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Office of Inspector General
Southeast Region

Audit Report

Implementation of the Capital Improvement Program

Report No. 08001-1-AT
November 2006



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250



November 3, 2006

REPLY TO

ATTN OF: 08001-1-At

TO: Dale Bosworth
Chief
Forest Service

ATTN: Sandy Coleman
Agency Liaison
Office of the Chief Financial Officer

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Forest Service Implementation of the Capital Improvement Program

This report presents the results of our review of the Forest Service's Implementation of the Capital Improvement Program. Your written response to the official draft report, dated October 17, 2006, is included as exhibit D with excerpts of the response and the Office of Inspector General (OIG) position incorporated into the Findings and Recommendations section of the report, where applicable. Based on your October 17, 2006, response to the subject audit report, we accept management decision for Recommendations 1, 2, 3, 5, 6, 7, 8, and 9. We can accept management decision on Recommendation 4 once information is provided as outlined in the OIG Position section.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframe for implementing such action on the recommendation for which management decision has not been reached. Please note that the regulation requires management decision to be reached on all recommendations within a maximum of 6 months from report issuance, and final action to be taken within 1 year of the date of this report. Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the cooperation and assistance provided to our staff during the audit.

Executive Summary

Implementation of the Capital Improvement Program (Audit Report No. 08001-1-AT)

Results in Brief

Due to budget limitations, the Forest Service (FS) has been deferring maintenance of its facilities. As of September 30, 2004, the agency reported an estimated deferred maintenance backlog of \$462.5 million. In order to help FS reduce this backlog and maintain its facilities, Congress authorized the agency to sell properties the FS identified as surplus. The selling of this surplus property is a process called conveyance.¹ The proceeds from these sales were to be used to help reduce the maintenance backlog. The Office of Inspector General (OIG) initiated this review to evaluate FS' controls over the sale of its excess property² and the use of the proceeds to reduce the deferred maintenance backlog. The FS is subject to multiple requirements of different laws related to Federal property disposal that affects its ability to effectively and timely dispose of properties. However, while the agency had established an adequate process for using the proceeds from conveyance sales, we found that FS could improve its controls for identifying, nominating, marketing, and selling its excess properties.

We reviewed all of the 44³ conveyance projects the FS completed from fiscal year 2000 to 2005. We identified problems with how the agency selected and marketed its excess properties. Together, these problems indicate that the agency could do more to ensure that it is receiving at least the estimated market value for the properties it sells.

During the first years of the program, FS' WO expectations of the program's accomplishments were significantly overstated. The FS made budgetary decisions prior to adequately identifying the number and value of properties that would be nominated for conveyance and understanding the time delay before receipts would become available. The FS WO staff agreed to funding reductions for deferred maintenance (\$21 million since fiscal year [FY] 2004) because they believed the sale of excess property would be sufficient to cover the decreases. However, between FY 2002 and FY 2004 the program only generated \$5 million in sales.

FS' process for identifying excess properties and nominating them for sale was slow and could not ensure that all such properties were identified and nominated for the conveyance program. Although FS units were required to identify excess properties as part of their master plan, we found that 75 of 122 national forests and research stations reviewed (61 percent) were at least a year late submitting their plans and 15 had not yet submitted plans because condition surveys had not been timely completed. FS was also taking about 2 years to complete the conveyance process once sites were approved.

¹ For additional information on the legislative history of the conveyance authority, see the Background Section of this report.

² Excess properties include the structures and associated land.

³ The FS completed 44 conveyances as follows: 16 conveyances under the pilot program, and 28 conveyances under individual Statewide legislation. Of these 44 conveyances, a total of six were noncompetitive -2 under the pilot program and 4 under individual Statewide legislation.

Because these properties with structures are not being maintained during this time, they continue to deteriorate, reducing the overall proceeds FS can hope to gain from their sale. We concluded that the agency could improve its procedures for timely identifying, nominating, and completing conveyance sales.

We also found that the FS needs to evaluate its marketing practices. The FS needs to determine those practices that are best suited for the FS and that will obtain the best prices for property. Federal regulations require that the agency sell property at no less than market value, but we determined that 8 of 38 properties (Congress designated six properties of the 44 be sold to specified entities) were sold for a total of \$648,497 (13 percent) beneath the estimated market value of \$5.2 million. We determined FS staff's lack of experience selling properties in the open market and lack of formal guidance contributed to limited market practices. FS often limited how it exposed these properties, both in terms of where it advertised and how long it left properties on the market. Due to these marketing practices, FS may have sold these properties for less than what it may have otherwise obtained if the properties were marketed more broadly and if they had included minimum bid prices, based on market evidence, for each property. FS WO staff agreed with our conclusions and have agreed to take prompt corrective action.

When marketing these properties, local units may assign the work to either their own employees, or contract with outside services, such as General Services Administration (GSA) or a private sector realtor. Of the 38 property sales reviewed, we found that 24 were marketed by FS, 13 by GSA, and one by a realtor. FS did not, however, evaluate these various marketing methods to determine which were most cost-effective. Although all three of these methods involve similar costs, OIG believes that several advantages would accrue from contracting with a private realtor, such as freeing FS employees to perform tasks more closely associated with the agency's mission and advertising properties in the widest possible market.

Congress gave FS authority to sell excess property for the purpose of reducing the agency's deferred maintenance backlog. From the 16 conveyance projects completed, FS realized proceeds totaling \$5 million, or 1 percent of the total backlog of \$462.5 million. Given the agency's need to raise funds for maintenance, FS should do everything possible to realize the greatest proceeds possible from the property it conveys.

Recommendations in Brief

To reduce its deferred maintenance backlog as much as possible, we recommend that FS:

- Improve its procedures for identifying and nominating excess properties to ensure that all such properties are timely selected and chosen to maximize sales proceeds.

- Evaluate real estate marketing practices to determine and implement those that will obtain the best prices for its property.
- Determine which of the marketing options available to the FS are most cost-effective and correspond to the agency's need to obtain the best possible price for its excess properties.

Agency Response FS' October 17, 2006, response to the official draft report agreed with the recommendations presented.

OIG Position We accept management decision for Recommendations 1, 2, 3, 5, 6, 7, 8, and 9. We can accept management decision on Recommendation 4 once FS explains how it will incorporate into its policy and procedures the use of the results of facilities' master plans when identifying properties for disposal. The full text of FS' response to the official draft report is included in exhibit D.

Abbreviations Used in This Report

FS	Forest Service
FSH	Forest Service Handbook
FSM	Forest Service Manual
FY	Fiscal Year
GAO	Government Accountability Office
GSA	General Services Administration
HAZMAT	Hazardous Material
INFRA	Infrastructure
NF	National Forests
OIG	Office of Inspector General
SIS	Sale Implementation Strategy
U.S.C.	United States Code
WO	Washington Office

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Background and Objectives

Background

The Forest Service (FS) manages 191 million acres of public lands for multiple uses nationwide including lands in 44 States, Puerto Rico, and the Virgin Islands. FS administers a wide variety of programs, including forest and rangeland research and State and private forestry assistance. These activities are carried out by FS' Washington Office, 9 regional offices located in Montana, Colorado, New Mexico, Utah, California, Oregon, Georgia, Wisconsin, and Alaska; 155 national forests (NF); 20 grasslands; research stations; and other units.

As of September 30, 2004 (Fiscal Year [FY] 2005 data unavailable), the FS reported an estimated deferred maintenance backlog of \$462.5 million related to the maintenance of its buildings and administrative facilities. The FS estimate included the cost for preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets so that the assets continue to provide acceptable services. Deferred maintenance was defined as maintenance scheduled to be performed but delayed until a future period because the Government has not provided funds for such improvements.

Deferred maintenance of Government-owned assets has been a long-standing concern of Congress, especially during periods of tight budgets. When infrastructures are not maintained, the result is poor quality public facilities, reduced public safety, higher subsequent repair costs, and poor service to the public.⁴

Prior to 2001, Congress enacted several public laws⁵ to approve conveyances⁶ in certain specific areas, and allowed FS to use the proceeds to construct or improve identified sites also listed in the individual acts. Congress passed two additional acts authorizing NF to sell specific sites after 2001.⁷ (In the report, these are referred to as "Statewide legislation" because they authorize FS to nominate and sell property within a particular State.)

