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AUDIT REPORT

PROPERTY AND FACILITIES AT GRAND JUNCTION



U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
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MEMORANDUM FOR THE MANAGER, ALBUQUERQUE OPERATIONS OFFICE

FROM: Lawrence R. Ackerly, Regional Manager (Signed)
Western Regional Audit Office
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Property and Facilities at Grand Junction"

BACKGROUND

At the end of the Cold War, the Department of Energy (DOE) reevaluated and restructured its Nuclear Weapons Complex. These activities ultimately resulted in downsizing a number of sites within the Complex. Although not a nuclear weapons site, Grand Junction became a candidate for downsizing because its missions--environmental restoration and waste management activities--were nearing completion. Its continuing missions, which include the long-term surveillance and monitoring of remediated sites, will not require that Grand Junction use all its property and facilities. Because Albuquerque Operations Office (AL) officials have a continuing responsibility over the site, this audit was conducted to determine whether these officials were making premature decisions regarding the reuse of property and facilities at the Grand Junction site.

RESULTS OF AUDIT

Management officials were making premature decisions regarding the reuse of property and facilities at the Grand Junction site. For instance, they decided to transfer all the property and facilities to a local community entity except one building that will be transferred to the U.S. Army Reserves by September 30, 2000. These decisions were made before AL had completely analyzed its own future needs for space and determined if other agencies would be interested in reusing unneeded space. Although DOE is committed to assisting local communities adversely affected by downsizing, one way to accomplish that objective is to identify other Federal uses for the facilities. That was not done. Instead, AL focused on the interest the local community had in acquiring the site.

While we recognize that analytical results represent only one aspect of informed decisionmaking, we believe it is an important one. We are concerned, therefore, that without a thorough analysis, DOE will have no assurance and, in fact, may not be able to justify that its decisions are in the best interest of the government, the taxpayers, or the local community.

MANAGEMENT REACTION

Management generally did not concur with the finding or recommendations because it contends that it has made only general rather than specific decisions to dispose of the property.

PROPERTY AND FACILITIES AT GRAND JUNCTION

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Overview

INTRODUCTION AND OBJECTIVE

As the Department of Energy (DOE) began evaluating and restructuring its Nuclear Weapons Complex, the need to downsize facilities that were not fully utilized became apparent. Although Grand Junction was not a nuclear weapons production site, it became a candidate for downsizing. Historically, this site supported many of DOE's environmental management programs. However, much of the environmental restoration and waste management work was nearing completion. The work remaining includes the long-term surveillance and monitoring program, the uranium mill tailings groundwater project, the Pinellas environmental restoration program, the Monticello surface and groundwater project, and the uranium leasing program. As a consequence of the reduced mission, the property and facilities at the Grand Junction site will no longer be fully utilized. To reduce the impact that downsizing may have on the local community, the Albuquerque Operations Office (AL) began actions to transfer property and facilities to the local community. The objective of this audit was to determine whether officials were making premature decisions regarding the reuse of property and facilities at the Grand Junction site.

CONCLUSIONS AND OBSERVATIONS

Management officials were making premature decisions regarding the reuse of property and facilities at the Grand Junction site before having all the necessary information. For example, AL made decisions to dispose of property and facilities before determining the space needed to perform Grand Junction's continuing missions, identifying excess facilities, and determining if other Federal agencies have a need for those facilities. Thus, those decisions may not be in the best interest of the government, the taxpayers, or the local community.

