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Report to Congressional Requesters

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# DEFENSE INFRASTRUCTURE

## DOD's Planned Finance and Accounting Structure Is Larger and More Costly Than Necessary

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The Honorable Herbert H. Bateman
Chairman
The Honorable Norman Sisisky
Ranking Minority Member
Subcommittee on Military Readiness
Committee on National Security
House of Representatives

On May 3, 1994, the Department of Defense (DOD) announced a plan to consolidate over 300 defense accounting offices into 5 large existing finance centers[1] and 20 new sites called operating locations during the next 5 to 7 years. The plan, which is expected to reduce DOD finance and accounting personnel from 46,000 to 23,000, is aimed at streamlining DOD's financial operations and setting the stage for future process enhancements and budgetary savings. In total, DOD expects the consolidation will save between $8 billion and $9 billion (present value) over the next 20 years.

On August 3, 1994, your Subcommittee asked us to evaluate this plan. Your Subcommittee wanted to know if the plan reflected leading-edge business practices that would result in substantial cost reductions and high-quality customer service and included a sound implementation strategy that was achievable within stated time frames. Your Subcommittee also wanted to know when DOD would begin to save money and if the potential for consolidating finance and accounting operations had been fully realized. This report assesses (1) the process DOD used to identify the number and locations of the finance and accounting centers and operating locations, (2) the potential impact of the consolidation on customer service, and (3) DOD's plan to include leading-edge business practices in the consolidation.

## Results in Brief

We see DOD's plan to consolidate and reduce personnel as a necessary step toward a more effective and efficient finance and accounting service. Consolidating and reengineering finance and accounting functions while sustaining ongoing operations, however, is a difficult and complex task. In such an undertaking it is important to strike a balance between cost considerations and other factors important to maintaining customer service and improving business operations. Based on our analysis of the

[1]DOD's five large centers are located in Columbus, Ohio; Cleveland, Ohio; Denver, Colorado; Indianapolis, Indiana; and Kansas City, Missouri.

process DOD used to select the proper number of new operating locations and decide where they should be located, we do not believe DOD achieved that balance. Specifically, we found the following:

- DOD decided to open 20 new operating locations without first determining what finance and accounting functions they would perform or if 20 was the right number to support its operations. DOD's primary emphasis during the decision-making process was on maximizing short-term cost savings, not on determining what was best from a finance and accounting business perspective.
- DOD, in selecting the 20 specific operating locations, used a process that placed significant weight on using excess DOD facilities, primarily those on military bases closed or realigned during the base realignment and closure process. As a result, 15 of the 20 locations will be housed in excess DOD facilities, even though DOD considered several of them less desirable from a customer service, cost, or quality workforce standpoint. About $173 million of military construction funding will be needed during fiscal years 1997, 1998, and 1999 to bring these sites up to par.
- DOD, for the most part, has not reengineered the finance and accounting functions that will be performed at the 20 operating locations. Thus, the consolidation may reduce the number of locations performing finance and accounting functions, but it will not likely improve DOD's business operations. Once these functions are reengineered, DOD may be faced with the need to consolidate them once again.

Although DOD is opening 13 operating locations this fiscal year and 3 more in early 1996, it will be some time before they are fully staffed and operational. We believe this provides DOD time to reconsider its consolidation decisions. Accordingly, as DOD proceeds with this consolidation process, it needs to develop an updated estimate of the number of locations and personnel needed to meet current and future operating requirements and use this information to reassess its site selection decisions for new operating locations.

## Background

The scope of DOD's finance and accounting network is extremely large and complex. The network pays about 6 million people (3 million uniformed men and women, 1 million civilians, and 2 million retirees and annuitants) and more than 15 million invoices annually charged to nearly 12 million contracts. The network disburses over $250 billion annually and is the source of financial information and thousands of reports used by executives and managers throughout DOD.

Prior to 1991, the military services managed this network. There were 5 large finance and accounting centers (one for each service plus a contractor pay center) and over 300 small defense accounting offices at various military bases and installations. This network was not only inefficient (each service had unique and often duplicative processes and systems) but was also unable to produce reliable financial information and reports. To help solve these problems, in January 1991, DOD created the Defense Finance and Accounting Service (DFAS). DFAS' mission was to strengthen DOD's financial management operations by standardizing, consolidating, and streamlining finance and accounting policies, procedures, and systems. It was given management control of the 5 large finance centers and some of the functions carried out at over 300 defense accounting offices. Of the estimated 46,000 people in the finance and accounting network at the time, DFAS eventually assumed organizational responsibility for about 27,000. The remaining 19,000 people stayed with their respective military service to perform managerial accounting and various installation-related and customer service functions.

DFAS is a Defense Business Operations Fund entity. It operates as a revolving fund and provides finance and accounting services to the military departments and defense agencies. DFAS recoups its costs through various fees and charges billed to those departments and agencies. DFAS' fiscal year 1995 operating budget, which is about $2.0 billion, comes primarily from operations and maintenance funds appropriated to the military departments and defense agencies. Therefore, by reducing its operating costs, DFAS will reduce the fees charged to the military services and demands on operations and maintenance funds.

The consolidation of financial operations is a major piece of DOD's plan for achieving much needed financial management reform. Although the planned consolidation is expected to provide a streamlined and less costly infrastructure, other pieces of DOD's plan will also need to be implemented before significant improvement in financial operations will be realized. Other pieces include reengineering its business and organizational practices, standardizing financial data and definitions, and improving financial systems so they allow DOD to comply with the requirements of the Chief Financial Officers Act. Collectively, the pieces of the plan could result in major improvements to DOD's financial operations. DOD hopes to implement its plan by the end of 1999.

DFAS' first attempt to consolidate and streamline its finance and accounting operations was done through a program known as the Opportunity for

Economic Growth. Under this program, which began in March 1992, 112 communities in 33 states submitted economic incentive packages and competed for the opportunity to house a large (4,000 to 7,000 person) finance center. DFAS evaluated their proposals[2] and recommended to the Secretary of Defense five "winners." Before these winners were announced, however, the new Secretary of Defense canceled the initiative in March 1993, believing it was not sound public policy. Rather, he believed it was an auction for public jobs that placed the cost of national defense on local communities rather than the nation as a whole. He was also concerned that moving large finance and accounting centers to new cities would seriously degrade customer service.

Shortly thereafter, the Secretary announced a new consolidation initiative. Under this initiative, the Secretary directed DFAS to select a small number of sites (from 5 to 15). DFAS subsequently evaluated 132 potential locations, including most of the cities that had competed under the Opportunity for Economic Growth process and 16 bases that had been closed or realigned. After this analysis was completed in May 1994, the Deputy Secretary of Defense announced that finance and accounting operations would be housed in the existing 5 large centers plus 20 new operating locations.[3]

## Better Balance Is Needed Between Budgetary and Customer Service Goals

One of the more important aspects of the consolidation initiative was for DOD to determine the appropriate size and location of its finance and accounting network (e.g., how many offices and people are needed to meet not only today's requirements but also future requirements once new systems, processes, and technologies are introduced). Size and location are important because they help form the foundation upon which the new network will be built. Wrong decisions could cause the network to be mis-sized, leading to costly future reorganizations, consolidations, or realignments. In making its consolidation decision, however, DOD's primary emphasis was on achieving short-term budgetary gains rather than on establishing the best network for meeting current and future operational and customer needs. As a result, DOD may be establishing a larger than necessary finance and accounting network and increasing the risk of creating short-term customer service problems.

[2]DFAS' primary evaluation criterion was the extent communities were willing to subsidize the cost of facilities and operations. However, community and facility characteristics were also considered.

[3]On July 1, 1994, a 21st site was added to the network. Located at Ford Island, Hawaii, this site will support DOD's finance and accounting operations in the Pacific theater.

## Planned DFAS Infrastructure May Be Larger Than Necessary

Throughout both DFAS consolidation initiatives, defense managers indicated that finance and accounting operations should be consolidated into as few sites as possible. Under the Opportunity for Economic Growth process, for example, all DFAS operations were to be brought into five large centers. This carried over to the second consolidation initiative when the Secretary of Defense (on June 7, 1993) directed DFAS to analyze options for 5 to 15 sites. According to testimony by DOD officials,[4] reducing the number of sites to "no more than a handful" was essential if DOD was to achieve the savings, operational improvements, and efficiencies envisioned from the consolidation.

Following this guidance, DFAS established the Consolidation Task Force to study alternatives and carry out the site-selection process. The Senior Review Council, made up of DFAS executives,[5] was also established to oversee the Task Force's work. During the first month of its study, the task force gathered information about how to properly size DOD's finance and accounting operations. It reviewed research conducted by academia and other DOD, federal, and private sector organizations and obtained the views of 25 senior DFAS officials. It concluded that there was no "right size" for consolidation sites but suggested that the existing 5 centers should have from 1,000 to 5,000 employees and new operating locations should have from 500 to 1,500 employees. During this time, the Review Council discussed potential organizational structures that would move DOD's finance and accounting operations toward a joint operations environment rather than a military service-oriented environment. The Review Council wanted to avoid managing a large number of small organizations and dividing finance and accounting functions among many sites.

Based on this work, DFAS, in conjunction with the DOD Comptroller's staff, completed a site-selection process plan in August 1993. This plan specified 5 to 15 sites as the acceptable number of sites and 750 as the minimum number of people at each site. The plan included an explicit assumption that "larger rather than smaller and fewer rather than a larger number of sites was preferable." During the next several months, the Task Force assessed various alternatives, analyzed cost information, and deliberated over different organizational structures. Based on input from the Senior Review Council in January 1994, the Task Force narrowed its assessment

[4]Statement by the Principal Deputy Assistant Secretary of Defense, Production and Logistics, and Principal Deputy, DOD Comptroller, before the Subcommittee on Military Installations and Facilities, House Committee on Armed Services, regarding DFAS consolidation (June 10, 1993).

[5]Membership included about one-half of DFAS' 27 Senior Executive Service members. Most DFAS headquarters' deputy directors and several finance center directors were represented on the Council.

to 2 primary alternatives, each involving a target population of 23,000 employees.

The first alternative would have placed 23,000 employees at the 5 existing centers. The 5 centers employ about 11,000 people, so some facilities would have required substantial modification to accommodate the growth. The second alternative would have expanded the 5 centers to about 13,000 people and assigned 10,000 people to 6 additional sites—4 sites with 1,500 employees and 2 sites with 2,000 employees. In terms of cost, the Task Force considered several factors (e.g., personnel costs, one-time transition costs for severance pay and relocation of employees, building renovation costs, rent, and utilities) and estimated that the 2 alternatives would save between $6.4 billion and $8.8 billion (present value) over the next 20 years.[6] According to Senior Review Council representatives, six sites was the preferred alternative because it would save more money and allow an optimum consolidation of finance and accounting functions.

After further review, however, DOD officials[7] decided on a different course of action. In May 1994, the Deputy Secretary of Defense announced that finance and accounting functions would be consolidated into the 5 existing centers and 20 additional operating locations. His decision was based primarily on two rationale:

1.The cost of activating and operating 20 smaller sites over 20 years is comparable to the cost of 6 additional operating locations.

2.Twenty sites, staffed with fewer people, can be activated quicker than either of the 2 alternatives studied by DFAS. This would allow DOD to close the 300 defense accounting offices sooner and begin reducing the number of employees in the finance and accounting network—the area where DOD expects to achieve the most budgetary savings.

We have several concerns with this decision. First, it was based on maximizing short-term cost savings, not on making the best business decisions. Although these two concepts are not mutually exclusive, we

[6]Present value analysis is a commonly used technique to quantify and compare costs for multiple alternatives. The analysis considers the time value of money. The Consolidation Task Force established costs in terms of 1993 dollars and escalated them to then-year dollars using approved DOD inflation factors. After establishing these costs, the Task Force conducted present value analyses using a discount factor of 6.4 percent.

[7]A high-level group of DOD managers met several times during March and April 1994 to review DFAS data and consider alternatives. This group included the DOD Comptroller and Deputy Comptroller, the DFAS Director, and other management and support personnel.

found no analysis that suggested that 20 operating locations was the appropriate infrastructure to support either current or future operating requirements or customer needs. DOD clearly decided on the number of locations first and then attempted to determine which finance and accounting functions they would perform.

Besides not being a good business practice, this action had a direct impact on previous DFAS planning initiatives and concept of operations. Since the beginning of the Opportunity for Economic Growth process, for example, DFAS management had been planning to consolidate finance and accounting functions either within the 5 large centers or at a limited number of other locations. According to DFAS officials, larger sites gives them greater flexibility to adjust and reorganize to meet future technological, workload, and customer service changes. Under this operating concept, the DFAS Indianapolis center, which handles accounting for the Army, was planning for two large operating locations. One location would have consolidated base-level finance and accounting functions for the training and combat commands; a second site would have consolidated finance and accounting functions for logistics and depot activities. Further, the DFAS Columbus center was planning to consolidate all vendor pay functions within the center; it did not see a need for any additional operating locations. When DOD announced its consolidation decision, however, it gave DFAS Indianapolis six operating locations and DFAS Columbus two. As of April 1995, these two centers still had not settled on the functions and workloads that would operate at these locations.

Our second concern is that DOD did not estimate the costs of a 20-site option and, consequently, does not know how those costs might compare with other alternatives. During the time DOD executives were considering DFAS alternatives, they did ask the Consolidation Task Force to analyze the cost savings associated with retaining the 5 large centers plus either 10 or 15 additional operating locations. The Task Force's analysis showed that the two options would save between \$8.1 billion and \$8.8 billion (present value).[8] Table 1 compares the cost estimates and potential savings of the various consolidation alternatives. As the table shows, 6 and 15 locations offer about the same amount of savings.

[8]As required by the Office of Management and Budget Circular A-94, "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs," the Task Force conducted a sensitivity analysis by varying the cost factors (plus/minus 10 percent) and applying the 1994 DOD discount rate of 5.75 percent.

**Table 1: Cost Estimates and Savings of DFAS Consolidation Alternatives (20-Year Present Value)**

Dollars in billions

| Consolidation alternatives | Cost of alternatives | Cost of existing structure | Estimated savings |
|---|---|---|---|
| Five centers | $21.2 | $27.6 | $6.4 |
| Five centers & 6 operating locations[a] | 18.5 - 19.5 | 27.6 | 8.1 - 8.8 |
| Five centers & 10 operating locations[a] | 19.0 - 19.5 | 27.6 | 8.1 - 8.6 |
| Five centers & 15 operating locations[a] | 18.8 - 19.1 | 27.6 | 8.5 - 8.8 |

[a]The cost of these alternatives varied according to the sites evaluated. For example, for the six-site alternative, the sites that provided the lowest cost alternative of $18.8 billion were different than those that provided the best labor force alternative of $19.5 billion.

According to a Consolidation Task Force representative, the 15-location option offers as much or more cost savings than other options because DOD's analysis assumed that the transfer or addition of personnel at new operating locations was limited to 375 positions per year, per location. More locations, therefore, would allow the work to be transferred from the 300 Defense Accounting Offices more rapidly, resulting in a quicker drawdown of personnel and an earlier realization of savings. Although the infrastructure costs associated with 15 sites is more expensive than other options, DOD believed the additional cost would be more than offset by the early consolidation. Based on this premise, DOD assumed that 20 sites would result in a quicker drawdown of personnel and even more savings. No additional analysis was done to confirm this assumption.

To determine if this premise was accurate, we ran an analysis for a 20-site option, using the same parameters, assumptions, and discount rate as the Consolidation Task Force. This analysis showed that 20 operating locations, with a minimum of 750 people each, increases the target population of the operating locations from 11,500 to 15,000. Consequently, the workforce of the 5 existing centers and the 20 operating locations would total 26,500 people, or 3,500 more than DOD's target of 23,000 people. This increases the 20-year cost of the consolidation by at least $2.8 billion (present value).[9]

In discussing the results of this analysis with the DFAS Director and other DOD representatives, we were told that 750 people per site was not a

[9]The additional cost is only for personnel. It does not include costs for such items as training, equipment, and telecommunications that will be incurred with a larger workforce and infrastructure.

minimum but rather a target and they had no intention of retaining a population of more than 23,000 people. They explained that there is really no way to tell how many people will be at an operating location, but they would not arbitrarily increase the size just to reach a planning goal of 750.

Although we agree that DOD should not arbitrarily increase the size of its operating locations, these statements raise questions about whether 20 locations are needed. All DFAS analysis prior to the site selection, for example, was based on the need for at least 750 people per operating location. Potential sites, buildings, and renovation costs were analyzed and decisions were made with that in mind. Because DOD does not yet know how many people will be assigned to each location, it has no way of knowing whether its facility planning assumptions are accurate. Consequently, it may be over- or underestimating its facility needs at the various locations.

In addition, DOD does not have any specific analysis to support its position that the 20 sites could be activated sooner to support a faster drawdown of personnel. Although it seems logical that smaller sites can be activated sooner than larger sites, much depends on the condition of the available facilities; the time needed to make necessary renovations; the time required to establish a management structure to recruit, hire, and train new employees; the time required to transfer current employees and workloads from offices that will close; and the quality of the workforce available at the new location. As discussed later in this report, DOD considered some of these factors in selecting the 20 sites, but they had little impact on which sites were selected.

## Site-Selection Process Placed a Lower Priority on Customer Service

In any consolidation initiative, it is important to consider the impact on the business operation—will the enterprise be able to provide uninterrupted service to customers? DOD recognized this when it made customer service one of four site-selection criteria. According to DFAS officials, the idea was to place a high value on sites with readily available, trained DFAS employees. Even though these employees might have to learn a new functional process or develop new skills, DOD assumed that a core group of DFAS employees who are familiar with DFAS' mission and possess a mix of supervisory and technical skills would help maintain customer service during the transition period.

This criterion, however, did not play a large part in DOD's site-selection decisions. An example relates to the Defense Commissary Agency's vendor pay functions. Currently, DFAS has two locations that perform this function: one in Hopewell, Virginia, where the Commissary Agency's headquarters is located, and the other in San Antonio, Texas. In fiscal year 1994, these two offices processed 2.8 million invoices totaling $4.8 billion. According to information provided to us by DFAS officials, there are two locations where a consolidation would appear to be reasonable: (1) Hopewell, Virginia, because it already performs vendor pay functions, is colocated with the Commissary Agency's headquarters, and is the home of the vendor pay computer system and (2) the DFAS center in Columbus, Ohio, because it already has people trained in vendor pay functions and does accounting and disbursing for the Commissary Agency. DFAS Columbus, prior to the site-selection process, was planning to bring Commissary Agency vendor pay functions into its center.

Under the 20-site option, the plan is to consolidate this function in Pensacola, Florida. Because fewer than 20 percent of the people are expected to transfer to Pensacola, new staff will have to be hired and trained. If not properly managed, such consolidations can result in significant problems. In 1991, for example, the Commissary Agency went through a consolidation that was not well-managed. It resulted in late vendor payments, prompt pay penalties,[10] and companies going out of business because they could not get paid.

The same potential for customer service problems exists with nonappropriated fund accounting. DFAS has already consolidated most of the Army's nonappropriated fund accounting at the Red River Army Depot in Texas, but the Air Force and Navy are still doing their accounting in decentralized field offices around the world. As part of the consolidation initiative, DFAS plans to consolidate all of nonappropriated fund accounting at one location. The location for nonappropriated fund accounting (Chanute Air Force Base in Rantoul, Illinois) was not determined until after the site-selection process was completed. According to DFAS officials, it will be difficult to transfer the Army's consolidated operation to Chanute while DFAS is trying to bring Air Force and Navy operations on line. Few people are expected to transfer from Red River Depot to the Chanute location. Because DFAS has no employees in the Chanute area, almost an entirely new workforce will have to be hired and trained.

[10]The Prompt Payment Act (31 U.S.C. 3901-3906) requires the federal government to pay interest on late payments to vendors.

## DOD's Site-Selection Process Favored Excess DOD Facilities Over Other Factors

Once DOD decided to consolidate finance and accounting functions at the 5 existing centers and 20 operating locations, it then had to decide where to locate these activities. Since the Opportunity for Economic Growth program was canceled, it was clear that the location of the five large centers would not change. There were many options, however, for selecting the sites for operating locations. During the evaluation and scoring process, for example, DOD used 4 criteria to evaluate sites in 132 communities: (1) cost to the government, (2) maintenance of customer service, (3) availability of a good labor supply, and (4) use of excess defense assets. It assigned each of the selection criteria a value of between 0 and 100 points. We have two basic concerns with the site-selection and scoring process.

First, before DOD conducted the scoring and evaluation process, it did not determine the relative importance of and assign corresponding weights to each criteria—each was initially given equal weight. Once the initial scoring process was completed, DOD arrayed the data using nine different weighting schemes, sometimes, for example, giving more weight to cost and at other times giving cost a relatively low priority. This scheme resulted in 10 different priority listings. Finally, DOD arrayed all 10 lists and counted the number of times each site showed up in the top 20. This became the 11th list. All 11 lists were then given to the Deputy Secretary of Defense as potential selection options. He selected list number 11.

