	Navy Petroleum Office
OPNAV	Naval Operations



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
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August 9, 2002

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY
NAVAL INSPECTOR GENERAL

SUBJECT: Bulk Fuel Infrastructure Military Construction and Maintenance, Repair,
and Environmental Project Review Process: Navy
(Report No. D-2002-137)

We are providing this report for review and comment. This report is one in a series about DoD bulk fuel storage and delivery systems infrastructure requirements. We considered comments from the Navy when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request that the Navy provide comments on Recommendations 1 and 2 and provide additional comments on Recommendations 3.a and 3.b in response to the final report. We request that the Navy provide comments by September 9, 2002.

If possible, please provide management comments in electronic format (Adobe Acrobat file only). Send electronic transmission to the e-mail addresses cited in the last paragraph of this memorandum. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the classified SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Ms. Deborah L. Carros at (703) 604-9217 (DSN 664-9217) (dlcarros@dodig.osd.mil) or Mr. William C. Gallagher at (703) 604-9270 (DSN 664-9270) (wgallagher@dodig.osd.mil). See Appendix D for the report distribution. The team members are listed inside the back cover.

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Office of the Inspector General of the Department of Defense

Report No. D-2002-137

August 9, 2002

(Project No. D1999CG-0088.008)

Bulk Fuel Infrastructure Military Construction and Maintenance, Repair, and Environmental Project Review Process: Navy

Executive Summary

Who Should Read This Report and Why? This report should be read by DoD officials responsible for bulk fuel-related military construction and maintenance, repair, and environmental project requirements. It addresses the need for proper validation of military construction and maintenance, repair, and environmental project requirements.

Background. This report is one in a series about DoD bulk fuel storage and delivery systems infrastructure requirements. The Defense Energy Support Center, Defense Logistics Agency, provides fuel to DoD customers and is responsible for budgeting and funding military construction and maintenance, repair, and environmental projects at all DoD fuel terminals.

Results. Although the 4 bulk fuel-related military construction and 72 maintenance, repair, and environmental projects valued at \$98.3 million were valid requirements, the Navy did not properly validate and prioritize the requirements for each project in accordance with Navy and DoD guidance. The absence of validation reviews at the installation, major claimants and Service Control Point levels for all projects increased the risk of the Navy submitting bulk fuel-related military construction projects that are incorrectly prioritized, and bulk fuel-related maintenance, repair, and environmental projects with incorrect requirements and priorities to the Defense Energy Support Center for funding. Establishing policies and procedures to properly review, validate, and prioritize Navy bulk fuel-related military construction and maintenance, repair, and environmental project requirements should minimize the risk of submitting incorrect project requirements and priorities to the Defense Energy Support Center for funding. (See the Finding section for the detailed recommendations.)

Management Comments and Audit Response. The Navy Petroleum Office stated it did not have to follow the procedures in the Facilities Projects Manual for fuel-related military construction and maintenance, repair, and environmental projects funded by Defense Logistics Agency, and that project validations were adequately documented. Further, there was no need to prioritize projects and data call response letters and e-mail communications provide adequate documentation of project validation. We disagree with the Navy because the procedures in the Facilities Projects Manual apply to all projects regardless of method of accomplishment, project files did not include written documentation of projects validation, and Defense guidance requires the Navy to prioritize projects prior to submission to the Defense Energy Support Center. The

Navy did not provide comments on recommendations to improve project validation at the installation and major claimant levels. We request the Navy provide additional comments on how it will improve validation and prioritization procedures at the installation, major claimant and Service Control Point levels. Comments are requested by September 9, 2002. A discussion of the management comments is in the Finding section of the report, and the complete text is in the Management Comments section.

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Background

This report is one in a series being issued by the Inspector General of the DoD addressing DoD military construction (MILCON) and maintenance, repair, and environmental (MR&E) requirements for bulk fuel storage and delivery systems infrastructure (storage tanks, pipelines, dispensing facilities, and hydrants). The Defense Energy Support Center (DESC), Defense Logistics Agency (DLA), is responsible for budgeting and funding MILCON and MR&E projects for DoD bulk fuel terminals worldwide.

In 1991, DoD Program Budget Decision 735 authorized the transfer of MILCON funding authority to DLA for fuel-related infrastructure on military installations. Actual transfer of the funding responsibilities, however, was managed in two phases. The period from 1993 through 1996 was characterized by very low fuel-related MILCON expenditures. During that period when the Services would have historically expended an average of \$66 million per year, DLA averaged only \$17 million. Low funding levels over an extended period of time precipitated infrastructure deterioration to the point where environmental issues became a concern. Additionally, the United States military changed from a forward-deployed force to one based largely in the continental United States. Therefore, an enhanced, en route refueling infrastructure to support worldwide deployment of U.S. forces was needed to meet timeline requirements for a two major theater war strategy. Consequently, there was a growing demand for MILCON and MR&E projects supporting infrastructure.