On November 5, 2001, Congress approved a pilot program authorizing conveyances of excess administrative FS structures and associated land.⁸ The Secretary of Agriculture was granted authority to sell or exchange excess buildings and other structures located on NF system land and retain the proceeds derived from the sales of real property to cover maintenance expenses and rehabilitation activities within the region of the sale. The Act

⁴ Government Accountability Office (GAO)/AIMD-97-103R- "Deferred Maintenance: Reporting Requirements and Identified Issues," May 23, 1997.

⁵ Public Laws: Public Law 105-171, "Virginia Land Conveyance and Improvement Act"; Public Law 105-282, "Rogue River National Forest"; Public Law 106-113, "Mississippi National Forest Improvement Act"; Public Law 106-330, "Texas National Forests Improvement Act"; Public Law 106-458, "Arizona National Forest Improvement Act"; and Public Law 106-526, "Bend Pine Nursery Land Conveyance Act."

⁶ A conveyance is a transfer of title of property from one person to another.

⁷ Public Law 108-350, "Ozark Land Exchange," and Public Law 108-436, "Idaho Panhandle NF Improvement Act of 2004."

⁸ Public Law 107-63, "Department of the Interior and Related Agency's Appropriations Act," section 329, "Pilot Program Authorizing Conveyance of Forest Service Excess Structures."

was amended on February 20, 2003, and November 10, 2003, to extend the authority through September 30, 2007.⁹

On August 2, 2005, Congress repealed the pilot conveyance program, replacing it with legislation allowing FS to convey excess structures through September 30, 2008.¹⁰ The agency was allowed to complete any conveyance initiated under the pilot. The new legislation specified the agency can convey administrative sites or compounds of sites limited to a maximum of 40 acres, which could include vacant lots outside of the proclaimed boundary of a unit of the National Forest System. FS' conveyance process is the same under both authorities.

The 2005 act instructed the Secretary to provide a list of anticipated conveyances and the projected revenue as part of the agency's annual budget request to Congress. The Secretary was also instructed to include an explanation of how the revenue would be used, a list of individual projects that would exceed \$500,000, and a list of conveyances completed in previous years under either this authority or other available conveyance authorities. In addition, at least once a year, the Secretary was instructed to report to Congress all conveyances of forest land made under its conveyance authorities. Lastly, the act allowed the use of part of the sale proceeds to pay brokerage services if it was determined to be in the public interest.

The Conveyance Process

The conveyance of excess FS structures involved several activities. FS:

- identified excess administrative structures, and the land on which each structure is located;
- conducted environmental reviews for the conveyance sites;
- appraised the properties;
- handled the bidding and selling of the properties;
- recorded conveyance proceeds in FS accounts; and
- identified capital improvements, included in its deferred maintenance backlog that would be funded with conveyance proceeds.

Units conveying properties under specific Statewide legislation followed the same process used by the pilot program. However, these units were given detailed instructions as to which properties to convey and how to use the related proceeds. Under this Statewide legislation, FS was instructed to convey specific

⁹ Public Law 108-7, "Consolidated Appropriations Resolution," 2003.

¹⁰ Public Law 109-54, "Facilities Realignment and Enhancement Act."

properties identified by Congress as a result of interests expressed by local governments. FS, however, was allowed to propose other properties to be included in the acts, and these usually included excess property and vacant lots of greenland.¹¹ Sometimes, units were allowed to use funds for capital improvements or new construction; however, they were also allowed to purchase greenland. The differences between the Pilot Conveyance Program and individual Statewide legislation are highlighted in exhibit A.

Office of Inspector General (OIG) and Government Accounting Office (GAO) Reviews

In December 2000, OIG completed an evaluation of the FS report to the Secretary of Agriculture on the Land Exchange Program.¹² OIG assessed how the FS action plan addressed deficiencies noted in previous OIG and GAO audits.¹³ During these audits, OIG and GAO expressed concerns about whether the land exchanges served the public interest. OIG and GAO noted that the FS accepted less than estimated market value for Federal land conveyed, and paid more than estimated market value for non-Federal land acquired.

In a September 2001 report¹⁴, GAO identified multiple Statewide forest improvement acts allowing national forests to dispose of property in exchange for cash or property, and use the proceeds to improve specific sites. GAO could not assess the conveyances since FS had not sold any sites under these statutes during the period reviewed. However, GAO reported that FS had underestimated appraisal values for properties sold under other statutes.¹⁵

Objectives

This audit was conducted to evaluate FS controls over: (1) the conveyance of excess real property and (2) the use of conveyance proceeds to complete capital improvements and reduce the deferred maintenance backlog. Specifically, we assessed how FS:

- identified and nominated excess structures for conveyance;
- completed the appraisal and conveyance process; and
- used conveyance proceeds to fund capital improvement projects and reduce the deferred maintenance backlog.

In addition, we evaluated controls FS implemented to oversee the pilot program and the conveyance of specific properties under Statewide legislation.

¹¹ FS identifies as greenland any forested land that has no structures.

¹² OIG Audit Report 08801-7-SF, "Evaluation of the Forest Service Report to the Secretary of Agriculture on the Land Exchange Program."

¹³ GAO-RCED-00-73, "Bureau of Land Management and Forest Service – Land Exchanges Need to Reflect Appropriate Value and Serve the Public"; OIG Audit No. 08003-4-SF, "Title to Physical Improvements on the Zephyr Core Land Exchange"; 08003-2-SF, "Humbolt-Toiyabe National Forest Land Adjustment Program"; 08003-6-SF, "Zephyr Core Land Exchange"; 08801-5-SF, "Thunderbird Lodge Land Exchange"; and 08801-6-SF, "Land Adjustment Program San Bernardino National Forest and South Zone Land Adjustment Team."

¹⁴ GAO-01-882, "Bureau of Land Management and the Forest Service, Federal Taxpayers Could Benefit More From Land Sales."

¹⁵ "Townsite Act," July 31, 1958, as amended by 16 *United States Code* (U.S.C.) 478a, and the "Small Tract Act," January 22, 1983, as amended by 16 U.S.C. 521c-521i.

Findings and Recommendations

Section 1. Conveyance of Excess Properties

FS completed its first conveyance of sites under the program in FY 2004. Our review disclosed that units had established an adequate process for selecting capital improvement projects to be funded with conveyance proceeds and reduce the deferred maintenance backlog. We also found that units had conveyed properties specified in individual Statewide legislation and used the sale proceeds as instructed by the law.

However, we identified three problems with the FS' current process for identifying, nominating, marketing, and selling its excess properties.

- FS' Washington Office (WO) expectations of the program's accomplishments were significantly overstated. FS made budgetary decisions prior to adequately identifying the number and value of properties that would be nominated for conveyance. Also, the FS' process for identifying and nominating excess properties for the conveyance program cannot ensure that all such properties are identified and that the ones most suitable for sale are nominated in a timely manner.
- FS had not identified those real estate marketing practices that could help the agency obtain the best prices for its property. The FS had not evaluated the different kinds and techniques of marketing property and determined those most suitable for FS. Some FS units utilized only very limited marketing for their properties. This limited marketing included keeping the property on the market for very short periods of time, exposing the property to only limited markets, or not establishing minimum bid prices. According to the FS WO, the staff had limited experience in conveying properties in the open market and lacked formal guidance from WO. The FS sold 8 of 38 excess properties for a total of \$648,497 less than FS' estimated market values. FS WO officials agreed with our conclusion that better marketing practices may have helped FS obtain better prices for its properties.
- FS has not determined the most cost-effective way of marketing these properties. It has not calculated the costs marketing the properties and compared the costs to the benefits of exposing the properties to the widest possible markets.

Together, these conditions indicate that the FS could be realizing greater proceeds from the sale of its excess properties. Because Congress granted the agency conveyance authority to help reduce its \$462.5 million deferred

maintenance backlog, the FS should take every reasonable step to ensure that it receives the best possible price for its properties.

