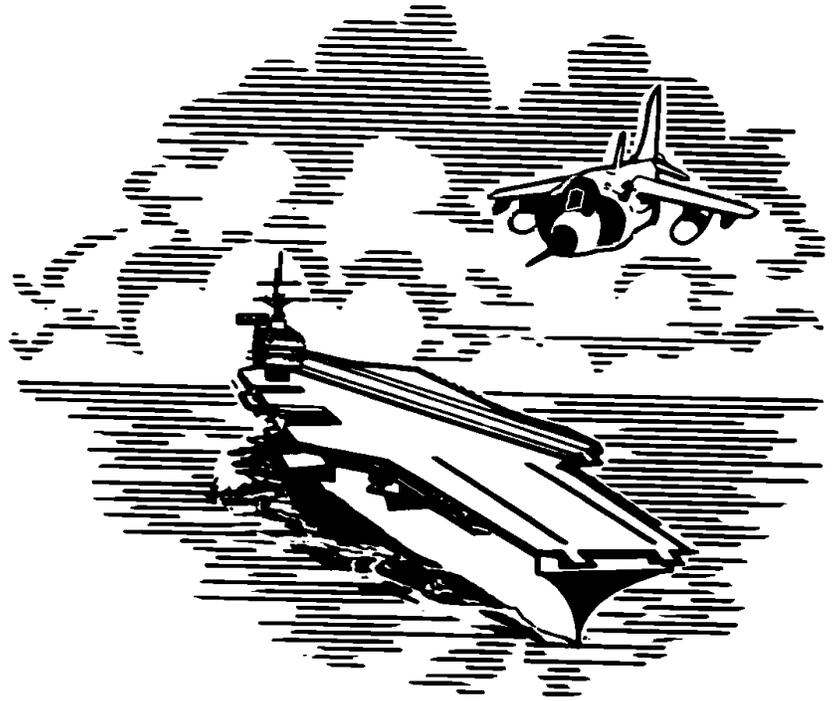




Audit Report



Management of the Navy's Sustainment, Restoration, and Modernization Program

N2002-0067

6 August 2002

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7547/2001-0128
06 Aug 02

MEMORANDUM FOR CHIEF OF NAVAL OPERATIONS
DEPUTY CHIEF OF NAVAL OPERATIONS FOR FLEET
READINESS AND LOGISTICS

Subj: **MANAGEMENT OF THE NAVY'S SUSTAINMENT, RESTORATION, AND
MODERNIZATION PROGRAM (N2002-0067)**

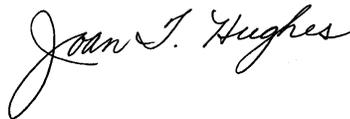
Ref: (a) SECNAV Instruction 7510.7E, "Department of the Navy Internal Audit"
(b) SECNAV Instruction 5200.34D, "Management of the Audit Decision and
Followup Functions"

1. We have completed the subject audit in accordance with reference (a). This report provides our evaluation of the Navy's management of the Sustainment, Restoration, and Modernization Program, the former Real Property Maintenance Program.
2. Recommendations 1 and 2 were addressed to the Deputy Chief of Naval Operations for Fleet Readiness and Logistics (N4). N4 concurred with both recommendations; however, a target completion date for Recommendation 1 was not provided. Therefore, we consider the recommendation open and are assigning a temporary target completion date of 5 September 2002. We request N4 to notify us by 5 September 2002 of a firm target completion date for full implementation of the "facility investment feedback system". For Recommendation 2, it was indicated that "The magnitude of this effort and ongoing OSD program revisions will require a schedule extending into fiscal year 2004." Consequently, we consider the recommendation open and are assigning a target completion date of 30 September 2004. Please provide by 5 September 2002 a listing of all instructions that will be added, deleted, or revised and the target completion date for each.
3. The Deputy Chief of Naval Operations for Resources, Requirements, and Assessments (N8) responded via the Assistant Secretary of the Navy (Financial Management and Comptroller) and did not concur with Recommendations 3, 4, and 5; accordingly, these recommendations are undecided and are being elevated to the Chief of Naval Operations for discussion. The Chief of Naval Operations is requested to provide written responses to Recommendations 3, 4, and 5 within 30 days of the date of this report, in accordance with reference (a). The responses should specify whether you concur or do not concur with the audit findings and recommendations. If you concur, please describe appropriate corrective actions taken or planned, and provide target completion dates for those actions. If you do not concur, please explain the reasons for disagreement.
4. Please submit all correspondence in electronic format (Word or Adobe Acrobat file) to the Acting Assistant Auditor General for Installations and Environment Audits, Mrs. Joan Hughes, joan.hughes@navy.mil, with copies to the Audit Director, Mr. Robert J. Felbinger, Bfelbinger@nsn.cmar.navy.mil, and Assistant Auditor General of the Navy for Strategic Sourcing and Resources Management (SR-24) at timothy.keller@navy.mil. Please ensure that the electronic version is on letterhead and includes a (scanned) signature.

Subj: **MANAGEMENT OF THE NAVY'S SUSTAINMENT, RESTORATION, AND MODERNIZATION PROGRAM (N2002-0067)**

5. Any requests for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy as required by reference (a). This audit report is subject to followup in accordance with reference (a).

6. We appreciate the cooperation and courtesies extended to our auditors.



JOAN T. HUGHES
Acting Assistant Auditor General
Installations and Environment Audits

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Executive Summary

Overview and Conclusions

Navy installations are the foundation of a strong Navy and are the platforms from which the Navy successfully executes its missions. The Real Property Maintenance Program, now referred to as the Sustainment, Restoration, and Modernization (SRM) Program, is the key to sustaining that foundation. The identification of SRM requirements throughout the Department of Defense (DoD), including the Navy, is in a period of transition from old approaches to new.

The Navy is now using the DoD's Facility Sustainment Model to determine their annual "Sustainment" funding requirement. The model computes the required annual "Sustainment" (the amount of work required to keep facilities in good working order) using standard benchmarks based on standard commercial criteria. However, until DoD develops a standardized method for computing the "Restoration and Modernization" portion of SRM, the Navy's facility inspection program and Annual Inspection Summary reporting of critical maintenance and repair deficiencies will continue to be the most critical components of the Navy's "Restoration and Modernization" requirement determination process. Restoration is the amount of maintenance work necessary to restore Navy facilities, whereas modernization is a project that either alters or replaces an existing facility. Both sustainment and restoration work is funded with the Operations and Maintenance, Navy (O&M,N) appropriation. Modernization resources using the Navy's Military Construction appropriation also supplement restoration resources.