In 1997, the Office of the Deputy Under Secretary of Defense (Logistics) completed a study on DoD fuels MILCON funding. The study identified 114 MILCON projects totaling \$1.5 billion in fuel-related MILCON requirements to meet environmental, operational, and strategic planning objectives for the proposed Future Years Defense Program (FYs 1999 through 2003). During FY 1998 budget considerations, the transfer of MILCON authority to DLA created a funding issue because the Defense budget did not provide for increased funding for DLA. For FY 2000, DLA funded and approved \$101.2 million for five projects. For the FY 2001 President's Budget to Congress, DLA programmed 14 projects with an estimated cost of \$168 million.

The DESC was responsible for DoD fuel inventory management, including procurement and sales, and environmental oversight. DLA funded fuel-related infrastructure requirements from two different funding sources. Maintenance and repair projects were funded through the Defense Working Capital Fund, which is a revolving fund that is continually replenished by a DLA surcharge that is added to the sale price of fuel. Renovation and major construction projects were funded from the DLA allocation of MILCON appropriations.

The Military Departments were responsible for operating bulk fuel facilities under their cognizance. The Military Departments were also responsible for reviewing, validating, and prioritizing MILCON and MR&E projects before submitting the projects to the DESC for review and funding approval.

Objectives

The overall objective was to evaluate the accuracy and reliability of DoD MILCON and MR&E requirements for bulk fuel storage and delivery systems infrastructure. Specifically, this audit evaluated MILCON and MR&E project requirements at the Fleet and Industrial Supply Center (FISC) Norfolk, Virginia; and the Naval Air Station (NAS) Whidbey Island, Washington. We also reviewed the adequacy of the management control program as it applied to the audit objective. See Appendix A for a discussion of the audit scope and methodology and the review of the management control program. See Appendix B for a list of prior coverage.

Validation of Bulk Fuel Storage Military Construction and Maintenance, Repair, and Environmental Requirements

Although the bulk fuel-related MILCON and MR&E projects reviewed were valid requirements, the Navy did not properly validate and prioritize the requirements for each project in accordance with Navy and DoD guidance.

- Personnel at FISC Norfolk properly validated requirements for two MILCON projects, valued at \$44.9 million, and 36¹ MR&E projects, valued at \$22.2 million.
- Personnel at NAS Whidbey Island properly validated requirements for two MILCON projects, valued at \$24.6 million, but did not validate the requirements for 36 MR&E projects, valued at \$6.6 million.
- Major claimant personnel for FISC Norfolk and NAS Whidbey Island stated that they reviewed and approved the requirements for the four MILCON projects, valued at \$69.5 million, and the 72 MR&E projects, valued at \$28.8 million, but could not demonstrate that they properly validated the requirements.
- Navy Service Control Point personnel did not review and validate all Navy bulk fuel-related MILCON and MR&E projects within continental United States, and did not submit a consolidated priority list to the DESC as required by DoD guidance.

This condition occurred because the Navy did not adequately implement requirements for reviewing, validating, and prioritizing MILCON and MR&E projects in accordance with Navy and DoD guidance. The absence of validation reviews at each level for all projects increased the risk of the Navy submitting bulk fuel-related MILCON projects that are incorrectly prioritized, and bulk fuel-related MR&E projects with incorrect requirements and priorities to the DESC for funding.

¹A total of 44 MR&E projects were selected for review at FISC Norfolk. However, 8 of the 44 MR&E projects were managed by DESC personnel. The Navy was not responsible for validating requirements for projects managed by DESC.

Policy Guidance

DoD Directive 4140.25, “DoD Management Policy for Energy Commodities and Related Services,” April 20, 1999. DoD Directive 4140.25 prescribes DoD policy for energy and related programs (for example, petroleum, natural gas, coal, and propellants). Directive 4140.25 states that the programs shall support DoD peacetime and wartime missions, and permit successful and efficient deployment and employment of forces. Directive 4140.25 also states that DoD Components shall minimize inventories consistent with peacetime and contingency needs. The Director, DLA plans, programs, and budgets facility MR&E compliance of petroleum storage and distribution facilities and construction of new permanent storage and distribution facilities. DLA must coordinate these functions with the Services and the combatant commanders. Directive 4140.25 states that the Military Departments are to operate the petroleum facilities under their cognizance.

DoD 4140.25-M, “DoD Management of Bulk Petroleum Products, Natural Gas, and Coal,” June 1994. DoD 4140.25-M implements DoD responsibilities for integrated materiel management of bulk petroleum products and associated bulk fuel storage facilities. The objective of integrated materiel management is to purchase, store, and distribute bulk petroleum products in an economic and efficient manner. DoD 4140.25-M states that the Combatant Command Joint Petroleum Offices, and the Service Control Points are to review and validate MILCON and MR&E projects, as well as develop consolidated project priority lists. The Combatant Command Joint Petroleum Offices are responsible for overseas projects. The Combatant Command Joint Petroleum Offices and the Service Control Points forward projects for consideration and consolidate project priority lists to DESC. The DESC reviews, validates, programs, and budgets funds for approved projects. DoD 4140.25-M details the MILCON and MR&E project submission cycle for DESC.