Finding 1**FS Should Improve its Process for Nomination and Sale of Excess Properties**

During the first years of the program, FS' WO expectations of the program's accomplishments were significantly overstated. The FS made budgetary decisions prior to adequately identifying the number and value of properties that would be nominated for conveyance and understanding the time delay before receipts would become available. Also, the process used by the FS for nominating and selling excess property could be improved. The FS' current process is slow. We found that 16 of the 30¹⁶ cases we reviewed took 2 years to complete. This has occurred because the WO did not have a consistent and measurable process in place to oversee approval of excess properties to be sold and to ensure that the process for selling properties was handled as efficiently as possible. Without such a process, the FS has made little headway towards reducing the agency's \$462.5 million maintenance backlog. In 3 years, the agency has generated only \$5 million in sales proceeds, or 1 percent of the total required. Meanwhile, FS properties continue to deteriorate and the funds available to maintain them become scarcer. Since FY 2004, FS appropriations for deferred maintenance decreased by \$21 million, \$16 million dollars more than the agency made by selling excess properties from FY 2002 to 2004.

In order to help reduce FS' maintenance backlog, Congress provided the Secretary of Agriculture the authority to sell or exchange any excess property located on National Forest System lands. The proceeds derived from the sale of a building or other structure shall be used for maintenance and rehabilitation activities within the FS region in which the building or structure is located.¹⁷ Congress later extended this program through FY 2008.¹⁸

Although the FS has implemented the requirements of this law, we found that the FS could make its process for selecting excess properties more efficient. In particular, we identified three problems with how the FS selected excess properties for sale: (1) The WO had over estimated the amount of property available for conveyance; (2) FS units could not use their facility master plans to effectively identify excess properties for sale because the master plans had not been timely completed; and (3) FS' process for selling excess properties could be streamlined.

¹⁶ The remaining 14 conveyances had not been completed during our field visits.

¹⁷ Public Law 107-63, "Pilot Conveyance Program."

¹⁸ Public Law 109-54, "Facilities Realignment and Enhancement Act."

If the FS is to maximize the funds it receives through the capital improvement program, the agency should take steps to make its process for selling excess property more efficient. To ensure that the necessary steps are completed to enable a sale in a timely manner, the FS needs to establish timeframes for key actions in the process. Timeframes for environmental assessments, appraisals, and marketing start dates should be established. Variations from the timeframes should require notification of supervisory personnel.

Estimates of Expected Program Accomplishments Need To Be Improved

We determined that FS' WO expectations of the program's accomplishments were significantly overstated. Actual nominations and conveyances under the program were significantly lower than what had been planned by the FS' WO staff. The FS made budgetary decisions prior to adequately identifying the number and value of properties that would be nominated for conveyance. The FS WO staff agreed to funding reductions for deferred maintenance (\$21 million since FY 2004) because they believed the sale of excess property would be sufficient to cover the decreases. However, since FY 2002 the program has only generated \$5 million in sales.

Between FYs 2002 and 2005, 81 of 122 units we surveyed did not nominate any properties for sale. Likewise, 24 of the 41 units that did nominate properties for sale stated they had other excess property they did not plan to nominate because they were considering other disposal methods. Of the 122 survey responses received, 48 stated that based on their facilities' master plans, they did not identify units for conveyance. These units decided that it would be more beneficial both to the public and to the FS to retain the lands but destroy any structures located on the properties they did not nominate. Thirty-three of the 81 units that did not submit nominations did not specify what they intended to do with excess properties.

From FY 2002 through FY 2005 the WO asked units to nominate projects for consideration for the program. The WO then evaluated these nominations using seven criteria,¹⁹ which allowed FS officials to select the 30 projects submitted to Congress for approval (maximum allowed under the pilot project). The WO did not, however, establish a method to weigh these criteria and document how sites were ranked.

From FYs 2002 through 2005, FS units nominated 149 excess properties for the conveyance program. According to WO files, these properties were combined into 59 nominations that were submitted to the WO. The WO rejected 29 of these projects but did not provide local units with an explanation of why some projects were rejected, or otherwise document the

¹⁹ The selection criteria included: readiness of the site, contacts made with elected officials, proceeds to be generated, impact to local communities, heritage evaluation, benefits to the agency, and funds needed from other sources to accomplish projects. In addition, the WO verified the nominating unit: included the nominated sites in its facilities' master plan, completed the environmental documents (usually a categorical exclusion), verified the status of preservation of historical sites, and estimated the sales price and deferred maintenance associated with the proposal and the total aggregated benefit.

cause for the rejection. According to WO staff, properties were rejected because they would not generate the maximum value (based upon the estimated market value of the properties). The WO did not document its decision supporting the selection of sites. We could not adequately determine whether sites nominated for conveyance were maximizing FS benefits.

As an example of how FS could model a process for selecting properties for disposal, the Medicine Bow – Routt NF assigns a weighted value for each of seven categories (such as safety or historical significance) to each project. They then total the values for each project's categories, and rank the projects according to the numerical value. If the NF personnel chose to fund a lower ranked project, they document the factors on which they based their decision with detailed explanations. This method provides an objective and transparent methodology to disclose selection priorities.

We do not believe FS' current process for selecting and processing excess property for sale under the Capital Improvement Plan will significantly reduce the agency's \$462.5 million maintenance backlog. Since FY 2004, FS appropriations for deferred maintenance have decreased \$21 million. The WO staff explained that they agreed to the reduction because they believed that sales proceeds for their excess properties would be sufficient to cover the budget decrease. FS officials stated they approved the sale of excess properties that would generate the highest proceeds. However, our review disclosed that from FY 2002 through FY 2005, the FS has generated only \$5 million from conveyance sales, some \$16 million less than the decrease in appropriations.

The intent of the program was to realign FS facilities and reduce their associated maintenance costs. Management expected the proceeds generated by the conveyance sales to be sufficient to help cover the maintenance budget decreases. We are concerned the FS will not be able to generate the proceeds necessary to cover future budget reductions, or even to keep pace with the continued depreciation of properties whose maintenance has been deferred due to budgetary constraints. Moreover, the lack of nominations for conveyance by local units suggests that the FS might not have the level of activity needed to further reduce the deferred maintenance backlog and meet their budgetary expectations.

FS Units Did Not Timely Complete Their Master Plans

According to WO guidance, all FS units were to have completed their master plans by September 30, 2003. Because the master plan requires units to identify the long-term uses and maintenance requirements of their administrative facilities and other structures, evaluate the cost-effectiveness of maintaining their facilities, and identify excess properties and methods of disposal, this plan is essential for the efficient implementation of the Capital Improvement Program. Without the timely completion of these master plans,

FS units could not use this tool to identify what properties should be considered surplus and suitable for sale.

Of the 122 units (national forests and research stations) reviewed, we found that 75 (61 percent) were at least a year late in submitting their facility's master plan.²⁰ As of July 31, 2005, 15 out of 122 units had not completed their master plans, nearly 2 years after the deadline. FS officials stated that these delays occurred because local units had not yet completed condition surveys to identify their long-term facility needs. Without the timely completion of these master plans, the FS could not state with any certainty how many excess properties were available for sale, estimate the value of excess properties available, or determine the full impact of selling excess properties on the agency's deferred maintenance backlog.

We also noted that of the 75 local units that had been late in completing their master plans, 11 had not obtained the required written approval of their plans from the Regional Forester. Without the Regional Forester's approval, the WO has no assurance that the local strategy meets the agency's long-term goals. The WO had not requested local units to submit written confirmation of completion of their master plans, and instead relied on quarterly telephone updates from the regional offices.

We concluded that requiring the timely completion and authorization of all local facilities' master plans is an essential step for efficiently implementing the Capital Improvement Program.

FS' Process for Selling Excess Properties is Slow

The FS took 2 years to complete 16 of 30 conveyances approved by Congress. During these 2 years, local units worked to prepare excess properties for sale.²¹ This process involved evaluating the environmental impact of the sale, appraising the property's value, and marketing the property.²² The FS attributed this delay to competing demands upon its staff; and the staff being unfamiliar with this new conveyance process. For properties where structures are a significant portion of the properties value lengthy delays increase the probability that deterioration will affect the value and selling price of the property.

