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United States Government Accountability Office
Washington, DC 20548

April 1, 2011

The Honorable Daniel K. Inouye
Chairman
The Honorable Thad Cochran
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable C.W. Bill Young
Chairman
The Honorable Norman D. Dicks
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Subject: *Military Base Realignments and Closures: Review of the Iowa and Milan Army Ammunition Plants*

The 2005 Base Realignment and Closure (BRAC) Commission report recommended that the Army close Kansas and Lone Star Army Ammunition Plants and relocate certain munitions production-related functions¹ from the Kansas and Lone Star Plants to Iowa and Milan (Tennessee) Army Ammunition Plants. As a result of the recommendations, the Army closed the Kansas and Lone Star Plants in 2009 and is in the process of relocating munitions production functions to the Iowa and Milan Plants. The 2005 BRAC recommendations must be completed by September 15, 2011.

In addition, in February 2008, the U.S. Army Sustainment Command issued a request for proposals for operating and maintaining both the Iowa and Milan Plants. As part of the proposals, all offerors were to submit optimization plans for the optimum operation, maintenance, and utilization of the plants. In October 2008 the Army awarded a contract to American Ordnance for the operation and maintenance of the Iowa and Milan Plants at no direct cost to the government. Under the contract, American Ordnance will perform (among other things) security and maintenance for the facilities and will perform the actions identified in its Baseline Optimization Plan to optimize the facilities.² In exchange for these services, American Ordnance is given the

¹ The 2005 Base Closure and Realignment and Commission recommended the movement of certain functions, such as production, storage, and demilitarization. This correspondence only addresses the production functions that were directed to be relocated to the Iowa and Milan Plants.

² A second optimization plan, known as the Enhanced Optimization Plan, is also part of the contract and consists of optional projects that the government could elect to initiate by providing additional funding.

Report Documentation Page

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use of government equipment and facilities and will be able to use the facilities and equipment to manufacture ammunition, either for sale to the government³ or for commercial sale to other authorized parties. As part of its Baseline Optimization Plan, which is incorporated in the contract, American Ordnance intends to relocate certain munitions functions existing at the Milan Plant and consolidate them at the Iowa Plant. Due to the proprietary nature of American Ordnance's optimization plans, certain information has been omitted from this correspondence.

This correspondence responds to an Explanatory Statement⁴ accompanying the Department of Defense Appropriations Act, 2010.⁵ That Statement directed GAO to conduct an audit on the amount and sources of the funds used in furtherance of the 2008 contract with American Ordnance to operate and transform the Iowa and Milan Army Ammunition Plants. In examining Iowa and Milan Ammunition Plants, our objectives were to determine the extent to which (1) the Army has implemented its plan for relocating munitions production-related functions to Iowa and Milan in accordance with the provisions of the 2005 BRAC Commission's recommendations, (2) the federal government is providing funding to implement either the Baseline or the Enhanced Optimization Plans included in the contract awarded to American Ordnance for operating and maintaining the Iowa and Milan Army Ammunition Plants, and (3) the plan to relocate functions between the plants, in accordance with the 2008 contract, has been implemented.

Scope and Methodology

To conduct this work, we analyzed the status of implementing the BRAC Commission's recommendations and compared the Commission's recommendations for the plants with Army and contractor documentation. We reviewed and analyzed the Army's plans and budget documents for implementing the recommendations and interviewed BRAC officials at various Department of the Army offices to determine the status of implementation. We examined the Army's and American Ordnance's plans for the plants and the terms of the contract awarded to American Ordnance in 2008 to operate and maintain the plants. We reviewed documents and conducted interviews with Army contracting officials to determine whether the Army plans to fund portions of American Ordnance's plan that relate to moving and consolidating production. To determine the amounts and sources of the funds for the move, we reviewed Department of Defense and Army financial documents and documents related to American Ordnance's planned investments in the plants. In addition, we conducted site visits and held meetings at the Iowa and Milan Plants to ascertain the status of implementing the BRAC Commission's recommendations and the contract awarded to American Ordnance. Enclosure I contains briefing slides that provide additional details regarding our scope and methodology and findings; see slides 9 through 11 for further details on our scope and methodology.