Naval Operations (OPNAV) Instruction 11010.20F, “Facilities Projects Manual,” June 1996. OPNAV Instruction 11010.20F provides detailed guidance for the administration of facilities projects at Navy shore organizations. OPNAV Instruction 11010.20F states that the “commanding officer is responsible for the validity and accuracy of facilities projects prepared for his or her plant account.” Instruction 11010.20F also states that the major claimant is responsible for reviewing and validating all projects and that the reviews must include verification of the adequacy of the technical solution, completeness of the scope and cost estimate, and the adequacy of the economic analysis. The major claimant must also retain copies of project documentation, correspondence, project validations, approvals, and authorizations in project files for at least 5 years.

Project Requirements Reviewed

Personnel at the FISC Norfolk and NAS Whidbey Island approved bulk fuel-related requirements for four MILCON projects, valued at \$69.5 million, and 72 MR&E projects, valued at \$28.8 million. See Appendix C for the list of projects reviewed.

MILCON Requirements. The FISC Norfolk had requirements for two MILCON projects, valued at \$44.9 million, and the NAS Whidbey Island had requirements for two MILCON projects, valued at \$24.6 million.

FISC Norfolk Projects. Both MILCON projects required replacing the existing storage facilities to comply with Federal and State regulations. An Environmental Protection Agency storage facility inspection for one MILCON project determined that existing storage facilities were out of compliance. Both MILCON projects documented requirements for fuel storage capacity that was supported by the fuel inventory requirement documented in the DESC Inventory Management Plan. The DESC personnel stated that the project requirements were accurate and necessary to support fuel inventory requirements.

NAS Whidbey Island Projects. Both MILCON projects required relocating existing fuel and storage facilities to meet mission requirements for direct fueling 14 aircraft per hour. The NAS Whidbey Island fuels manager stated that personnel and aircraft were temporarily redirected to other bases to complete training assignments because the NAS Whidbey Island did not have the fueling capability required to accomplish its training mission. The scope of the MILCON project increased fueling speed, but reduced total fuel storage capacity. The fuel storage capacity supported the fuel inventory requirement documented in the DESC Inventory Management Plan. Excess fuel storage capacity fell within acceptable parameters as determined by DESC personnel.

MR&E Requirements. The FISC Norfolk had requirements for 36 MR&E projects, valued at \$22.2 million, and the NAS Whidbey Island had requirements for 36 MR&E projects, valued at \$6.6 million. Project requirements were for the following:

- Recurring maintenance and environmental issues (5 projects);
- Non-recurring safety and environmental issues (39 projects);
- Storage and delivery system requirements (7 projects);
- Security issues (5 projects); and
- Federal, military, and state regulations compliance (16 projects).

Site visits to project locations, project documentation review, and discussions with DESC personnel on the scope of the MR&E projects indicated that all 72 project requirements were necessary, accurate, and reliable.

Requirements Validation

Navy personnel did not always validate project requirements as required by Navy and DoD guidance.

FISC Norfolk. The FISC Norfolk provided jet petroleum and diesel fuel to Navy, Air Force, and Army installations in and around the Norfolk, Virginia, area. The Navy Petroleum Office (NAVPETOFF), located at Fort Belvoir, Virginia, was the major claimant for the FISC Norfolk. Personnel at the FISC Norfolk validated requirements for two bulk fuel-related MILCON and 36 MR&E projects. Personnel at NAVPETOFF stated that they reviewed and approved requirements for the MILCON and MR&E projects at the FISC Norfolk, but could not demonstrate that they validated the requirements.

Installation Review. OPNAV Instruction 11010.20F states that the “commanding officer is responsible for the validity and accuracy of facilities projects prepared for his or her plant account.” Installation personnel reviewed, approved, and validated two bulk fuel-related MILCON and 36 MR&E project requirements as required by OPNAV Instruction 11010.20F. Installation engineering personnel were responsible for MILCON and MR&E project submissions, and were involved in the project development process from conception through design, construction, and maintenance. Installation personnel stated that although there was no documented validation process, they had documentation to support proper validation of MILCON and MR&E project requirements.