For example, three properties Congress approved for conveyance in August 2002 were not appraised until November 2003 and were finally conveyed in June and August 2004 (see exhibit C, No. 1, 2, & 3).

²⁰ The Department's Under Secretary of Natural Resources and Environment was unaware that the 75 FS units had not completed their plans; consequently, he reported to Congress that all the forests and research stations had completed their master plans on schedule at the end of calendar year 2003.

²¹ The remaining 14 (30 - 16 = 14) conveyances had not been completed at the time of our audit fieldwork.

²² See Finding 2 for the marketing process.

Similarly, in three conveyances OIG sampled under the Virginia Land Conveyance and Improvement Act,²³ we learned that the FS did not start the marketing process until approximately 1-2 years after the sales were approved by law (see exhibit C, Nos. 4, 5, and 6). The three conveyances sampled included 6 of 18 projects listed in the law. Currently, five projects approved for sale under this 1998 legislation have not yet been sold (see exhibit C). The FS attributed this delay to staffing limitations.

The FS staff explained that local units waited for congressional approval before they prepared a site for conveyance because they did not want to spend appropriations when authorization was uncertain. Although we agree that appropriations should be spent wisely, once a property has been identified as surplus, the FS plans to dispose of the property at some future point in time. Completing the environmental assessment while Congress deliberates could reduce the overall amount of time needed to prepare the site for conveyance and enable local units to complete sales more rapidly. In order to successfully market properties in a timely manner, the FS should consider establishing timeframes to complete the environmental assessments, appraisals, and marketing start dates for properties being conveyed.

Recommendation 1

Establish a structure and measurable process to select conveyance projects. Assign weighted values to each selection criteria and document the nominations received and decisions made for each individual project.

Agency Response. In its October 17, 2006, response, FS concurred with the intent of this recommendation, but not on the specific evaluation process as stated in the report. FS is currently finalizing criteria by which regions and research stations will evaluate and nominate future conveyance projects. The WO Engineering staff will then incorporate the nominated projects in the FY 2008 Budget Justification. In future years, the annual program direction will direct the regions to base work priorities on the projects that best meet the developed criteria.

Estimated Completion Date: February 28, 2007

OIG Position. We accept management decision for this recommendation.

²³ See Background for a description of how such sales take place under State conveyance acts, as opposed to their Federal counterpart.

Recommendation 2

Require all local units to complete condition surveys and revisions to the facilities' master plan as stated in the handbooks.

Agency Response. In its October 17, 2006, response, FS concurred with this recommendation. The agency will incorporate the Facility Master Plan schedule and requirements into FSM 7300.

Estimated Completion Date: September 29, 2007

OIG Position. We accept management decision for this recommendation.

Recommendation 3

Amend *Forest Service Handbook* (FSH) to require regional offices to certify in writing to the WO when the facilities' master plans have been approved.

Agency Response. In its October 17, 2006, response, FS concurred with the intent of this recommendation. The FS will review and revise the facilities' master plans approval process in the FSM. In addition, the engineering staff will provide oversight through monitoring trips and other existing management processes.

Estimated Completion Date: September 29, 2007

OIG Position. We accept management decision for this recommendation.

Recommendation 4

Use the results of the facilities' master plans when identifying properties as surplus and eligible for disposal.

Agency Response. In its October 17, 2006, response, FS concurred with the intent of this recommendation. The disposal process currently incorporates decisions made through the local Facility Master Plans. For administrative buildings, employees update the planned status in the corporate database based on decisions made through the master planning process.

Estimated Completion Date: September 30, 2007

OIG Position. We cannot accept management decision for this recommendation. To achieve management decision, please provide information describing how FS will incorporate into their policy and procedures use of the results of the facilities' master plans when identifying properties for disposal.

Recommendation 5

Establish timeframes to complete the environmental assessments, appraisals and marketing start dates for properties being conveyed.

Agency Response. In its October 17, 2006, response, FS concurred with the recommendation. The FS established a conveyance process which includes the preparation of a Sale Implementation Strategy (SIS) containing an implementation schedule and estimated completion dates. The documented procedures are in the draft Interim Directive FSH 5509.11, Chapter 20, Special Act Sales Section, to be issued in the winter of 2006. Further, in FY 2006 the WO Lands and Property Management staff conducted training sessions for regional and field level employees, to introduce the interim directive; and instructed the employees to comply with the requirements in the draft interim directive.

Estimated Completion Date: December 29, 2006

OIG Position. We accept management decision for this recommendation.

Finding 2

FS Needs To Evaluate Its Marketing Practices

The FS had not evaluated the different methods of marketing property and determined those most suitable for the FS. The FS' WO stated that FS staff had not been trained nor received specific guidance from the WO on how to best market these properties. This occurred in part because these duties are additional responsibilities for FS staff. Also, FS staff lacked experience conveying properties in the open market. As a result FS personnel conducting the conveyances were not always aware of those marketing practices that could help the FS get the best price for the property.

Federal regulations require that lands that the FS exchanges must be of equal value, based on market value as determined by appraisals or through other acceptable and commonly recognized methods of determining market value.²⁴ Although the legislation that created the conveyance program did not refer to the prices at which properties should be sold,²⁵ the legislation that extended the conveyance authority through September 30, 2008, stated the market value shall be determined for properties conveyed.²⁶ The "market" for a particular piece of property is related to how widely the availability of the property is made known to potential buyers. Property marketed on only a local level will primarily be valued based upon local values and financial

²⁴ 36 *Code of Federal Regulations* (CFR) 254.3

²⁵ Public Law 107-63, "Interior and Related Appropriations Act," section 329, "Pilot Program Authorizing Conveyance of Excess Forest Service Structures."

²⁶ Public Law 109-54, "Facilities Realignment and Enhancement Act," dated August 2, 2005.

resources. Property marketed outside of the local area may be influenced by wider market factors and financial resources.

For each property deemed surplus and nominated for sale, the FS was responsible for developing and approving a marketing plan that described how long and in what markets the property would be advertised.²⁷ Each local unit had the option of marketing the properties in-house, contracting for the marketing services of the General Services Administration (GSA), or a private sector realtor. During FYs 2002 through 2005, 24 properties were marketed by the FS, 13 by GSA, and 1 by a realtor.²⁸

Some units utilized only very limited marketing for their properties. This limited marketing included keeping the property on the market for very short period of time, exposing the property to only local or regional markets, or not establishing minimum bid prices. As described in the following table, a combination of factors existed when the FS sold properties below the estimated market value.

Table 1

Property	Marketing done by	Minimum Bid not Established	Kept in the market for less than 6 months	Property exposed to local and regional area only	Sales Price	Estimated market value	Difference
Property 1	GSA	X	X	X	575,000	760,000	(185,000)
Property 2	GSA	X	X	X	152,500	210,000	(57,500)
Property 3	FS	X	X		25,600	82,000	(56,400)
Property 4	FS			X	171,051	199,000	(27,949)
Property 5	FS		X	X	27,500	40,000	(12,500)
Property 6	GSA		X	X	3,500,000	3,800,000	(300,000)
Property 7	FS			X	35,552	39,700	(4,148)
Property 8	FS			X	30,000	35,000	(5,000)
		3	5	7	4,517,203	5,165,700	(648,497)

FS Should Determine How Long Properties Should Be Marketed

We found that after being marketed in a limited fashion, eight properties were sold for a total of \$648,497 less than their estimated market value.

We identified five of eight properties that were sold for a total of \$611,400 below their estimated market value after being left on the market for fewer than 6 months. According to three commercial realtors we

²⁷ The marketing plans include exposure in the local, regional, and national areas, as well as worldwide through the Internet.

²⁸ See Finding 3 for a discussion of how local units decided whether to market properties in-house or to contract with an outside service.

interviewed, when selling office buildings, residences, and vacant land, the seller should maintain properties on the market for at least 6 months to ensure the highest possible sales proceeds. When the FS and GSA advertised these properties, they often left them on the market for only a short time. According to FS WO officials, the FS staff lacked experience conveying properties in the open market and lacked formal program guidance. When the FS marketed properties, it kept them on the market for an average of 4 months. FS properties marketed by GSA were kept on the market for an average of 2 months. The FS marketed properties to limited areas and did not receive many bids during the few months they were kept on the market.