³ In a separate contract awarded in conjunction with the facility contract, the Army agreed to purchase certain kinds of ammunition from American Ordnance over a five-year period.

⁴ Section 8124 of the Department of Defense Appropriations Act, 2010, indicated that the explanatory statement regarding that Act printed in the House of Representatives section of the *Congressional Record* on or about December 16, 2010, would have the same effect with respect to the allocation of funds and implementation of that Act as if it were a joint explanatory statement of a committee of conference. Pub. L. No. 111-118, § 8124 (2009).

⁵ Pub. L. No. 111-118.

We conducted this performance audit from July 2010 to March 2011 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 objectives.

Summary

We found that the Army is implementing plans to relocate munitions production-related functions from Kansas and Lone Star Army Ammunition Plants to the Iowa and Milan Plants in accordance with the 2005 BRAC Commission's recommendations. According to senior Army officials, the Kansas and Lone Star Plants have been closed since 2009. In addition, certain munitions production-related functions have been moved to the Iowa and Milan Plants. Additional related actions, such as designing the layout for new production lines and installing equipment are in process at Iowa and Milan and according to documentation provided by Army plant officials all work is expected to be completed by the September 15, 2011 BRAC recommendation deadline.

In regard to realigning production functions from Milan to Iowa as described in the 2008 contract, we found that activities to date have been funded by American Ordnance and that, in accordance with the no-cost provisions of the contract, Army contracting officials do not plan to provide funding to support the realignment. Furthermore, we found that the Army has not used and has no plans to use any BRAC funding to support American Ordnance's plans to shift munitions functions from Milan to Iowa.

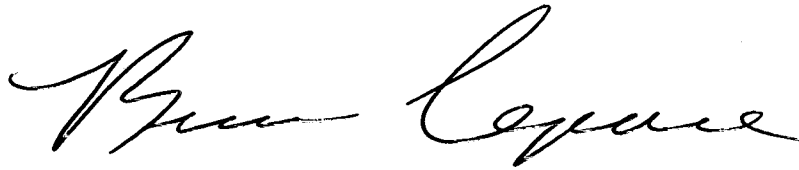
As to the extent that American Ordnance has begun to execute its plan for relocating functions to Iowa, we found that although new equipment is being installed at the Iowa Plant, American Ordnance will not be able to shift munitions production from Milan until required Environmental Assessments at the Iowa Plant and Milan are approved. For additional information on the results of our work, see slides 1 through 20 of enclosure I.

Agency Comments and Our Evaluation

In written comments on a draft of this correspondence, the Department of Defense concurred with the summary and findings in objectives one and two and provided technical comments to the summary and findings in objective three. We incorporated DOD's technical comments in this correspondence as appropriate. DOD's written comments are reprinted in enclosure II.

We are sending copies of this correspondence to the appropriate congressional committees. We are also sending copies to the Secretary of Defense, Secretary of the Army, and Director, Office of Management and Budget. This correspondence will also be available at no charge on our Web site at <http://www.gao.gov>. Should you or your staff have questions concerning this correspondence, please contact me at (202) 512-4523 or leporeb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this

correspondence. Key contributors to this correspondence were Mark J. Wielgoszynski, Assistant Director; Tim Burke, Michael Willems, Katherine Killebrew, Barbara Gannon, Charles Perdue, and Erik Wilkins-McKee.

A handwritten signature in black ink, reading "Brian Lepore". The signature is written in a cursive style with a large initial "B" and a long, sweeping underline.