We question the soundness of this process. Determining the relative importance of the four criteria during the selection process rather than before the process begins may not lead to sound decision-making. DOD recently stated this position during base closure and realignment hearings. Specifically, DOD said that predetermining the rules, including weighting factors, was absolutely necessary in order to be as objective and fair as possible.[11]

Second, the process, in effect, guaranteed that base closure and realignment sites or other excess DOD facilities would be selected, even if they were more costly to modify and operate and were ranked lower from a customer service and labor supply standpoint. Scores for three of the criteria, for example, provided a relative ranking of the communities using a wide spectrum of points: customer service scores ranged from 15 points to 100 points; quality labor force scores ranged from 58.5 points to 100 points; and cost-to-the-government scores ranged from 0 to 100 points.

[11]Statement by the Assistant Secretary of Defense (Economic Security), before the Base Closure and Realignment Commission (Mar. 1, 1995).

However, for the use of excess defense assets, there were only two possible scores. Excess defense sites received the full 100 points while nondefense sites received 0 points. Using this scoring method, 15 of 16 communities with excess DOD assets were selected as operating locations. The 16th community ranked 21st.

We conducted a sensitivity analysis to determine how locations would have fared if no credit or points had been given for the availability of excess DOD assets. Our analysis assigned equal weights to cost, customer service, and availability of a good labor force. It also assumed that DOD had adequately considered the economic merits of using excess DOD facilities during its evaluation of costs. This analysis showed that the rankings of the sites changed significantly when no points were given for excess DOD assets. Only three of the base closure and realignment sites would have been ranked among the top 20 sites.

A factor that affected the relative ranking of the base closure sites was the cost to renovate and make them useful for finance and accounting operations. During the cost analysis of potential sites, $115 million was the estimated cost to renovate the 15 excess DOD facilities. DFAS now estimates it will need $173 million in military construction money during fiscal years 1997, 1998, and 1999 to complete renovations at these sites. Appendix II describes the results of DOD's architectural and engineering assessment. It shows that 8 of the 15 facilities were considered good, 5 were characterized fair, 1 was rated poor, and 1 was sold by DOD before it could be activated. A variety of problems need to be corrected at the facilities rated fair or poor.

The Oakland Naval Supply Center, for example, will need $18 million to improve seismic characteristics, remove asbestos, and expand parking at the facility. This is $136 per square foot, which is less than new construction cost but more than the estimated cost to lease administrative space in the Oakland area. The facility at Fort Ord, a hospital building built in 1972, needs about $20 million for extensive interior renovations to provide suitable office space. It also needs a major modification to its heating and cooling system. At Chanute Air Force Base in Rantoul, Illinois, the original building selected by DFAS would have cost about $26 million to renovate, but it was subsequently sold by DOD to a private developer. DFAS expects that an alternative site on base, which it has not yet finished evaluating, will cost about $18 million to renovate.

Funding for these renovations will require the use of military construction appropriations. If approved, these funds will not be available until at least fiscal year 1996, and renovations will probably not begin until 1997 or later after design specifications are finalized and contracts are awarded. In the interim, the use and capacity of some facilities will be limited. For example, according to DFAS officials, the Fort Ord facility, an 8-story hospital building, cannot house more than about 200 DFAS employees until extensive renovations are complete.

Yet, DOD is moving ahead with its consolidation plans. On November 14, 1994, DOD announced that 43 defense accounting offices would close and 13 of the new operating locations would begin limited operations by the end of fiscal year 1995. On March 7, 1995, DOD announced plans to close another 32 defense accounting offices during the first half of fiscal year 1996. This is happening even though DFAS has not yet received congressional funding to renovate the sites and does not know what functions it will place at some of the facilities, and, therefore, what types of personnel it needs to recruit and hire.

## DFAS Consolidation Precedes Most Reengineering Efforts

Business process reengineering is a quality improvement concept DOD introduced about 4 years ago as part of its Corporate Information Management initiative. Reengineering allows organizations to develop a baseline and critically evaluate their current business processes, eliminate unnecessary tasks, and, in some cases, reinvent the way they do business. It has been used successfully by many businesses over the past several years as they have attempted to downsize and become more competitive. More recently, the Secretary of Defense asked each defense organization to apply reengineering techniques to its high payoff processes and develop truly innovative approaches for reducing business-process cycle times. The ultimate goal is a 50-percent reduction by the year 2000.

DFAS has recognized the importance of reengineering in streamlining its operations and reducing the size of its finance and accounting workforce. Its consolidation planning documents, for example, refer to 30- to 50-percent productivity gains that might be possible through reengineering. For some processes that operate at its large finance centers, DFAS has implemented reengineering initiatives. For example, both its transportation payment process and its retiree and annuitant payment process have been consolidated and streamlined to gain efficiencies and improve customer service. In addition, DFAS is considering several additional center processes for reengineering. These include the contract payment process at the Columbus center and the garnishment process at the Cleveland center.

On the other hand, DFAS has not yet applied reengineering techniques to the finance and accounting processes it plans to place at the 20 operating locations. DFAS officials stated that reengineering its processes at the same time it was consolidating its operations would be difficult to manage and cause unnecessary risk to its operations. Instead, it plans to use existing systems and processes to perform many of the same basic functions at the new operating locations as it did at the smaller defense accounting offices: vendor pay, travel processing, general funds accounting, and Defense Business Operations Fund accounting. Once these functions are reengineered, it is likely that fewer personnel with different skills may be needed to carry out the new business processes.

For example, DOD reported that it spent $3.5 billion on temporary duty travel in fiscal year 1993. It also estimated that its processing costs may be at least 30 percent of the direct travel cost—well above the 10-percent average reported for private companies and the 6-percent rate that industry considers an efficient operation. In a recent report,[12] we estimated that DOD could save hundreds of millions of dollars in travel processing costs by following private industry best practices. Although DOD has chartered a task force to reengineer travel management and consider private industry best practices, it has not considered any of these practices in its consolidation plans. One best practice, for example, involves consolidating travel voucher processing at a single location. Under the DFAS consolidation, voucher processing will be done at almost all of the 20 new operating locations. Consequently, if DOD's travel task force concludes that one voucher processing site (or a small number of processing sites) is sufficient, DFAS will once again have to consolidate a portion of its financial operations.

Another example involves DOD's civilian pay functions. Currently, DFAS employees are responsible for paying DOD civilians handle about 684 pay accounts each. Under the consolidation initiative, DFAS intends to reduce the number of pay systems from 25 to 2 and reduce the number of locations responsible for processing civilian pay to 4. Once the system standardization and consolidation are finished, DFAS officials told us that each employee should be able to handle 1,600 pay accounts. Although this would be a substantial productivity gain, private sector companies that

[12]Travel Process Reengineering: DOD Faces Challenges in Using Industry Practices to Reduce Costs (GAO/AIMD/NSIAD-95-90, Mar. 2, 1995).

have aggressively reengineered their employee pay functions average about 3,000 pay accounts per person. If DFAS could achieve this level of productivity, it would need 470 fewer people than what it expects under its planned consolidated pay operation. This would save DFAS another $16 million in annual operating costs and might reduce the number of locations needed for civilian payroll operations.

## Recommendations

As DOD proceeds with the consolidation and reengineering of finance and accounting functions and locations, we recommend that the Secretary of Defense direct the DOD Comptroller to

- develop an updated estimate of the number of locations and personnel required to perform finance and accounting functions. In developing this estimate, it is important that the Comptroller consider not only today's concept-of-operations but also how finance and accounting operations will be performed once DFAS has complied with DOD's business process reengineering goals and directives.
- use the updated information to reassess the site selection decisions for new operating locations. This reassessment should balance DOD's desire for short-term cost savings with the need to select sites that, from a business perspective, offer the greatest opportunity for maintaining or enhancing finance and accounting operations and service to DFAS' customers.

## Matters for Congressional Consideration

Before approving military construction funds for renovating excess facilities for finance and accounting operations, the Congress may want to ensure that DOD has adequately assessed and justified the size and locations of its finance and accounting network.

## Agency Comments and Our Evaluation

Following DOD's initial review of a draft of this report, we met with representatives of the Comptroller's Office and DFAS to discuss their preliminary comments. Although they generally agreed with the facts and contents of the report, they did not believe we had given DFAS adequate credit for some of the reengineering initiatives it had implemented at the large finance centers. They also did not believe we had adequately recognized that DFAS expects the consolidation will save between $8 billion and $9 billion over the next 20 years. We added information to the report in both these areas.

The major point raised by the DOD representatives, however, concerned our draft recommendation to stop the consolidation until the number of operating locations and sites was reevaluated. Although they agreed with the recommendation in principle, they said that stopping the consolidation at this point in time could be detrimental to current finance and accounting operations. They pointed out that several defense accounting offices had already been closed and 13 new operating locations opened or partially opened to pick up the workload. Stopping the buildup of these sites, in their view, could jeopardize DFAS' ability to support its military customers.

After considering DOD's position, we modified our recommendation to request that DOD reevaluate its consolidation and site-selection decisions concurrently with its ongoing consolidation efforts. Based on this change, DOD now concurs with the recommendations and has committed to reevaluate the number of locations and personnel required to perform finance and accounting functions by November 30 of 1995 and each year thereafter. Likewise, beginning on December 15, 1995, it has agreed to annually reassess its site-selection decisions and report its findings to the Secretary of Defense. (See app. III.)

We performed our review from August 1994 through July 1995 in accordance with generally accepted government auditing standards. (See app. I for details on our objectives, scope, and methodology.)

We are sending copies of this report to the Chairmen, Senate Committee on Governmental Affairs, Senate Committee on Armed Services, House Committee on Government Reform and Oversight, and Senate and House Committees on Appropriations; the Director, Office of Management and Budget; the Secretary of Defense; and other interested parties. We will make copies available to others on request.

If you have any questions on this report, please call me on (202) 512-8412. Major contributors to this report are listed in appendix IV.

David R. Warren
Director, Defense Management
and NASA Issues

# Contents



**Abbreviations**

| | |
|---|---|
| DFAS | Defense Finance and Accounting Service |
| DOD | Department of Defense |

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# Objectives, Scope, and Methodology

The Subcommittee on Military Readiness, House Committee on National Security, asked us to address the following questions about the Department of Defense's (DOD) plan to consolidate its finance and accounting operations:

- Does the plan reflect leading-edge business practices that are likely to lead to substantial cost-reductions and high quality customer service?
- How will the planned structure achieve productivity gains that will enable DFAS to reduce its workforce from 46,000 to 23,000 people?
- Is the plan's implementation strategy sound and achievable within stated time frames?
- When will the military services begin to realize reductions in the prices they are charged for the Defense Finance and Accounting Service (DFAS)?

During this phase of our audit work, we focused on the consolidation implementation strategy and the use of leading-edge business practices to reduce costs and improve customer service. To determine the soundness of the implementation strategy, we reviewed DOD's site-selection process, which determined the infrastructure for finance and accounting operations and formed the basis for developing a consolidation implementation strategy.

To assess how DFAS determined the number of sites needed, we reviewed guidance and criteria prescribed by the Secretary of Defense, statements made by DOD officials to congressional oversight committees, documentation describing the Opportunity for Economic Growth, documentation of meetings held by DFAS' Senior Review Council, and efforts made by the Consolidation Task Force to determine how private sector organizations addressed the issue of organizational size. We also reviewed implementation plans to identify the functions and workloads that are planned for the various operating locations. During our review, we interviewed DOD officials, particularly Task Force members, about the costs and personnel requirements of organizational structures with 6, 10, 15, and 20 operating locations.

To determine how candidate sites were evaluated and selected, we reviewed DFAS' site-selection process plan to determine if it incorporated the Secretary of Defense's guidance, defined the selection criteria, specified the analytical processes and products, assigned weights to the selection criteria, and identified the responsibilities of the DFAS Director, the Senior Review Council, and the Consolidation Task Force. We reviewed the facts and assumptions used to analyze the candidate sites, the scoring process for each criterion, and the rankings and costs for organizational structures that included 6, 10, 15, and 20 operating locations. We also conducted a sensitivity analysis to determine the impact of one of the selection criteria—reuse of excess DOD assets—on the rankings of the 750-person candidate sites. Our analysis excluded this criterion and gave equal weight to the criteria of cost, customer service, and quality labor force. We then compared this ranking with DOD's rankings using all of the criteria. During our review, we met frequently with DOD officials, particularly Task Force members, about various aspects of the selection process.

To determine how excess DOD facilities were assessed, we reviewed DFAS' site-selection process plan to identify criteria used to qualify candidate facilities for consideration. We analyzed the results of an engineering and architectural company's assessments of DOD's excess facilities and cost estimates to renovate each facility. We compared DFAS' military construction estimates for renovating these facilities to the engineering and architectural company's estimates. We used this information to identify problems with the facilities and compare the estimated renovation costs of each facility. Using DFAS' planned square footage for renovation and planned staffing level of 750 people per site, we calculated the renovation costs on the basis of both cost per square foot and cost per person.

To determine how customer service would be affected by site-selection and activation decisions, we reviewed DFAS plans to determine how they addressed the Secretary of Defense's concerns about maintaining customer service and complied with the site-selection criterion that emphasized maintaining customer service. Accordingly, we analyzed DFAS' plans to maintain customer service when field offices are closed and their workloads and functions are transferred to operating locations. To the extent it was available, we analyzed data identifying where finance and accounting functions are currently operating and where they will be consolidated. We also analyzed documentation identifying the number of DFAS employees expected to transfer to operating locations, the number of current employees already located in metropolitan areas where operating locations will be established, and the number of employees expected to be hired. We also discussed with DFAS officials training requirements for employees who could be assigned to operating locations during fiscal year 1995. We obtained information about training classes for employees who are expected to be transferred or hired.

We performed our work at the Headquarters, Office of the Secretary of Defense (Comptroller); Headquarters, Defense Finance and Accounting Service; and DFAS finance centers located in Cleveland, Ohio; Columbus, Ohio; Denver, Colorado; Indianapolis, Indiana; and Kansas City, Missouri. We also contacted officials assigned to the District Office, Army Corps of Engineers, Louisville, Kentucky. We performed our review from August 1994 through March 1995 in accordance with generally accepted government auditing standards. We discussed our report with cognizant DOD officials and incorporated their views where appropriate.

# Process DOD Used to Assess Excess Facilities

To consider the reuse of excess DOD facilities, the Consolidation Task Force first coordinated with the military services to identify available facilities. It then screened the facilities to identify those that would be available and would provide at least 125,000 square feet, the minimum amount of space needed to house 750 employees. Next, each facility was evaluated to determine its reuse potential. In total, 48 facilities were evaluated.

An architectural and engineering company, under contract with the Army Corps of Engineers, conducted the facility evaluations. The company was required to evaluate each facility for its suitability for finance and accounting operations and develop cost estimates for necessary renovations. Facility suitability was rated on numerous factors, including the amount of usable contiguous space available, the level of risk associated with redesign and construction, access to utilities, the availability of infrastructure support requirements, proximity to an airport, existence of environmental problems, and physical security of the facility. The contractor rated the suitability of each facility as good, fair, or poor and provided a relative ranking of all facilities.

Table II.1 summarizes the results of the architectural and engineering assessments and provides DFAS' updated renovation cost estimates for each facility.

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**Table II.1: Planned DFAS Operating Location Facilities**

Dollars in millions

| Operating location | | Engineering assessment summary data | | | |
| --- | --- | --- | --- | --- | --- |
| **Location** | **Bldg. no.** | **Area (sq. ft.)** | **Rehab cost** | **Suitability** | **Rank** |
| Charleston Naval Supply Yard (Charleston, SC) | 198 | 228,035 | $ 2.7 | Fair | 7 |
| Gentile Air Force Station (Dayton, OH) | 45/46 | 447,632 | 14.6 | Good | 11 |
| Ft. Sill (Lawton, OK) | 4700 | 197,252 | 8.0 | Good | 21 |
| Lexington-Blue Grass Army Depot (Lexington, KY) | 4 | 138,360 | 2.7 | Fair | 9 |
| Loring Air Force Base (Limestone, ME) | 3502 | 142,400 | 4.4 | Good | 12 |
| Memphis Naval Air Station (Memphis, TN) | 787 | 128,000 | 2.8 | Good | 4 |
| Newark Air Force Base (Newark, OH) | 4 | 747,077 | 15.2 | Poor | 28 |
| Oakland Naval Supply Center (Oakland, CA) | 311 | 131,878 | 8.4 | Fair | 26 |
| Offutt Air Force Base (Omaha, NE) | 500 | 130,000 | 3.6 | Good | 5 |
| Orlando Naval Training Center (Orlando, FL) | 301 | 156,960 | 0.4 | Good | 1 |
| Chanute Air Force Base (Rantoul, IL) | 3 | n/a | n/a | n/a | n/a |
| Rock Island Arsenal (Rock Island, IL) | 62 | 155,409 | 7.4 | Good | 10 |
| Griffis Air Force Base (Rome, NY) | 1 | 195,332 | 8.6 | Good | 22 |

| DFAS estimated renovation costs | | | | | |
|---|---|---|---|---|---|
| Date available | Remarks | Area (sq. ft.) | Rehab cost[a] | Cost per sq. ft.[b] | Cost per person[c] |
| N/A | Moderate demolition needed to create large floor areas suitable for offices. Contains some asbestos and has lead paint. | 125,280 | $5.9 | $47 | $ 7,900 |
| Sept. 1996 | Built in 1954/1956. Recently renovated. Probably has asbestos. | 202,000 | 11.4 | 56 | 15,200 |
| June 1994 | Built in 1966 as a hospital. Extensive interior demolition. Some asbestos. | 197,252 | 12.8 | 65 | 17,100 |
| Jan. 1994 | Built in 1943. Warehouse easily convertible to open office space. Has asbestos. Inadequate parking. | 138,360 | 7.3 | 53 | 9,700 |
| Sept. 1994 | Hospital built in 1988. Costly demolition of hospital systems. | 142,400 | 9.2 | 65 | 12,300 |
| Jan. 1997 | Newer facility. Easily modified to open office. Modern. | 128,000 | 6.6 | 52 | 8,800 |
| Sept. 1996 | DFAS areas not contiguous. Poor internal configuration for offices. Built in 1954, extremely high roof, no windows, has asbestos. DFAS will have to treat potable water onsite. | 166,566 | 8.2 | 49 | 10,900 |
| Sept. 1995 | Built in 1942. New entrance tower needed. Moderate interior demolition needed for office space. Parking lot needs major expansion. Seismic upgrade required. Asbestos present. | 131,878 | 18.0 | 136 | 24,000 |
| Dec. 1994 | Built in 1955. Space on 3rd floor for DFAS. 5,000 sq. ft. also designated for storage. | 125,000 | 7.4 | 59 | 9,900 |
| Jan. 1994 | New 3-story electronics training school, never occupied. If assumed parking expansion not possible, suitability then becomes fair. | 156,960 | 4.2 | 27 | 5,600 |
| n/a | Original assessment was completed on building 3. Subsequently, the building was sold to a private developer. Building 68 was chosen as an alternate site. DFAS' estimate is for building 68. | 146,423 | 18.0 | 123 | 24,000 |
| Oct. 1994 | Now partially occupied. Built in 1878. Historic landmark. Has asbestos. | 155,409 | 13.8 | 89 | 18,400 |
| Dec. 1994 | Built in 1942 as a warehouse. Partly converted to office space. Has some identified asbestos. | 183,332 | 12.6 | 69 | 16,800 |

(continued)

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Dollars in millions

| Operating location | | Engineering assessment summary data | | | |
|---|---|---|---|---|---|
| Location | Bldg. no. | Area (sq. ft.) | Rehab cost | Suitability | Rank |
| Norton Air Force Base (San Bernardino, CA) | 951, 952, 953 | 189,168 | 10.3 | Fair | 25 |
| Ft. Ord (Seaside, CA) | 4385 | 360,060 | 19.4 | Fair | 24 |
| Total | | 3.5(mil) | 114.9 | | |

**DFAS estimated renovation costs**

| Date available | Remarks | Area (sq. ft.) | Rehab cost[a] | Cost per sq. ft.[b] | Cost per person[c] |
|---|---|---|---|---|---|
| Sept. 1996 | Two-story office built in 1963. Probably contains asbestos. Needs seismic upgrade. Separated from main base, not part of closure. | 189,168 | 17.5 | 93 | 23,300 |
| July 1994 | Built in 1972 as a hospital. Needs extensive interior demolition to create suitable office space. HVAC distribution will be difficult. | 145,536 | 20.0 | 137 | 26,700 |
| | | 2.3 (mil) | 173.0 | | |

Source: Defense Finance and Accounting Service (DFAS) military construction funding request and Corps of Engineers architectural and engineering assessments.

[a] Renovation cost estimate was taken from DFAS' request for military construction funding for fiscal years 1997-99. DFAS' estimate includes cost for building renovation and installation of wiring for telecommunication and ADP equipment.

[b] Cost per square foot was calculated using the following formula: cost to rehab/square footage.