Installation engineering and Naval Facilities Engineering Command personnel stated that they conducted monthly meetings to discuss the scope and status of current MILCON and MR&E projects and the need for future projects. Electronic messages between installation engineering, Naval Facilities Engineering Command, NAVPETOFF, and DESC personnel documented coordination of scope changes to the project requirements discussed during the monthly meetings. In addition, Naval Facilities Engineering Command personnel initiated internal reviews of MILCON and MR&E project requirements and cost estimates. One internal review resulted in reducing one MILCON project cost estimate from \$60.8 million to \$40 million. Installation engineering personnel completed all MILCON and MR&E project documentation and submitted it to the installation fuels director for final review and validation. The fuels director reviewed the DD Form 1391s² and all supporting documentation for completeness and accuracy. The fuels director stated that he maintained notes from the monthly meetings and reviewed the notes and other information from the meetings when performing his final project

²DD Form 1391, “FY MILITARY CONSTRUCTION PROJECT DATA,” is the standard form prescribed by DoD 4140.25-M for MILCON and MR&E project submission.

review and validation. In addition, the fuels director stated that he validated the MILCON and MR&E project requirements against Navy and DoD guidance. The fuels director signed the DD Form 1391s to indicate that the project was validated and approved prior to submitting project packages to the major claimant.

Major Claimant Review. OPNAV Instruction 11010.20F states that the major claimant is responsible for reviewing and validating all projects, including MILCON and MR&E requirements. Major claimant engineering personnel stated that they reviewed and approved the FISC Norfolk requirements for the two MILCON and 36 MR&E projects, but could not demonstrate that they properly validated the requirements. Major claimant engineering personnel stated that they validated project requirements by internally discussing the requirements, but could not provide supporting documentation for the discussions or for discussion results that affected the projects. OPNAV Instruction 11010.20F states that the major claimant must retain copies of project documentation, correspondence, project validations, approvals, and authorizations in project files for at least 5 years.

In addition, major claimant engineering personnel did not have a project file for one of the two MILCON projects and were unable to account for its absence. Major claimant engineering personnel had project files for one of the two MILCON projects and for the 36 MR&E projects. The project files contained documentation submitted by FISC Norfolk personnel, but did not include any documentation indicating that major claimant personnel reviewed, approved, or validated the project requirements.

NAS Whidbey Island. The NAS Whidbey Island was the homeport of all active duty Navy EA-6B aircraft and several P-3/EP-3 aircraft. The Commander, Naval Air Force, U.S. Pacific Fleet, located at NAS North Island, was the major claimant for NAS Whidbey Island. Installation personnel properly validated requirements for two bulk fuel-related MILCON projects, but did not validate the requirements for 36 MR&E projects. Major claimant personnel stated that they reviewed and approved requirements for the MILCON and MR&E projects at NAS Whidbey Island, but could not demonstrate that they properly validated the requirements.

Installation Review. Installation engineering personnel were responsible for MILCON projects, and fuels personnel were responsible for MR&E projects.

MILCON Projects. Installation engineering personnel properly validated requirements for two bulk fuel-related MILCON projects. Installation engineering personnel stated that although there was no documented validation process, they had documentation to support proper validation of MILCON requirements. Installation engineering personnel were involved in the MILCON requirements process from conception through design, construction, and maintenance. Installation engineering personnel conducted site reviews and coordinated with NAVPETOFF personnel to discuss the scope of MILCON project requirements. Memorandums and electronic messages between installation, major claimant, NAVPETOFF, and DESC personnel further

documented coordination of MILCON project requirements as they applied to the NAS Whidbey Island mission. Other electronic messages indicated that installation engineering and DESC personnel coordinated efforts to develop more accurate cost estimates. Documented base-level coordination and requirements validation efforts resulted in the reduction of two MILCON project cost estimates by \$12.7 million.

MR&E Projects. Installation fuels personnel did not validate the requirements for 36 MR&E projects. The NAS Whidbey Island fuels division consisted of one fuels manager with responsibility for initiating, processing, and prioritizing all MR&E projects. The fuels manager stated that he was not aware of any responsibility for validating MR&E project requirements. The fuels manager submitted MR&E projects to the installation supply officer for approval, not validation, before submitting the project to the major claimant.

Major Claimant Review. Major claimant fuels personnel stated that they reviewed and approved NAS Whidbey Island requirements for two MILCON and 36 MR&E projects, but could not demonstrate that they properly validated the requirements. Major claimant fuels personnel stated that they validated project requirements by internally discussing the requirements and coordinating site reviews. However, major claimant fuels personnel could not provide documentation of meeting discussions or site review results; specifically, no documentation was available to indicate that the projects were reviewed and whether project requirements were discussed, modified, reviewed, validated, or invalidated as a result of those efforts.

In addition, major claimant fuels personnel did not have project files for 16 of the 36 MR&E projects and were unable to account for their absence. Major claimant fuels personnel had project files for the two MILCON projects and 20 of the 36 MR&E projects. The project files contained documentation submitted by NAS Whidbey Island personnel, but did not include any documentation indicating that major claimant personnel reviewed, approved, or validated the project requirements.