Brian J. Lepore
Director
Defense Capabilities and Management Team

Enclosure I: Briefing Slides

Enclosure I



Military Base Realignment and Closures: Review of the Iowa and Milan Army Ammunition Plants

Briefing for Congressional Defense Subcommittees on Appropriations

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Introduction

The Army is in the process of relocating munitions production-related functions to Iwoa and Milan (Tennessee) Army Ammunition Plants as the result of two recommendations of the 2005 Base Closure and Realignment (BRAC) Commission's report and in accordance with the provisions of the 2008 contract awarded to American Ordnance for operating and maintaining these two plants.

- The 2005 BRAC Commission's recommended certain munitions production-related functions to be moved to Iwoa and Milan as the result of other plant closures.
 - Other production functions already existing in Milan are being relocated to the Iwoa Plant in accordance with the Army's 2008 contract with American Ordnance.
 - Local and state officials in Tennessee are concerned whether the relocations, outlined in the 2008 contract, violate the BRAC Commission's recommendations and/or whether BRAC or other DOD funds are being used by American Ordnance to execute the relocation of functions outlined in the contract.
-

Introduction - BRAC 2005

As a result of BRAC Commission recommendations, the Army has closed Kansas and Lone Star Army Ammunition Plants and moved certain munitions production-related functions to Iowa and Milan Army Ammunition Plants.

The Iowa Plant gained 105- and 155-millimeter high explosive artillery and missile warhead functions from the Kansas Army Ammunition Plant. It also acquired detonators, relays, and delays functions from the Lone Star Army Ammunition Plant.

The Milan Plant gained 155-millimeter Improved Conventional Munitions artillery and 60-, 81-, and 120-millimeter mortar functions from the Kansas Army Ammunition Plant. Milan also gained 105- and 155-millimeter Improved Conventional Munitions artillery, Multiple Launch Rocket System, hand grenade, and 60- and 81-millimeter mortar functions from the Lone Star Army Ammunition Plant.

According to BRAC documentation neither Iowa nor Milan were projected to gain any jobs as a result of these closures.



Introduction - 2008 American Ordnance Contract

In February 2008, the U.S. Army Joint Munitions Command issued a request for proposals for operating and maintaining both the Iwoa and Milan Plants. As part of their proposals, all offerors were to submit “optimization plans” for the optimum operation, maintenance, and utilization of the plants. American Ordnance submitted a proposal that included two Optimization Plans: 1) a Baseline Plan consisting of required actions funded by American Ordnance; and 2) an Enhanced Plan consisting of optional projects subject to the availability of government funding.

In October 2008, American Ordnance and the Army signed a contract with an initial period of performance of 10 years⁶ for the operation and maintenance of the Iwoa and Milan Plants at no direct cost to the government. Under the contract, American Ordnance will perform (among other things) security and maintenance for the facilities—costs that in the absence of the contract would have been borne by the government. In addition, American Ordnance will perform the actions identified in the Baseline Optimization Plan to optimize the facilities as part of its own investment in the plants.

⁶The contract was for a five year base period of performance with one five year option exercised at the time of contract award and with the possibility of three 5-year award terms that could extend the contract term to a total of 25 years.



Introduction - 2008 American Ordnance Contract

In exchange for these services, American Ordnance is given the use of government equipment and facilities. American Ordnance will be able to use the facilities and equipment to manufacture ammunition, either for sale to the government or for commercial sale to other authorized parties.

According to American Ordnance's baseline optimization plan, which is incorporated by reference in the awarded contract, it will relocate munitions and subassemblies currently produced at the Milan Plant, such as 40-millimeter grenades, M-112 Demolition Block, Mine Clearing Linear Charge, Spider, and 60- and 81-millimeter mortars to the Iowa Plant.



Congressional Direction

Section 8124 of the Department of Defense Appropriations Act, 2010⁷ indicated that an explanatory statement printed in the *Congressional Record* would have the same effect as a joint explanatory statement of a committee of conference. That explanatory statement, among other things, directed GAO to conduct an audit on the amount and sources of funds used in furtherance of the American Ordnance contract to operate and transform the Iowa and the Milan Army Ammunition Plants.