[c] Cost per person was calculated using the following formula: cost to rehab/750 (planned staffing level at the operating locations)

# Comments From the Department of Defense

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

JUL 28 1995

Mr. Henry L. Hinton, Jr.
Assistant Comptroller General
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Hinton:

I have enclosed the Department of Defense (DoD) response to the General Accounting Office draft report, "DOD INFRASTRUCTURE: DOD's Planned Finance and Accounting Structure Is Not Well Justified," dated June 1995 (GAO Code 709088/OSD Case 9921). Based on the DoD review of the draft, we felt that the report did not adequately reflect the positive initiatives that are being accomplished. We note that you added additional information and recognition of the complex issues involved after discussions with GAO representatives. The Department, therefore, generally concurs with the revised draft report.

I appreciate that GAO recognized the significant reengineering initiatives underway throughout the Defense Finance and Accounting Service. As the Department proceeds with systems standardization and operational consolidation, additional reengineering efforts will take place.

The Department's detailed comments on the draft report recommendations are enclosed. The DoD appreciates the opportunity to comment on the draft report.

Sincerely,

John J. Hamre

Enclosure

GAO DRAFT REPORT OF JUNE 1995
(GAO CODE 709088) OSD CASE 9921

"DOD INFRASTRUCTURE: DOD'S PLANNED FINANCE AND ACCOUNTING STRUCTURE IS NOT WELL JUSTIFIED"

DEPARTMENT OF DEFENSE COMMENTS

**RECOMMENDATION 1**: As DoD proceeds with the consolidation and reengineering of finance and accounting functions and locations, we recommend that the Secretary of Defense direct the DoD Comptroller to develop an updated estimate of the number of locations and personnel required to perform finance and accounting functions. In developing this estimate, it is important that the Comptroller consider not only today's concept-of-operations but also how finance and accounting operations will be performed once DFAS has complied with DoD's business process reengineering goals and directives.

**DoD RESPONSE**: Concur. The Under Secretary of Defense (Comptroller) will develop an updated estimate of the number of locations and personnel required to perform finance and accounting functions. This estimate will be developed annually by November 30 until consolidation is completed.

**RECOMMENDATION 2**: As DoD proceeds with the consolidation and reengineering of finance and accounting functions and locations, we recommend that the Secretary of Defense direct the DoD Comptroller to use the updated information to reassess the site selection decisions for new operating locations. This reassessment should balance DoD's desire for short-term cost savings with the need to select sites that, from a business perspective, offer the greatest opportunity for maintaining or enhancing finance and accounting operations and services to DFAS' customers.

**DoD RESPONSE**: Concur. The Under Secretary of Defense (Comptroller) will use the updated information to reassess the site selection decisions for new operating locations and report annually to the Secretary of Defense by December 15.

**MATTER FOR CONGRESSIONAL CONSIDERATION**: Before approving military construction funds for renovating excess facilities for finance and accounting operations, the Congress may want to ensure that DOD has adequately assessed and justified the size and locations of its finance and accounting network.

**DoD RESPONSE**: Partially concur. As indicated in the DoD responses to the GAO recommendations, the Department will develop an updated estimate of the number of locations and personnel required and will reassess the site selection decisions for new operating locations by providing an annual report to the Secretary of Defense. This information would be available to the Congress in connection with any military construction requirements arising out of such updates and reassessments.

# Major Contributors to This Report

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James E. Fuquay, Evaluator-in-Charge
Cheryl K. Andrew, Senior Evaluator
Michael J. Enriquez, Senior Evaluator
David S. Epstein, Senior Evaluator

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# Related GAO Products

Defense Infrastructure: Enhancing Performance Through Better Business Practices (GAO/T-NSIAD/AIMD-95-126, Mar. 23, 1995).

DOD Procurement: Overpayments and Underpayments at Selected Contractors Show Major Problem (GAO/NSIAD-94-245, Aug. 5, 1994).

Defense Business Operations Fund: Improved Pricing Practices and Financial Reports Are Needed to Set Accurate Prices (GAO/AIMD-94-132, June 22, 1994).

Financial Management: DOD's Efforts to Improve Operations of the Defense Business Operations Fund (GAO/T-AIMD/NSIAD-94-146, Mar. 24, 1994).

DOD Procurement: Millions in Overpayments Returned by DOD Contractors (GAO/NSIAD-94-106, Mar. 14, 1994).

Financial Management: Status of the Defense Business Operations Fund (GAO/AIMD-94-80, Mar. 9, 1994).

Financial Management: Strong Leadership Needed to Improve Army's Financial Accountability (GAO/AIMD-94-12, Dec. 22, 1993).

Letter to the Deputy Secretary of Defense (GAO/AIMD-94-7R, Oct. 12, 1993).

Financial Management: Opportunities to Strengthen Management of the Defense Business Operations Fund (GAO/T-AFMD-93-6, June 16, 1993).

Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements (GAO/AFMD-93-21, June 9, 1993).

Military Bases: Analysis of DOD's Recommendations and Selection Process for Closures and Realignments (GAO/NSIAD-93-173, Apr. 15, 1993).

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United States General Accounting Office

GAO

Report to the Secretary of Defense

April 1996

# DOD INFRASTRUCTURE

# DOD Is Opening Unneeded Finance and Accounting Offices

GAO/NSIAD-96-113

DCN:11602

# GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-271427

April 16, 1996

The Honorable William J. Perry
The Secretary of Defense

Dear Mr. Secretary:

We are currently evaluating the Department of Defense's (DOD) response to the recommendations included in our September 1995 report[1] and have a matter for your immediate attention. Specifically, DOD is opening new finance and accounting offices even though its recent analysis shows that they are not needed.

## Background

Our September report evaluated both DOD's justification and its cost analysis for consolidating over 300 defense accounting offices into 5 large existing finance centers and 20 new sites called operating locations. The 20 sites are located in the continental United States. Our evaluation did not address the 21st site, which was opened in Hawaii to provide finance and accounting support for military services operating in the Pacific theater.

The report noted that DOD's plan to reduce the size of its finance and accounting operations was a necessary step toward reducing infrastructure and improving operational efficiency and effectiveness. However, we challenged the need for 20 operating locations because (1) DOD's analysis showed that finance and accounting operations could be consolidated into as few as 6; (2) some planned sites, particularly those that would be located on military bases that had been closed or realigned, would require about $173 million in renovation costs; and (3) DOD, in its decision-making process, had not considered additional operational efficiencies that are expected from business process reengineering initiatives. In short, we believed the planned infrastructure would be larger and more costly than necessary. DOD generally concurred with our findings and recommendations and agreed to reassess the need for 20 operating locations and update the number of personnel needed to support future finance and accounting operations. The Defense Finance and Accounting Service (DFAS), the organization that has management control of the five finance centers and operating locations, was tasked to conduct the reassessment, which was completed on January 2, 1996.

[1] DOD Infrastructure: DOD's Planned Finance and Accounting Structure Is Not Well Justified (GAO/NSIAD-95-127, Sept. 18, 1995).

## DOD Is Planning to Open Facilities It Does Not Need

DFAS' reassessment concluded that 16 operating locations (15 in the continental United States and 1 in Hawaii) were needed to support DOD's consolidated finance and accounting operations. By limiting the number of locations to 16, DFAS states that it could maintain its projected annual savings of $120 million in operations and maintenance costs and avoid spending about $51 million in military construction costs.

The 16 operating locations that DFAS believes it needs include 14 opened during fiscal year 1995 plus 2 locations planned for Memphis and San Antonio. The five locations no longer needed would be located in or near Lawton, Oklahoma; Lexington, Kentucky; Newark, Ohio; Rantoul, Illinois; and Seaside, California. According to DFAS' reassessment, your decision to reduce military personnel, efficiencies expected from business process reengineering and systems improvement initiatives, and realignment of functions between DFAS and the military departments are factors that have reduced DOD's requirement from 21 operating locations to 16.

Nevertheless, on February 8, 1996, the Under Secretary of Defense (Comptroller) recommended to you that DOD continue the original plan (to open all 21 operating locations) subject to congressional approval. Although you had not yet concurred with the recommendation, DOD officially opened the Lawton facility on February 16, 1996, and the Seaside facility on March 29, 1996. During fiscal year 1996, operations will be limited at these facilities. Staffing, for example, will not be complete at Seaside until the end of fiscal year 1997 and at Lawton until 1999.

Both facilities also require military construction projects to bring them up to par. DFAS, for example, plans to spend about $19 million in military construction funds to renovate the Seaside facility. Once completed, the facility will accommodate about 450 employees. Because of decreased requirements, however, DFAS no longer believes it needs any employees at Seaside. Yet it is adjusting its workload requirements at other locations and is planning to put about 225 employees there. DFAS officials were unsure what impact this reduced workforce would have on their renovation plans, but said the existing facilities would accommodate about 200 people without any major renovation or construction project.

The Lawton facility has a similar situation. Although DFAS no longer believes it needs an operating location at Lawton, it plans to spend about $12.8 million in military construction funds on a facility to accommodate about 550 DFAS employees. DFAS officials said, however, that the existing

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facilities at Lawton could be configured to house about 400 employees without the need for any military construction funds.

DFAS plans to spend an additional $19.2 million on facilities in Lexington and Rantoul, which are scheduled to open in 1999 and 2001, respectively. No military construction funds are needed for the planned operating location in Newark.

## DOD's Actions Are Not Required by Congressional Direction

There is considerable evidence that Congress wanted DOD to reassess its requirements and to open only those operating locations needed to perform finance and accounting operations. Both the Senate Committee on Armed Services and the Senate Committee on Appropriations asked DFAS to reexamine its requirements before establishing additional operating locations. The House Committee on National Security, while not requiring a reassessment, reported that the DFAS consolidation plan would result in a larger infrastructure than necessary. Finally, the National Defense Authorization Act for Fiscal Year 1996, enacted on February 10, 1996, restricts DOD's opening of new operating locations. DOD must report the need for any new operating location to Congress and allow at least 30 days to elapse before they are established. As permitted by this statute, DFAS plans to prepare and submit an analysis supporting the need for the Newark, Lexington, and Rantoul operating locations. According to DFAS officials, these three facilities may still be opened on the schedule previously approved by you, unless Congress takes action during the 30-day waiting period called for in the Authorization Act.

As for the Lawton and Seaside facilities, section 353 (c)(3) of the Authorization Act allows DFAS to continue with plans to open an operating location if by February 10, 1996, a date for commencing operation had been established and funds had been expended for that purpose. Because it had already announced plans to open these locations and had expended some funds for that purpose, DFAS and the Under Secretary of Defense (Comptroller) interpreted this provision of the act as congressional direction to open Lawton and Seaside. We believe they have misinterpreted the language in the Authorization Act. While the act does allow DOD to open Lawton and Seaside without the reporting requirement and 30-day waiting period, it does not direct DOD to open them.

## Recommendation

We recommend that you direct the Under Secretary of Defense (Comptroller) to terminate plans to open the five facilities that DFAS determined are no longer needed to effectively carry out DOD's finance and accounting operations.

## Agency Comments and Our Evaluation

On March 27, 1996, we met with representatives from DFAS and DOD's Comptroller's Office to get official oral comments on a draft of this report. They did not dispute the fact that five locations are no longer needed. They remain convinced, however, that two of the locations—Lawton and Seaside—should be opened in accordance with language in the National Defense Authorization Act of 1996. They said that section 353 (c)(3) of the act was crafted specifically for the Lawton facility and its interpretation extends coverage to Seaside. Not opening them, in their view, would violate the intent of Congress. Accordingly, DOD will proceed with the consolidation of finance and accounting operations at these two locations. With respect to the other facilities at Lexington, Newark, and Rantoul, the DOD representatives agreed that a report justifying their need would have to be submitted to Congress before they are opened.

As discussed above, section 353 (c)(3) of the act gives DOD the authority to open the Lawton and Seaside facilities but does not mandate it to do so. Consequently, we continue to believe you have the discretion to cancel the opening of any new finance and accounting location that DOD no longer believes is necessary to perform finance and accounting operations. Therefore, we made no revision to our draft report and are sending copies of our final report to the congressional committees that have jurisdiction in this area.

## Scope and Methodology

We are in the process of examining the documentation and support behind DFAS' reassessment of the number of sites required to perform finance and accounting functions. As part of this effort, we discussed results of the reassessment with officials at DFAS Headquarters and the Cleveland, Columbus, Denver, and Indianapolis centers. We also reviewed language in the reports prepared by the Senate Committee on Armed Services, Senate Committee on Appropriations, House Committee on National Security, and the House Committee on Appropriations and the National Defense Authorization Act for Fiscal Year 1996 to determine congressional intent related to the size of the DFAS infrastructure.

Based on this preliminary work, we found that DOD was planning to open five facilities it no longer believes are needed and decided to bring this to the Secretary's attention before the decision became final. We plan to continue our review to determine if DOD's analysis supports the need for 16 operating locations and will report on the results of that work at a later date.

We performed our review from November 1995 through March 1996 in accordance with generally accepted government auditing standards.

As you know, the head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on this recommendation to the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight within 60 days of the date of this report. You must also send a written statement to the Senate and House Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of this report.

We are sending copies of this letter to the Chairmen and Ranking Minority Members of the Senate and House Appropriations Committees, Senate Armed Services Committee, House National Security Committee, Senate Governmental Affairs Committee, House Government Reform and Oversight Committee, and the Director, Office of Management and Budget. If you have any questions on this matter, please call me on (202) 512-8412. Major contributors to this report are listed in appendix I.

Sincerely yours,

David R. Warren

David R. Warren
Director, Defense Management Issues

DCN:11602



# Major Contributors to This Report

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Report to Senator Byron L. Dorgan
U.S. Senate

July 2001

# FACILITIES LOCATION

# Agencies Should Pay More Attention to Costs and Rural Development Act

G A O

Accountability * Integrity * Reliability

GAO-01-805

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# Contents

## Letter



## Appendixes



## Tables

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## Abbreviations

| | |
|---|---|
| APHIS | Animal and Plant Health Inspection Service |
| CBA | Central Business Area |
| CICA | Competition in Contracting Act of 1984 |
| DOD | Department of Defense |
| GSA | General Services Administration |
| MSA | Metropolitan Statistical Area |
| NARA | National Archives and Records Administration |
| NCR | National Capital Region |
| OMB | Office of Management and Budget |
| OPM | Office of Personnel Management |
| RDA | Rural Development Act of 1972 |
| USDA | United States Department of Agriculture |
| USMS | United States Marshals Service |
| USPS | United States Postal Service |

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GAO
Accountability * Integrity * Reliability

**United States General Accounting Office**
**Washington, D.C. 20548**

July 31, 2001

The Honorable Byron L. Dorgan
United States Senate

Dear Senator Dorgan:

This report responds to your request that we develop information on the types of federal functions that lend themselves to being performed at locations other than Washington, D.C., and federal regional cities.[1] You were concerned that federal agencies may not have been considering locating facilities in rural areas, as required by the Rural Development Act of 1972 (RDA),[2] particularly in light of recent advances in telecommunication technology. You specifically asked that we report on

(1) What executive branch civilian non-Department of Defense functions have recently selected urban locations other than Washington, D.C., and the federal cities, compared to rural locations, and what factors, benefits, and problems were associated with such site selections?

(2) What federal laws and policies govern facility location and to what extent have agencies implemented this guidance?

(3) What lessons can be learned from private sector site selections?

(4) What functions lend themselves to being located in rural areas?

[1]Prior to 1995, the Office of Management and Budget (OMB) established in Circular A-105 the following 10 cities as the standard federal cities for federal regional headquarters: Atlanta, Boston, Chicago, Dallas, Denver, Kansas City, New York, Philadelphia, San Francisco, and Seattle. On June 8, 1995, OMB rescinded the Circular, stating that the way the federal government manages resources, agency efforts to reduce duplicative levels of oversight, and the expanded use of technology made a strict regional structure inefficient and unnecessary.

[2]7 U.S.C. § 2204b-1.

To answer the first question, we used a questionnaire and follow-up interviews to survey agency officials regarding 115 sites acquired during fiscal years 1998 though 2000 by the General Services Administration (GSA) or other agencies that exercised their independent statutory authority to acquire sites. At your request, we excluded moves to Washington, D.C., and the 10 federal cities. We chose space of 25,000 square feet or larger in order to review decisions with more significant economic importance.[3] To determine what federal laws and policies govern facility location, we interviewed GSA and other agency officials and reviewed relevant laws and policies. We contracted with a consultant[4] who surveyed 52 private sector companies and reviewed real estate-related literature discussing private sector site selections to determine what lessons the public sector could learn from private sector site selections. To determine which functions lend themselves to locations in rural areas, we used results from our questionnaire survey, interviews with real estate and other officials at 13 cabinet agencies, and observations from the consultant's survey.

[3]By using a threshold of 25,000 square feet, we started with 166 sites that were acquired by federal agencies with the assistance of GSA in fiscal years 1998 through 2000. If we had used a threshold of 10,000 square feet, we would have initially considered 430 sites. The inclusion of sites under a smaller threshold size may have led to more rural sites being included in our survey, but the acquisitions of smaller sites probably would have been less important for considerations of economic impact.

[4]John D. Dorchester Jr., of The Dorchester Group, L.L.C., Scottsdale, AZ. The study was entitled *Office Location Considerations of Large U.S. Corporations: U.S. Government Potentials,* March 31, 2001. Mr. Dorchester has an M.A (Economics), Specialization in Urban and Regional Planning and Land Economics. In 1990, Mr. Dorchester also did contract work for us on private sector locations, which was included in our 1990 report that dealt with location policies, *Facilities Location Policy: GSA Should Propose a More Consistent and Businesslike Approach* (GAO/GGD-90-109, Sept. 28, 1990).

For this survey, we defined rural area as an area having a population of 25,000 and under. We had to select a threshold because RDA is unclear as to which population size to use for facility siting. The prior threshold, which was eliminated in 1996, used a population threshold of 50,000 and included a population density requirement. Population density data were not readily available; therefore, it was not feasible for us to use this definition.[5] We chose 25,000 or less because it was used to define rural areas by several federal agencies for purposes other than federal siting under RDA and private sector organizations that we identified. The 25,000 population threshold resulted in the identification of 32 of the 115 sites in our survey as rural sites.[6]

We did our work from August 2000 to May 2001 in accordance with generally accepted government auditing standards. Although we obtained GSA's and other agencies' comments on factors they considered for site selections, we did not attempt to determine the appropriateness of agencies' siting decisions. A more complete description of our scope and methodology is included in appendix I.

## Results in Brief

Since our 1990 study on this issue, federal agencies continue to locate for the most part in higher cost, urban areas. Eight of the 13 cabinet agencies surveyed had no formal RDA siting policy, and there was little evidence that agencies considered RDA's requirements when siting new federal facilities. Further, GSA has not developed for congressional consideration a cost-conscious, governmentwide location policy, as we recommended in 1990.

Agencies chose urban areas for the majority (72 percent) of the 115 recently acquired federal sites in our survey. Agencies said they selected urban areas primarily because of the need to be near agency clients and

[5]The information on population density for areas outside of cities was not readily available and is subject to change, pending the results of the 2000 census. Additionally, when the U.S. Department of Agriculture needs to determine whether a city that has applied for a grant is rural or not, and may have a population of close to 50,000, it has experts who survey the population density of the city's surrounding area to determine whether the density meets the criteria for rural area. We did not use 50,000 as a population threshold because many of the definitions of rural used by federal agencies for purposes other than federal siting under RDA and private sector organizations we identified used thresholds of 25,000 or less.

[6]See appendix III for a listing of the 32 rural sites.

related government and private sector facilities to accomplish their missions. Agencies that selected rural areas (areas with a population of 25,000 or less) said they did so primarily to be close to existing support facilities and because of lower real estate costs. Agencies that relocated operations tended to relocate within the same areas where they were originally located, which were mainly in urban areas, while newly established locations were almost equally divided among urban and rural sites. The private sector companies our consultant surveyed reported that they select urban areas over rural areas largely because of the need to be near a skilled labor force.

The functions that were recently located predominately at urban sites were loans/grants/benefits administration processing, inspection and auditing, and health and medical services. The functions that were recently located predominately in rural areas were research and development, supply and storage, automatic data processing, and finance and accounting. Some functions were placed in both urban and rural areas, such as law enforcement, which was the most prevalent function located in both areas, although it was located more often at urban sites.

Agencies said the benefits experienced by sites in urban areas were efficiency in agency performance due to the ability to share existing facilities, close proximity to other agency facilities and employees, and accessibility to public transportation for both employees and clients. Agencies that chose rural sites said that benefits included close proximity to agency support facilities, improved building and data security, and better access to major transportation arteries. Among the problems reported for urban sites were lack of building security and expansion space. For rural sites, problems included the lack of public transportation, location far from other agency facilities, and insufficient infrastructure for high-speed telecommunications.

RDA and the Competition in Contracting Act of 1984 (CICA),[7] a federal procurement law, as well as executive orders, provide guidance on site location decisions. When considering the areas in which to locate, RDA requires all executive departments and agencies to establish policies and procedures giving first priority to the location of new offices and other facilities in rural areas. However, we also observed that the definition of "rural" used in RDA for federal facilities siting is unclear because the

[7]41 U.S.C. §253.

previous definition used by RDA for locating federal facilities was eliminated by amendment in 1996. Furthermore, only 5 of the 13 cabinet departments we contacted had a policy to implement RDA. Also, our survey of federal facilities showed that for about 73 percent of 113 responding sites, respondents said either they did not use RDA in site acquisitions or they did not know whether it was used. We recognize that consideration of RDA may not have led agencies to make different location decisions.