This audit examined the Navy's management of the SRM Program. The Navy and Navy Reserves budgeted about \$1.2 billion in O&M,N SRM Fiscal Year 2001 funds. We performed work at two of the Navy's largest Installation Management Claimants (IMCs): the Commander in Chief, U.S. Atlantic Fleet and the Commander in Chief, U.S. Pacific Fleet. These two IMCs accounted for about \$777 million (or about 65 percent) of the SRM Program's O&M,N dollars budgeted for Fiscal Year 2001. We also reviewed the Office of the Chief of Naval Operations' role in managing and monitoring the execution of the SRM Program.

We concluded that the Navy did not adequately manage the SRM Program in an effective and efficient manner. Specifically:

We determined that current reporting by both Fleets did not provide the Navy with sufficient execution output data to adequately measure the effectiveness and efficiency of the SRM Program. We found that the SRM Program/Resource Sponsor was not capturing actual expenditures that allowed measurement of expenses against generated SRM requirements (budgeted versus execution type analyses). In addition, the SRM Program/Resource Sponsor was not capturing actual expenditures by facility condition ratings to measure the effectiveness of achieving the Chief of Naval Operations' goals and objectives. This condition mainly occurred because the SRM

Program/Resource Sponsor's primary focus had been on the programming and budgeting aspects of the SRM Program with little or no emphasis on Program execution. As a result, the SRM Program/Resource Sponsor had little or no assurance that SRM funds totaling over \$1 billion were used as intended, and in an effective and efficient manner.

In addition, we determined that the Navy did not make optimum use of its SRM funds. We found that both the U.S. Atlantic and U.S. Pacific Fleets, who were responsible for administering the funds for their claimancy, were using SRM funds to resolve Other Base Operating Support shortfalls. We concluded that this condition generally occurred because the SRM Program was not considered a high enough priority within the Navy leadership to preclude SRM fund migration. If this condition continues, the Navy's critical backlog of repairs will likely increase beyond current projections, undermining the Chief of Naval Operations' goal of restoring all shore facility categories to a state of C-2 readiness (meets mission demands with some minor deficiencies that have a limited impact on mission capability) in 6 years.

We identified the above conditions between 25 April 2001 and 7 May 2002.

Corrective Actions

We recommended that the Deputy Chief of Naval Operations for Fleet Readiness and Logistics (N4) establish policy and effective controls and procedures to ensure that the performance of the SRM Program is adequately monitored. In addition, we recommended all instructions related to the SRM Program be updated, revised, consolidated, or cancelled as appropriate. The Deputy Chief of Naval Operations (N4) concurred.

We also made three recommendations to the Deputy Chief of Naval Operations for Resources, Requirements, and Assessments (N8). We recommended that action be taken to stop any further SRM fund migration from occurring during Fiscal Year 2002; to establish policy and the necessary controls and procedures to prevent future SRM fund migration; and to emphasize the importance of the SRM Program. The Deputy Chief of Naval Operations for Resources, Requirements, and Assessments (N8) did not concur. Therefore, we are resubmitting these recommendations to the Chief of Naval Operations for response.

Federal Manager's Financial Integrity Act

The Federal Manager's Financial Integrity Act of 1982, as codified in Title 31, United States Code, requires each Federal agency head to annually certify to the effectiveness of the agency's internal controls. Recommendations 1, 3, and 4 require the establishment of controls and procedures for monitoring the performance of the SRM Program, and stopping any further SRM fund migration, which we had designated as internal control weaknesses. In our opinion, the weaknesses identified are significant enough to be considered for reporting in our next annual memorandum of material internal control weaknesses to the Secretary of the Navy.

Section A

Introduction

Background

Navy installations are the foundation of a strong Navy and are the platforms from which the Navy successfully executes its mission. The Real Property Maintenance Program, now referred to as the Sustainment, Restoration, and Modernization (SRM) Program, is key to sustaining that foundation. Navy installations must be properly maintained so that Navy facilities do not undermine readiness, compromise missions, or reduce quality of life. The identification of these maintenance requirements throughout the Department of Defense (DoD), including the Navy, is in a period of transition from old approaches to new, and this audit reflects this fact.

Congress for several years had been concerned about DoD's identification of requirements to reduce the backlog of maintenance and repair of facilities because of the long-standing absence of accurate data for making funding decisions and increasing backlogs. Congress had also been concerned about the military services' movement of maintenance funds out of their SRM accounts to their base operations accounts. The General Accounting Office conducted several audits of the military services' facility maintenance programs and concluded that DoD did not have a comprehensive strategy for maintaining the military services' infrastructure. The General Accounting Office also concluded that if the services continue to delay maintenance of their facilities, costs for future repairs would increase.

In response, DoD is actively pursuing several important initiatives to improve its ability to manage real property effectively and economically. One of these initiatives is the Facility Sustainment Model, which was designed to identify funds required to "Sustain" or to keep facilities in good working order. Using this model, the Navy will be able to compute the annual sustainment requirement for its facilities, using standard benchmarks based on standard commercial criteria. DoD has also created new accounting codes (Program Elements in the Future Years Defense Program database) to capture the actual sustainment expenditures and enable measurement of expenses against Facility Sustainment Model generated requirements.

DoD is also actively pursuing ways to better define their recapitalization requirements or "Restoration and Modernization" resources. When facilities reach a level of minimum performance, they have to be restored, modernized, or replaced. Restoration and Modernization resources are funded by the Operations and Maintenance appropriation and supplemented by the Military Construction appropriation whenever a project modernizes, alters, or replaces an existing facility. Restoration is the amount of maintenance work necessary to restore facilities damaged due to failure attributable to inadequate sustainment, excessive age, natural disaster and fire, accident, or other causes. While the Facility Sustainment Model is a life-cycle based approach to maintenance and

repair for sustainment, the method used for developing the “Restoration and Modernization” requirement is based on facility condition assessments. The backlog of “Restoration and Modernization” is now being captured and reported in the DoD’s Installation Readiness Report. The Installation Readiness Report is required by Section 117 of Title 10, United States Code and is reported to Congress annually. The Installation Readiness Report identifies facilities that are rated C-3 and C-4. A C-3 rating identifies facilities that only marginally meet mission requirements but with major difficulty, and a C-4 rating identifies facilities that do not meet the vital demands of the mission category. DoD’s goal is to restore all current C-3 and C-4 facility categories to a minimal C-2 rating (meets mission demands with some minor deficiencies that have a limited impact on mission capability).

Until DoD develops a standardized method for the military services to compute their “Restoration and Modernization” maintenance requirements, the Navy will continue to use its facilities inspection program to identify its backlog of maintenance requirements. This inspection program, along with the annual reporting of the backlog through the Navy’s Annual Inspection Summary, will continue to be the most critical components of the Navy’s “Restoration and Modernization” requirement determination process. The Navy’s effectiveness in executing its “Restoration and Modernization” determination process is also crucial in accomplishing the Chief of Naval Operations’ backlog reduction goals, improving installation readiness, and improving the living and working conditions of personnel ashore.