⁷Pub. L. No. 111-118 (2009).



Researchable Objectives

- To what extent has the Army implemented its plan for relocating munitions production-related functions to Iowa and Milan Army Ammunition Plants in accordance with the provisions of the 2005 Base Closure and Realignment Commission's recommendations?
 - To what extent is the federal government providing funding to implement either the Baseline or the Enhanced Optimization Plans included in the contract awarded to American Ordnance for operating and maintaining the Iowa and Milan Army Ammunition Plants?
 - To what extent has the plan to relocate functions between the Iowa and Milan plants in accordance with the 2008 contract been implemented?
-



Scope and Methodology

Objective 1 - Implementing BRAC at Iowa and Milan

To conduct this work, we:

- analyzed the status of implementing the BRAC Commission's recommendations and compared the Commission's recommendations for the plants with Army and contractor documentation.
 - reviewed the 2005 BRAC Commission report to document recommendations related to both the Iowa and Milan Plants.
 - reviewed and analyzed the Army's plans and budget documents for implementing the recommendations.
 - interviewed BRAC officials from the office of the Army Chief of Staff for Installation Management, Army Materiel Command, and Joint Munitions Command to determine the status of BRAC implementation at the plants.
 - conducted site visits and held meetings at the Iowa and Milan Plants to physically ascertain the status of implementing the BRAC Commission's recommendations.
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Scope and Methodology

Objective 2 - Funding the Relocation of Functions from Milan to Iowa

- Our work included reviewing estimates from DOD and Army budgets for Fiscal Year 2008—the year the contract with American Ordnance was awarded—through Fiscal Year 2011.
 - To determine the amounts and sources of funding for implementing the contract, we reviewed the Request for Proposals issued by the U.S. Army’s Joint Munitions Command, American Ordnance’s proposal in response to that request, the awarded contract, and the Baseline and Enhanced Optimization Plans incorporated by reference in the contract.
 - To determine whether government funds are being used for the relocation of functions from Milan to Iowa, we reviewed DOD and Army year-to-year financial documents, BRAC budget documents, plant operational budgets, and documentation for ongoing and planned projects at both plants. We also interviewed officials at the Office of the Assistant Chief of Staff for Installation Management, Army Materiel Command, Joint Munitions Command, Army officials at the Iowa and Milan Plants, and representatives from American Ordnance.
-



Scope and Methodology

Objective 3 - Executing the Relocation Plan

- Our work included a review and analysis of documents from 2008 to present identifying Army and American Ordnance completed and planned actions to implement the relocation of functions from Milan to Iowa.
 - To determine the extent of implementation of the plan outlined in the contract, we reviewed the contract and analyzed briefings and evidence from site visits to both Iowa and Milan and conducted interviews with Army and American Ordnance plant officials to identify actions taken and planned.
 - We conducted this performance audit from July 2010 to March 2011 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
-



Summary and Findings

Objective 1: Implementing BRAC at Iowa and Milan

According to senior Army officials, the Kansas and Lone Star Army Ammunition Plants have been closed in accordance with the 2005 BRAC Commission recommendations. Army documents also show that, in accordance with the BRAC Commission recommendations, certain munitions production-related functions have been moved to the Iowa and Milan Ammunition Plants. Additional related actions are in process at Iowa and Milan and Army plant officials expect them to be completed by the September 15, 2011 BRAC recommendation deadline.



Summary and Findings

Objective 2: Funding the Relocation of Functions From Milan to Iowa

In October 2008, American Ordnance signed a no-cost to the government contract with the Army to operate and maintain both the Iowa and Milan Army Ammunition Plants. The contract included a baseline optimization plan to, among other things, relocate munitions and subassemblies currently produced at the Milan Plant to Iowa. In regard to funding the relocation, we found that in accordance with the provisions of the contract, relocation activities to date have been funded solely by American Ordnance. Additionally, we found no evidence that the Army plans to provide funding, BRAC or otherwise, to support American Ordnance's ongoing relocation plans at the Iowa and Milan Plants.