Navy Service Control Point

Navy Service Control Point personnel did not review, validate, and prioritize requirements for all Navy bulk fuel-related MILCON and MR&E projects within the continental United States. DoD 4140.25-M designates the NAVPETOFF as the Navy Service Control Point and states that the Service Control Points are to review and validate MILCON and MR&E projects, as well as develop consolidated project priority lists. Specifically, DoD 4140.25-M states that it is the responsibility of the Service Control Point to review, validate, and prioritize all continental United States Navy bulk fuel-related MILCON and MR&E project requirements. As major claimant for all Navy Fleet and Industrial Supply Centers, NAVPETOFF personnel were aware of their responsibility for project requirements at FISC Norfolk. However, NAVPETOFF personnel stated that they were unaware of their responsibility for bulk fuel-related MILCON and MR&E project requirements outside the Fleet and Industrial Supply Centers, and did not review those project

requirements unless requested by the sponsoring Navy organization. NAVPETOFF personnel stated that they received prioritization lists from continental United States Navy installations, but did not submit a consolidated priority list to the DESC.

Recommendations, Management Comments, and Audit Response

1. We recommend the Commander, Naval Air Station Whidbey Island establish procedures to validate bulk fuel-related maintenance, repair, and environmental project requirements in accordance with Naval Operation Instruction 11010.20F, "Facilities Projects Manual," June 1996.

Management Comments. The Navy did not comment on the recommendation. We request that the Navy provide comments in response to the final report.

2. We recommend that the Commander, Naval Air Force, U.S. Pacific Fleet establish procedures to implement Naval Operations Instruction 11010.20F, "Facilities Projects Manual," June 1996, to demonstrate proper review and validation of bulk fuel-related military construction and maintenance, repair, and environmental project requirements.

Management Comments. The Navy did not comment on the recommendation. We request that the Navy provide comments in response to the final report.

3. We recommend that the Commander, Navy Petroleum Office:

a. As the major claimant for the Fleet and Industrial Supply Center Norfolk, establish procedures to document proper review and validation of bulk fuel-related military construction and maintenance, repair, and environmental project requirements in accordance with Naval Operations Instruction 11010.20F, "Facilities Projects Manual," June 1996.

b. As the Navy Service Control Point, establish procedures to properly review, validate, and prioritize all Navy bulk fuel-related military construction and maintenance, repair, and environmental project requirements within the continental United States in accordance with DoD 4140.25-M, "DoD Management of Bulk Petroleum Products, Natural Gas, and Coal," June 1994.

Navy Comments. The Navy Petroleum Office disagreed with both parts of the recommendation. The Navy Petroleum Office stated that Naval Operations Instruction 11010.20F was not applicable to fuel-related military construction and maintenance, repair, and environmental projects funded by the Defense Logistics Agency. The Navy Petroleum Office further stated that it considered data call response letters and hard-copies of written or e-mail communications as a form of project validation, but stated that retaining written records of discussions related to project validation was not realistic because of the frequency of discussions. The Navy Petroleum Office stated that future data

call response letters would be retained for at least 5 years. The Navy Petroleum Office disagreed with prioritizing all maintenance, repair, and environmental projects within the continental United States into one priority list because the Defense Energy Support Center does not prioritize projects on a single priority list for the continental United States.

Audit Response. The Navy comments are not responsive. Naval Operations Instruction 11010.20F states that major claimants are responsible for reviewing and validating all facilities projects, regardless of costs or method of accomplishment. The Instruction does not limit the validation requirement to Navy-funded projects. The Instruction also states that major claimants shall retain copies of activity project documentation, correspondence, and project validations, approvals, and authorizations in major claimant project files for at least 5 years. Although the Navy Petroleum Office stated that it considered hard-copies of written or e-mail communications as a form of project validation, Navy Petroleum Office personnel did not provide any written or e-mail communications to substantiate project validation efforts. Data call response letters documented project submission to the Defense Energy Support Center for review and funding consideration but did not demonstrate requirements validation. Although the report did not recommend retaining written records of verbal communications related to project validation, the Navy Petroleum Office needs to identify and establish procedures for documenting proper review and validation. We also disagree that the Navy Petroleum Office does not need to prioritize all Navy fuel-related maintenance, repair, and environmental projects within the continental United States for submission to the Defense Energy Support Center. DoD 4140.25-M requires that the Navy Petroleum Office, as the Navy service control point, develop consolidated project prioritization lists for maintenance, repair, and environmental projects within the continental United States before submitting them to the Defense Energy Support Center. DoD 4140.25-M also requires that the Army and Air Force Service Control Points as well as the Combatant Command Joint Petroleum Offices submit project prioritization lists to the Defense Energy Support Center, not to the Joint Staff. We request that the Navy reconsider its position on the recommendation and provide additional comments in response to the final report. The comments should identify specific actions that will properly document project validations.

Appendix A. Scope and Methodology

Scope

Work Performed. We reviewed Navy and DoD guidance for reviewing, validating, prioritizing, and submitting bulk fuel-related infrastructure project requirements and conducted on-site visits to determine whether the guidance was adequately implemented. We reviewed documentation from March 1985 through October 2001 that was used to support current MILCON and MR&E projects at FISC Norfolk and NAS Whidbey Island. Additionally, we reviewed methods used to prepare supporting documentation for MILCON and MR&E project requests at the two installations, at the major claimant responsible for the projects, and the Service Control Point.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Infrastructure high-risk area.