In instances when FS set a minimum bid, once the FS received an offer for that amount, FS accepted it immediately. FS did not keep the property on the market for a set period of time, which could have allowed other parties to offer higher bids. GSA marketed properties under an auction process in order to generate higher offers. It established a closing date, which was extended 24 hours at a time if offers were received. When offers were not made within a 24-hour period, the bidding was closed and the FS accepted the highest bid.

We cannot state with certainty that the reduced selling price resulted from the limited amount of time these properties were advertised (as the selling price of any property is influenced by many factors). However, the FS should evaluate its marketing situation and determine how long properties should be kept on the market.

FS Should Determine the Benefits of Expanding Market Exposure

When the FS and GSA marketed properties, they often advertised them only within local or regional markets, which limited their exposure. This approach limited the pool of potential buyers and may have affected the market price of the properties. Of the 24 properties marketed by the FS, 15 were advertised within markets including less than half of 1 percent²⁹ of the respective State's population (the remaining nine properties were marketed for less than two percent of the respective State's population). We identified four properties that sold for a total of \$49,597 less than their estimated market value after being marketed in this manner. FS stated appraisals were accurate and agreed prices were affected by their marketing techniques. Likewise, of the 13 properties marketed by GSA, we identified 3 that sold for a total of \$542,500 less than their estimated market value after being marketed in local and regional markets, as well as on GSA's Internet site. However, commercial realtors we interviewed stated that GSA's web page was not a widely used real estate tool. Advertising to a wider market may result in higher sales prices for such properties.

²⁹ This estimation is based on the county where these properties were located.

FS Marketing Circulation

By advertising only within local and regional markets, FS effectively limited the number of bidders who might possess the buying power to purchase its properties. These limited marketing practices may have created situations where FS received less money than if the property was marketed more broadly. In one case, the FS sold a property at \$28,000 less than its estimated market value after restricting its market through these limited advertising techniques (see Property 4, Table 1). When we asked FS officials why properties were marketed in local and regional markets only, they explained that some of their properties were too small and undesirable to warrant exposure outside the local area.

GSA Marketing Circulation

When GSA marketed 13 properties, they were advertised in local and regional markets and listed on GSA's web page. Nevertheless, bidders for properties conveyed by GSA were mostly from local areas. Although the FS expected that listing large properties on GSA's web page would result in better exposure to buyers nationwide, it appears their expectations were not met. According to the three commercial realtors we interviewed, they searched for properties in multiple listing services and commercial web-pages; however, they were not familiar with GSA's governmental site.

GSA, for example, marketed a commercial property located on the corner of a ski-resort town's main street. The property's marketing plan included local and regional advertisements, as well as a listing on GSA's web page. Although the appraiser's report disclosed that comparable properties in the area had been sold for at least \$792,427, and estimated the value of the property as \$760,000, this property sold for only \$575,000. Only three local buyers made offers on the property. According to the FS and GSA officials, the buyers claimed local financial institutions were not willing to finance the property above \$575,000 because of a hazardous material (HAZMAT) rumor, despite the fact that the property had been certified as cleared of HAZMAT problems since 1984. If the property had been included in a multiple listing service, buyers from outside the area might have made more competitive offers.

Even in those instances where FS' marketing resulted in sales that met the property's estimated market value, we believe the agency could have increased proceeds by expanding the market. For example, a unit sold 170 acres of vacant land adjoining an interstate to the local government, which was the sole bidder, for the estimated market value of \$441,100. The property was advertised in local and regional resources for only 1 month. OIG maintains that, if the unit had expanded advertising outside the regional

market and continued advertising the property longer than 1 month, the FS could have increased the number of bids received, and realized more proceeds. Given the agency's need to reduce its \$462.5 million deferred maintenance backlog, it should take steps to maximize proceeds from the sale of excess properties selected for conveyance. FS officials generally agreed that they could improve marketing of their properties to optimize their value.

In sum, we identified seven properties that were sold for \$592,097 less than their estimated market value after being advertised within narrow markets or in ways that otherwise limited their circulation. We cannot confirm that the reduced selling price resulted from the limited way these properties were advertised, as the selling price of a property is influenced by many factors. However, FS officials generally agreed that they could improve marketing of their properties to optimize their value.

Local Units Did Not Establish a Fixed Minimum Sales Price

Although FS computed the estimated market value of 38 properties offered for sale in the open market, it did not establish a minimum sales price for 16 of these properties before requesting bids from buyers. The minimum sales price represents the lowest amount the FS would be willing to accept for conveyance of a property; it is usually established using a market survey or a traditional appraisal. When the seller establishes a minimum sales price, it ensures the property will be conveyed for a reasonable amount considering the property's location and local market conditions. FS did not always establish a minimum sale price because GSA had suggested not establishing a minimum bid to prevent influencing buyers' bids. Of these 16 properties offered without a minimum sales price, we identified 3 properties that were sold for \$299,000 less than their estimated market values.

For two of these three properties, the FS followed GSA's advice and did not establish a minimum sales price because the agency feared it would not receive a sufficient number of bids above the minimum amount. In the third case, the FS estimated the value of the property, but decided to use it only as a guideline, and instead let the market set the price. For 22 other properties, the FS established a minimum sales price based on the estimated market values. In these cases, the properties sold for \$800,000 more than the minimum sales price (\$7.3 million received vs. \$6.5 million minimum sales price). The decision to establish (or not establish) minimum sales prices were made by local FS officials. We concluded that these decisions were affected by the staffs' lack of experience, training, and WO guidance.

The FS reduced the estimated market value of 4 of 22 properties. The values of two properties were reduced because they had deteriorated since FS estimated their initial value. FS reduced the value of a third property to encourage more bids, although only one bid was ever received. In a fourth case, the FS reduced a property's value because a local manufacturing company closed, driving down area real estate prices. As discussed

previously, FS exposed these properties to a limited scope market and for short periods of time. Exposure to a broader market for longer periods of time may have reduced the need to lower the estimated market values. Again, this occurred because FS units lacked experience and sound guidance from the WO.

We believe the FS should determine whether the use of minimum bids would be beneficial in obtaining the best prices for its property.

Recommendation 6

The FS should evaluate real estate marketing practices and determine which are the best suited to help the FS obtain the best prices for its properties. This should include an evaluation of (1) the length of time properties are marketed, (2) the extent of market exposure, and (3) the appropriate use of minimum bids.

Agency Response. In its October 17, 2006, response, FS concurred with this recommendation. The FS established a SIS, which includes the preparation of a marketing strategy through which the FS valuation staff provides the appropriate appraisal services, including highest and best use or market analysis. The documented procedures are in the draft Interim Directive FSH 5509.11, Chapter 20, Special Act Sales Section, to be issued in the winter of 2006.

Estimated Completion Date: December 29, 2006

OIG Position. We accept management decision for this recommendation.

Recommendation 7

The FS WO should provide specific written direction and training to its staff on the real estate marketing practices that it should use.

Agency Response. In its October 17, 2006, response, FS concurred with this recommendation. Procedures and policies related to real estate marketing of land and administrative sites properties are contained in existing FS manuals and handbooks (FSH 5509.11, chapter 20; the FSM 5404; FSM 5410; and FSH 5409.12). In addition, FS drafted new guidance to address this audit's findings, and general procedures for processing direct and competitive sale of land and administrative sites. The draft Interim Directive FSH 5509.11, chapter 20, is scheduled for issuance by December 2006.

Estimated Completion Date: December 29, 2006

OIG Position. We accept management decision for this recommendation.