Summary and Findings

Objective 3: Executing the Relocation Plan

Prior to relocating functions from Milan to Iowa in accordance with the provisions of the 2008 contract, American Ordnance needs to prepare environmental paperwork to support the Army's environmental considerations under the National Environmental Policy Act (NEPA), including Environmental Assessments at both locations. We found that although American Ordnance has begun executing its plan for the Iowa Plant it will not be able to shift production until required NEPA paperwork at the Iowa Plant is completed and approved.

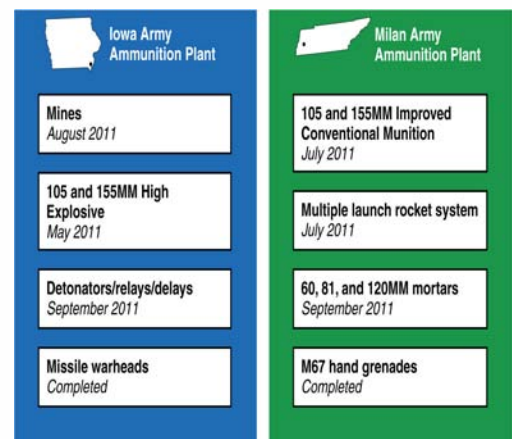
Objective 1 - BRAC Implementation: Army is Implementing Plans to Relocate Ammunition Functions to Iowa and Milan Army Ammunition Plants in Accordance With BRAC

According to senior Army officials, actions to close Kansas and Lone Star Ammunition Plants and move certain munitions functions in accordance with the BRAC Commission's recommendations were completed in July and September 2009, respectively.

Additional actions related to the recommendations, such as designing the layout for new lines and installing equipment at the Iowa and Milan Plants, are in process and are expected to be complete by the September 15, 2011, BRAC deadline, according to Army plant officials. Figure 1 shows the status at Iowa and Milan for relocating the functions in accordance with BRAC.

According to Army financial documents, DOD's cost to implement BRAC recommendations at Iowa will be \$17.9 million and at Milan \$16.7 million.

Figure 1: Completion Dates for Relocating BRAC Functions



Source: GAO Analysis



Objective 2 - Funding the Relocation of Functions from Milan to Iowa: American Ordnance Signed a 10-Year No-Cost Contract With the Army to Operate and Maintain the Iowa and Milan Army Ammunition Plants

American Ordnance's 2008 contract to operate and maintain both Milan and Iowa Army Ammunition Plants included two optimization plans: a baseline optimization plan describing required actions funded by American Ordnance, and an enhanced optimization plan that included optional actions that could be undertaken if additional government funding were provided.

- Actions described in the Baseline Optimization Plan are to be performed at no direct cost to the government. All costs associated with the execution of this plan are included in American Ordnance's estimated corporate investment and any financial risk due to delays in achieving the projected schedule for relocation resides with American Ordnance.
 - The second plan, known as the Enhanced Optimization Plan, consists of optional projects that American Ordnance would like to initiate if the Army elects to provide funding.
 - Agreement to fund projects listed in the Enhanced Optimization Plan could, according to estimates, cost between \$45 and \$55 million.
 - To date, according to Army contact officials there are no plans to fund any of the projects listed in the Enhanced Optimization Plan.
-



**Objective 3 - Executing the Relocation Plan:
American Ordnance is executing its plan for relocating functions, but
environmental review is pending**

- American Ordnance drafted a proposed Environmental Assessment at Milan in June 2010. The assessment was released for public comment and forwarded to Joint Munitions Command/Army Materiel Command for review. Final processing by the Army is still pending.
- A similar Environmental Assessment to determine whether an Environmental Impact Statement is needed must be completed and approved by the Army for the Iowa Plant prior to the relocation of production functions from Milan to Iowa.
- American Ordnance has begun installing production equipment at the Iowa Plant. Contractually, the entire cost of relocating this function to Iowa is the responsibility of American Ordnance. However, production in Iowa cannot begin until the required environmental reviews have been completed and approved.