The Deputy Chief of Naval Operations for Fleet Readiness and Logistics (N4) is in charge of Fleet Readiness and Logistics for the Navy, including the SRM Program. The Director, Civil Engineering Readiness Division (N44) provides engineering and technical support for the SRM Program, such as making determinations regarding design standards or whether a project should use Military Construction or SRM funding. The Director, Ashore Readiness (N46) is the Resource Sponsor and Program Manager and is responsible for the programming aspects of the SRM Program as well as overall management of the SRM Program. The Navy’s Installation Management Claimants (IMCs) are responsible for administering and managing the SRM Program at their respective activities.

Management of the SRM Program requires continuous attention and the Navy faces significant challenges in this area. Historically, the Navy understated its maintenance requirements and also used its SRM account to absorb fiscal reductions or offsets in favor of other programs. Another trend surfaced in which IMCs were moving funds from their SRM accounts to their Other Base Operating Support accounts because of shortfalls. These reductions and migrations routinely disrupt rational facilities maintenance planning and execution. Although it has been reported that the near-term effect of not properly maintaining the infrastructure was difficult to assess, the real impact of these reductions, offsets, or movements has been cumulative. The lack of proper maintenance and timely repairs has resulted in facility failures that jeopardized readiness and led to expensive future renovations.

During Fiscal Year 2001, the Navy managed more than 160,000 facilities valued in excess of \$125 billion. Forty-three percent of the Navy's infrastructure was constructed before 1950 with an average age of 45 years for its facilities. The age and condition of the Navy's infrastructure is having a negative impact on readiness. To illustrate, in Fiscal Year 2000 the Navy reported 67 percent of its facility categories in a C-3 or C-4 condition. The Navy's Fiscal Year 2000 backlog of critical maintenance and repair deficiencies was reported at about \$2.6 billion and was expected to grow to about \$3.5 billion by Fiscal Year 2007.

Objective

The objective of this audit was to evaluate the Navy's management of SRM processes, accountability and responsibility, and efficiency of operations.

Scope and Methodology

We contacted the Resource Sponsor for the SRM Program and obtained a breakout of the SRM Program for the Operations and Maintenance, Navy (O&M,N) Fiscal Year 2001 budgets by IMCs. In total, we determined that the Department of the Navy budgeted about \$1.7 billion in SRM funds during Fiscal Year 2001. Restoration and Modernization is funded by the O&M,N appropriation. Facilities maintained by O&M,N SRM funds include administrative space, ports, hangars and runways, roads and railroads, training classrooms, day care centers, and utility structures and systems (but not the cost of utilities' consumption). SRM for family housing and industrial-related and medical facilities is funded under separate appropriations.

After excluding the Marine Corps' SRM funding of about \$457 million from the \$1.7 billion, we determined that Navy and Navy Reserve activities budgeted about \$1.2 billion in total for the SRM Program during Fiscal Year 2001. We excluded the Marine Corps from the scope of our review because they have a separate SRM program with different guidance and criteria. We also determined that the SRM budget amounts for the Commander in Chief, U.S. Pacific Fleet and the Commander in Chief, U.S. Atlantic Fleet were about \$419 million and about \$358 million respectively for a total of \$777 million or about 65 percent of the total SRM O&M,N funding during Fiscal Year 2001.

We generally reviewed transactions that occurred during Fiscal Year 1999 through Fiscal Year 2002.

Followup action was not required because there had been no recent audits of the Navy's SRM Program.

To satisfy our audit objective, we examined DoD and Navy policy, procedures, and guidance applicable to the SRM Program, including procedures for reporting actual facility conditions and monitoring the performance of the SRM Program. We also

evaluated internal controls and reviewed compliance with regulations pertaining to the management of the SRM Program.

To the extent necessary to accomplish the objective of our audit, and where potential inaccuracies in data could materially affect our conclusions, we independently validated data quality.

We conducted interviews and discussions with various Navy personnel regarding execution reporting and SRM fund migration as detailed in the Exhibit.

We performed the Audit of the Navy's Management of the SRM Program from 25 April 2001 through 7 May 2002.

The audit was conducted in accordance with generally accepted government auditing standards. The Naval Audit Service is an independent internal organization reporting to the Under Secretary of the Navy.

Section B

Findings, Recommendations, and Corrective Actions

Finding 1

Sustainment, Restoration, and Modernization Program Execution

Synopsis

Current reporting by Installation Management Claimants (IMCs) did not provide the Navy with sufficient execution output data to adequately measure the effectiveness and efficiency of the Sustainment, Restoration, and Modernization (SRM) Program. Office of the Chief of Naval Operations (OPNAV) Instruction 11010.23E states that management of the SRM Program requires continuous attention. Specifically, the SRM Program/Resource Sponsor was not capturing actual expenditures that enabled measurement of expenses against generated SRM requirements (budgeted versus execution type analyses). In addition, the SRM Program/Resource Sponsor was not capturing actual expenditures by facility condition ratings to measure the effectiveness of achieving the Chief of Naval Operations' goals and objectives. This condition occurred because the SRM Program/Resource Sponsor's primary focus had been on the programming and budgeting aspects of the SRM Program with little or no emphasis on Program execution. As a result, the Navy had no assurance that SRM funds totaling over \$1 billion for Fiscal Year 2001 were used as intended, and in an effective and efficient manner. Unless this situation is corrected, the Navy's ability to meet the Chief of Naval Operations' goal of restoring all shore facility categories to a state of C-2 readiness in 6 years will be undermined.

Discussion of Details

Pertinent Guidance and Background

According to OPNAV Instruction 11000.16A, dated 28 April 1987, OPNAV is responsible for programming and budgeting the resources needed to acquire, operate, maintain, and dispose of land and facilities. In addition, OPNAV is responsible for establishing related general policies, responsibilities, and procedures, and monitoring their execution.

OPNAV Instruction 11010.23E, dated 12 May 1987, states that management of the SRM Program requires continuous attention. It further states that OPNAV (OP-04, now N4) will prepare comprehensive reviews of the requirements for SRM resources in the Operations and Maintenance, Navy and Naval Reserves appropriations. The reviews will

include an assessment of the condition of the facilities, a statement of the potential impact on Navy readiness, compliance with the critical backlog reduction objectives and goals, and identification of resources required to achieve the stated objectives.

Secretary of the Navy Instruction 5215.1C, Change 4, dated 9 February 1982, assigns responsibility to OPNAV to manage the directive issuance system from an overall standpoint and provide for needed improvements and changes in the system. As issuing authority, OPNAV is responsible for ensuring the directives are issued to adequately document programs, functions, organizations, policies, and procedures, and to ensure there are no gaps or overlaps. This instruction also requires a review to ensure that all effective directives that the organization has issued or prepared are reviewed at least annually with a view toward canceling, updating, revising, or consolidating, as appropriate. An instruction remains in effect until superseded or otherwise cancelled by the originator or higher authority.