Methodology

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Universe and Sample. We identified the bulk fuel-related MILCON projects submitted by the Navy in FY 2001 for the FY 2005 Defense Logistics Agency Military Construction Program. We judgmentally selected Navy projects with high dollar amounts and high priority status. As a result, we selected two MILCON projects, valued at \$44.9 million, and 44 MR&E projects, valued at \$33.3 million, for review at FISC Norfolk and two MILCON projects, valued at \$24.6 million, and 36 MR&E projects, valued at \$6.6 million, for review at NAS Whidbey Island.

Contacts During the Audit. We visited or contacted organizations within DoD. Further details are available on request.

Audit Dates and Standards. We performed this audit from August 2001 through March 2002 in accordance with generally accepted government auditing standards.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to

implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of the Navy management controls over the bulk fuel storage delivery systems infrastructure MILCON and MR&E projects. Specifically, we reviewed Navy management controls over the review, validation, and submission process of bulk fuel infrastructure MILCON and MR&E project requirements for FISC Norfolk and NAS Whidbey Island projects. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified a material management control weakness for NAVPETOFF; Commander, Naval Air Force, U.S. Pacific Fleet; and NAS Whidbey Island as defined by DoD Instruction 5010.40. Management controls for MILCON and MR&E projects were not adequate to ensure that bulk fuel-related MILCON and MR&E project requirements were adequately reviewed and validated at the Service Control Point, major claimant, and installation levels, prior to submission to DESC for review and prioritization. Recommendation 1., if implemented, will establish controls at NAS Whidbey Island to review and validate bulk fuel-related MILCON and MR&E project requirements. Recommendation 2., if implemented, will establish controls at Commander, Naval Air Force, U.S. Pacific Fleet to review and validate bulk fuel-related MILCON and MR&E project requirements. Recommendation 3., if implemented, will establish controls at NAVPETOFF to review, validate, and prioritize all Navy bulk fuel-related MILCON and MR&E project requirements within the continental United States. A copy of the report will be provided to the senior official responsible for management controls at NAVPETOFF; Commander, Naval Air Force, U.S. Pacific Fleet; and NAS Whidbey Island.

Adequacy of Management's Self Evaluation. NAS Whidbey Island and Commander, Naval Air Force, U.S. Pacific Fleet personnel did not perform a management control review. NAVPETOFF personnel stated that bulk fuel infrastructure was not an assessable unit and, therefore, did not identify or report the specific material management control weakness identified by the audit.

Appendix B. Prior Coverage

Inspector General of the Department of Defense

Inspector General DoD Report No. D-2002-077, “Bulk Fuel Infrastructure Military Construction Project Review Process: Air Force,” April 3, 2002

Inspector General DoD Report No. D-2001-134, “Bulk Fuel Infrastructure Military Construction Project Review Process: Pacific,” June 4, 2001

Inspector General DoD Report No. D-2001-104, “Bulk Fuel Related Projects at Naval Station Rota and Moron Air Base, Spain,” April 19, 2001

Inspector General DoD Report No. D-2001-040, “Bulk Fuel Infrastructure Maintenance, Repair, and Environmental Project Review Process: Pacific,” January 30, 2001

Inspector General DoD Report No. D-2001-006, “Bulk Fuel Storage Requirements for Maintenance, Repair, and Environmental Projects at Fort Hood, Texas,” October 23, 2000

Inspector General DoD Report No. D-2001-003, “Bulk Fuel Storage and Delivery Systems Infrastructure Requirements for Japan,” October 13, 2000

Inspector General DoD Report No. D-2000-164, “Bulk Fuel Storage and Delivery Systems Infrastructure for Yakima Training Center, Washington,” July 20, 2000

Appendix C. Projects Reviewed

FISC Norfolk. We reviewed two MILCON projects, valued at \$44.9 million, and 36 MR&E projects, valued at \$22.2 million.