Once agencies have selected their respective geographic areas for possible locations, CICA generally requires agencies to obtain full and open competition for the facility acquisitions within the areas selected. Moreover, when agency mission requirements lead agencies to urban areas, other federal policies apply. These are (1) Executive Order 12072, which requires that central business areas (CBA) be given first preference for the location of federal facilities that need to be in urban areas and (2) Executive Order 13006,[8] which requires the federal government to utilize historic properties and districts to the extent possible, especially those located in CBAs.

Lessons that the public sector can learn from the private sector in locating facilities involve factors that contribute to minimizing acquisition costs. These factors are (1) taking advantage, where possible, of certain incentives offered by localities to attract new employers, such as free land, and (2) the lower real estate and labor costs available in some areas. The private sector cited these two factors as having influenced their decisions more frequently than did the federal agencies in our survey. We recognize that federal agencies' missions and socioeconomic goals associated with the government's siting policy may sometimes preclude them from taking advantage of the potential savings represented by these factors; however, those agencies that have flexibility in determining the location of a function may be able to take advantage of one or both of these factors so long as they are not offset by other higher operations costs. Existing policy, as stated in Executive Order 12072 or RDA, which emphasizes locating federal facilities in either urban or rural areas to promote economic development, does not recognize costs to the government as a factor to be considered in

[8]The National Historic Preservation Act Amendments of 2000 (P.L. 106-208, 114 Stat-318 (2000), amends section 110(a)(1) of the National Historic Preservation Act, 16 U.S.C.§ 470h-2, to codify Executive Order 13006, issued May 21, 1996, which encourages federal agencies to use historic properties prior to acquiring, constructing or leasing buildings for offices and facilities.

the selection of geographic areas for sites. In our survey of 115 sites acquired by federal agencies, agencies reported that for only 15 sites did any agency perform cost analyses of alternative geographical areas, to compare costs of different areas in which a site could ultimately be selected. In 1990, we recommended that GSA develop for congressional consideration a more cost-conscious, governmentwide location policy. In 1991, GSA required agencies to consider real estate and labor costs as part of a temporary regulation that subsequently expired; however, its 1997 replacement did not contain the requirement. In 2001, GSA officials could not explain to us why the requirement was deleted.

According to our review and the study done by our consultant, certain functions have potential for rural area locations. In fact, some are already in rural areas, such as research and development, finance and accounting, law enforcement, and data processing. Other potential functions for rural areas include records archiving and teleservicing.[9] Locating offices in rural areas depends primarily on the following factors: (1) whether the agency has flexibility in determining the location of a function (i.e., the function's mission does not require close proximity to a specified population); (2) whether the function can be efficiently and effectively performed in a location remote from the agency's main offices; and (3) whether the function can be performed without a large, technical workforce often associated with urban areas.

We are suggesting, as matters for consideration, that Congress (1) enact legislation to require agencies to consider, along with their missions and program requirements, real estate, labor, and other operational costs and applicable local incentives when deciding whether to relocate or establish a new site in a rural area or urban area and (2) amend RDA to clarify the definition of "rural area" for facility siting purposes to facilitate its implementation.

We are recommending that the Administrator of GSA, in GSA's role as the federal government's central property management agency, revise its guidance on federal facility siting to (1) advise customer agencies that they should consider, along with their missions and program requirements, real estate, labor, and other operational costs and applicable local incentives

[9]As an example of teleservicing, the American Teleservices Association represents call centers, trainers, and consultants that facilitate telephone, Internet, and E-mail service and support.

when deciding whether to relocate or establish a new site in a rural or urban area; (2) require that each federal agency subject to GSA's authority provide a written statement to GSA demonstrating that, in selecting a new facility location, the agency, as required by RDA, had given first priority to locating in a rural area, and if a rural area was not selected, the agency's justification for the decision; and (3) define the term "rural area" to provide its customer agencies with a single definition for purposes of federal siting under RDA until Congress amends RDA to define the term.

Seventeen of the 21 agencies commenting on a draft of this report responded that they either had no comments, agreed with the information in the report, or suggested technical changes, which we considered and incorporated within this report where appropriate. GSA, the Department of the Interior, the Internal Revenue Service, and the U.S. Customs Service had more extensive comments.

In response to our recommendation that GSA provide agencies with a single definition of a rural area for the purpose of RDA until Congress, as we suggested, defines the term, GSA agreed to develop a definition for agencies subject to its authority. Also, while GSA agreed to issue a bulletin to make other agencies aware of the definition of rural, it responded that it had no authority to establish or require the use of a definition for all federal agencies. The Internal Revenue Service (IRS) responded that the definition should be based on terms other than population alone. We clarified our report to reflect GSA's authority to develop a definition only for its customer agencies and noted that Congress may want to consider factors in addition to population in defining a rural area.

Regarding our recommendation that GSA require agencies to submit a written statement demonstrating the agency had given first priority to locating in a rural area and if a rural area was not selected, to include a justification, GSA agreed to require the written statement but said that requiring a justification would put GSA in the position of second-guessing the agencies. IRS also questioned the need for the justification. The Department of the Interior commented that the requirement should be limited to a minimum dollar threshold, exempt operations that are being expanded in the same local area, and be required only if the agency does not select a rural area. We emphasized in the report that we are not recommending that GSA evaluate the justifications, but we remain convinced that a justification is needed to help document that agencies gave first priority to rural areas, but only when a rural area was not selected. We also believe that expansions of existing operations should be subject to this requirement if they might involve a relocation. Although we agree that a minimum dollar threshold may be reasonable conceptually, we noted that RDA does not include a dollar threshold.

In response to our recommendation that agencies be required to consider certain cost factors along with agency mission when determining whether to locate a site in a rural or urban area, the Department of the Interior said that the recommendation should be limited to the establishment of new offices. The Internal Revenue Service commented that if Congress supports a location policy that is economically based rather than socially based, Congress should repeal and replace the RDA. We clarified our recommendation to consider only relocations and new offices. Also, we noted that we are not suggesting that Congress establish a location policy based solely on economics but rather that cost should be one of the factors considered in siting decisions.

The U.S. Customs Services responded that it generally agreed with the information in the report and provided additional information on the uniqueness of its facilities.

## Background

GSA is the central management agency for acquiring real estate for federal agencies. According to a GSA policy official, GSA is responsible for managing the acquisition of about 40 percent of the federal government's office space and 10 percent of all government space. Other agencies, such as DOD, have their own authority to acquire space. To acquire real estate, an agency must either go through GSA using GSA's statutory authority, use its own statutory authority, or obtain delegated authority from GSA. If it is using GSA, the agency must provide GSA with a "delineated area," the geographic area where the agency wants to be located. GSA's policy requires its staff to review each delineated area to confirm its compliance with all applicable laws and regulations. Once an agency has selected a delineated area, GSA, under CICA, is to acquire the site within the selected area through the use of full and open competitive procedures. If an agency acquires property independently of GSA using its own statutory authority, it is responsible for compliance with all relevant laws and regulations but is not subject to GSA regulations.

In 1990, we were asked by Senator Kent Conrad to look at policies that guide civilian agencies in selecting facility locations and determine whether any changes in federal location policies were warranted. We reported that GSA needed to develop a more consistent and cost-conscious governmentwide location policy that required agencies, in meeting their needs, to maximize competition and select sites that offer the best overall value, considering such factors as real estate and labor costs. Since 1990, at least two matters raised in that report have remained unchanged. First, GSA has not developed for congressional consideration the cost-conscious and consistent governmentwide location policy that we recommended. The second item that remains unchanged is that rents in the CBAs of federal regional cities and Washington, D.C., are generally higher than the rents in non-CBA sections of those same cities—an average of $4.03 per square foot higher within calendar year 1999, as shown in table 1.

**Table 1: Commercial Rental Rates for Washington, D.C., and the 10 Federal Cities, Calendar Year 1999**

| | Average commercial rents for class A buildings ($/sq.ft)[a] | | |
|---|---|---|---|
| City[b] | Central business area | Noncentral business area | Difference (Non-CBA compared to CBA |
| Atlanta | $22.36 | $23.45 | (1.09) |
| Boston | 40.50 | 31.20 | 9.30 |
| Chicago | 33.23 | 26.00 | 7.23 |
| Dallas | 23.07 | 24.10 | (1.03) |
| Denver | 24.58[c] | 23.98[c] | .60 |
| Kansas City | 20.00 | 20.50 | (0.50) |
| New York | 47.90 | 39.05 | 8.85 |
| Philadelphia | 24.22 | 22.24 | 1.98 |
| San Francisco | 47.76 | 36.36 | 11.40 |
| Seattle | 33.27 | 27.74 | 5.53 |
| Washington, D.C. | 36.57[c] | 34.51[c] | 2.06 |
| Average | $32.13 | $28.10 | $4.03 |

[a]Class A buildings are in excellent locations and are either new buildings or old buildings that are competitive with new buildings.

[b]Population for these cities ranged from 402,000 to 7,381,000.

[c]Data obtained from Trammell Crow Company, a commercial real estate firm. All other rental rates were obtained from the Society of Industrial and Office Realtors.

Source: Society of Industrial and Office Realtors, the Bureau of the Census, and Trammell Crow Company.

According to an April 2001 GSA congressional testimony, high rents for class A commercial space in San Francisco, CA, caused three federal agencies to move from leased space in San Francisco to leased space in Oakland, CA, where rates were 25 percent to 30 percent lower.

One change that occurred since our 1990 report that affected the workplace is the surge in telecommunications services, including widespread access to the Internet. One result of telecommunications services is the practice of "telecommuting," whereby employees can work from home or remote offices for all or part of their work week. Telecommuting increased significantly, rising from a level of 4 million U.S. workers in 1992, according to the Department of Transportation, to 16.5 million in 2000, according to the International Telework Association and Council.[10]

Despite the continuing relative higher cost of urban commercial rents, federal employment generally remains focused in Metropolitan Statistical Areas (MSA),[11] as shown in table 2.

**Table 2: Federal Executive Branch Full-Time Employees in MSAs and Non-MSAs**

| | Number and percent of federal full-time employees in fiscal years 1990 and 2000 | | | |
|---|---|---|---|---|
| | 1990 | | 2000 | |
| Location | Number | Percent | Number | Percent |
| MSA | 1,686,959 | 85 | 1,371,381 | 85 |
| Non-MSA | 295,556 | 15 | 191,057 | 12 |
| Total | 1,982,515 | 100 | 1,619,914[a] | 97[b] |

Note: Numbers include DOD civilian employees, but not DOD uniformed personnel, Postal Service employees, or intelligence agency employees.

[a]Total includes 57,476 employees for whom there were no MSA/Non-MSA data.

[b]For about 4 percent of federal employees, there were no MSA/Non-MSA data. Total does not add to 100 percent because of rounding.

Source: Office of Personnel Management.

[10]The International Telework Association and Council is a nonprofit organization specializing in telework.

[11]An MSA is an area having 1 or more counties containing a city of 50,000 or more or a Census Bureau-defined urbanized area and a total population of at least 100,000 (or 75,000 in New England).

## Recently Selected Federal Sites Were Mostly in Urban Areas

During fiscal years 1998 through 2000, agencies chose urban areas for about 72 percent of the 115[12] acquired federal sites in our survey and selected rural areas (those with a population of 25,000 or less)[13] for about 28 percent of the sites. Agencies reported that mission was the primary factor used to determine the location for over one-half of the sites and that the mission dictated the need to be in close proximity to clients, other agency facilities, and related organizations. GSA conducted the acquisitions for 79 of the sites using GSA authority, and agencies using their own statutory authority conducted the acquisitions for the other 36 sites.

Agencies selecting urban sites reported that close proximity to other agency facilities and organizations contributed to cost savings resulting from less travel, more prompt on-site support, and ease in technology sharing. Other benefits reported for urban sites included the availability of a skilled labor pool and accessibility to public transportation for both employees and agency clients. Agencies that chose rural sites reported some similar benefits, stating that close proximity to related or support agency facilities and proximity to industries with which the agency is connected resulted in more efficient use of agency resources and less travel. Other benefits reported for rural sites included better building and data security and improved access to major transportation arteries.

Officials reporting for about 66 percent of the sites either said no problems existed at the sites (45 percent), or they did not respond to the survey question (21 percent). For the remaining sites, agencies selecting urban areas reported problems such as lack of secure buildings, lack of expandable space, and high rental rates. Agencies selecting rural areas reported problems such as lack of infrastructure for high-speed telecommunications and a lack of access to public transportation.

Functions performed at the sites varied, and some functions were performed in both urban and rural areas.

[12]The 115 sites involved 32 different agencies (25 of which were either components of cabinet departments or the cabinet departments themselves, and 7 were independent agencies). See appendix II for a list of the agencies that selected the locations.

[13]As noted in the objectives, scope, and methodology section in appendix I, 26 of the rural sites that fell within the 25,000 population threshold were located in MSAs in which large cities were located. A list of the rural sites is in appendix III.

## Most of the Sites Were Located in Urban Areas

Eighty-three (or 72 percent) of the sites in our survey were located in urban communities (areas with a population above 25,000), and 32 (or 28 percent) were located in rural areas (areas with a population of 25,000 or below). Most of the 115 site selections involved relocations within existing communities (56) or expansions of existing sites (14). As table 3 shows, the number of newly established locations (locations for agency functions for which the agency neither relocated nor expanded an existing site) was almost evenly distributed between rural and urban areas. Functions at the six rural sites selected for newly established locations included storage/inventory (mainly Census Bureau material for the 2000 Census), air traffic control, and law enforcement. The seven urban areas selected for the newly established locations included functions such as document archiving, passport production, law enforcement, and inspection of diseased plants near plant quarantine areas.

**Table 3: Established Locations for Sites in Survey: Urban or Rural**

| Type of move | Sites in rural area | Sites in urban area | Total sites | Percent of total sites |
|---|---|---|---|---|
| Relocated within same community | 7 | 49 | 56 | 48.7 |
| Relocated from one community to another community | 14 | 18 | 32 | 27.8 |
| Newly established location | 6 | 7 | 13 | 11.3 |
| Expansion of same site | 5 | 9 | 14 | 12.2 |
| **Total sites** | **32** | **83** | **115** | **100** |

Note: The 83 sites in urban areas were in areas with populations of over 25,000, and the 32 sites in rural areas were in areas with populations of 25,000 or fewer.

Source: GAO analysis of survey data.

As table 3 shows, of the 32 sites that were relocated from one community to another community, 18 were in urban areas and 14 were in rural areas. Among these relocated sites, law enforcement and administrative program management were the most prevalent functions; and the two functions were about evenly divided between urban and rural sites. However, the finance and accounting and research and development functions were found only at rural sites. Functions at the urban relocated sites included inspecting/auditing, tax administration, and aviation operations.

An agency can use GSA to acquire property on its behalf or acquire the property independently, using either statutory authority or authority delegated by GSA. No major difference existed in the percentage of urban sites selected, regardless of whether the site decisions were made by agencies working with GSA or made independently of GSA. About 71 percent of the sites that GSA procured on behalf of agencies were in urban areas, and about 75 percent of the sites agencies selected independently of GSA were in urban areas.

## Agencies Reported That Agency Mission Requirements Determined Site Location

From a list of 12 factors (and an overall "others" category) in our survey, agencies reported that they considered numerous factors to determine the delineated area[14] for the sites in our survey. As shown in table 4, agencies considered mission in making location decisions for 82 of the sites in our survey. The next most-cited factors were transportation efficiencies, which was considered for 46 sites; and particular space needs, such as specialized floor layouts, which was considered for 45 sites.

[14]GSA defines the delineated area as the specific boundaries within which space will be obtained to satisfy an agency's space requirements.

**Table 4: Factors Agencies Used to Select the Delineated Area for Federal Facilities in the Survey**

| Factors agencies used to determine where to locate federal facilities | Number of sites where each factor was considered during the location decision: Number of rural sites | Number of urban sites | Total number of sites | Percent of total sites |
|---|---|---|---|---|
| Agency mission requirements (e.g., need to be near customers) | 19 | 63 | 82 | 71.3 |
| Transportation efficiencies (proximity to interstate highways, airports, rail lines) | 14 | 32 | 46 | 40.0 |
| Particular space needs (size or nature of facility) | 14 | 31 | 45 | 39.1 |
| Public transportation (proximity to mass transit, such as subways and buses) | 10 | 23 | 33 | 28.7 |
| Low real estate costs | 14 | 11 | 25 | 21.7 |
| Use of existing infrastructure investment | 13 | 9 | 22 | 19.1 |
| Employees must be located near coworkers at another site | 11 | 10 | 21 | 18.3 |
| Needed sufficient competition to meet the Competition in Contracting Act requirements | 8 | 9 | 17 | 14.8 |
| Recruitment and/or retention issues (e.g., quality of life, available applicant pool, and local economic conditions) | 5 | 11 | 16 | 13.9 |
| Personnel cost considerations | 6 | 9 | 15 | 13.0 |
| Political considerations/congressionally directed | 1 | 8 | 9 | 7.8 |
| Low labor costs | 1 | 2 | 3 | 2.6 |

Note: The number of sites we surveyed totaled 115. Eighty-three were in urban areas (areas with population of over 25,000), and 32 were in rural areas (areas with population of 25,000 or less). The number of sites will not total to these numbers because agencies cited more than one factor as the reason for selecting the delineated area for some of the sites.

Source: GAO analysis of survey data.

In their discussion as to why agency mission was the primary factor for site selections, agencies most often cited the need for the site to be in close proximity either to the mission service area, other agency facilities, other government agencies, or related private sector organizations. For example:

- The U.S. Customs Service (Customs) reported that it chose the delineated area for its international mail inspection function in Carson, CA, because the U.S. Postal Service (USPS) had relocated its international mail operations to Carson, CA, and Customs needed its inspection function to be near the international mail site. Customs also reported that its cybersmuggling center needed to be located within the concentration of private computer-based industries in Fairfax, VA.
- U.S. Attorney offices reported that their policy is to be within four blocks of federal courthouses because, as the principal litigators for the U.S. government, U.S. Attorneys need to be available for courtroom

activities on a regular basis. U.S. Marshals Service (USMS) offices also reported that USMS offices need to be colocated with the courts because the agency's primary concern is the safety and security of the judiciary, the judicial process, and its participants.

- The Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) reported that the delineated areas of its sites in our survey were selected because they needed to be in close proximity to diseased plant quarantine areas. The Federal Emergency Management Agency also reported that its Pasadena, CA, site in our survey needed to be in close proximity to a disaster area.
- The Immigration and Naturalization Service reported that its national records center had to be located as close as possible to a National Archives and Records Administration (NARA) center in Lees Summit, MO, to reduce the costs associated with a high-volume records transfer to NARA.
- Agencies providing services to the public, such as the Social Security Administration (SSA), IRS, and the Department of Veterans Affairs, reported that the delineated areas for their offices/clinics were selected because the agencies needed to be as close as possible to the client/patient population that the agencies service.

Agencies did not select rural areas for 83 of the 115 sites in our survey. For about 75 percent of the 83 sites, agencies cited mission requirements as the reason for not selecting rural areas. They again cited proximity considerations and said that locating the sites in rural areas would have placed them too far from their clients, other supporting agency facilities, related research facilities, or the function they had to monitor. For example, GSA's Federal Technology Service reported that it did not consider a rural area for its site because the function needed to remain in the Washington, D.C., area to have access to its major customers and telecommunications providers.

Other reasons for not selecting rural areas included the need to be near public transportation and rural areas' lack of the necessary labor pool and sufficient space. Some respondents also said that rural areas can have high costs, such as for transportation to airports. The Bureau of Reclamation stated that a water resources management operation was not located in a rural area because of the unavailability of a building to meet space needs. The IRS said it did not place a telephone-based customer service site in a rural area because of the need for a large number of recruitment candidates who were available only in a more heavily populated area. Similarly, the SSA said that when one of its teleservicing centers needed additional space, it did not move the center to a rural area because of the difficulty of locating sufficient space and personnel in rural areas.

In addition to agency mission, lower real estate cost was one of three main factors that contributed to the selection of the 32 rural sites. Respondents representing almost one-half of the rural sites identified (1) lower real estate costs; (2) particular space needs (e.g., specialized space for security reasons); and (3) transportation efficiencies, such as access to major arteries, as factors considered in the site selection decisions.

## Agencies Reported Benefits and Problems With Selected Sites

In response to our survey's request to list three chief benefits and problems, if any, associated with the selected location for sites in our survey, agencies reported numerous benefits and few problems for both urban and rural locations. The benefits of urban areas included close proximity to other agency resources, such as support facilities and related government agencies, and related private sector organizations. Agencies said proximity was a benefit because it contributed to more prompt on-site support and cost savings resulting from less travel and transportation of material over distances and eased technology sharing and daily interaction among related organizations. For example, both the Forest Service and APHIS reported that their sites' close accessibility to universities allowed for sharing of advanced technologies and improved collaboration between the agency and university researchers. Also, the Department of Veterans Affairs reported that the urban location of one of its clinics was a benefit because it was in close proximity to the city's medical center complex. Other benefits cited for sites in urban areas included the availability of a skilled labor force, the ability to use existing infrastructure, and the accessibility of public transportation for both employees and clients.