Starting in Fiscal Year 2002, the Navy's annual sustainment requirements were computed using the Department of Defense's (DoD) new Facility Sustainment Model. The model is a life-cycle based approach to maintenance and repairs that uses standard benchmarks, which are based on standard commercial criteria and are unique to individual facility types. Sustainment costs must be paid if the full potential life cycle of a facility is to be realized. To capture actual sustainment expenditures that will enable measurement of expenses against Facility Sustainment Model generated requirements (i.e. to enable planned versus execution type analyses), DoD created new accounting codes (Program Elements in the Future Years Defense Program database). When fully implemented in Fiscal Year 2003, the new accounting codes should allow the Navy's actual sustainment expenditures to be reported.

Restoration and Modernization requirements represent the present condition of a facility based on an assessment or facility control inspection. The Navy's backlog of restoration and modernization is captured and reported in two ways: the Installation Readiness Report and the Annual Inspection Summary. The Installation Readiness Report is required by Section 117 of Title 10, United States Code, and is reported to Congress annually. The Installation Readiness Report identifies facilities that are below minimum acceptable performance in terms of readiness support, and are categorized as C-3 and C-4 (facility condition ratings). According to the Navy's Fiscal Year 2000 Installation Readiness Report, 67 percent of its facilities were reported in a C-3 (facilities that marginally meet the vital demands of the mission category) or C-4 condition (facilities that have not met vital mission demands). Starting in Fiscal Year 2003, the Navy's goal is to bring all of its shore facility categories to a C-2 rating within 6 years.

Audit Results

SRM Program Execution Reporting

Current reporting by the IMCs did not provide the Navy with sufficient execution output data to adequately measure the effectiveness and efficiency of the SRM Program. OPNAV is responsible for programming and budgeting the resources needed to acquire,

operate, maintain and dispose of land and facilities under its command; and for establishing related general policies, responsibilities, and procedures, and monitoring their execution. To determine the responsibilities of the IMCs in reporting SRM execution data, we first reviewed Navy criteria. We found only one SRM Program execution report that the IMCs were required to submit to OPNAV. According to OPNAV Instruction 11010.23E, dated 12 May 1987, each of the IMCs was required to submit a Certified Obligation Report, commonly referred to as the “SRM Execution Report,” by 15 December of each year for the previous Fiscal Year ending 30 September. The purpose of the report was to evaluate the progress made towards achieving backlog reduction goals approved by the Chief of Naval Operations. The reports were submitted to the Naval Facilities Engineering Command who consolidated the reports into one overall report and forwarded the consolidated report to the SRM Program/Resource Sponsor for review.

We concluded that the Consolidated Certified Obligation Report did not provide the SRM Program/Resource Sponsor with adequate visibility over how the IMCs were executing their respective SRM Programs. We determined that the consolidated report only provided the SRM Program/Resource Sponsor with the total SRM dollars obligated by the IMCs for 18 investment categories, such as aviation operational and aviation maintenance/production. We believe that the report did not provide the SRM Program/Resource Sponsor with the necessary execution output data to measure actual expenditures against generated requirements (sustainment, restoration, and modernization requirements) or a budgeted versus execution type analysis. In addition, the Consolidated Certified Obligation Report did not quantify or categorize the SRM funds by the type of maintenance and repair deficiency (Critical or Deferrable) or from a facility condition rating (C-rating) or readiness perspective. Therefore, the Navy did not know how effective IMCs were in reducing their backlog of critical maintenance and repair deficiencies.

We next discussed with the SRM Program/Resource Sponsor officials whether they received any other SRM execution data other than the data contained in the Certified Obligation Report from the IMCs to ensure SRM funds were spent as budgeted or planned. The SRM Program/Resource Sponsor stated that they had not requested any additional execution data from IMCs. Furthermore, they stated that they did not fully monitor the execution of the SRM Program because they relied on IMCs to ensure funds were spent as intended, and in an efficient and effective manner.

In addition to the inadequacy of the execution reporting requirements, we also found that most OPNAV instructions relating to the SRM Program were not current. For example, the purpose of OPNAV Instruction 11010.23E, dated 12 May 1987, was to publish the Chief of Naval Operations’ management goals for the maintenance of real property. The Chief of Naval Operations set goals to eliminate the Navy’s critical backlog of maintenance and repair by the end of Fiscal Year 1994 and the containment of deferrable backlog at Fiscal Year 1985 levels. Although these goals were not achieved and other goals were established after Fiscal Year 1994, this instruction was not properly updated to reflect the new goals. In addition, we found that this instruction had not been updated

to show that the Director, Ashore Readiness (N-46) was both the Program and Resource Sponsor for the SRM Program. The instruction incorrectly showed OP-44 (this OPNAV code no longer exists) as the SRM Program and Resource Sponsor.

Reasons for Insufficient SRM Program Execution Reporting

The Navy did not have sufficient execution data to monitor the effectiveness and efficiency of the SRM Program. We concluded that this mainly occurred because the Navy's primary focus had been on the programming and budgeting of resources for the SRM Program with little or no emphasis placed on how well IMCs were executing their SRM Programs.

As mentioned previously, IMCs were not requested by the SRM Program/Resource Sponsor to provide execution output data other than the data contained in the Certified Obligation Report. However, we determined that additional execution output data was available at IMCs who could have assisted the SRM Program/Resource Sponsor in making better informed SRM Program management decisions. For example, we asked responsible personnel at the Commander in Chief, U.S. Atlantic Fleet and Commander in Chief, U.S. Pacific Fleet whether they had the capability to track their SRM expenditures according to facility readiness ratings (C-Ratings). Both Fleets stated that although they were not tracking expenditures by C-Ratings, they could initiate actions to track this data if the SRM Program/Resource Sponsor establishes it as a requirement. Tracking expenditures by facility readiness ratings is important for several reasons. First, Congress had been asking DoD for an accounting of the military services' SRM funds by facility readiness ratings. Second, it would seem logical that the Navy would want to know the amount of SRM funds spent by specific facility readiness ratings since the current Chief of Naval Operations goal is for all facility categories to be restored to a C-2 rating within 6 years. As of the end of Fiscal Year 2000, the Navy reported that 67 percent of the facility categories were in a C-3 or C-4 condition.

Secretary of the Navy Instruction 5215.1C, Change 4, dated 9 February 1982, requires the Navy to update all instructions related to the SRM Program to incorporate current organizational responsibilities and DoD's initiatives for improving the SRM requirement determination process and reporting of facility readiness ratings. In addition, the latest Chief of Naval Operations goals for reducing the backlog of critical maintenance and repairs should also be included.