Finding 3**FS Should Determine the Most Cost-Effective Way of Marketing Excess Properties**

The FS did not determine the most cost-effective method of marketing excess properties. The FS did not know whether marketing in-house by agency employees or contracting the work out to GSA or private sector realtors was most cost-effective. This occurred because FS officials did not track the cost of assigning employees to handle the marketing and bidding process for 38 conveyances. Since marketing property is not considered a major activity, FS officials did not believe tracking these costs was important. Also, during this period the FS transitioned to a new accounting system. The ability to accurately estimate these costs was not initially included in the new system. FS officials stated the ability to estimate these costs was available starting in FY 2005. Without this information, the FS could not effectively weigh the costs and benefits associated with each marketing approach and conclude whether it should handle the marketing in-house or contract with others to provide those services.

When it is in the public's best interest, Federal regulations require that agencies rely on the private sector for needed commercial services.³⁰ The agency is required to develop Government cost estimates and use competition to determine if Government personnel should perform a commercial activity, or if that activity should be contracted to the private sector.

From FYs 2000 through 2005, the FS marketed 24 of 38 properties in-house, by assigning the task to its own employees. Although agency officials felt that outside marketing services would be too expensive, they did not track the expenses associated with this work.³¹ Without this information, they could not document their decision.

FS officials did not track their in-house expenses because they believed the agency's accounting system did not permit them to track the exact conveyance costs. However, we found that FS' project work plan system allowed employees to create a project work plan to estimate their conveyance activities. Further, officials stated that they preferred to handle in-house the marketing of properties that would generate smaller proceeds, and use outside expertise when they had properties that could generate larger proceeds. They did not perform a cost comparison to establish the benefits of this decision.

Of the 14 properties not marketed in-house, 13 were marketed by GSA and one was marketed by a private sector realtor. Since these were dissimilar properties sold in different market conditions, we could not compare the effectiveness of the FS, GSA, and the commercial realtor's marketing strategies. We found that GSA charged the FS between less than 1 percent

³⁰ *Office of Management and Budget Circular A-76, "Performance of Commercial Activities."*

³¹ FS in-house expenses included advertising properties in the local and regional areas, as well as handling the bids received for each property conveyed.

and 3 percent of the property's sale price, while the realtor charged FS 4.8 percent. Since the FS did not keep adequate records of its expenses for in-house marketing, we could not determine whether handling these activities in-house was more economical than contracting with GSA or realtors. One region estimated costs to be 4.8 percent of the property's sales price. The region did not produce any documentation to support this estimate.

Based on this limited information, it appears that all marketing options are similar in cost. OIG maintains that there are, however, several tangible benefits of allowing a realtor to market the property, making contracting with a realtor the more effective option.

- Whereas FS and GSA marketed properties in local and regional areas only, realtors expose properties to more buyers since they have access to multiple listing services. A multiple listing service makes the property available to all realtors with access to that service. This is potentially a much wider audience and may result in a higher selling price.
- If the FS made it a general practice to contract with realtors, the agency could negotiate and establish a brokerage fee for each type of property and price. In contrast, when the FS contracted with GSA for realty services, GSA estimated a fixed fee, but in fact, the fees it charged varied. We found that GSA's realty fee varied from less than 1 percent to 3 percent without a clear explanation for the difference.
- Realtors are paid an agreed-upon percentage at "closing" when the conveyance is finalized. If the realtor does not sell the property or does not obtain an acceptable selling price, there would be no cost to the FS for the realtor's services. In contrast, when the marketing was completed in-house expenses were paid when incurred, regardless of the selling price.

Private brokerage fees usually fluctuate between 1 to 10 percent depending upon the estimated market value of the property. However, private sector realtors could expose FS properties to a wider market, thus improving the agency's chances of obtaining estimated market values for properties offered for sale. Moreover, allowing experts to handle the sale of excess properties would relieve FS employees of this task and permit them to focus on activities more closely related to the agency's mission.

We conclude that the FS should take steps to determine which marketing approach will be most cost-effective for the agency and best serve the public's interest.

Recommendation 8

Require the use of project work plans to estimate hours and expenses for marketing conveyance projects in-house.

Agency Response. In its October 17, 2006, response, FS concurred with this recommendation. Procedures and policies related to the use of work plans for planning, tracking, managing, and reporting accomplishments are contained in a letter from the WO Deputy Chief for Business Operations, dated November 18, 2005. Cost planning and tracking is also accomplished through the use of the Implementation Schedule, which is part of the SIS. The documented procedures are in the draft Interim Directive FSH 5509.11, Chapter 20, Special Act Sales Section, to be issued in the winter of 2006.

Estimated Completion Date: February 28, 2007

OIG Position. We accept management decision for this recommendation.

Recommendation 9

Require units to determine which method of marketing excess properties is most cost-effective when conveying properties, based upon the specific real estate marketing conditions.

Agency Response. In its October 17, 2006, response, FS concurred with this recommendation. The FS requires the preparation of a SIS, including the development of a marketing strategy in which current market conditions and the likely target market for the specific property are evaluated; and the staff recommends the method of sale expected to achieve the best result (online auction, live auction, sealed bid, direct sale). These procedures will be documented in detail in the Interim Directive FSH 5509.11, Chapter 20, Special Act Sales Section, estimated to be issued in the winter of 2006. Also, training will be provided in future meetings.

OIG Position. We accept management decision for this recommendation.

Scope and Methodology

Audit work was performed at the Forest Service WO, Washington, D.C.; Rocky Mountain Regional Office, Golden, Colorado; Southern Regional Office, Atlanta, Georgia; Medicine Bow – Routt National Forest Supervisor Office, Laramie, Wyoming; and George Washington and Jefferson National Forests, Roanoke, Virginia. The fieldwork was performed from April to August 2005.

From FYs 2000 through 2005³², the FS completed 16 conveyances nationwide under the pilot program authority for a total of \$5 million. In addition, the agency completed 28 conveyances using the authority of 7 individual Statewide legislations, for a total of \$10.6 million.

We judgmentally selected the Rocky Mountain Region because it had completed 3 of the 16 pilot program conveyances. In addition, we selected the Southern Region because it had completed 16 of 28 conveyances using individual Statewide legislation. At each region, we judgmentally sampled three conveyances, for a total of \$1.5 million, based on the highest proceeds generated. Information on the selected conveyances is provided in exhibit B.

In addition, we conducted two surveys of the FS field facilities to assess how they planned to dispose of excess property and how they conveyed properties in FYs 2000 through 2005. We received responses from 122 forests and research stations regarding their plans to dispose of excess properties. We received responses from 23 forests explaining how they handled all 44³³ conveyances completed between FYs 2000 and 2005. We verified how facilities identified excess property and what services were used to market conveyance properties. We also assessed if facilities conveyed properties at the estimated market value.

This audit was conducted in accordance with generally accepted government auditing standards. Accordingly, it included such tests of FS' conveyance and accounting records and other auditing procedures necessary to accomplish our audit objectives. We assessed management controls over implementation and administration of the "Pilot Conveyance Act" and the "Virginia Land Conveyance and Improvements Act." We also assessed management controls over the processes for designating excess properties, selecting potential conveyance sites, conducting environmental reviews, performing appraisals, conveying the properties and recording of the sales proceeds, deferred maintenance and capital improvements in FS' Infrastructure (INFRA) property accounts.

³² We evaluated sales in FY 2005 completed by July 5, 2005.

³³ The 44 conveyances included in the report as reviewed included the 6 conveyances we selected during our visits to the regions.

To accomplish our objectives, the audit included interviews with the FS personnel and others as deemed necessary and examinations of policies, procedures, and activities. Specifically, we:

- reviewed legislation, program regulations, guidance, policies and procedures as applicable to the conveyance programs;
- reviewed external and internal audit reports, financial reports, and performance reports;
- reviewed copies of environmental assessments, appraisals, sales, accounting records, INFRA records on deferred maintenance and capital improvements and any other documentation related to the six sampled sales;
- interviewed FS officials regarding conveyance activities and private and GSA real estate specialists; and,
- visited 3 of 6 properties conveyed and 3 of 19 projects in which proceeds would be used.