Agencies that located sites in rural areas reported some similar benefits, such as close proximity to related or support facilities, other program employees, and the industry to which the agency was connected. They said proximity resulted in more efficient use of agency resources and less travel. Other benefits reported for rural sites included improved building and data security and accessibility to major transportation arteries.

Agencies reported they had no problems with about 45 percent of the sites, either urban or rural. They provided no response to this survey question for another 21 percent of the sites. For the remaining sites, agencies selecting urban areas reported problems such as lack of secure buildings and expandable space, traffic problems, high rental rates, and specific problems with buildings needing repairs. Agencies selecting rural areas reported problems such as a lack of proximity to other agency facilities and public transportation, great distance from major airports, and a lack of necessary infrastructure for telecommunications and city waste management services.

## Functions Located at Established Sites Varied Widely

As table 5 shows, agencies reported that the three most common functions located in rural areas included law enforcement, research and development, and supply storage and inventory control. Three functions, automated data processing, finance and accounting, and social services, were located only in rural areas.

**Table 5: List of Primary Functions Performed at the Sites in the Survey**

| Primary functions | Sites in rural area | Sites in urban area | Total sites | Percent of total sites |
|---|---|---|---|---|
| Law enforcement, security, border patrol | 7 | 24 | 31 | 27.2 |
| Loans/grants/benefits administration/application and claims processing | 1 | 11 | 12 | 10.5 |
| Administration/program management | 2 | 8 | 10 | 8.8 |
| Supply storage and/or inventory control | 5 | 3 | 8 | 7.0 |
| Research and development | 5 | 3 | 8 | 7.0 |
| Health and medical services | 1 | 5 | 6 | 5.3 |
| General support services | 2 | 2 | 4 | 3.5 |
| Document archiving and storage/records management | 1 | 3 | 4 | 3.5 |
| Plant health inspection/quarantine areas/disaster operations | 0 | 4 | 4 | 3.5 |
| Aviation and space operations | 2 | 2 | 4 | 3.5 |
| Parks, natural resources, environment management/water resources management | 0 | 3 | 3 | 2.6 |
| Telephone-based customer service (teleservicing) | 1 | 2 | 3 | 2.6 |
| Inspecting/auditing/examining/monitoring | 0 | 4 | 4 | 3.5 |
| Automated data processing and/or electronic storage | 2 | 0 | 2 | 1.8 |
| Finance and accounting | 2 | 0 | 2 | 1.8 |
| Equally combined functions (enforcement/benefits/medical services) | 0 | 2 | 2 | 1.8 |
| Passport operations | 0 | 2 | 2 | 1.8 |
| Tax administration | 0 | 1 | 1 | 0.9 |
| Social Services | 1 | 0 | 1 | 0.9 |
| Communications | 0 | 1 | 1 | 0.9 |
| Insurance operations | 0 | 1 | 1 | 0.9 |
| Morale, well-being, and recreation | 0 | 1 | 1 | 0.9 |
| **Total sites** | **32** | **82** | **114** | **100.2** |

Note: The number of sites we surveyed totaled 115. Eighty-three were in urban areas (areas with population of over 25,000), and 32 were in rural areas (areas with population of 25,000 or less). The total number of sites in this table is 114, because 1 agency reported that although it obtained the space, none of the agency's functions were performed at the site; other agencies use the site. The total percentage does not add to 100 due to rounding.

Source: GAO analysis of survey data.

The three most common functions located in urban areas were law enforcement, administration of loans/grants/benefits and processing of applications and claims, and administration/program management. Law enforcement was the most prevalent function in both urban and rural areas, although it was more prevalent in urban areas. Also, although research and development and supply storage and inventory functions were more prevalent in rural areas, sometimes they were also located in urban areas.

## The Rural Development Act and Other Federal Policies on Location

Several laws and executive orders affect the location of federal facilities. The laws, which take priority over the executive orders, include RDA, the primary law on rural siting; and CICA, a law governing federal acquisition generally. When considering areas in which to locate, RDA "directs the heads of all executive departments and agencies of the Government to establish and maintain departmental policies and procedures giving first priority to the location of new offices and other facilities in rural areas." Any move by an agency to new office space in another location would be considered a new office or facility covered by RDA. Once agencies have selected their respective areas for possible locations, CICA generally requires that agencies obtain full and open competition for facilities acquisitions within the areas selected.

The two primary executive orders on federal facility location decisions are Executive Order 12072 of August 16, 1978; and Executive Order 13006 of May 21, 1996. Executive Order 12072 specifies that when the agency mission and program requirements call for facilities to be located in urban areas, federal agencies must give first consideration to locating in a CBA and adjacent areas of similar character. Executive Order 13006 requires the federal government to utilize and maintain, wherever operationally appropriate and economically prudent, historic properties and districts, especially those located in the CBA.

Agencies acquiring real estate are responsible for complying with federal laws and executive orders. If GSA is acquiring the real estate for an agency, then GSA regulations state[15] that GSA is responsible for ensuring compliance with "all applicable laws, regulations, and Executive orders." However, if the agency is making the acquisition under its independent statutory authority, or through a delegation from GSA, the agency is responsible for compliance with relevant laws and regulations. Some agencies also have been provided statutory authority to acquire real estate for different purposes. Some agencies such as the Tennessee Valley Authority (TVA) have been provided broad authority. TVA is authorized to purchase or lease real property that it deems necessary or convenient in transacting its business.[16] Other agencies' statutory authority is for more limited purposes. For example, the Secretary of the Interior is authorized to lease buildings and associated property for use as part of the National Park System[17] and the Secretary of the Treasury is authorized to lease space for the storage of unclaimed or other imported merchandise that the government is required to store.[18]

## Limited Consideration of RDA

RDA states that executive departments and agencies must establish policies and procedures to give first priority to the location of new offices and other facilities in rural areas. However, among the 13 cabinet departments, only the departments of Agriculture (USDA), Commerce, Labor, Transportation, and the Treasury had written policies specifically addressing RDA. The other departments (Justice, Health and Human Services, the Interior, Housing and Urban Development, State, and Education) said they did not have policies on RDA; and two (Energy and Veterans Affairs) said they expect all employees to abide by all policies on facility acquisitions, but they also had no written policies regarding RDA.

In addition, many agency real estate specialists in field offices also said either their agencies did not have RDA policies or they did not know if their agencies had such policies. Among the 113 sites for which we received responses, 61 sites involved agencies that did not have RDA policies, and 24

[15]Interim Rule D-1, 41 C.F.R. 101-21, appendix to subchapter D § 101-17.205(h).

[16]16 U.S.C. § 831c.

[17]16 U.S.C. § 1a-2.

[18]19 U.S.C. § 1560.

involved agencies that had policies. Respondents for 28 sites also said that they did not know if their agencies had RDA policies.

Our survey also requested respondents to report which of the four applicable laws and executive orders were considered in the acquisition of the surveyed sites. Agencies reported that

- CICA was considered for 73 percent of the 113 sites for which a response was received,
- Executive Order 12072 (on locating in CBAs) was considered for 50 percent of the 113 sites for which a response was received,
- Executive Order 13006 (on historic districts) was considered for 43 percent of the 112 sites for which a response was received, and
- RDA was considered for about 27 percent of the 113 sites for which a response was received.

Agencies reported that they considered RDA for 8 of the 36 sites that were acquired independently of GSA. Agencies also reported that RDA was considered for 21 of the 79 sites acquired by GSA. Conversely, for about 73 percent of 113 sites for which a response was received, respondents said they either did not use RDA in site acquisitions or did not know whether it was used.

To determine if GSA was requiring agencies to apply RDA, we looked at GSA regulations and examined 33 GSA lease files. GSA regulations state that federal agencies using GSA are responsible for identifying their delineated areas,[19] consistent with their missions and program requirements in accordance with applicable regulations and statutes, including RDA. The agencies must also submit to GSA a written statement explaining the basis for their delineated areas, and GSA is responsible for reviewing these delineated areas to confirm their compliance with laws and regulations. We looked at 33 files involving GSA leases made from 1989 through 2000 in 3 GSA regions, including the Rocky Mountain Region, based in Denver; the Greater Southwest Region, based in Ft. Worth, TX; and the Mid-Atlantic Region, based in Philadelphia. We found no mention of RDA in any of the 33 acquisition files. In the files we examined, we did find cases where GSA requested modification of the delineated area in

[19]Interim Rule D-1, 41 C.F.R 101-21, appendix to subchapter D (101-17.205(a). GSA defines the delineated area as the specific boundaries within which space will be obtained to satisfy an agency's space requirements (101-17.205(p).

response to other criteria, such as CICA. Additionally, a GSA official in the National Capital Region (NCR) provided us with a checklist of documents that are expected to be in each NCR lease file. Neither the 1999 checklist nor the 2000 update of that list mentioned RDA, although both mentioned Executive Orders 12072 and 13006.

## What Constitutes Rural or Rural Area Is Unclear

In addition to agencies' limited consideration of RDA, the act's definition of "rural" is unclear. RDA provides that rural areas, for the purpose of federal facilities location decisions, are defined in the private business enterprise exception in section 1926(a)(7) of title 7 of the U.S. Code. Prior to 1996, this exception in 7 U.S.C. § 1926(a)(7) defined rural as "all territory of a State that is not within the outer boundary of any city having a population of fifty thousand or more and its immediately adjacent urbanized and urbanizing areas with a population density of more than one hundred persons per square mile, as determined by the Secretary of Agriculture according to the latest decennial census of the United States: Provided, that special consideration for such loans and grants shall be given to areas other than cities having a population of more than twenty five thousand."

However, in 1996, 7 U.S.C. § 1926(a)(7) was repealed and replaced with a new section 1926(a)(7) that defines "rural" and "rural areas" but no longer contains a provision or even a reference relating to the private business enterprise exception.[20] The new section 7 U.S.C. § 1926(a)(7) defines rural—but only for water and waste disposal grants and direct and guaranteed loans—as "a city, town, or unincorporated area that has a population of no more than 10,000 inhabitants."

## Different Agencies Use Different Rural Definitions

Government agencies have different definitions of what constitutes a rural area. For example, GSA uses two different population thresholds to define rural area for purposes of RDA. According to GSA Interim Rule D-1, a rural area is any area "that (i) is within a city or town if the city or town has a population of less than 10,000 or (ii) is not within the outer boundaries of a city or town if the city or town has a population of 50,000 or more and if the adjacent urbanized and urbanizing areas have a population density of more than 100 per square mile."

[20]Public Law No. 104-127, 110 Stat. 888, 1123 (1996).

Meanwhile, as table 6 shows, other federal agencies use other definitions of rural to implement various federal programs; and private organizations use other definitions as well.

**Table 6: Definitions of Rural Used by Federal Agencies and Selected Private Sector Organizations**

| Agency/organization | Population thresholds and definitions for rural area |
|---|---|
| Census Bureau | Under 2,500 or open country |
| Department of Agriculture's Economic Research Service | Under 2,500<br>(Metro or nonmetro area) |
| Department of Agriculture's Rural Business Opportunity Grant Program | Under 10,000<br>(Open country not associated with urban area) USDA defines open country as open space separated from any adjacent densely populated urban area. |
| Department of Agriculture's Rural Housing Programs | 10,000 and under |
| Department of Housing and Urban Development's Rural Housing and Economic Development Program | One of five ways:<br>(1) Under 2,500 population (metro or nonmetro area).<br>(2) Counties with no urban population of 20,000 or more.<br>(3) Rural portions of "extended cities," as defined by the Census Bureau.<br>(4) Open country that is not part of or associated with an urban area.<br>(5) Not over 20,000 and not in MSA. |
| Plants, Sites and Parks Magazine[a] | 20,000 and under<br>(50 miles or more from major city or MSA) |
| Department of Agriculture's Intermediary Relending Program | Under 25,000 |
| National Middle School Association[a] | Under 25,000 |
| Housing Assistance Council[a] | 25,000 or fewer |
| General Services Administration (Rural Development Act implementation) | Under 10,000 or under 50,000 |
| Department of Agriculture's Rural Business Enterprise Grants | Under 50,000 |
| Department of Agriculture's Rural Business Cooperative Service | Under 50,000 |
| OMB | Nonmetropolitan areas (areas other than "core counties" containing one or more central cities with at least 50,000 residents or an urbanized area and a total population of at least 100,000 (75,000 in New England) and adjacent communities that have a high degree of social and economic integration with the core counties). |

[a]A nongovernmental organization.

Source: Department of Agriculture, the Bureau of the Census, Department of Housing and Urban Development, OMB and private sector organizations.

## Lessons From Private Sector Relocations That Relate to the Federal Government

According to our study and our consultant's review, location factors considered important by the private sector for minimizing costs might benefit the public sector. These factors are (1) incentives offered by localities to attract new employers, such as free land; and (2) the lower real estate, labor, and operational costs available in some areas. The private sector cited these two factors as having influenced their location decisions more frequently than did the federal agencies in our survey. We recognize that federal agencies' missions may sometimes preclude them from taking advantage of the savings represented by these factors. However, in instances where an agency has flexibility in locating a function, the agency may be able to take advantage of one or both of these factors, so long as they are not offset by other higher operational costs.

### Location Factors Important to the Private Sector

According to our consultant, there are two broad steps involved in office location decisions made by the private sector. The first step is to determine whether a given location is functionally suited to achieve the purposes of the office that is to be located. The second step is to test the location for its ability to meet a range of factors that have been shown to be important in meeting required goals. Our consultant found that corporations strongly preferred urban locations over rural ones. The determining location factor for most companies, he said, derives from a specific location's characteristics.[21] The private sector considers numerous factors in making location decisions, and the relative importance of the factors appears to be company specific.[22] However, our consultant's literature search and survey of 52 private sector companies identified several factors as the main areas of consideration in the private sector location decisionmaking process. They were (1) transportation and logistics, (2) labor availability and cost, (3) real estate costs, and (4) business climate and business incentives. Of these factors, some were location factors considered by the federal sites we surveyed and some were not.

[21]According to our consultant, the inclusion of manufacturing firms in his study did not skew the results because the study focused only on office locations and not on the location of manufacturing facilities.

[22]See appendix IV for location factors the private sector considered.

### Transportation: Access to Highways, Trains, and Airports

Access to highways and major thoroughfares is important for employees who commute and essential to maintaining connections to companies' suppliers and customers. When asked to rate the importance of transportation and logistics, 17 of the 52 respondents in our consultant's survey gave it the highest rating for headquarters offices, and over one-half gave it the highest rating for satellite (field) offices.[23] With the increasing globalization of markets, easy access to airports is also very important in corporate location decisions. Professional services, such as those of accountants and lawyers, also increasingly require access to airports, our consultant said.

Transportation factors were also important to the public sector. In our survey of federal agency sites, officials for 40 percent of the sites said access to transportation, such as airports, trains, and highways, was an important factor in their location decisions. Examples cited by the agencies included easy access to airports for trainees from around the nation and access to highways for service centers.

### Availability and Cost of Labor

According to our consultant, the availability and cost of labor are among the most important location factors for the private sector. Most of the corporations responding to our consultant's survey rated these among the top location factors considered when locating either their headquarters or field offices. Asked to rate the importance of "availability and cost of labor supply," of the 52 survey respondents 30 gave it the highest rating for headquarters offices and 32 gave it the highest rating for satellite (field) offices. Our consultant emphasized that the availability of sufficient and qualified labor is crucial to any business location decision because, even in a low-wage area, the need to train a qualified workforce can wipe out savings from lower labor costs. Our consultant also stated that while many small towns on the fringes of metropolitan areas have experienced rapid growth, their small populations suggest that they will remain small, which can be a liability to attracting companies.

Labor costs include not only wage rates but also benefits, unemployment insurance, and workmen's compensation requirements. Labor costs also include costs associated with recruitment and training and the competition for labor within the same area. Some companies try to avoid areas where

[23] Our consultant's report indicated that satellite (field) offices are similar to federal regional offices in that they are located apart from the principal office, are smaller, and serve a particular function.

they have to compete with major competitors for the same labor pool because of the possibility that skilled labor would be unavailable or that competitors would drive up the wage rate. According to our consultant, these factors are particularly important when considering rural areas where educational qualifications, in some cases, are not so readily available.

Availability and cost of labor were not location factors considered by federal agencies for most of the sites in our survey. Respondents reported that they considered personnel costs, including lower labor costs and recruitment and retention costs, in location decisions for no more than 23 of the 115 sites in our survey. Whether the federal government can adopt the private sector's practice in this area is open to question because, as previously mentioned, the primary location factor cited by federal agencies for the sites in our survey was agency mission. If agency mission dictates where most of the federal facilities have to be located, specifically in close proximity to clients, then the agency may have little flexibility to realize costs savings from low-wage areas.

## Lower Real Estate and Operating Costs

Since at least 1990, real estate costs have consistently ranked among the top 10 factors influencing private sector location decisions. Real estate costs include direct costs (i.e., land, building, and occupancy costs such as rent and utilities), and indirect costs (costs such as shipping, transportation, and storage). When direct costs are higher in one community than another, the addition of lower indirect costs may result in a lower overall real estate cost in the community with higher direct costs. When asked to rate the importance of real estate costs, 31 percent of the corporate survey respondents gave this factor the highest rating for corporate headquarters offices, and 63 percent did the same for corporate field offices.

Real estate cost was cited less frequently by federal agencies in our survey than by the private sector in making site location decisions. Agencies reported that for about 22 percent of the sites in our survey, lower real estate cost was a factor in the decision. If the public sector adopted this private sector practice, specifically for functions where agencies have flexibility as to where they may be located, potential savings could be offered by lower real estate costs, so long as the savings are not offset by other higher operating costs.

## Business Climate and Business Incentives

The business climate of an area, including its business incentives, is a cost factor highly important to the private sector. When asked to rate the importance of an area's business climate, 54 percent of respondents in our consultant's survey gave it the highest rating. Business climate factors include the general business potential and receptivity of a community to the corporate purpose. This includes the community's economic health, its organization and preparedness for growth, and the capacity of the community to support future growth of the locating company. For example, zoning issues are critical. Similarly, business incentives, such as tax abatements, free land, or infrastructure improvements offered by a community, are indicative of the business climate and are highly important location decision factors. According to our consultant, while incentives do not replace the need for a company's location to make good business sense, incentives become a means of distinguishing among otherwise acceptable alternatives.

Business incentives were mentioned by only 2 agencies in our survey of 115 sites. USDA said it chose a site at a local university for wildlife research because Colorado State University made land available at no cost. In return, USDA agreed to work in cooperation with university students on wildlife research. The Environmental Protection Agency (EPA) said when the lease expired for its regional office in Kansas City, KS, it relocated to another location within the city because the city provided free land. EPA reported that this was a "win-win" situation for both the agency and the city because the agency saved on its real estate costs, and the office benefited the economically depressed area where it is located.

The limited use of local incentives by agencies in our survey contrasts with the emphasis the private sector places on incentives to save costs. For example, functions that need not be in proximity to the public or other facilities—such as training, data processing, document distribution, or telephone-based servicing—have the potential to take advantage of local incentives. While federal agencies cannot take advantage of all local incentives, such as tax relief, they might make use of other local incentives. For example, our 1990 report, referred to earlier, noted that the Bureau of Engraving and Printing chose a site in Ft. Worth, TX, in the late 1980s in part because of incentives offered by the locality. The incentives included the donation of 100 acres of land and construction of a building, a total package valued at between $12.5 million and $15 million.

Public policy may have an impact on the extent to which federal agencies may seek incentives provided by local communities. The public sector sometimes seeks to provide economic assistance to certain areas, rather than the reverse—consider how the government may benefit from an area.

RDA and executive orders, such as Executive Order 12072, promote locating federal agencies in rural areas or in the central business districts of urban areas to foster their economic development. In contrast, according to our consultant, the private sector seeks the reverse—consider how the corporation may benefit from the community.

## Government Lacks Cohesive Location Policy

The government lacks a cohesive overall location policy that requires agencies to consider costs when initially deciding whether to locate a site in a rural or an urban area. In 1990, we reported that the government was not as cognizant of cost considerations as was the private sector and that government policy was aimed at improving the economic development of either rural areas through RDA or urban areas through the executive orders. We recommended that GSA develop for congressional consideration a more consistent and cost-conscious govermentwide location policy that considers such factors as maximizing competition and taking advantage of lower real estate and labor costs in order for the government to lower its acquisition and operating costs. In 1991, GSA issued a temporary regulation requiring agencies to consider the availability of local labor pools, pay differentials for employees, local incentives offered, and real estate costs for prospectus-level projects[24] whose missions did not dictate a geographic area. However, the requirement was eliminated in 1997 when GSA revised its location regulations. GSA officials could not explain why the requirement was deleted when we asked them in May 2001.