We consider the Navy's failure to adequately monitor the IMCs' execution of the SRM Program and the overall effectiveness and efficiency of the SRM Program to be a material internal control deficiency as outlined by Secretary of the Navy Instruction 5200.35D, dated 10 December 1997. We believe past Navy goals of reducing the critical backlog of maintenance and repairs were not met in part because the Navy did not adequately monitor how well IMCs executed their SRM Programs.

Impact of Insufficient SRM Program Execution Reporting

Without sufficient execution output data, the Navy cannot adequately measure the effectiveness and efficiency of the SRM Program, nor can it make sound decisions or be assured that funds were expended as budgeted or planned. In addition, unless the actual expenditures are tracked, the Navy cannot measure the performance of the SRM Program against the Chief of Naval Operations' goal of restoring all shore facility categories to a state of C-2 readiness in 6 years. Over the last 10 years, the Navy's critical backlog of maintenance and repairs has grown by over \$1 billion. Also, the Navy's critical backlog is projected to grow from about \$2.6 billion (Fiscal Year 2000) to about \$3.5 billion by Fiscal Year 2007. Therefore, we believe it is imperative that the Navy establishes effective controls and procedures to ensure that the performance of the SRM Program is adequately monitored. We believe a proper facility investment strategy would foster further credibility with budgetary and policy decision makers, and eventually Congress, if the performance of the strategy is adequately measured.

Furthermore, properly tracking and analyzing actual expenditures will bring the SRM Program in line with one of the Chief of Naval Operations' top priorities, which is "alignment." The Chief of Naval Operations stated, "First, we must ensure that organizations, systems, and processes are aligned to deliver exactly what they are designed to produce and you cannot tell if you are in alignment until you analyze your output."

Recommendations

We recommend that the Deputy Chief of Naval Operations for Fleet Readiness and Logistics (N4):

1. Establish policy and effective controls and procedures so that the performance of the SRM Program is adequately monitored. As a minimum, ensure actual expenditures are captured to allow measurement of expenses against generated SRM requirements (budgeted versus execution type analyses). In addition, actual expenditures by facility condition ratings should also be tracked and analyzed to measure the effectiveness of achieving the Chief of Naval Operations' goal of restoring all shore facility categories to a state of C-2 readiness in 6 years.
2. Update, revise, consolidate, or cancel, as appropriate, all instructions related to the SRM Program as required by the Secretary of the Navy Instruction 5215.1C, Change 4, dated 9 February 1982. This should include incorporating: (1) current OPNAV responsibilities for the SRM Program; (2) DoD's recent initiatives for improving the SRM requirement determination process such as the Facility Sustainment Model and the reporting of facility readiness ratings through the Installation Readiness Report; and (3) the latest Chief of Naval Operations' goal of restoring all shore facility categories to a state of C-2 readiness in 6 years.

Corrective Actions

Appendix 1 contains the complete text of the management responses from Deputy Chief of Naval Operations for Fleet Readiness and Logistics (N4). A summary of the responses and our comments on the responses follow.

Management response to Recommendation 1. The Director for the Ashore Readiness Division of OPNAV agreed and stated that implementation of a “facility investment feedback system” is underway and will satisfy this recommendation to “establish policy and effective controls” of the SRM program. Prior to the next programming process, we will conduct the first annual analysis of SRM program execution results compared to programming objectives.

Naval Audit Service comment on response to Recommendation 1. The Director, Ashore Readiness Division’s response and planned actions satisfy the intent of the recommendation. However, the response did not cite a target completion date. We are assigning a temporary target completion date of 5 September 2002. We request the Deputy Chief of Naval Operations for Fleet Readiness and Logistics (N4) to notify us by 5 September 2002 of a firm target completion date of when the “facility investment feedback system” will be fully in place.

Management response to Recommendation 2. The Director for the Ashore Readiness Division of OPNAV agreed and stated that the instructions affected by the recent changes in facility management business approach are numerous. A revision of the instructions related to the SRM program has begun; the first product, a new instruction defining the new SRM process, is scheduled for completion in Fiscal Year 2002. The remaining instructions will be prioritized and changed to reflect current responsibilities, initiatives, and facility goals. The magnitude of this effort and ongoing Office of the Secretary of Defense program revisions will require a schedule extending into Fiscal Year 2004.

Naval Audit Service comment on response to Recommendation 2. The Director, Ashore Readiness Division’s response and planned actions satisfy the intent of the recommendation. However, since the magnitude of this effort is ongoing and will require a schedule extending into Fiscal Year 2004, we are requesting a listing of all instructions which will be added, deleted, or revised, and the target completion date for each. We request the Deputy Chief of Naval Operations for Fleet Readiness and Logistics (N4) to provide us with this listing by 5 September 2002.

Finding 2

Sustainment, Restoration, and Modernization Fund Migration

Synopsis

The Navy did not make optimum use of its SRM funds. Specifically, we found that both the U.S. Atlantic and U.S. Pacific Fleets were using SRM funds to resolve Other Base Operating Support (OBOS) shortfalls. During Fiscal Years 1999 through 2001, both Fleets moved in total about \$260 million out of their SRM accounts to resolve OBOS requirements. Each of the Fleets was also planning on moving an additional \$55 million during Fiscal Year 2002. We concluded that this condition generally occurred because the SRM Program was not considered a high enough priority within the Navy leadership to preclude SRM fund migration. Continued SRM fund migration to resolve OBOS shortfalls will likely cause the Navy's critical backlog of repairs to increase beyond current projections, undermining the Chief of Naval Operations' goal of restoring all shore facility categories to a state of C-2 readiness in 6 years.

Discussion of Details

Pertinent Guidance and Background

OPNAV Instruction 11010.23E, dated 12 May 1987, establishes the Resource Sponsor's responsibilities for the SRM Program. In addition to the preparation of the Program Objectives Memorandum, the Resource Sponsor is responsible for evaluating the resources programmed for SRM against the SRM objectives and advising the Chief of Naval Operations and the Secretary of the Navy of any departures from these goals.

For the past several years, Congress has been concerned about DoD's management of the maintenance of its facilities because of the long-standing absence of accurate data for making funding decisions and increasing backlog in maintenance and repairs. Congress has also been concerned about the military services' use of SRM funds for other Operations and Maintenance purposes. The General Accounting Office (GAO) had reported to Congress in September 1999 the concerns they had about the military services' movement of funds out of their SRM accounts. GAO noted that many military service officials told them that migration of funds out of SRM for other purposes routinely disrupts rational planning and contracting. GAO also stated that while they understood the need for the military services to have flexibility, they continued to believe that fund migration was an issue for DoD to address. There have been a number of Congressional hearings since GAO reported the fund migration problem. Congress continues to be concerned about SRM fund migration and has hinted about the possibility of fencing SRM funds similar to how the Military Construction appropriation was fenced. During future reviews, GAO also plans to assess the impact of Operations and Maintenance fund movements on readiness.