Exhibit A – Comparison of the Conveyance Process as Applied Under the Pilot Conveyance Program and Statewide Legislation

Conveyance Activities	Pilot Conveyance Program	Statewide Legislation
Identification of excess structures.	Forest supervisor identifies and recommends for decommissioning or conveyance through the Facility Master Planning and other Forest Planning processes.	Same.
Selection of properties for conveyance.	The FS nominates properties for conveyances, which were identified as excess property in their facility master plan. The nominations are approved by Congress. Public Law 109-54 specifies property limitations and extension of the authority through September 30, 2008.	Congressmen approach the FS to convey specific properties for which third parties expresses interest. Congressmen ask the FS if it would like to include other sites or structures in the legislations. The FS selects properties considered excess and greenland; and had them included in the legislations.
Environmental assessment.	The FS performs environmental assessment as required by the National Environmental Policy Act of 1970 and direction in FSH 1909.15.	The specific legislation dictates whether or not an assessment is performed.
Appraisal and valuation of property for conveyance.	Appraisals and valuation for conveyances must follow policy and procedures provided in Manual 5410, Appraisal Handbook, FSH 5409.12 and the draft of FSH 5509.11, chapter 20 ³⁴ .	The appraisal process is the same as it is for the Pilot Program. Unless directed otherwise by legislation, all conveyances must be sold at a price which is at least the estimated market value of the property.
Sale Process including marketing, advertising, bids and auction.	The directions for the sale process are in the draft of FSH 5509.11, Chapter 20. A SIS ³⁵ must be developed for all sales and approved by the Regional Forester. The SIS must be reviewed by the WO National Landownership Adjustment Team and approved by the Director of Lands.	The sale process is the same except the Regional Forester has primary responsibility for oversight of the special act sales and must ensure that the agency meets the basic requirements of the applicable legislative authority, related legal requirements, and applicable FS policy and guidance.
Deposit of conveyance proceeds.	Proceeds must be deposited into the Land Site Conveyance account of the Sisk Act fund ³⁶ . Funds deposited into this account cannot be spent prior to their apportionment by the Treasury. The Regional Forester monitors the account.	The process is the same as for Pilot Conveyances, except proceeds must be deposited into the Land Special Legislation account of the Sisk Act fund.
Expenditure of sales proceeds.	The FS determines how the funds will be used.	The specific legislation which authorized the sale, directs how the proceeds will be used. The individual laws allow the FS to use proceeds for new construction, to purchase new greenland or to fund capital improvements.
Closing process.	The sale transaction may be closed in escrow or over-the-counter. The purchaser usually pays for escrow and recording costs. An escrow closing would be handled by a title company or attorney. An over-the-counter closing is handled by FS personnel such as a real estate specialist.	The process is the same as for the Pilot Conveyances.
Post closing procedures.	All required documentation must be in the official file; information provided to the regional office; and posted to the appropriate land and INFRA records. Outstanding FS permits must be terminated or revoked, required easement executed, and all title and related documents provided to the purchaser. All legal documents such as the deed or water rights transfer document have been filed.	The process is the same as for the Pilot Conveyances.

³⁴ The Facilities Realignment and Enhancement Act require properties to be valued at market value.

³⁵ Sale Implementation Strategy (SIS) is a tool for documenting the sale proposal, assessing the feasibility of the proposal, and identifying methodologies and scheduling for completion of the sale.

³⁶ The “Sisk Act” fund was established under Public Law 90-171 (16 U.S.C. 484a).

Exhibit B – Judgmental Sample of Conveyances Reviewed

	Date of Sale	Region/National Forest	Property Name/Location	Sales Proceeds	Estimated Market Value	Differences (A loss is shown as a negative amount)	Legislative Authority of Sale
1	8/19/2004	Region 2, Medicine Bow-Routt NF	10 th Street Office, Steamboat Springs, Colorado (CO)	\$575,000	\$760,000	(\$185,000)	“Pilot Conveyance Act” (Public Laws 107-63,108-7)
2	9/1/2004	Region 2, Medicine Bow-Routt NF	Kremmling Administrative Site, Sale 1, Storage structures, Kremmling, CO	\$84,000	\$ 72,000	\$12,000	“Pilot Conveyance Act” (Public Laws 107-63,108-7)
3	9/1/2004	Region 2, Medicine Bow-Routt NF	Kremmling Administrative Site, Sale 2, Office Building, Kremmling, CO	\$152,500	\$210,000	(\$57,500)	“Pilot Conveyance Act” (Public Laws 107-63,108-7)
4	8/15/2001	Region 8, George Washington/Jefferson NF	Warm Springs Residence #1, Hot Springs, Virginia (VA)	\$ 92,000	\$ 92,000	-0-	“Virginia Land Conveyance and Improvement” (Public Law 105-171)
5	11/20/2002	Region 8, George Washington/Jefferson NF	Triangle Tract, Allegheny County, VA	\$441,100	\$441,100	-0-	“Virginia Land Conveyance and Improvement” (Public Law 105-171)
6	3/17/2002	Region 8, George Washington/Jefferson NF	Dry River Work Center, Bridgewater, VA	\$171,051	\$199,000	(\$27,949)	“Virginia Land Conveyance and Improvement” (Public Law 105-171)
	Total			\$1,515,651	\$1,774,100	(\$258,449)	

Exhibit C – Environmental Assessments and Appraisal Processes Took Longer Than 2 Years to Complete While Only 6 to 12 Months Was Allocated for Marketing and Closing Property Sales.

Exhibit C – Page 1 of 1

This table illustrates the dates by which the major components of the conveyance process were completed. We found the environmental assessment and the appraisal took longer than 2 years to accomplish for all six conveyances sampled. Meanwhile, for five of six conveyances, the units allowed less than 6 months to market and close on the properties.

	Sites Reviewed	Approved by Congress	Environmental Assessment Completed	Appraisal Visit	Appraisal Report	Marketing of Property	Bid Acceptance	Proceeds Collected
1	10 th Street Office (A)	8/21/02 (Pilot)	10/22/03	11/17/03	2/6/04**	4/6/04	6/22/04	9/10/04
2	Kremmling Office (A)	8/21/02 (Pilot)	10/22/03	11/18/03	12/3/03**	4/6/04	8/10/04	9/10/04
3	Kremmling Storage Building (A)	8/21/02 (Pilot)	10/22/03	11/18/03	12/10/03**	4/6/04	8/10/04	9/10/04
4	Dry River Work Center (3 tracts)	4/24/98 (Virginia Lands Conveyance and Improvement Act)	1/3/01	6/3/02	12/2/02	7/30/04	3/1/05	4/18/05
5	Warm Springs Residence (2 tracts) (A)	4/24/98 (Virginia Lands Conveyance and Improvement Act)	1/3/01	10/27/99	2/3/00	7/6/01	8/1/01	9/17/01
6	Triangle Tract (1 tract)	4/24/98 (Virginia Lands Conveyance and Improvement Act)	1/5/01	1/22/01	2/14/01	1/18/02	11/20/02	12/23/02
(A) Unit marketed property for less than 6 months. ** Appraisals were reviewed by Forest Service Appraisers but not approved for agency use.								

Exhibit D – Agency Response

Exhibit D – Page 1 of 5



United States
Department of
Agriculture

Forest
Service

Washington
Office

1400 Independence Avenue, SW
Washington, DC 20250

File Code: 1430
Route To:

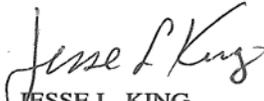
Date: OCT 17 2006

Subject: Response to Office of Inspector (OIG) Official Draft Audit Report for Audit Number 08001-01-AT, "Implementation of the Capitol Improvement Program"

To: Robert W. Young, Assistant Inspector General for Audit, Office of the Inspector General

Thank you for the opportunity to review and comment on the official draft OIG Audit Report No. 08001-01-AT, "Implementation of the Capitol Improvement Program." The Forest Service concurs with the recommendations in the report and believes the corrective actions to implement the recommendations will benefit the overall capital improvement program. See the enclosed regarding the proposed management decisions and actions to implement the recommendations.

If you have any technical questions, please contact Cindy Swanson at 202-205-2818. If you have any other questions, please contact Sandy Coleman, Assistant Director for GAO/OIG Audit Liaison Staff at 703-605-4699.