	Value
MILCON Projects	
P-444, "Replace Fuel Tankage, Phase III"	\$39,892,000
P-445, "Replace Truck Fill Stand and Lube Oil Tanks"	4,983,000
Total	\$44,875,000
MR&E Projects	
NRF 95-04, "Engineering Inspection of Tanks"	\$ 1,517,000
NRF 97-26, "Repair Fire Protection System"	950,000
NRF 97-36, "Spill Cleanup Reimbursement"	14,000
NRF 97-39, "Install Monitoring Wells at Tank 275 Area"	50,000
NRF 97-44, "Repair Leak Detection on Tanks 472-475"	173,000
NRF 97-45, "Tightness Test Jet Petroleum 5 Line"	84,000
NRF 98-46, "Provide Oil/Water Separator for Tanks 1-20"	530,000
NRF 99-07, "Repair POL Lines at Pier 12"	776,000
NRF 99-10, "Repair Underground Storage Tank 204"	560,000
NRF 99-26, "Repair POL Line Between Piers 20 and 21"	87,000
NRF 99-29, "Repair Tank 144"	369,000
NRF 99-30, "Repair Containment Berms"	1,877,000
NRF 00-09, "Repair Tank 145"	168,000
NRF 00-10, "Replace Fuel Pumps W-69"	790,000
NRF 00-12, "Repair POL Lines at Pier 10"	1,020,000
NRF 00-17, "Repair Building CI-288"	443,000
NRF 00-23, "Replace HVAC System at Fuel Lab, Building W-388"	173,000
NRF 00-25, "Repair Pump to Tanks 13-16"	447,000
NRF 00-26, "Clean/Abandon Piping"	636,000
NRF 00-28, "Repair Transportation Piping"	925,000
NRF 01-06, "Repair POL Lines at Causeway and Pier"	2,610,000
NRF 01-07, "Lighting Survey"	25,000
NRF 01-09, "Replace Valves"	430,000
NRF 01-13, "Pressure Test Petroleum, Oil, and Lubricant Pipelines"	237,000
NRF 01-17, "Repair Aboveground Storage Tank 110"	230,000
NRF 01-18, "Replace Expansion Joints and Fenders, Piers C and D"	612,000
NRF 01-19, "Replace JP-5 and Sludge Pumps, Building W-61"	490,000
NRF 02-01, "Modify Truck Defueling System"	390,000
NRF 02-02, "Modify Barge Defueling System"	430,000
NRF 02-05, "Preventive Maintenance/Repair, Marine Loading Arm"	81,000
NRF 02-08, "Replace 14-inch Plug Valves"	749,000
NRF 02-09, "Repair Roadways"	757,000
NRF 02-10, "Dredge Fuel Piers"	1,842,000
NRF 02-13, "Modify Valves and Strainers at Pier C"	470,000
NRF 02-14, "Replace Valve Pits at Pier 5"	861,000
NRF 02-18, "Install Stripper System at Pier D"	350,000
Total	\$22,153,000

NAS Whidbey Island. We reviewed two MILCON projects, valued at \$24.6 million, and 36 MR&E projects, valued at \$6.6 million.

	Value
MILCON Projects	
P-157, "Aircraft Direct Refueling Facility"	\$ 9,100,000
P-162, "Aircraft Ready Fuel Facility"	15,500,000
Total	\$24,600,000
MR&E Projects	
WHI 97-02, "Pipeline Leak Detection"	\$ 126,000
WHI 97-07, "Eight-Inch Pipeline Surge Control"	151,000
WHI 97-08, "Install Fuel Pier Gangway"	108,000
WHI 98-01, "Repair Tank 236"	508,000
WHI 98-03, "Flight Line Hot Pit"	489,000
WHI 98-10, "Install Diesel Dispenser Unit at Building 2702"	72,000
WHI 98-12, "Update Spill Prevention Control and Counter Measure Manual"	100,000
WHI 99-02, "Metal Loss Detection Tool Inspection, Four-Inch Pipeline"	587,000
WHI 99-03, "Replace Oil/Water Separator Pumps in Fuel Farm 2"	67,000
WHI 00-01, "Tightness Testing Fuel Tanks"	180,000
WHI 00-02, "Recurring Maintenance"	30,000
WHI 00-05, "Replace Pier Riprap"	29,000
WHI 00-06, "Recurring Environmental Costs"	19,618
WHI 00-07, "Repair Fuel Pier Office, Leak Detection System"	10,000
WHI 00-08, "Install Three Phase Protection System for Pumps"	13,000
WHI 00-09, "Berm Drain Fuel Farm 2"	39,000
WHI 01-01, "Recurring Maintenance"	55,480
WHI 01-02, "Replace Pipeline OCV Valves"	11,000
WHI 01-03, "Fuel Pier Repairs"	320,000
WHI 01-04, "Install Lighting in Fuel Farms"	420,000
WHI 01-05, "Fuel Lab Extension"	38,000
WHI 01-06, "Automated Fuel Handling System"	1,980,000
WHI 01-07, "Recurring Environmental Costs"	19,618
WHI 01-08, "Prepare POL Operation and Maintenance Manual"	185,000
WHI 01-09, "Hydrostatic Testing of Fuel Facilities Piping"	27,000
WHI 02-01, "Hydrostatic Testing of Fuel Facilities Piping"	27,000
WHI 02-02, "Recurring Maintenance"	91,000
WHI 02-03, "Install Flame Arrestors"	84,000
WHI 02-04, "Replace Aviation Fuel Tank Gaskets"	31,000
WHI 02-05, "Fuel Causeway Fence"	76,000
WHI 02-06, "Fuel Farm 1 Fence"	182,000
WHI 02-07, "Area Fence Between Fuel Farms 1 and 2"	142,000
WHI 02-08, "Fuel Farm 2 Fence"	229,000
WHI 02-09, "Install Fence Around A/C Refueler Truck Lot"	126,000
WHI 02-10, "Asphalt Roadway Between Fuel Farms 1 and 2"	57,000
WHI 02-11, "Modify Electric Start on Tank 361 Transfer Pump"	19,000
Total	\$6,648,716