Agency Comments and Our Evaluation

In written comments on a draft of this correspondence, the Department of Defense concurred with the summary and findings in objectives one and two and provided technical comments to the summary and findings in objective three. We incorporated DOD's technical comments in this correspondence as appropriate. DOD's written comments are reprinted in enclosure II.



Related GAO Products

Military Base Realignments and Closures: DOD is Taking Steps to Mitigate Challenges but Is Not Fully Reporting Some Additional Costs. GAO-10-725R. Washington, D.C.: July 21, 2010.

Defense Infrastructure: Army Needs to Improve Its Facility Planning Systems to Better Support Installations Experiencing Significant Growth. GAO-10-602. Washington, D.C.: June 24, 2010.

Military Base Realignments and Closures: Estimated Costs Have Increased While Savings Estimates Have Decreased Since Fiscal Year 2009. GAO-10-98R. Washington, D.C.: November 13, 2009.

Military Base Realignments and Closures: DOD Needs to Update Savings Estimates and Continue to Address Challenges in Consolidating Supply-Related Functions at Depot Maintenance Locations. GAO-09-703. Washington, D.C.: July 9, 2009.

Military Base Realignments and Closures: DOD Faces Challenges in Implementing Recommendations on Time and Is Not Consistently Updating Savings Estimates. GAO-09-217. Washington, D.C.: January 30, 2009.



Related GAO Products

Military Base Realignments and Closures: Higher Costs and Lower Savings Projected for Implementing Two Key Supply-Related BRAC Recommendations. GAO-08-315. Washington, D.C.: March 5, 2008.

Military Base Realignments and Closures: Estimated Costs Have Increased and Estimated Savings Have Decreased. GAO-08-341T. Washington, D.C.: December 12, 2007.

Military Base Realignments and Closures: Cost Estimates Have Increased and Are Likely to Continue to Evolve. GAO-08-159. Washington, D.C.: December 11, 2007. Military

Military Base Realignments and Closures: Transfer of Supply, Storage, and Distribution Functions from Military Services to Defense Logistics Agency. GAO-08-121R. Washington, D.C.: October 26, 2007.

Enclosure II: Comments from the Department of Defense



DEPARTMENT OF THE ARMY
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MAR 8 2011

Mr. Brian J. Lepore
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Lepore:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report, GAO-11-349R, "Military Base Realignment and Closures" review of the Iowa and Milan Army Ammunition Plants, February 24, 2011 (GAO Code 351496).

Responses to the technical information in the report are enclosed. Enclosure 1 is the DoD comment to the GAO technical information. Enclosure 2 is a letter from the U.S. Fish and Wildlife Service supporting the comments. The DoD concurs with the summary and findings in objectives one and two and has technical comments with the summary and findings in objective three. Specifically, the GAO Report states that the Army has concluded that an Environmental Impact Statement (EIS) is required for the movement of production functions to the Iowa Army Ammunition Plant (IAAAP). In fact, the Army is currently in the process of conducting an Environmental Analysis and has not yet drawn a conclusion as to whether an EIS will be required for the movement of production to the IAAAP.

Due to the proprietary nature of the information contained in the report, the DoD requests the GAO add the following marking to the report: "For Official Use Only. This document contains information exempt from disclosure under the Freedom of Information Act. The Freedom of Information Act, Title 5 United States Code Section 552, Exemption 4, applies as marked (see 5400.7-R)."

Thank you for the opportunity to respond to your comments.

Sincerely,

Malcolm R. O'Neill
Assistant Secretary of the Army
(Acquisition, Logistics and Technology)

Enclosures

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