Audit Results

Migration of SRM Funds

The Navy did not make optimum use of its SRM funds. During Fiscal Years 1999 through 2001, both Fleets received about \$1.9 billion in Operations and Maintenance, Navy SRM funds for maintaining their facilities. However, we determined through discussions with officials from the Navy's U.S. Atlantic and U.S. Pacific Fleets that during this period, SRM funds were used to resolve OBOS shortfalls. Specifically, we found the Fleets had moved about \$260 million, or about 14 percent, of their total SRM funds to resolve shortfalls in their respective OBOS programs. We also found that each Fleet had plans to move an additional \$55 million out of its SRM Program during Fiscal Year 2002 to resolve again OBOS shortfalls.

Although a large portion of the migrated SRM funds had been returned to the SRM account, most of these funds were not returned until the fourth quarter of the fiscal year. This disrupts both rational maintenance and repair planning and contracting. In total, we determined that approximately \$166 million of the \$260 million of SRM funds that were moved to resolve OBOS shortfalls were returned to the Fleet's SRM accounts. Therefore, during Fiscal Years 1999 through 2001, the Fleets did not use about \$94 million, or about 5 percent, of their SRM funds to perform either sustainment, restoration, or modernization work as intended by Congress.

Reasons for Migration of SRM Funds

We concluded that SRM fund migration resulted because the SRM Program was not considered high enough priority within the Navy leadership to preclude fund migration from occurring. We drew this conclusion based on the history of SRM fund migration and discussions with OPNAV and Fleet officials. OPNAV Instruction 11100.3, dated 12 December 1989, dictates that the Navy's land and facilities must be afforded the same commitment, concern, and support as are the Navy's afloat infrastructure (ships, aircraft, and weapon systems). The instruction also states that because shore facilities represent an equally important investment they should be managed accordingly.

However, we concluded that the SRM Program had not been managed as though it was as equally important an investment to the Navy as the afloat infrastructure. Historically, the Navy had understated the SRM Program's requirements. The Navy also used the SRM Program account to absorb fiscal reductions or as offsets in favor of other afloat programs because the near-term effects of underfunding the SRM Program were difficult to assess. However, even though it is well known now that underfunding facility sustainment causes a cumulative impact on the shore infrastructure, the SRM Program account continues to be used by the Navy to resolve other program shortfalls.

We consider the migration of SRM funds to be a material internal control deficiency as outlined by the Secretary of the Navy Instruction 5200.35D, dated 10 December 1997.

Impact of Migration of SRM Funds

Past underfunding has caused: (1) further deterioration of shore facilities; (2) increased maintenance and repair costs; and (3) a negative impact on readiness. The Navy's ability to meet its goals of reducing the critical backlog of maintenance and repairs has also been adversely affected. During the last 10 years, the Navy's critical backlog has grown by more than \$1 billion and it is projected to increase from about \$2.6 billion (Fiscal Year 2000) to about \$3.5 billion by Fiscal Year 2007. Therefore, we believe that the Navy must fully sustain and restore its facilities at the levels recommended by the requirements determination process and reverse the unacceptable practice of underfunding the SRM Program because of understated requirements or fund migration. Continued use of SRM funds for other purposes will likely cause the Navy's critical backlog of maintenance and repair work to increase beyond current projections, undermining the Navy's ability to meet the Chief of Naval Operations' goal of restoring all shore facility categories to a state of C-2 readiness in 6 years.

In addition, we do not believe that the practice of moving funds to resolve other program shortfalls is in concert with one of the Chief of Naval Operations' top five priorities, "Future Readiness." The Chief of Naval Operations stated, "I do not want any more understated requirements. It's time to put that methodology behind us. We have been systematically understating the requirement and then underfunding the understated requirement." Although SRM fund migration is not understating the requirement, the impact is still the same: facility failures that jeopardize Navy readiness and cause expensive renovations in the future. Proper maintenance and repair saves money in the long run by preventing deterioration that often results in wasted utilities and emergency fixes and by avoiding costly and frequently disruptive repairs.

Recommendations

We recommend that the Deputy Chief of Naval Operations for Resources, Requirements, and Assessments (N8):

3. Stop any further SRM fund migration by the IMCs for the remainder of Fiscal Year 2002.
4. Establish policy and the necessary controls to prevent any further SRM fund migration in the outyears.
5. Issue a message to the IMCs emphasizing the importance of the SRM Program.

Corrective Actions

The Deputy Chief of Naval Operations for Resources, Requirements, and Assessments (N8) responded via the Assistant Secretary of the Navy (Financial Management and Comptroller). Appendix 2 contains the complete text of the management responses from

the Deputy Chief of Naval Operations for Resources, Requirements, and Assessments (N8). A summary of the responses and our comments to the responses follow.

Management response to Recommendation 3. The Assistant Secretary of the Navy (Financial Management and Comptroller), Code FMB1, did not concur with the recommendation. During execution, Fiscal Year 2002 Operations and Maintenance funds are prioritized as the IMCs and their regional commanders deem appropriate given the fiscal constraints of all their O&M programs and emergent conditions that were not predicted in the planning, programming, and budgeting processes. The condition of facilities and the growing backlog are very apparent to the IMCs and their regional commanders, who day-to-day deal with other critical Operations and Maintenance issues that affect their ability to plan and conduct an effective facility investment program.

Naval Audit Service comment on response to Recommendation 3. The Naval Audit Service functions as the Internal Auditor for the Navy. In that capacity, we felt it appropriate that we should address issues raised by Congress and GAO concerning the SRM Program. Therefore, the following are excerpts of concerns expressed by Congress and GAO regarding the management of the SRM Program and the migration of funds for other than SRM purposes.

- GAO's September 1999 Report to the Chairman and Ranking Minority Member, Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate (GAO/NSIAD-99-100) addressed the management of Real Property Maintenance. This GAO report stated, "DOD's management of the maintenance of its real properties has concerned Congress because of the long-standing absence of accurate data for making funding decisions and increasing backlogs in infrastructure repairs." This report also stated that DoD needed to deal with the issue of funding instability, particularly the migration of real property maintenance funds to non-real-property-maintenance uses.
- Statements presented by members of Congress regarding the Fiscal Year 2001 National Defense Authorization Act – Real Property Maintenance and Infrastructure Sustainment Funding cited concern over the fact that real property maintenance funds go into augmenting operational accounts and doing operational requirements. Congress has and continues to be concerned about SRM fund migration and has suggested the possibility of fencing SRM funds similar to how the Military Construction appropriation is fenced.
- On 1 March 2000, GAO provided testimony regarding Real Property Maintenance and Base Operations Fund Movements (GAO/T-NSIAD-00-101) before the Subcommittee on Military Readiness, Committee on Armed Services, House of Representatives. This testimony indicated that GAO plans to assess the impact of Operations and Maintenance fund movements on readiness in future reviews.