JESSE L. KING
Chief Financial Officer

Enclosure

cc: Art Seggerson, Cindy R Swanson, Craig Lasser



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=====
**United States Department of Agriculture
Forest Service (FS)**
=====

**Office of Inspector General Audit Report No. 08001-01-AT
Implementation of the Capital Improvement Program**

Response to Official Draft Audit Report
=====

OIG Recommendation 1: Establish a structure and measurable process to select conveyance projects. Assign weighted values to each selection criteria and document the nominations received and decisions made for each individual project.

FS Response to Recommendation 1: The Forest Service concurs with the intent of this recommendation, but not on the specific evaluation process as stated in the report. We are currently finalizing criteria by which Regions and Research Stations will evaluate and nominate future conveyance projects. The Washington Office Engineering staff will then incorporate the nominated projects in the FY 2008 Budget Justification. In future years, the annual program direction will direct the Regions to base work priorities on the projects that best meet the developed criteria.

Estimated Completion Date: February 28, 2007

OIG Recommendation 2: Require all local units to complete condition surveys and revisions to the facilities' master plan as stated in the handbooks.

FS Response to Recommendation 2: The Forest Service concurs with this recommendation. The agency will incorporate the Facility Master Plan schedule and requirements into FSM 7300.

Estimated Completion Date: September 29, 2007

OIG Recommendation 3: Amend Forest Service Handbook (FSH) to require regional offices to certify in writing to the WO when the facilities' master plans have been approved.

FS Response to Recommendation 3: The Forest Service concurs with the intent of this recommendation. The Forest Service will review and revise the facilities' master plans approval process in the FSM. In addition, the engineering staff will provide oversight through monitoring trips and other existing management processes.

Estimated Completion Date: September 29, 2007

Exhibit D – Agency Response

OIG Recommendation 4: Use the results of the facilities' master plans when identifying properties as surplus and eligible for disposal.

FS Response to Recommendation 4: The Forest Service concurs with this recommendation. The disposal process currently incorporates decisions made through the local Facility Master Plans. For administrative buildings, employees update the planned status in the corporate database based on decisions made through the master planning process.

Estimated Completion Date: September 30, 2007

OIG Recommendation 5: Establish timeframes to complete the environmental assessments, appraisals and marketing start dates for properties being conveyed.

FS Response to Recommendation 5: The FS concurs with the recommendation to establish timeframes for completion of conveyance transactions. The FS has established a conveyance process, which includes the preparation of a Sale Implementation Strategy (SIS), the development of an Implementation Schedule with planned completion dates, and the responsibility-assignment to a particular staff or person. These planning steps will assist the authorized officer in identifying critical steps required for each conveyance, and determine the resources needed to complete these tasks, including contracted resources. Forest personnel develop the SIS, and the Regional and Washington Office landownership adjustment teams and Lands Directors review it to ensure the procedures comply with applicable laws, and that the methods used for marketing the property are both efficient and effective. **The documented procedures are in the draft Interim Directive FSH 5509.11, Chapter 20, Special Act Sales Section.** The expected issuance date for directive is in December 2006. The WO Lands and Property Management staffs conducted training sessions for every Region during FY 2006 for Regional and field level employees responsible for land conveyance processes. The trainers presented procedures and policies described in the draft Interim Directive at those sessions; and field staffs instructed to comply as if the handbook had been issued.

Estimated Completion Date: December 29, 2006

OIG Recommendation 6: The FS should evaluate real estate marketing practices and determine which are the best suited to help the FS obtain the best prices for its properties. This should include an evaluation of (1) the length of time properties are marketed, (2) the extent of market exposure, and (3) the appropriate use of minimum bids.

FS Response to Recommendation 6: The FS concurs with this recommendation. The FS has established a conveyance process, which requires the preparation of a Sale Implementation Strategy (SIS), including the development of a marketing strategy. To prepare the marketing strategy, when requested by the authorized officer, FS valuation staff provides the appropriate appraisal services, including highest and best use or market analysis. **The documented procedures are in the draft FSH 5509.11 Ch. 20 Special Act Sales Section, to be issued in the winter of 2006.** WO Lands and Property Management staff conducted training sessions for every Region during FY 2006, for Regional and field level employees responsible for land conveyance processes. The trainers presented the procedures and policies described in the draft Interim Directive; and field staff instructed to comply as if the handbook had been issued.

Exhibit D – Agency Response

Estimated Completion Date: December 29, 2006

OIG Recommendation 7: The FS WO should provide specific written direction and training to its staff on the real estate marketing practices that it should use.

FS Response to Recommendation 7: The FS concurs with this recommendation. Procedures and policies related to real estate marketing of land and administrative site properties are contained in existing FS manuals and handbooks (FSH 5509.11 Ch 20, the FSM 5404, FSM 5410, and FSH 5409.12). In addition, FS has drafted new guidance to address this audit's findings. General procedures for processing direct and competitive sale of land and administrative sites are contained in the draft Interim Directive (ID) FSH 5509.11 Ch. 20, scheduled for issuance by December 2006.

Regarding training, the Chief Appraiser regularly discusses valuation aspects of sale procedures in monthly Regional Appraisers conference calls. The agenda for the Multi-agency Appraiser Roundtable scheduled in October 2006 includes this subject as a topic for discussion. Field training occurred in each Region for staffs in Lands, Engineering, and Property Management that will be involved in the processing of administrative sales during FY 2006 and the out-years. The WO Lands and Property Management staffs conducted the training, with assistance from Regional Office staff and participation of GSA and private-sector-sale vendors in some locations. The draft ID was provided to all participants and the training premised on its content.

Estimated Completion Date: December 29 2006

OIG Recommendation 8: Require the use of project work plans to estimate hours and expenses for marketing conveyance projects in-house.

FS Response to Recommendation 8: The FS concurs with this recommendation. Procedures and policies related to the use of work plans for planning, tracking, managing and reporting accomplishments are contained in a letter from the WO Deputy Chief for Business Operations, dated November 18, 2005. Similar direction will be included in the FY 2007 Budget Direction for the EXSC/EXSL Conveyances program area. Cost planning and tracking is also accomplished through the use of the Implementation Schedule. The field unit will develop this document as a part of the Sale Implementation Strategy, and keep it updated throughout the life of the project. **The documented procedures are in the draft FSH 5509.11 Ch. 20 Special Act Sales Section, to be issued in the winter of 2006.**

Estimated Completion Date: February 28, 2007

OIG Recommendation 9: Require units to determine which method of marketing excess properties is most cost-effective when conveying properties, based upon the specific real estate marketing conditions.

FS Response to Recommendation 9: The FS concurs with this recommendation. A conveyance process has been established that requires the preparation of a Sale Implementation Strategy (SIS) and

includes the development of a marketing strategy. To prepare the marketing strategy, FS valuation staff provides appropriate appraisal services, including highest and best use or market analysis, identify current market conditions and the likely target market for the specific property, and recommend the method of sale expected to achieve the best result (online auction, live auction, sealed bid, direct sale). Further analysis will be provided on request from the authorized officer to establish the minimum bid price (competitive sale) or sale price (direct sale). Once the staff identifies the estimates minimum bid or sale price and other elements, the unit can more accurately project the costs to ready the property and conduct the sale. To ensure that processing costs do not outweigh the projected income from the sale, a cost/benefit analyses should be conducted at key processing points and before expending significant resources. Often, a preliminary analysis can be completed to identify properties (severely encumbered) or approaches (offsite disposal) that will probably not provide net income. In these cases, the unit must consider non-sale alternatives, such as excessing through GSA, offsite disposal, demolition of structure, or retention of the property. These procedures will be documented in detail in the Interim Directive FSH 5509.11 Chapter 20 Special Act Sales estimated to be issued in the winter of 2006. The WO Director of Lands will emphasize at his next meeting with the Regional Directors of Lands the importance of having them provide oversight and monitoring of the sales program, and Service wide compliance with sale policies and procedures. The WO Director of Acquisition Management will also offer guidance and direction to the Region Directors of Acquisition Management in cooperation with this ongoing effort.

Estimated Completion Date: December 29, 2006

Informational copies of this report have been distributed to:

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