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Deputy Under Secretary of Defense (Installations)
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

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Assistant Secretary of the Army (Financial Management and Comptroller)
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Commander, Naval Air Force, U.S. Pacific Fleet
Commander, Naval Air Station Whidbey Island

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House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Department of the Navy Comments



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NAVY PETROLEUM OFFICE
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SUITE 3719
FORT BELVOIR VA 22060-6224

IN REPLY REFER TO
FE/DBT/glm
13 MAY 2002

From: Commanding Officer, Naval Petroleum Office
To: Inspector General, Department of Defense

Subj: REVIEW OF DRAFT AUDIT REPORT ON BULK FUEL INFRASTRUCTURE
MILITARY CONSTRUCTION (MILCON), AND MAINTENANCE, REPAIR,
AND ENVIRONMENTAL (MRE) PROJECT REVIEW PROCESS

Ref: (a) Draft audit report on subject process
(b) NAVPETOFF ltr, dtd 8 March 2001, to DESC

1. Reference (a) forwarded subject draft report for comment by Naval Petroleum Office (NAVPETOFF). NAVPETOFF concurs with the information in reference (a) with the following exceptions:

a. Reference (a) cites DoD 4140.25M and OPNAVINST 11010.20F as authoritative documents in the validation process of MILCON and MRE projects. Since MILCON and MRE fuel projects are funded by Defense Logistics Agency (DLA) and Defense Energy Support Center (DESC), not the Navy, NAVPETOFF considers OPNAVINST 11010.20F not applicable. Therefore, NAVPETOFF concurs with the former document but does not concur with the latter document.

b. Reference (a) states NAVPETOFF's FISC Norfolk MRE project files "did not include any documentation indicating that major claimant personnel reviewed, approved, or validated project requirements." It is NAVPETOFF's position that the data call response letters, coupled with hard-copies of applicable written or email communications between NAVPETOFF and DESC and/or field personnel, demonstrate NAVPETOFF validation without having to generate an additional piece of paper for each file that specifically states "Project reviewed, approved, and validated." Upon review of a project, NAVPETOFF (1) either approves it and forwards it to DESC with some form of written or email communication, or (2) does not forward it to DESC until the field activity provides additional information, or (3) rejects it if the scope is outside the boundaries of acceptance. Projects that NAVPETOFF approves are normally forwarded by cover letter to DESC in response to an annual data call. For example, via reference (b), NAVPETOFF forwarded Navy projects for the FY02 MRE program to DESC. Reference (b) effectively acts as our documentation of validation of FY02 candidate projects before submission to DESC. Other projects that arrive later throughout the year may be forwarded electronically.

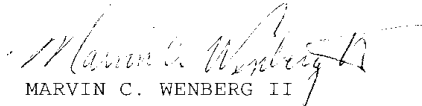
2. NAVPETOFF has not historically retained previous year data call response letters; therefore, a perception possibly exists that NAVPETOFF has not been documenting validation until FY 02. Consequently, in order to prevent a similar misunderstanding from recurring, NAVPETOFF will begin retaining copies of data call response letters for at least 5 years as DoDIG advises.

Subj: REVIEW OF DRAFT AUDIT REPORT ON BULK FUEL INFRASTRUCTURE
MILITARY CONSTRUCTION (MILCON), AND MAINTENANCE, REPAIR,
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3. NAVPETOFF believes the recommendation in reference (a) to retain written records of verbal discussions related to project validation is not realistic due to the frequency of discussions (perhaps ten a day) involving project work in one form or another. NAVPETOFF's first concern is that the increased amount of new paperwork generated each day would be inverse to the Government initiative to reduce paperwork. NAVPETOFF's second concern is that to accomplish such a monumental paperwork exercise, engineers would lose valuable time for the sole reason to record each of their daily discussions with DESC and field personnel.

4. NAVPETOFF does not concur with the requirement to prioritize CONUS MRE projects into one priority list. This is based on the fact that DESC does not prioritize CONUS projects on the basis of a single priority list for CONUS projects. Instead, DESC's procedure is based on each CONUS claimant having its own priority list. This procedure consequently allows CONUS locations to have a far greater opportunity to receive DESC MRE funds than would otherwise be possible if all CONUS projects had to compete against each other in a single priority list. This is conceptually parallel to the various CINCs submitting their separate Integrated Priority List annually to the Joint Staff.

5. NAVPETOFF point of contact is David Tourtellott (703) 767-7331 or DSN 427-7331.


MARVIN C. WENBERG II

Copy to:
COMNAVAIRPAC (Art Van Rooy)
DESC-FE (John Russell)

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