The results of our audit were based on the fact that the Navy's critical backlog of maintenance and repair has grown by more than \$1 billion and is projected to increase to \$3.5 billion by Fiscal Year 2007. The SRM critical backlog continues to grow, yet OPNAV has not properly addressed this readiness and quality of life issue.

The current Chief of Naval Operations goal is to restore all shore facility categories to a state of C-2 readiness in 6 years. While goals can be set and continue to be set, OPNAV is not ensuring that anyone is working to the achievement of these goals. Our recommendations, if implemented, would effect positive change on the SRM Program and the Navy.

Management response to Recommendation 4. The Assistant Secretary of the Navy (Financial Management and Comptroller), Code FMB1, did not concur with the recommendation. IMCs and regional commanders continually express the need for budget execution flexibility within the Operations and Maintenance programs to allow them to effectively provide for the sailors and the Navy missions their installations support. Fencing SRM funds would dramatically reduce flexibility and would not allow knowledgeable claimant and regional commander staffs from applying the day-to-day regional/installation knowledge to effectively executing a fiscally constrained Operations and Maintenance budget. We will continue to work with the IMCs and the OPNAV Ashore Readiness Division to emphasize proper funding of other programs to prevent migration from the SRM program.

Naval Audit Service comment on response to Recommendation 4. The GAO testimony (GAO/T-NSIAD-00-101) before the Subcommittee on Military Readiness, Committee on Armed Services, House of Representatives on 1 March 2000 stated that the migration of funds out of SRM for other purposes routinely disrupted rational planning and contracting. In addition, this testimony stated that it would appear that better management of fund migration could prove cost effective in both the short and long term. SRM funds continue to be reallocated for non-SRM purposes. Therefore, while we understand the need for flexibility, this flexibility should be related to establishing the priority for eliminating specific facility critical backlogs and not flexibility to spend funds for purposes other than what they were intended. While this audit did not review OBOS, the continual bailout of OBOS is detrimental to SRM. Better management is needed. This recommendation helps to make sure funds are being used as Congress intended.

During the course of the audit, we worked extensively with N81 Assessment personnel who were aware of the migration of funds from SRM and the negative effect it has on SRM program management. Although the Assistant Secretary of the Navy (Financial Management and Comptroller), Code FMB1, is responsible for budgetary guidance involving ceasing of SRM fund migration, they are not responsible or accountable for the overall management of the SRM Program and whether the program is operating as Congress intended. It would seem that N81 personnel have a unique perspective of both budget and program issues of the SRM Program and, therefore, should be included in the final resolution. The Navy needs to seize this opportunity to proactively begin to solve the SRM problems on its own.

OPNAV Instruction 11000.16A (28 April 1987) states that the Chief of Naval Operations is responsible for programming and budgeting the resources needed to acquire, operate, maintain, and dispose of land and facilities under Chief of Naval Operations command and for establishing related general policies, responsibilities, and procedures and monitoring their execution. The Chief of Naval Operations needs to assume responsibilities as required by this OPNAV instruction. While emergent issues are inherent, OPNAV is already aware that a significant portion of SRM funds will be allocated to OBOS prior to the beginning of the fiscal year. A fiscally constrained Operations and Maintenance program does present challenges; however, the Deputy Chief of Naval Operations' concurrence could help to justify their budget requests to Congress for adequate funding in their major programs. Many times, the impact in OBOS is not more important, but just more visible than the slower deterioration of a facility.

The response states, "The IMC's and regional commanders continue to express the need for budget flexibility". The real need is for accountability, not flexibility. Congress has expressed concerns about the inability of the Navy to provide information showing proper accountability of SRM funds. We find the response appears to argue more for no accountability than attempting to address the problems facing the SRM program, as well as the OBOS shortfalls. The management response expresses the need for flexibility to use SRM funds for other Operations and Maintenance programs. This seems to contradict OPNAV Instruction 11100.3 of 12 December 1989, which dictates that the Navy's land and facilities must be afforded the same commitment, concern, and support as are the Navy's afloat infrastructure (ships, aircraft, and weapon systems), and should be managed accordingly.

We believe it is in the best interest of the Navy to self-impose a fence on SRM funds rather than face the potential of Congressional fencing. With a self-imposed fence, the Navy still maintains some flexibility in true emergencies, but with Congressional fencing all flexibility is lost. While N8 states they will continue to work with IMCs and the OPNAV Ashore Readiness Division, this suggests no major change in philosophy. It is our belief that the results of their currently planned efforts will result in the same thing their past efforts have, which is deteriorating facilities, using funds for purposes other than intended, and a negative impact on readiness and quality of life. From a review of past goals and the continued increases in critical backlog, an analysis would reveal that fund migration should cease.

Management response to Recommendation 5. The Assistant Secretary of the Navy (Financial Management and Comptroller), Code FMB1, did not concur with the recommendation. They will continue to work with the IMCs and the OPNAV Ashore Readiness Division to emphasize the importance of the SRM program and why it is vital to fund other programs adequately so that money will not migrate from the SRM program.

Naval Audit Service comment on response to Recommendation 5. The response seems to acknowledge that SRM funding is considered a routine source for shortfalls

in other programs. This is not what Congress intended when funding is appropriated. This response further identifies the Navy's inability to properly document the importance of the SRM program. We do not understand the unwillingness to emphasize the importance of the SRM program via a message. The response does not specifically state what methods will be used to emphasize the importance of this program.

Management response concerning SRM fund migration. The Director, Ashore Readiness Division stated that the audit report made three recommendations to the Deputy Chief of Naval Operations for Resources, Requirements, and Assessments (N8) to combat the migration of SRM funds. The Director concurred with the conclusion that SRM fund migration is a significant issue to be resolved before SRM programming can be effective.

Naval Audit Service comment. We hope that the Director, Ashore Readiness Division's concurrence will assist in bringing immediate attention and correction to fund migration which continues to cause SRM programming to be ineffective.