On the basis of our latest survey of 115 sites, we found that little consideration in the site acquisition process was given to the differing costs of alternative areas. Besides finding little interest in lower real estate costs or in the use of certain local incentives, our survey also found that only 15 sites were acquired using cost analyses of alternative geographic areas, which compared costs of different areas in which a site could ultimately be selected. However, no regulation presently calls for such an analysis.

In 1990, we reported that GSA, as a central management agency, had not provided leadership to assist agencies in implementing and complying with

[24]GSA is required to prepare project descriptions called prospectuses for space acquisitions that are expected to exceed specified dollar thresholds, which can be adjusted annually. In fiscal year 2000, for example, a prospectus was required for any lease exceeding an average annual rent of $1.93 million. The prospectuses are to be submitted to GSA's Senate and House authorizing committees.

RDA. We noted that GSA had not assisted agencies in developing procedures and guidelines to implement the various location policies. Therefore, we recommended in our 1990 report that GSA develop for congressional consideration a more consistent governmentwide location policy. In our recent survey of agency sites, we found most agencies, whether they obtained the sites independently or through GSA, did not use RDA or did not know whether it was used in choosing their sites.

## Some Functions Can Potentially Locate in Rural Areas

On the basis of our survey of 115 federal facilities, the report of our consultant, and our interviews with high-ranking officials in human resources and information technology at 13 cabinet agencies, we were able to identify several federal functions that could be performed in rural areas. These included printing, archiving, accounting and finance, training, passport application processing, automatic data processing, research and development, storage, and law enforcement.

### Private Sector Functions That Might Locate in Rural Areas

Our consultant identified 21 functions that the private sector might locate in rural areas, as shown in table 7.

**Table 7: Functions That Might be Located in Rural Areas**

| Functions that might be located in rural areas | |
|---|---|
| Accounting | Legal support |
| Account representative | Logistical support |
| Appraisal/market research | Manufacturing and assembly offices |
| Clerical/secretarial | Operations centers |
| Data processing | Printing and publishing |
| Distribution/warehousing | Records archiving |
| Education/training | Repairs and servicing |
| Enforcement and quality control | Scientific studies, and research and development |
| Field service operations | Technical functions and support |
| Human resources and social services | Telemarketing, order processing, and communications |
| Information technologies services | |

Source: *Office Location Considerations of Large U.S. Corporations: U.S. Government Potentials*, The Dorchester Group, L.L.C., March 31, 2001.

According to our consultant, these functions lend themselves to being performed in rural areas because (1) some of them do not demand the large and technical, sophisticated labor pool often found in urban areas; (2) some functions may be performed in a location remote from the principal office's day-to-day operations; and (3) some support functions can be performed by telephone. He also emphasized that rural areas are sometimes suitable for functions where security is important, such as research and development and law enforcement activities.

We reviewed the 21 functions to see if they were represented in the federal sector and whether any of the federal agencies we contacted identified them as being found in rural areas or potential for rural areas. Nine of the 21 functions met these criteria. They were (1) accounting, (2) distribution and warehousing, (3) education and training, (4) enforcement and quality control, (5) printing and publishing, (6) records archiving, (7) data processing, (8) scientific studies and research and development, and (9) telemarketing/teleservicing.

Table 8 shows the potential benefits and challenges that would result from situating the function in a rural area for the nine selected functions.

**Table 8: Benefits and Challenges Associated With Rural Areas for Nine Functions**

| Function | Benefits | Challenges |
|---|---|---|
| Accounting | Lower wages and operating costs | Data security and quality control |
| Data processing | Reduced costs of office and labor | Needs skills more often found in metropolitan areas |
| Distribution and warehousing | Savings on labor and real estate | Needs good transportation links |
| Education and training | Fewer distractions and recreation opportunities | None identified |
| Enforcement/quality control | None identified | Needs good regional access |
| Printing and publishing | None identified | Needs good transportation links |
| Records archiving | Lower costs for real estate and wages | Limited access to records |
| Scientific studies/research and development | Better security; in some cases, access to universities | Specialized employees may have to be recruited nationally |
| Telemarketing, order processing, communications | Operating cost efficiencies | Sufficient and sustainable labor pool |

Source: *Office Location Considerations of Large U.S. Corporations: U.S. Government Potentials.* The Dorchester Group, L.L.C., March 31, 2001.

## Functions Performed by Federal Agencies in Rural Areas

Some of the federal functions in our survey were more often located at rural sites than at urban ones. These were automated data processing, finance and accounting, social services, research and development, and storage and inventory.

Special space needs and low real estate cost were key factors for research and development and storage sites. The survey also asked respondents to pick 1 or more of 12 named reasons why they had chosen their locations. Survey responses regarding research and development and storage/inventory facilities that were in rural areas pointed to two factors: low real estate costs and unique space needs. For instance, officials representing four of the eight research and development sites cited their unique space needs as a reason for their sites' selection. Of these sites, three were in rural areas. Officials representing five of the eight storage/inventory facilities also gave this reason, and four were in rural areas. Similarly, all three of the research and development sites for which officials cited low real estate costs as a reason for their site choices were located in rural areas. All five of the storage and inventory sites for which respondents cited low real estate costs as a factor were in rural areas.

Information from cabinet agency officials showed that functions that had been decentralized within the agency were more likely to be found in rural areas than were centralized functions. We asked these officials, who worked in information technology or human resources, about five functions—printing, training, personnel benefits administration, procurement, and finance/payroll—and whether these or other functions could be relocated to rural areas.[25] Officials from 11 of the 13 cabinet agencies said they had decentralized 1 or more of the 5 functions by placing it in regional or even local operating units, including those in rural areas. For instance, USDA said its training and procurement functions were decentralized to local offices, which are "in a majority of rural counties." The Interior Department said that, except for finance and payroll, the other functions were decentralized "to the installation level," and it has hundreds of rural installations. Four agencies reported that they had placed training in rural areas, and one, the Department of Energy, said it also had decentralized the procurement and personnel functions to local offices, half of which are in nonurban areas.

[25] Experts in government management and personnel management had identified these functions as functions that could be conducted in nonurban areas.

However, if an administrative function was centralized it was more likely to be in an urban area. For instance, of the seven agencies that said they had centralized payroll, five said they located that function in cities, including New Orleans. The remaining two agencies placed the function in suburbs. The five agencies that centralized printing said they were doing it at an urban location—Washington, D.C. One agency that centralized its training and benefits administration said it had achieved economies of scale that it feared would be lost if any part of that centralized operation was relocated to a rural area.

At least six agencies represented in these interviews identified one or more problems with rural areas. One official cited difficulty in recruiting minority employees because some rural areas tend to lack minorities. Such areas, this official said, also may pose sufficient cultural adjustments for minorities and minority employees may not wish to relocate to these areas. Other officials cited cost concerns. Officials for five agencies, for instance, said rural areas can involve personnel-related costs, such as the cost of relocating employees or of recruiting and training replacement workers. Officials from three agencies also expressed concern over the relatively higher cost of travel to rural areas, with one asserting that this made such areas poor choices for training sites. Three agencies also raised concerns about facility costs, stating that the lack of available office space in rural areas would force them to build new facilities and lose agency infrastructure investments at current locations. Three agency officials also told us that their urban operations were in those areas because of factors intrinsic to urban areas, such as the availability of public transportation and proximity to the operations of other agencies or private sector organizations.

The full impact of telecommunications advancements in office location decisions is still uncertain. A widespread notion is that telecommunications advances have made the use of rural areas more viable. However, of the 11 cabinet agencies that discussed the benefits and drawbacks of rural telecommunications, only 2 agencies said telecommunications advances had made rural locations more viable. The other nine agencies expressed concern about telecommunications service in rural areas, with five saying that sophisticated telecommunications services are not always available or can be costly when they are available. Three agencies also said telecommunications is of less importance to siting decisions than other factors, and one of these expressed concern that rural telecommunications networks are inherently less secure than urban ones. On a positive note, five agencies saw telecommunications benefiting employees by, for instance, allowing benefits data and training to be offered on-line or by allowing employees to work from home or from the sites where they are conducting inspections.

The private sector offered similar views. According to our consultant, although telecommunications is an increasingly important factor in location decisionmaking, its full impact has not become clear. Advanced telecommunications services are touted as leveling the playing field between small towns and metropolitan areas; however, broadband (high-speed) telecommunications facilities[26] are not available in all areas, as noted by our consultant.[27] He also emphasized that many small towns and rural areas lack the capital and infrastructure to facilitate these broadband services.

## Conclusions

Since our 1990 report on this issue, federal agencies continue to locate for the most part in higher cost, urban areas. Eight of the 13 cabinet agencies surveyed had no formal RDA siting policy, and there was little evidence that agencies considered RDA's requirements when siting new federal facilities. Further, GSA has not developed for congressional consideration a cost-conscious, governmentwide location policy, as we recommended in 1990.

In our survey, the sites that involved relocated operations still largely remained in urban areas, while the sites that involved newly established operations were more evenly spread over rural and urban areas. Federal agencies' mission requirements, such as the need to be near clients or other organizations, apparently have led them to select urban areas. Other

[26]The Federal Communications Commission defines services with a transmission speed of at least 200 kilobits per second (kbps) in one direction as "high speed." A broadband connection, such as that provided by a cable modem service or by a telephone technology, known as digital subscriber line (DSL), has a greater capacity, giving the user faster data transmission rates than a narrowband connection, such as that provided by a conventional telephone line.

[27]We also reported in February 2001 that the availability of broadband technology was more prevalent in large metropolitan areas than in rural areas, on the basis of a survey of Internet users who were age 18 and older. For example, in a metropolitan area with a population of at least 2.5 million, more than 32 percent (plus or minus 8 percent) of the survey respondents reported having DSL and cable modem capability where they lived; in rural areas, the corresponding figure was less than 8 percent (plus or minus 6 percent). *Telecommunications: Characteristics and Choices of Internet Users*, (GAO-01-345, Feb. 16, 2001).

factors that led them to select urban areas are the availability of public transportation and particular space needs. A major factor that influences private sector site selection for urban areas was the availability and cost of skilled labor. Other private sector factors included real estate cost, access to transportation, and business incentives. In choosing the geographic area for a facility, the private sector more often cites cost considerations and incentives offered by states and local areas than did the federal agencies in our survey.

Several government functions, such as research and development, data processing, accounting and finance, and teleservice centers, can be located in rural areas. Although it is not clear from the information we collected whether any of the federal agencies that located sites in urban areas could have located them in rural areas, one matter that is clear is that RDA has not had the influence on federal siting practices that the Congress appears to have intended when RDA was enacted. Many agencies had no RDA policy, as required by the act, and many agency personnel in our survey either did not consider RDA or did not know whether the act was used in making their site selection decisions. If agencies had RDA policies and agency personnel were aware of and considered them, certain constraints would still exist that impede efforts to locate in rural areas, such as inadequate infrastructure for high-speed telecommunications, limited public transportation, and a limited labor force.

In the future, some of these constraints may be mitigated for a number of rural areas, but for the federal government to cost effectively consider rural as well as urban areas, we believe the following must occur:

- The government needs to have a cohesive, governmentwide site location policy that considers costs to the government as well as the goal of enhancing the socioeconomic status of urban areas and rural areas. We do not believe that the public policy objectives of assisting either urban or rural areas in a way that will allow agencies to fully and effectively achieve their missions preclude agencies from considering other factors such as the availability and cost of labor, real estate costs, operational costs, and certain local incentives. In fact, a more cost-conscious federal siting policy may even increase agencies' consideration of rural areas, since rural areas may have lower overall costs. However, we also recognize that in making siting decisions, the agency's ability to achieve its mission can be a more important consideration than costs.
- Federal agencies need to have clearly stated and documented policies on site location that conform to governmentwide policy, including RDA;

and GSA and other agencies need to document their consideration of RDA to ensure consistent policy application. As a central management agency, GSA could require any agency subject to its authority to do this.
- Federal agencies need one, clear definition of "rural area" for the purposes of implementing facility siting under RDA.

## Matters for Congressional Consideration

We suggest that Congress consider (1) enacting legislation to require agencies to consider, along with their missions and program requirements, real estate, labor, and other operational costs and applicable local incentives when deciding whether to relocate or establish a new a site in a rural area or urban area, and (2) amending RDA to clarify the definition of "rural area" for facility siting purposes to facilitate its implementation.

## Recommendations for Executive Action

We recommend that the Administrator of GSA, in GSA's role as the federal government's central property management agency, revise its guidance on federal facility siting to (1) advise customer agencies that they should consider, along with their missions and program requirements, real estate, labor, and other operational costs and applicable local incentives when deciding whether to relocate or establish a new site in a rural or urban area; (2) require that each federal agency subject to GSA's authority provide a written statement to GSA demonstrating that, in selecting a new facility location, the agency, as required by RDA, had given first priority to locating in a rural area, and if a rural area was not selected, the agency's justification for the decision; and (3) define the term "rural area" to provide its customer agencies with a single definition for purposes of federal siting under RDA, until the Congress amends RDA to define the term.

## Agency Comments and Our Evaluation

We provided copies of a draft of this report for comment to the heads of 21 federal agencies.[28] The agencies included both the agencies in our survey and departmental agencies from which we obtained additional site location information. We received written comments from 14 of the agencies and oral comments from 7 of the agencies.

[28] The 21 agencies include the Department of Education and all of the departmental agencies and independent agencies listed in appendix II.

Seventeen of the agencies responded that they either had no comments on the draft report, agreed with the information in the report, or suggested technical changes, which we considered and incorporated within this report where appropriate. The remaining four agencies provided more extensive comments, which are discussed below.

The GSA Administrator provided written comments dated July 16, 2001, which are reprinted in appendix VII. The Administrator stated that references in our report to GSA as the government's central real property management agency were somewhat misleading, since GSA administers only about 10 percent of the total federal real property inventory and, therefore, GSA has no authority to establish governmentwide policy. However, we note that GSA's mission statement identifies it as one of three central management agencies in the federal government. According to GSA, its inventory includes 40 percent of all federal office space, which is occupied by 1 million civilian federal employees, approximately half of the total federal civilian workforce. Thus, GSA's policies would affect almost half of the federal government's civilian office space, the type of space that was included in our survey.

We agreed with the Administrator's statement in his comments that agencies acquiring property independently of GSA are not subject to GSA regulations, and we have revised this report accordingly.

The Administrator also said that our 1990 report, which we referred to in our draft report, called for GSA to develop a governmentwide location policy, and he added that GSA could not have done so since it lacked the authority. Our 1990 report did not call on GSA to develop this policy under its authority, but instead recommended that GSA propose a policy to Congress as a matter for consideration. The Administrator also said GSA had no mechanism for implementing a governmentwide leadership role in 1990, while that might be possible now through its Office of Governmentwide Policy. As previously mentioned, we recommended in 1990 that GSA develop such a policy for congressional consideration.

The Administrator also said our draft report implied that GSA selected the geographic area for agencies' site acquisitions. We did not intend that implication, and we have revised this report to clarify that issue.

In addition, the Administrator pointed to GSA's efforts to make its customer agencies aware of RDA requirements. In our report, we noted GSA's regulations require RDA compliance by customer agencies. Nonetheless, RDA was not often used in the site acquisitions we surveyed, and some agencies said they were not aware of RDA requirements.

The Administrator also responded to our recommendation that GSA require written statements from each customer agency demonstrating that the agency had given first priority to locating in a rural area and, if a rural area was not selected, the agency also include a justification for the decision to GSA. He agreed to require a written statement from customer agencies regarding use of RDA in site acquisitions. However, he did not agree to asking for a justification because he said this would put GSA into the position of second-guessing the agencies because he believes that the agencies have authority to decide where to locate their facilities. While we agree with GSA on the latter point, we remain convinced that a justification is needed to help document that agencies gave first priority to rural areas when they did not choose a rural area. We are not recommending that GSA be required to evaluate these justifications.

The Administrator also responded to our recommendation that GSA define "rural area" to provide agencies with a single definition for the purpose of federal siting under RDA until the Congress amends RDA to define the term. He said GSA will develop a definition for use by its customer agencies, but it has no authority to establish a definition for all federal agencies. We clarified our report to reflect GSA's authority to develop a definition only for its customers. GSA did agree, however, to issue a bulletin to make other agencies aware of this definition. We believe that GSA's definition should be useful to other agencies until Congress amends RDA to set forth a statutory definition.

We also received written comments from the Department of the Interior's Acting Assistant Secretary of Policy, Management and Budget dated July 3, 2001, which are reprinted in appendix VIII. The Acting Assistant Secretary responded that the agency generally agreed with the findings and agreed in part with the matters for congressional consideration and the recommendations for executive action. Our report suggested that Congress consider enacting legislation to require agencies to consider certain costs along with agency mission when deciding whether to locate a site in a rural or urban area. He responded that our suggestion should be limited to the establishment of new offices because agencies have different considerations, for example, relocation costs, when expanding operations at an existing location, as compared to establishing a new office. We did not intend our recommendation to apply to situations in which an agency expands an operation at an existing site that does not involve a relocation or establishment of a new site. We clarified our recommendation in this regard.

The Acting Assistant Secretary also commented that our recommendation that GSA require customer agencies to provide a written statement to GSA demonstrating that the agency had given first priority to a rural area should (1) be required only if the agency does not select a rural area, (2) be limited to a minimum dollar threshold that would exempt certain locations from the documentation requirement, and (3) exempt operations that are being expanded in the same local area. Our recommendation, as noted in the draft report, states that all site decisions should include a written statement to GSA and a justification only should be provided if a rural area was not selected. Although we agree that the establishment of a minimum dollar threshold may be reasonable conceptually, we note that RDA does not include a dollar threshold for application of the act's requirements. We also believe that expansions of existing operations should be subject to this requirement if they might involve a relocation.

The two Department of the Treasury components in our survey also provided written comments. We received comments from IRS' Director of the Office of Real Estate and Facilities Management dated June 26, 2001. IRS's comments on this report covered four areas: (1) the use of RDA, (2) compliance with RDA requirements, (3) agencies' ability to consider costs when selecting new sites, and (4) technical considerations.

With respect to the first point—use of RDA, IRS said that

- the RDA's encouragement of locating in rural areas needs to be balanced against other legal requirements that sometimes contradict RDA requirements, such as those of CICA, and OMB and congressional budget requirements and limitations, and short-term and long-term cost considerations;
- a "rural area" should be defined in a way that achieves the intent of the RDA and be based on terms other than population alone; and
- if Congress supports a location policy that is economically rather than socially based, then Congress should repeal RDA and replace it with legislation that would require agencies to meet specific threshold terms specified in the legislation.

We agree that agencies need to consider a variety of legal requirements when selecting a new site for their facilities as well as costs. However, the statutory requirement imposed by RDA must be given priority. We also believe that if Congress defines "rural area" for purposes of RDA, it may want to consider factors in addition to population. By stating in our report that cost factors should be considered in the location process, we are not suggesting that Congress enact a location policy based solely on economics. Rather we are saying that cost should be one of the factors considered in the decisionmaking process.

With respect to its second point, on compliance, IRS said that agencies selecting their own sites without GSA assistance are to be held directly accountable for compliance with RDA and, therefore, GSA should not be required to evaluate or enforce compliance with the RDA. Additionally, IRS said that if an agency is using GSA to acquire a site, a simple statement that the agency considered the RDA should be sufficient. We recommended that GSA require a written statement only for federal agencies subject to its authority. We are not recommending that GSA enforce compliance with RDA for agencies that have and use their own authority to acquire space. In those cases where GSA acquires space for other agencies, we believe that providing GSA with a justification for a site selection that includes the reasons for not choosing a rural area under the RDA will help document that the agency gave consideration to RDA.

Regarding IRS's third point, IRS said that, in considering costs, most agencies have no means to assess project costs, such as real estate or labor costs, across geographic areas. The agency added that market data on rural areas are not readily available or readily accessible to compare them with alternative geographic areas. We believe that GSA and OPM can provide much of the information needed to do cost analyses. Furthermore, private sector companies are able to make such analyses and gain access to them. Finally, several agencies in our survey said their site selection process included cost analyses of alternative geographic areas as well as cost analysis of sites within a geographic area.

Regarding IRS's fourth point, its technical comments, IRS thought we should make distinctions between leased occupancies and new federal construction because of the greater time commitment for continued occupancy in new construction. We do not agree with IRS on this point. RDA does not distinguish between leased and owned space, and in our view, it is as important to consider costs and other factors regardless of whether space is leased or owned, particularly considering that many leases are for long time periods.

On July 3, 2001, we received written comments from the U.S. Customs' Director, Office of Planning, which are reprinted in appendix IX. The Director responded that Customs concurred with the report's recommendation to GSA to revise its guidance on federal facilities and stated that information in the report about Customs' facility acquisition process and factors used by Customs to select the sites in our survey was correct. He also stated that when Customs acquires property under its existing statutory authority, it utilizes the same process as GSA; and, although not mentioned in our draft report, Customs applies GSA's basic policy to house agencies in existing federally owned and leased space before acquiring additional space. The Director of Planning also stated that many of Customs' facilities are unique because the operation requires proximity to the border, an airport, or a seaport, and difficulties sometimes arise in complying with RDA and the pertinent executive orders because many of the land border crossings, airports, and seaports are not located in the central business area of either a rural area or an urban area. We agree and acknowledged in this report that agency mission requirements primarily dictated the location of the sites in our survey.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 21 days after its issue date. At that time, we will send copies of this report to the Chairman and Ranking Minority Member, Senate Committee on Governmental Affairs; the Chairman and Ranking Minority Member, House Committee on Government Reform; the Chairman and Ranking Minority Member, Senate Committee on Environment and Public Works; the Chairman and Ranking Minority Member, House Committee on Transportation and Infrastructure; the Chairman and Ranking Minority Member, Senate Committee on Agriculture, Nutrition and Forestry; the Chairman and Ranking Minority Member, House Committee on Agriculture; the House and Senate Appropriations Committees; Representative Ernest J. Istook; the Director of the Office of Management and Budget; and the Administrator of GSA. We will also make copies available to others upon request.

If you have any questions about this report, please call me on (202) 512-8387. Key contributors to this report are acknowledged in appendix X.

Sincerely yours,

Bernard L. Ungar

Bernard L. Ungar
Director, Physical Infrastructure Issues

# Objectives, Scope, and Methodology

## Objectives

Our objectives were to determine (1) what executive branch civilian non-Department of Defense (DOD) functions have recently selected urban locations other than Washington, D.C., and the federal cities,[1] compared to rural locations; and what factors, benefits, and problems were associated with such site selections; (2) what federal laws and policies govern facility location and to what extent have agencies implemented this guidance; (3) what lessons can be learned from private sector site selections; and (4) what functions lend themselves to being located in rural areas.

## Scope and Methodology

To address the first objective, we looked at (1) sites selected by the General Services Administration (GSA), the government agency that has authority to acquire space on behalf of executive branch agencies and (2) sites selected by executive branch agencies using their independent statutory authority. We chose to look at sites acquired independently of GSA to determine whether agencies, when acting independently, engaged in practices that were different from those of agencies that used GSA for their acquisitions. We looked at those sites that were acquired from fiscal years 1998 to 2000. In establishing an appropriate site size to study, we wanted to choose sites that were large enough to have some economic impact on the community in which they were located, that were sufficient in number to provide useful information, and for which sufficient information was available.

Accordingly, we decided to consider only those sites with space of 25,000 square feet or more.[2] Regarding manageability, GSA advised us that spaces of this size were small enough that they would be found on GSA's inventory in all of its 11 regions. Concerning economic impact, GSA advised us that

[1]Prior to 1995, the Office of Management and Budget (OMB) established in Circular A-105 the following 10 cities as the standard federal cities for federal regional headquarters: Atlanta, Boston, Chicago, Dallas, Denver, Kansas City, New York, Philadelphia, San Francisco, and Seattle. On June 8, 1995, OMB rescinded the Circular stating that the way the federal government manages resources, agency efforts to reduce duplicative levels of oversight, and the expanded use of technology make a strict regional structure inefficient and unnecessary.

[2]At sites involving multitenant federal office buildings, we did not aggregate the holdings of any one agency. For instance, if an agency such as the Department of Justice had entities, such as Drug Enforcement Administration and Immigration and Naturalization Service, that each occupied less than 25,000 square feet at that site, the individual entities' holdings were not combined. We recognize that each entity within an agency can have a unique mission that affects its location decision.

spaces of 25,000 square feet or more would tend to be associated with a relatively larger number of employees than spaces of less than 25,000 square feet and would consequently have a greater economic impact.[3] Finally, in considering the availability of information, we discovered that if a space has 25,000 or more square feet, the agency requesting that site can officially appeal any GSA revision of the delineated area in which that agency wishes to search for a site. As a result, we thought the appeals process would make information on such sites more readily available.[4]

We selected fiscal years 1998 through 2000 to obtain the most recent complete data available. As agreed with your office, we excluded Washington, D.C., and the 10 agency regional cities because of your request to see site acquisitions made outside of those cities.

We focused exclusively on new sites, rather than locations where leases had been renewed. In addition, we excluded spaces acquired by the judicial and legislative branches of the federal government because these branches are not subject to the Rural Development Act (RDA), which is applicable to executive departments and agencies. We also excluded sites acquired by DOD because DOD informed us that it has so much vacant space available at its bases nationally that it has no choice but to consider its existing vacant space when locating new or existing operations. We excluded the sites acquired by the United States Postal Service (USPS) because USPS advised us that it had little or no discretion in deciding where to locate most of its facilities, in that they needed to be in specific locations to serve customers or near airports. In addition, the Postal Reorganization Act of 1970 exempts USPS from federal laws relating to contracts and property. Further, USPS has authority to acquire space independently of GSA.

[3]By using a threshold of 25,000 square feet, we started with 166 sites that were acquired by federal agencies with the assistance of GSA in fiscal years 1998 through 2000. If we had used a threshold of 10,000 square feet, we would have initially considered 430 sites. The inclusion of sites under a smaller threshold size may have led to more rural sites being included in our survey, but the acquisitions of smaller sites probably would have been less important for considerations of economic impact.

[4]Our results are not generalized to sites with space of less than 25,000 square feet. The type of functions and reasons for locating in rural areas might be different if we had included sites of less than 25,000 square feet.

## Identifying Sites Recently Acquired Through GSA and Independently of GSA

GSA provided us with a list of 166 sites it had recently acquired for agencies. After excluding sites on the basis of the previously discussed criteria, the total number of GSA-acquired qualifying sites was reduced to 81, representing 29 agencies. We did not independently verify the completeness or accuracy of the site data provided by GSA.

GSA also provided us with a list of 52 agencies, including cabinet departments and their components, that have some level of statutory authority to acquire space independently of GSA. After excluding agencies from the list on the basis of the previously discussed criteria, we reduced the total number of agencies to 33. We subsequently contacted the 33 agencies, asking each whether it had, independently of GSA, used its statutory authority to acquire, during fiscal years 1998 through 2000, sites that met our criteria.[5] All 33 agencies responded, and 12 agencies identified 37 sites[6] meeting these criteria. Of the 12 agencies, 5 were not among the 29 agencies represented by the 81 sites GSA helped agencies to acquire. Therefore, our total universe was 118 sites (81+37) represented by 34 agencies (29+5). Using a 28-question, mail-out survey form, [7] we surveyed agency officials at the 118 sites. As of May 3, 2001, we had received responses for 115 of the 118 sites, for a response rate of 97.5 percent.

The practical difficulties of conducting any survey may introduce errors, commonly referred to as nonsampling errors. For example, differences in how a particular question is interpreted by the survey respondents could introduce unwanted variability in the survey's results. We took steps in the development of the questionnaire, the data collection, and the data editing and analysis to minimize nonsampling errors. These steps included pretesting the questionnaire with officials of the Department of Veterans Affairs and the National Institutes of Health, prompting potential respondents in order to increase our survey's response rate, and editing the questionnaires for completeness and accuracy.

[5]See appendix V for a list of agencies that have independent site authority.

[6]GSA does not track sites acquired by agencies independently of GSA. We therefore relied upon officials at each agency that acquired sites using their independent authority to report that all sites meeting our criteria have been included. We did not independently verify the completeness or accuracy of the site data provided by agencies with independent authority to acquire space.

[7]See survey form in appendix VI.

## Identifying Sites in Rural Areas—Defining "Rural"

To determine whether any of the sites were in rural areas, we reviewed RDA to obtain a definition for rural. However, RDA's definition for rural was unclear, and we found application of it would be impractical. For the purpose of locating federal facilities, RDA states that rural areas shall be defined as those areas identified by the private business enterprise exception in 7 U.S.C. § 1926(a)(7). Prior to 1996, the private business enterprise exception in 7 U.S.C. § 1926(a)(7) defined rural areas as including all territory of a state that is not within the outer boundary of any city having a population of 50,000 or more and its immediately adjacent urbanized and urbanizing areas with a population density of more than 100 persons per square mile, as determined by the Secretary of Agriculture, according to the latest decennial census of the United States. In 1996, 7 U.S.C. § 1926(a)(7) was amended and no longer includes the private business enterprise exception. Therefore, the appropriate definition of rural area under RDA is unclear. Furthermore, we identified two problems with the pre-1996 definition. First, determining the population density for communities adjacent to these federal sites was not feasible within the scope of this job. Second, the term "outer boundary" in this definition lacks specificity.

The current definition of rural in 7 U.S.C. § 1926(a)(7) is for purposes of water and waste disposal grants and loans and defines rural as a city, town, or unincorporated area that has a population of no more than 10,000 inhabitants. We are not certain that this is the appropriate definition since it refers to water and sewer grants and not the private business enterprise exception. The prior threshold, which was eliminated in 1996, used a population threshold of 50,000 and included a population density requirement. Population density data were not readily available; therefore, it was not feasible for us to use this definition.[8]

For this survey, we chose a threshold of 25,000 or less because it was used to define rural areas by several other federal agencies and private sector organizations that we identified. When we applied this population

[8]The information on population density for areas outside of cities was not readily available and is subject to change, pending the results of the 2000 census. Additionally, when the U.S. Department of Agriculture needs to determine whether a city that has applied for a grant is rural or not, and may have a population of close to 50,000, it has experts who survey the population density of the city's surrounding area to determine whether the density meets the criteria for rural area. We did not use 50,000 as a population threshold because many of the definitions of rural used by other federal agencies and private sector organizations we identified used thresholds of 25,000 or less.

threshold of 25,000 to the sites on the list of 81 GSA-acquired federal sites, we determined that 23 were located in rural communities; and of the 37 sites that agencies acquired independently of GSA, 9 were located in rural communities. Thus, our survey included a total of 32 rural sites.[9] We note that 26 of the "rural" sites in our survey that fall within the 25,000 population threshold were actually located in metropolitan statistical areas in which large cities are located.

## Determining Laws, Regulations, and Policy That Affect Site Selections

To address the second objective, which concerned federal laws and policies that affect the selection of sites, we reviewed federal laws, executive orders, and policies that relate to the location of federal facilities. We also conducted interviews with officials of GSA's Office of Governmentwide Policy, the chief realty officers of 13 of the 14 cabinet agencies, [10] and an Office of Personnel Management official on federal employee compensation and relocation benefits. Furthermore, we asked survey respondents to identify whether they had applied the relevant laws and policies when making a site acquisition. We also examined GSA lease files created between 1989 and 2000 in three GSA regions—the Rocky Mountain Region in Denver, CO; the Greater Southwest Region in Ft. Worth, TX; and the Mid-Atlantic Region in Philadelphia, PA—where we were already conducting an examination of GSA files for another assignment. We examined the files for documentation regarding application of RDA. However, we did not attempt to verify whether GSA or other agencies were in compliance with RDA.

## Private Sector Lessons for the Public Sector

To address our third objective, we contracted with a private sector consultant[11] to (1) perform a literature search, interview experts in corporate real estate consulting, and survey corporations that had made recent site selection decisions; (2) determine the factors and criteria the private sector uses to select urban, suburban, or rural office locations; (3)

[9]See appendix III for a listing of the 32 rural sites.

[10]As previously mentioned, DOD was not included in our review because DOD informed us that because of the amount of vacant space at its bases, it generally considers its existing vacant space when locating new operations.

[11]John D. Dorchester, Jr., of The Dorchester Group, L.L.C. His report was entitled *Office Location Considerations of Large Corporations: U.S. Government Potentials*, March 31, 2001.

identify types of office functions (such as claims processing) that lend themselves to being performed in more rural areas; (4) identify, to the extent possible, similar federal functions; and (5) identify and explain how technological advances in the last decade have reduced the disadvantages previously associated with rural areas and what impact U.S. economic changes have had on facility location decisions.

Our consultant reviewed relevant professional literature, surveyed a judgmental sample of private sector firms, and analyzed selected economic data for indicators of private sector location practices. Our consultant's results are not statistically representative of private sector locations practices because of the following factors: (1) a judgmental sample rather than a random sample was used, (2) 17 percent of those surveyed responded, and (3) no evidence was provided that those who responded were distributed proportionately across industry-type and geographic region to the proportions corresponding to these factors in the population of the 1,000 largest U.S. companies. Our consultant also did not empirically determine whether the same factors that influence private sector location decisions are applicable to location decisions of federal facilities.

Information obtained from our consultant was still very useful for our review because the information included data from both survey respondents and an extensive literature search on factors involved in corporate location decisions. Also, although our consultant's study included various types of companies, the study's focus was on the location of offices of those companies. Offices in the consultant's survey performed such functions as professional services, management, computing, secretarial, clerical, and administrative, functions that are similar to government functions.

## Identifying Functions That May Relocate

To accomplish the fourth objective, which concerned the potential of certain federal functions to relocate to rural areas, we used the agency survey described above and interviewed officials at 13 of the 14 cabinet agencies about the location of functions—such as printing, personnel benefits administration, and procurement—that are often conducted on an agencywide basis. Experts in government management and personnel management had identified such functions as those that could be conducted in nonurban areas. At these agencies, we contacted the chief technology and human resources officials to inquire whether each of these agencywide functions was being conducted in an urban or a nonurban area and why. These officials were also asked to report the impact of

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telecommunications technology on the location of these agency functions and whether technology had made rural areas more viable as site locations. We also reviewed several of our reports, which provided background information on all four of our objectives.[12]

We did our review between August 2000 and May 2001 in Washington, D.C., and in the cities of Philadelphia, PA; Denver, CO; and Fort Worth, TX, cities where we were already conducting an examination of GSA files for another assignment. Our review was conducted in accordance with generally accepted government auditing standards.

[12] *Facilities Location Policy: GSA Should Propose a More Consistent and Businesslike Approach* (GAO/GGD-90-109, Sept. 28, 1990); *Federal Statutes and Executive Orders Applicable to Public Buildings Service's Leasing Program* (GAO/GGD-00-27R, Oct. 18, 1999); and *Facility Relocation: NRC Based Its Decision to Move Its Technical Training Center on Perceived Benefits–Not Costs* (GAO/GGD-01-54, Oct. 19, 2000).

# List of Surveyed Federal Agencies That Recently Selected Site Locations

| Agencies that recently selected site locations |
|---|
| **Department of Agriculture:** |
| Animal and Plant Health Inspection Service |
| Natural Resources Conservation Service |
| Forest Service |
| **Department of Commerce** |
| Bureau of the Census |
| National Oceanic and Atmospheric Administration |
| **Department of Energy** |
| **Department of Health and Human Services** |
| Centers for Disease Control and Prevention |
| National Institutes of Health |
| Agency for Health Care Research and Quality |
| **Department of Housing and Urban Development** |
| **Department of the Interior** |
| National Park Service |
| Bureau of Reclamation |
| **Department of Justice** |
| U. S. Attorney |
| Bureau of Prisons |
| Drug Enforcement Administration |
| Federal Bureau of Investigation |
| Immigration and Naturalization Service |
| U.S. Marshals Service |
| **Department of Labor** |
| **Department of State** |
| **Department of Transportation** |
| U. S. Coast Guard |
| Federal Aviation Administration |
| **Department of the Treasury** |
| U.S. Customs Service |
| Internal Revenue Service |
| **Department of Veterans Affairs** |
| **Environmental Protection Agency** |
| **Equal Employment Opportunity Commission** |
| **Federal Emergency Management Agency** |

| Agencies that recently selected site locations |
|---|
| General Services Administration |
| National Aeronautics and Space Administration |
| Smithsonian Institution[a] |
| Social Security Administration |

[a]The Smithsonian Institution is an independent trust instrumentality of the United States.

Source: Survey data.

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# Location of the 32 Rural Sites (Areas With Populations of 25,000 or Less) in Our Survey

| City/town | State | Name of MSA[a] |
|---|---|---|
| Beckley | WV | (Not in MSA) |
| Cape Canaveral | FL | Melbourne-Titusville-Palm Bay |
| Capitol Heights | MD | Washington, D.C. |
| Chamblee | GA | Atlanta |
| Clarksburg | WV | (Not in MSA) |
| Clarksville | IN | Louisville |
| Decatur[b] | GA | Atlanta |
| Eagle Pass | TX | (Not in MSA) |
| Fairfax | VA | Washington, D.C. |
| Ft. Meade (Odenton) | MD | Baltimore |
| Greenbelt | MD | Washington, D.C. |
| Herndon | VA | Washington, D.C. |
| Jeffersonville[c] | IN | Louisville |
| Key West | FL | (Not in MSA) |
| Lanham | MD | Washington, D.C. |
| Martinsburg | WV | Washington, D.C. |
| Mineola | NY | Naussau-Suffolk |
| Newtown Square | PA | Philadelphia |
| Norcross | GA | Atlanta |
| Opa-Locka | FL | Miami |
| Oxford | MS( | (Not in MSA) |
| Peachtree City | GA | Atlanta |
| Pomona | NJ | Atlantic-Cape May |
| New Port Richey | FL | Tampa-St. Petersburg |
| Quantico | VA | Washington, D.C. |
| Springfield | VA | Washington, D.C. |
| Williamsburg | KY | (Not in MSA) |
| Williston | VT | Burlington |
| Wilmington | MA | Boston |
| **Total locations—32** | | |

Note: Twenty six of the 32 rural sites (located in areas with populations of 25,000 or less) were actually located in metropolitan statistical areas (MSA), in which large cities are located.

[a]MSA is an area having 1 or more counties containing a city of 50,000 or more or a Census Bureau defined urbanized area and a total population of at least 100,000 (or 75,000 in New England).
[b]Two sites were located in Decatur, GA.
[c]Three sites were located in Jeffersonville, IN.
Source: Survey data and the Bureau of the Census.

# Location Factors Considered by Private Sector Organizations

| Categories of overall factors and factors within the categories | |
|---|---|
| **Overall category of factors** | **Factors within overall categories** |
| Workforce issues | Availability: skilled and unskilled labor |
| | Costs |
| | Worker/technical training |
| | Productivity |
| | Retention considerations |
| | Recruitment possibilities |
| | Quality of life |
| Transportation and utilities | Transportation |
| | Highway accessibility |
| | Proximity to a major airport |
| | Water and port accessibility |
| | Energy availability and cost |
| | Electricity availability and cost |
| | Water availability |
| | Adequacy of sewage facilities |
| Technology | Infrastructure for business |
| | Infrastructure for residential use |
| State and local incentives | Tax abatements |
| | Educational incentives |
| | Others |
| Business climate | Responsiveness |
| | Permitting |
| | Attitudes toward growth and business |
| | Environmental considerations |
| | Tax policy |
| Costs | Operations |
| | Occupancy |
| | Construction |
| | Land |
| | Room for expansion |
| Proximity to markets/suppliers/raw materials/competitors | |
| Consistency with corporate Image | |

Source: *Office Location Considerations of Large U.S. Corporations: U.S. Government Potentials*, The Dorchester Group, L.L.C., March 31, 2001.

# Federal Executive Branch Agencies With Some Level of Independent Authority to Acquire Real Property, Calendar Year 2000

As table 9 shows, some agencies have been provided independent statutory authority to acquire real estate, and some agencies have broad authority. For example, the Tennessee Valley Authority is authorized to purchase or lease real estate property that it deems necessary or convenient in transacting its business;[1] and the Securities and Exchange Commission is authorized to enter into real property leases for office, meeting, storage, and other space as is necessary to carry out its functions.[2] Other agencies' statutory authority to acquire space is for more limited purposes. For example, the Secretary of the Interior is authorized to lease buildings and associated property for use as part of the National Park System,[3] while the Secretary of the Treasury is authorized to lease space for the storage of unclaimed or other imported merchandise that the government is required to store.[4]

**Table 9: Executive Branch Agencies With Some Level of Independent Authority to Acquire Real Property**

| Executive branch agencies with some level of authority to acquire real property |
| --- |
| Agency for International Development |
| American Battle Monuments Commission |
| Appalachian Regional Commission |
| Bonneville Power Administration |
| Central Intelligence Agency |
| Department of Agriculture |
| Department of Commerce |
| Department of Defense |
| Department of Education |
| Department of Energy |
| Department of Health and Human Services |
| Department of Housing and Urban Development |
| Department of the Interior |

[1]16 U.S.C. § 831c.

[2]15 U.S.C. § 78d.

[3]16 U.S.C. § 1a-2.

[4]19 U.S.C. § 1560.

| Executive branch agencies with some level of authority to acquire real property |
| --- |
| Department of Justice |
| Department of Labor |
| Department of State |
| Department of Transportation |
| Department of the Treasury |
| Department of Veterans Affairs |
| Environmental Protection Agency |
| Federal Emergency Management Agency |
| General Services Administration |
| National Aeronautics and Space Administration |
| National Archives and Records Administration |
| National Science Foundation |
| National Transportation Safety Board |
| Panama Canal Commission |
| Pennsylvania Avenue Development Corporation |
| Securities and Exchange Commission |
| Smithsonian Institution[a] |
| Tennessee Valley Authority |
| Broadcasting Board of Governors |
| U.S. Parole Commission |
| U.S. Postal Service |
| U.S. Sentencing Commission |
| U.S. Trade Representative |

[a]The Smithsonian Institution is an independent trust instrumentality of the United States.

Source: GSA.