Section C

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS							MONETARY BENEFITS (In \$000s)				
¹ Find- ing	Rec. No.	Page No.	Subject	² Status	Action Command	Target Completion Date	³ Cate- gory	Claimed Amount	Agreed To	Not Agreed To	⁴ Appro- priation
1	1	11	Establish policy and effective controls and procedures so that the performance of the SRM Program is adequately monitored. As a minimum, ensure actual expenditures are captured to allow measurement of expenses against generated SRM requirements (budgeted versus execution type analyses). In addition, actual expenditures by facility condition ratings should also be tracked and analyzed to measure the effectiveness of achieving the Chief of Naval Operations' goal of restoring all shore facility categories to a state of C-2 readiness in 6 years	O	Deputy Chief of Naval Operations for Fleet Readiness & Logistics (N4)	9/5/02					
1	2	11	Update, revise, consolidate, or cancel, as appropriate, all instructions related to the SRM Program as required by Secretary of the Navy Instruction 5215.1C, Change 4, dated 9 February 1982. This should include incorporating: (1) current Office of the Chief of Naval Operations responsibilities for the SRM Program; (2) DoD's recent initiatives for improving the SRM requirement determination process such as the Facility Sustainment Model and the reporting of facility readiness ratings through the Installation Readiness Report; and (3) the latest Chief of Naval Operations' goal of restoring all shore facility categories to a state of C-2 readiness in 6 years	O	Deputy Chief of Naval Operations for Fleet Readiness & Logistics (N4)	9/30/04					
2	3	15	Stop any further SRM fund migration by the Installation Management Claimants for the remainder of Fiscal Year 2002	U	Chief of Naval Operations	9/5/02					
2	4	15	Establish policy and the necessary controls to prevent any further SRM fund migration in the outyears	U	Chief of Naval Operations	9/5/02					
2	5	15	Issue a message to the Installation Management Claimants emphasizing the importance of the SRM Program	U	Chief of Naval Operations	9/5/02					

1/ + = Indicates repeat finding

2/ O = Recommendation is open with agreed-to corrective actions pending; C = Recommendation is closed with all agreed-to action completed; U = Recommendation is undecided with resolution efforts in progress

3/ A = One-time potential funds put to better use; B = Recurring potential funds put to better use for up to 6 years; C = Indeterminable/immeasurable

4/ = Includes appropriation (and subhead if known)

Exhibit

Activities Visited or Contacted During Audit

Chief of Naval Operations: Director, Ashore Readiness (N46)
Director, Civil Engineering Readiness Division (N44)
Director of Assessments (N81)
(all in Washington, DC)

Claimants: Commander in Chief, U.S. Atlantic Fleet, Norfolk, VA
Commander in Chief, U.S. Pacific Fleet, Pearl Harbor, HI
Naval Sea Systems Command, Washington, DC
Naval Facilities Engineering Command, Washington, DC

Regions: Mid-Atlantic Region, Norfolk, VA

Installations: Naval Air Station Oceana, Virginia Beach, VA
Norfolk Naval Shipyard, Portsmouth, VA

Activities: Public Works Center, Norfolk, VA
Naval Undersea Warfare Center, Newport, RI



DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
200C NAVY PENTAGON
WASHINGTON, D.C. 20350-2000

IN REPLY REFER TO

11000
Ser N464/2U590192
3 July 2002

From: Chief of Naval Operations
To: Director, Naval Audit Service

Subj: RESPONSE TO DRAFT AUDIT REPORT 2001-0128, MANAGEMENT OF THE
NAVY'S SUSTAINMENT, RESTORATION, AND MODERNIZATION PROGRAM

Ref: (a) Naval Audit Service memo 7547/2001-0128 of 7 May 02

1. Reference (a) made two recommendations for improvements to the Sustainment, Restoration, and Modernization (SRM) programming process. I concur with both recommendations.
2. Implementation of a "facility investment feedback system" is underway and will satisfy the first recommendation to "establish policy and effective controls" of the SRM program. Prior to the next programming process, we will conduct the first annual analysis of SRM program execution results, compared to programming objectives.
3. The instructions affected by the recent changes in facility management business approach are numerous. A revision of the instructions related to the SRM program has begun; the first product, a new instruction defining the new SRM process, is scheduled for completion in fiscal year 2002. The remaining instructions will be prioritized and changed to reflect current responsibilities, initiatives, and facility goals. The magnitude of this effort and ongoing OSD program revisions will require a schedule extending into fiscal year 2004.
4. Reference (a) made three recommendations to Deputy Chief of Naval Operations for Resources, Requirements, and Assessments (N8) to combat the migration of SRM funds. I concur with the conclusion that SRM fund migration is a significant issue to be resolved before SRM programming can be effective.
5. For further discussion of this matter, please contact CDR Ken Branch at (703) 601-1614.

C. W. COLE
Rear Admiral, U.S. Navy
Director, Ashore Readiness Division

Copy to:
Commander, Naval Facilities Engineering Command
OPNAV N8

Management Response From the Deputy Chief of Naval Operations
for Fleet Readiness and Logistics (N4)



THE ASSISTANT SECRETARY THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

7510
Ser N821/U008
25 Jun 02

MEMORANDUM FOR DIRECTOR, NAVAL AUDIT SERVICE

Subj: MANAGEMENT OF THE NAVY'S SUSTAINMENT, RESTORATION AND
MODERNIZATION PROGRAM (2001-0128)

Ref: (a) Draft Naval Audit Report 2001-0128

Encl: (1) ASN (FM&C) Comments on Draft Audit Report 2001-0128

As requested by reference (a), comments are provided at enclosure (1). For additional information, contact CDR Frank Stich at 703-697-1344.

A handwritten signature in black ink, appearing to read "J. Greenert".

Jonathan W. Greenert
Rear Admiral, U.S. Navy
Director, Operations Division (FMB1)

Management Response From the Deputy Chief of Naval Operations
for Resources, Requirements, and Assessments (N8)

ASN (FM&C) Comments on Draft Navy Audit Service Report 2001-0128 of 7 May 2002, Management of the Navy's Sustainment, Restoration, and Modernization Program

Recommendation

3. Stop any further SRM fund migration by the Installation Management Claimants (IMCs) for the remainder of FY2002.

Answer: Do not concur. During execution, FY2002 Operation and Maintenance funds are prioritized as the IMCs and their regional commanders deem appropriate given the fiscal constraints of all their O&M programs and emergent conditions that were not predicted in the planning, programming and budgeting processes. The condition of facilities and the growing backlog are very apparent to the IMCs and their regional commanders who day-to-day deal with other critical O&M issues that affect their ability to plan and conduct an effective facility investment program.

4. Establish policy and the necessary controls to prevent any further SRM fund migration in the outyears.

Answer: Do not concur. IMCs and regional commanders continually express the need for budget execution flexibility within the O&M programs to allow them to effectively provide for the Sailors and the Navy missions their installations support. Fencing SRM funds would dramatically reduce flexibility and would not allow knowledgeable Claimant and Regional Commander staffs from applying the day-to-day regional/installation knowledge to effectively execute a fiscally constrained O&M budget. We will continue to work with the installation management claimants and the OPNAV Ashore Readiness Division to emphasize proper funding of other programs to prevent migration from the SRM program.

5. Issue a message to the Installation Management Claimants emphasizing the importance of the SRM program.

Answer: Do not concur. We will continue to work with the installation management claimants and the OPNAV Ashore Readiness Division to emphasize the importance of the SRM program and why it is vital to fund other programs adequately so that money will not migrate from the SRM program.

Encl (1)

Management Response From the Deputy Chief of Naval Operations
for Resources, Requirements, and Assessments (N8)