# Survey of Federal Facilities' Locations

United States General Accounting Office

GAO
Accountability • Integrity • Reliability

## Survey of Federal Facilities Location

**Introduction**

Responding to a request from the Congress, the General Accounting Office is conducting a survey of several recently opened federal facilities, including that which is identified below. Please forward this questionnaire to the highest ranking official of your agency who was involved in the acquisition of this site.

In our report we plan to list the agencies responding to this survey but we will not associate specific survey responses to any individual. Also, there is congressional interest for GAO to do additional work relating to location decisions and whether costs are considered in those decisions. Therefore, we may need to contact you for additional information at a later time.

Please return completed survey forms to GAO via fax (202-512-7477), no later than February 28, 2001. If you have questions, please contact Gary Lawson (202-512-3649), Lucy Hall (202-512-4425) or Edward Warner (202-512-6975). Thank you for providing this assistance.

The address of the site we are asking about in this questionnaire is:

Location information here

In the event we need to clarify a response, please provide the following information:

Name of person completing survey: ____________________

Title: ____________________

Telephone number: (____)__________

E-mail address: ____________________

1. **Is the above location address correct?** ☐ Yes ☐ No → If no, please make corrections to the address.

2. **Is this site in a city, a suburb, or in a rural area (an area under 10,000 population)?** *(Check one.)*

   1. ☐ City
   2. ☐ Suburb
   3. ☐ Rural area

1

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3. Please enter the total number of employees that work at this site. *(Include full-time, part-time, and contract employees.)*

_______ employees

4. What is the main function at this site and the number of employees who are employed at this function? *(Please review the entire list and **check one**. Enter the total number of employees working **at that function only**.)*

| | Functions | Number of employees | | Functions | Number of employees |
|---|---|---|---|---|---|
| 1. ☐ | Automated data processing and/or electronic storage | | 13. ☐ | Personnel management and processing | |
| 2. ☐ | Communications | | 14. ☐ | Printing and reproduction | |
| 3. ☐ | Document archiving and storage/records management | | 15. ☐ | Procurement | |
| 4. ☐ | Equipment maintenance | | 16. ☐ | Prison/Detention | |
| 5. ☐ | Finance and accounting | | 17. ☐ | Research and development | |
| 6. ☐ | Health and medical services | | 18. ☐ | Social services | |
| 7. ☐ | Inspecting/auditing/examining/ monitoring | | 19. ☐ | Supply storage and/or inventory control | |
| 8. ☐ | Loans, grants, and benefit administration/application and claims processing | | 20. ☐ | Telephone-based customer service (Teleservicing) | |
| 9. ☐ | Law enforcement, security, border patrol | | 21. ☐ | Training and education | |
| 10. ☐ | Mail processing | | 22. ☐ | Administration/program management not listed elsewhere | |
| 11. ☐ | Parks, natural resources, environment management | | 23. ☐ | General support services not listed elsewhere - Please describe: ____________ | |
| 12. ☐ | Payroll processing | | 24. ☐ | Other - Please describe: ____________ ____________ | |

5. Was this operation relocated from another site, is it a new operation, or is it an expansion/addition to an existing facility at the same site? *(Check one.)*

1. ☐ Relocated → Continue with question 6.
2. ☐ New → Skip to question 10.
3. ☐ Expansion/addition to existing site → Skip to question 10.

6. If this is a relocated operation, please provide the complete address, including zip code, of the former address.

________________________________________
________________________________________
____________________________ Zip code __________

7. Approximately how far is the new location from the previous location? *(Enter approximate number of miles.)*

_______ miles

2

8. Was the former location in a city, a suburb, or in a rural area (an area under 10,000 population)? *(Check one.)*

1. ☐ City
2. ☐ Suburb
3. ☐ Rural area

9. If this is a relocated operation, why did it relocate?

______________________________________________
______________________________________________
______________________________________________
______________________________________________

10. For which of the following reasons did the agency choose the delineated area for the facility site? ***Delineated area means the specific geographic boundaries within which space will be considered to satisfy an agency.*** *(**Check all that apply.** Please coordinate with others involved in the decision, if necessary, to answer this question.)*

1. ☐ Agency mission requirements (e.g., services need to be close to customers, close to natural resources, etc.)
2. ☐ Employees must be located near co-workers at another site
3. ☐ Location needs to be near public transportation (e.g., mass transit such as subways, busses, etc.)
4. ☐ Transportation efficiencies (e.g., proximity to interstate highways, airports, rail lines, etc.)
5. ☐ Recruitment and/or retention issues (e.g., "quality of life," available applicant pool, local economic conditions)
6. ☐ Political considerations
7. ☐ Use existing agency infrastructure investment
8. ☐ Personnel cost considerations (e.g., relocation costs)
9. ☐ Lower labor costs
10. ☐ Lower real estate costs
11. ☐ Particular space needs (size or specialized nature of facility)
12. ☐ Needed sufficient competition for real estate contract
13. ☐ Other reason - Specify: ______________________
14. ☐ Other reason - Specify: ______________________

11. From the above list, please indicate the primary reason for choosing the delineated area and explain why.

*Enter reason number from question 10 above* ________ and explain why in the space below.

______________________________________________
______________________________________________
______________________________________________
______________________________________________

12. Which one of the following chose the facility site within the delineated area? *(Check one.)*

1. ☐ GSA
2. ☐ Your agency from a list of site options submitted by GSA
3. ☐ Your agency
4. ☐ Other - Specify: ______________________

3

13. Please explain why the party you indicated in the previous question was the one to choose this site?

14. Identify and briefly explain up to three chief benefits (if any) of this site in order of importance:

1. 

2. 

3. 

15. Identify and briefly explain up to three chief problems (if any) of this site in order of importance:

1. 

2. 

3. 

4

16. Were the following laws, executive orders, or other criteria applied in the selection of this site?
*(Check all boxes that apply for each of the laws, orders, or criteria listed below.)*

a. **Rural Development Act**

1. ☐ Yes ➜ If yes, who ultimately assumed responsibility for compliance with this act?
2. ☐ No — 1. ☐ GSA 2. ☐ Your agency 3. ☐ Don't know
3. ☐ Don't know

b. **Executive Order 12072** (central business districts)

1. ☐ Yes ➜ If yes, who ultimately assumed responsibility for compliance with this order?
2. ☐ No — 1. ☐ GSA 2. ☐ Your agency 3. ☐ Don't know
3. ☐ Don't know

c. **Executive Order 13006** (historic districts/sites)

1. ☐ Yes ➜ If yes, who ultimately assumed responsibility for compliance with this order?
2. ☐ No — 1. ☐ GSA 2. ☐ Your agency 3. ☐ Don't know
3. ☐ Don't know

d. **Other executive orders** - Please cite: ____________________

1. ☐ Yes ➜ If yes, who ultimately assumed responsibility for compliance with this order?
2. ☐ No — 1. ☐ GSA 2. ☐ Your agency 3. ☐ Don't know
3. ☐ Don't know

e. **Competition in Contracting Act (CICA)**

1. ☐ Yes ➜ If yes, who ultimately assumed responsibility for compliance with this act?
2. ☐ No — 1. ☐ GSA 2. ☐ Your agency 3. ☐ Don't know
3. ☐ Don't know

f. **Agency-specific policy** - Please cite: ____________________

1. ☐ Yes
2. ☐ No
3. ☐ Don't know

g. **Other** - Please cite: ____________________

1. ☐ Yes ➜ If yes, who ultimately assumed responsibility for compliance with this act?
2. ☐ No — 1. ☐ GSA 2. ☐ Your agency 3. ☐ Don't know
3. ☐ Don't know

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17. Does your agency have a policy on the Rural Development Act, and if so, is it a written policy?

1. ☐ Yes, it is written. ➔ Please send us a copy of policy.
2. ☐ Yes, but it is not written. ➔ Please provide name and phone number of person who can discuss this policy.
   Name: ____________________ Phone: (    ) _____-______
3. ☐ No
4. ☐ Don't know

18. Were rural areas considered for this site? *(Check one.)*

1. ☐ Yes
2. ☐ No

19. If a rural area for this site was __not__ considered or was __not__ accepted upon consideration, what was (were) the reason(s)? ***(Check all that apply.** Please coordinate with others involved in the decision, if necessary, to answer this question.)*

1. ☐ Agency mission requirements (e.g., services need to be close to customers, close to natural resources, etc.)
2. ☐ Employees must be located near co-workers at another site
3. ☐ Location needs to be near public transportation (e.g., mass transit such as subways, busses, etc.)
4. ☐ Transportation efficiencies (e.g., proximity to interstate highways, airports, rail lines, etc.)
5. ☐ Recruitment and/or retention issues (e.g., "quality of life," available applicant pool, local economic conditions)
6. ☐ Political considerations
7. ☐ Use existing agency infrastructure investment
8. ☐ Costs to relocate personnel
9. ☐ Costs to relocate or replace equipment, furniture, letterhead, files, etc.
10. ☐ Labor costs
11. ☐ Real estate costs
12. ☐ Particular space needs (size or specialized nature of facility)
13. ☐ Needed sufficient competition for real estate contract
14. ☐ Other reason - Specify: ______________________________
15. ☐ Other reason - Specify: ______________________________

20. From the above list, please indicate the primary reason for not considering or accepting a rural area for this site and explain why.

*Enter reason number from question 19 above* ________ and explain why in the space below.

________________________________________
________________________________________
________________________________________
________________________________________

6

Next are a few questions pertaining specifically to cost elements and how these may have entered in your decision on where to locate.

21. Did your agency perform a cost analysis of any alternative <u>sites</u> with respect to where to locate this facility? *(Check one.)*

1. ☐ Yes
2. ☐ No

22. Did your agency perform a cost analysis of any alternative <u>areas</u> with respect to where to locate this facility? *(Check one.)*

1. ☐ Yes → ***Continue with question 23.***
2. ☐ No → ***Skip to question 25.***

23. Which cost elements did your agency consider in its analysis of alternative <u>areas</u>? ***(Please be specific.)***

______________________________
______________________________
______________________________
______________________________

24. Is documentation of this cost analysis available? *(Check one.)*

1. ☐ Yes
2. ☐ No
3. ☐ Don't know

25. If your agency did <u>not</u> perform a cost analysis of alternative <u>areas</u>, please cite the reason(s) for not doing so.

______________________________
______________________________
______________________________
______________________________

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26. How important would you say that cost was in your agency's decision on the area in which to locate this facility? *(Check one.)*

1. ☐ Very important
2. ☐ Somewhat important
3. ☐ Of little importance
4. ☐ Not important

Please explain your response.

27. What factors, if any, were more important than cost in your agency's decision on selecting an area in which to locate this facility? *(Check one.)*

1. ☐ Not applicable, cost was the most important factor
2. ☐ Other factors were more important than cost → Please enter the factor(s) and briefly explain why they were more important than cost.

28. Other than the lease document itself, is there documentation as to the reason for the selection of this particular facility? *(Check one.)*

1. ☐ Yes.
2. ☐ No.

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29. If you have any comments or would like to further explain any of your previous answers, please use the space below.

"This concludes our survey. Thank you very much for your help."

9

# Comments From the General Services Administration

GSA

GSA Administrator

July 16, 2001

Mr. Bernard L. Ungar
Director, Government Business Operations Issues
General Government Division
General Accounting Office
Washington, DC 20548

Dear Mr. Ungar:

In the Draft Report Facilities Location, the General Accounting Office (GAO) noted that Federal agencies chose urban areas for the majority (72 percent) of the 115 recently acquired sites. The selections were based primarily on the need to be near agency clients and public/private facilities. Agencies that selected rural sites did so primarily due to a need to be close to existing support facilities and because of lower rent costs. Relocating agencies tended to relocate within the same area. The Report recommended that the General Services Administration (GSA) revise its guidance on Federal facility siting to (1) advise agencies that they should consider - along with their missions and program requirements - real estate, labor and other operational costs, and applicable local incentives; these considerations should be examined when deciding whether to locate a site in a rural or urban area; (2) require that Federal agencies acquiring space through GSA provide a written statement demonstrating that they gave priority to rural areas; and (3) define the term rural area.

GSA has a number of comments with regard to the findings and recommendations in the Report. However, before we provide those comments, we believe that GSA's past role and potential role in issuing Governmentwide location policy should be clearly understood. There are a number of references in the report along the lines of "GSA as the central management agency, should revise its guidelines, issue governmentwide location policy, etc." These references are somewhat misleading, in that GSA is responsible for managing and issuing real property acquisition policy for only about 10 percent of the total Federal real property inventory. That means that GSA has no authority whatsoever to issue location or real property acquisition policy for actions covering the remaining nearly 90 percent of the space occupied by Federal agencies. We point this out simply to make it clear that no single agency in the Executive Branch, certainly not GSA, has the statutory authority or authority by Executive Order to establish Governmentwide location policy. The responsibility to develop policy covering the 90 percent of the inventory not under GSA's real property acquisition authority resides with the individual agencies, not with GSA.

U.S. General Services Administration

With that said, we turn to comments on other aspects of the report. First, there are some inaccuracies:

p. 9 - "GSA is the central management agency for acquiring real estate for federal agencies." While GSA is the central agency for acquiring general-purpose types of space, the other agencies acquire the vast majority of special-purpose space. As noted earlier, GSA has acquired 10 percent, other agencies 90 percent of the total.

p. 9 - "If an agency acquires property independently . . . . may not be subject to GSA regs." That is not correct. If an agency acquires space using its own authority, it is not subject to GSA regulations.

p. 9 - Referring to a 1990 GAO Report, the Report stated that GSA should develop a Governmentwide location policy; GSA could not have done so, because we did not have the authority to do so.

p. 15 - The Report says, " ...regardless of whether the site decisions made by GSA, or made independently of GSA." This implies that GSA had some role in selecting the geographic area for those site acquisitions. We did not. By regulation, that is entirely the agency's responsibility.

p. 37 - In 1990, GAO wanted GSA to take a Governmentwide leadership role. While that might be possible now through the Office of Governmentwide Policy, there was no established mechanism or reason in 1990 to do so.

With the above clarifications and corrections, we can turn to the issue of how GSA has, in fact, established guidelines for the agencies that come to GSA for space to follow in applying the Rural Development Act (RDA):

Specifically, the GSA Customer Guide to Real Property enumerates the following instructions for GSA client agencies when deciding the location of facilities:

> **"Do I need to give certain locations priority in requests for new space?"**
>
> Yes.
>
> - The Rural Development Act requires that if the agency mission requirements do not specify location in a specific geographic area, first priority must be given to locating new offices and other facilities in rural areas.

- As required by Executive Order 12072, whenever an agency's mission and program require locating in urban areas, we must first consider central business areas (CBA's). We verify the boundaries of the CBA's with local officials and keep Federal, State, and local officials informed about our proposed acquisition of urban space.
- Executive Order 13006 requires that within CBA's, first consideration be given to acquiring space in historic properties within the established geographic delineated area."

Further, Section 102-79.60 in 41 CFR, as published in the Federal Register on Thursday, January 18, 2001, states that " Executive agencies must give first priority to the location of new offices and other facilities in rural areas (7 U.S.C. 2204b-1), unless their mission or program requirements call for locations in an urban area."

In response to the recommendations of the Report:

(1) GSA will again advise agencies under our authority to consider all relevant issues associated with the decision to obtain space in a particular location. GSA will emphasize the importance of cost issues, and will also indicate that other factors such as the demographics of the workforce, availability of existing facilities, and the population that the agency must serve are significant. However, GSA, as does the private sector, must consider mission to be pre-eminent. GSA will also issue a Bulletin to agencies using their own authority, after consulting with them, to say that they must consider the RDA. While GSA will require a written statement regarding RDA from its customer agencies, we do not agree to asking for a justification. That puts us into the position of second-guessing the agencies, and we firmly believe that the choice of the geographic area is a choice that the agencies have authority to decide; this choice does not reside with GSA. We will accept their certification that they have complied. Without this certification, we will not take action to fulfill the space requirement.

(2) With regards to the definition of "rural area," GSA has no authority to determine or require the use of such a definition by all Federal agencies. For real property procurement actions undertaken by GSA, we will develop a definition that we and our customer agencies can use. GSA will issue a Bulletin to make other agencies aware of this definition.

- 4 -

Thank you for the opportunity to respond to the Draft Report. Should you have any questions about GSA's response, please contact David L. Bibb, Deputy Associate Administrator, Office of Governmentwide Policy, Office of Real Property at (202) 501-0856.

Sincerely,

Stephen A. Perry
Administrator

DCN:11602



# Comments From the Department of the Interior

## United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

JUL 0 3 2001

Mr. Bernard L. Ungar
Director, Physical Infrastructure Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Ungar:

Thank you for providing the Department of the Interior with the opportunity to review and provide comments on the draft report entitled, Facilities Location: Agencies Should Pay More Attention to Costs and Rural Development Act (GAO-01-805). In general, we agree with the findings; and agree in part with the Matters For Congressional Consideration and Recommendations for Executive Action. Our comments on the Matters For Congressional Consideration and Recommendations For Executive Action are provided below for your consideration.

Matters For Congressional Consideration

GAO suggests that Congress consider (1) enacting legislation to require agencies to consider, *along with their missions and program requirements, real estate, labor, and other operational costs, and applicable local incentives* when deciding whether to locate a site in a rural area or urban area, and (2) amending RDA to clarify the definition of "rural area" for facility siting purposes to facilitate its implementation.

- Agencies have different considerations when expanding operations at an existing location as compared to establishing a new office; e.g., relocation costs. We recommend that the listed selection criteria be limited to establishment of new offices.

Recommendations For Executive Action

GAO recommends that the Administrator of the General Services Administration (GSA) revise GSA's guidance on federal facility siting to . . . *require that each federal agency subject to GSA's authority provide a written statement to GSA demonstrating that, in selecting a new facility location, the agency, as required by RDA, had given first priority to locating in a rural area, and if a rural area was not selected, the agency's justification for the decision.*

2

- We suggest that the requirement to demonstrate consideration of a rural site apply only when a rural site is not selected. If an agency selects a rural site, then a written statement would not he necessary.
- We further suggest that a minimum dollar threshold be established to exempt locations from this documentation requirement; e.g., annual cost less than $2 million.
- When the new space to be acquired is for the purpose of expanding existing operations of an organization in the same local area, we suggest it be exempted from this requirement.

We appreciate the interest in this area and the opportunity to comment. If you or your staff have questions or wish to discuss our comments, please contact Debra E. Sonderman, Director, Office of Acquisition and Property Management, on (202) 208-6352.

Sincerely,

Robert J. Lamb
Acting Assistant Secretary
Policy, Management and Budget

DCN:11602



# Comments From the U.S. Customs Service

**U.S. Customs Service**

*Memorandum*

DATE: **July 3, 2001**

FILE: AUD-1-OP SMT

MEMORANDUM FOR BERNARD L. UNGAR
DIRECTOR, PHYSICAL
INFRASTRUCTURE ISSUES

FROM: Director, Office of Planning

SUBJECT: General Accounting Office Draft Report Entitled "Facilities Location: Agencies Should Pay More Attention to Costs and Rural Development Act"

Thank you for providing us with a copy of your draft report of federal facility sites and the opportunity to comment on the issues in this report. We have reviewed the draft and would like to have the following comments incorporated into the report.

The majority of Customs occupied facilities are owned by, or leased through, the General Services Administration (GSA). The process described in the Background, on page 9 of the draft report, adequately summarizes our facility acquisition process for GSA and Customs obtained space.

When acquiring property under existing statutory authority, Customs documents its requirements utilizing the same process as GSA, including the preparation and certification of a "Determination of Location" to define and justify the delineated area of the facility location.

These justifications consider application of the Rural Development Act of 1972 (RDA), Executive Order (EO) 12072, EO 13006, and the Competition in Contracting Act of 1984 (CICA). Although not mentioned in the draft, Customs applies GSA's basic policy to house agencies in existing federally owned and leased space before acquiring additional space.

Many of the Customs occupied facilities are unique because the operation requires proximity to the border, to an airport, or to a seaport. Difficulties sometimes arise in complying with RDA, EO 12072, or EO 13066 because many of these land border crossings, airports and seaports are not located in either a rural area or in an urban central business area.

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-2-

The information included in the draft report on pages 16 and 17 concerning the factors used by Customs to select the delineated areas for the Mail Facility in Carson, California, and the Customs CyberSmuggling Center in Fairfax, Virginia, is correct.

We concur with the recommendation on page 8 of the draft report which recommends GSA revise its guidance on federal facilities siting when determining site locations in rural versus urban areas, and in defining the term "rural area" for these purposes.

We do not believe that this information, or any other information in the draft warrants protection under the Freedom of Information Act.

Thank you once again for the opportunity to comment on the draft report. If you have any questions regarding these comments please have a member of your staff contact Ms. Sandy Manuel at (202) 927-2096.

William F. Riley

DCN:11602



# GAO Contacts and Staff Acknowledgments

## GAO Contacts

Bernard Ungar (202) 512-8387
John Baldwin (202) 512-8387

## Acknowledgments

In addition to those named above Alan Belkin, Lucy Hall, Brandon Haller, Stuart Kaufman, Thomas Keightley, Gary Lawson, Susan Michal-Smith, Edward Warner, and Greg Wilmoth all made key contributions to this report.

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