Prior Office of Inspector General (OIG) reports have also shown the need for more thorough analyses before making decisions concerning real property. For example, the report, *The U. S. Department of Energy's Facility Reuse at the Rocky Flats Environmental Technology Site*, DOE/IG-0425, dated August 1998, stated that the Rocky Flats Field Office scheduled all site facilities for demolition without having formally analyzed their reuse potential. Another report, *Audit of Shutdown and Transition of the Mound Plant*, DOE/IG-408, dated June 1997 showed that DOE decisionmakers did not have all the data needed to make informed judgments on the most effective location for future isotopic heat sources and radioisotope thermoelectric generators operations. Finally, the *Audit of the Deactivation, Decontamination,*

and Disposal of Surplus Facilities at the Savannah River Site, ER-B-98-01, October 1997, showed that DOE did not economically or promptly deactivate, decontaminate, or dispose of surplus facilities. This occurred because AL did not compile a sitewide list, establish priorities, or provide sufficient funding. The common theme among these reports and AL's actions on Grand Junction property and facilities is that the responsible DOE office did not properly plan its actions with respect to disposition of government property.

The audit identified issues that management should consider when preparing its yearend assurance memorandum on internal controls.

(Signed)
Office of Inspector General

DECISIONS ON REAL PROPERTY

Determination Of Real Property Needs And Uses

AL made premature decisions regarding the reuse of its Grand Junction property and facilities. It was decided, with one exception, to transfer all facilities and property at the Grand Junction site to a local community entity by September 30, 2000. The one exception is a building that AL had previously agreed to provide to the U.S. Army Reserves (Army Reserves). Beginning in September 1997, the Army Reserves continuously expressed interest in using Building 28 as well as using some land at the Grand Junction site. However, AL ignored these requests until January 1999 when the Office of Inspector General (OIG) questioned why the Army Reserves could not acquire a facility or some property located on the site. The OIG pointed out that transferring site property would eliminate the Army Reserves' need to lease and/or construct other facilities, thereby saving taxpayer dollars. Also, other agencies, including the Bureau of Land Management, the National Guard, and the Colorado Division of Wildlife, had been identified by the local community entity as possibly being interested in occupying a portion of the existing facilities. However, AL had not contacted those agencies or inquired through the General Services Administration (GSA) if those agencies, in fact, would be interested in reusing a portion of the Grand Junction site.

In addition, AL made the premature decision to lease five unneeded buildings to a local community entity for a 5-year period. The lease of the five buildings was done prior to the completion of a thorough analysis of all alternatives. Although AL does have the authority to lease facilities that are unneeded, the future of those facilities would normally be renegotiated at the conclusion of that period. However, AL preempted future negotiations by stipulating in the lease that the lessee, not AL, could decide to continue or terminate the lease. In June 1999, AL eliminated any uncertainty in the future of the property by deciding to transfer all property and facilities to the local community other than the building committed to the Army Reserves. Thus, the future of the property and facilities at the site was established.

Program Guidance

Rules governing the reuse and disposal of government property are contained in documents published by the Office of Management and Budget (OMB) and DOE. OMB Circular A-123, *Management Accountability and Control*, for example, states that government resources are to be used efficiently and effectively to achieve intended program results. Resources must be used consistently with agency mission, in compliance with laws and regulations, and must have

minimal potential for waste, fraud, and mismanagement. To achieve these goals, DOE guidance stresses the importance of using analysis in the decision process.

DOE's guide, *Resourceful Reuse—Planning Future Uses of DOE Sites: A Guide for DOE Programs and Real Property Managers*, dated May 1996, states that property transactions must be based upon sound analysis and planning. Analyses are to cover the real property screening and disposition process, property appraisal or rental value appraisal, environmental analyses, and legal status determination. The guidance specifically states that when site program managers identify real property not needed by their program, they should screen other DOE site tenants for their possible need for the property. If there are no site requirements for the property, Headquarters (Field Management) or field elements should screen program and operations offices to assess their need for the property. Site properties not required by any DOE program or another government agency are to be declared excess to DOE and can be leased, sold, or reported to the GSA for disposition. Federal Property Management Regulations also state that each executive agency must, as far as practicable, transfer excess real property to other Federal agencies. The reuse guide basically applied to Defense Production sites; however, AL officials said that they followed it for disposition of the Grand Junction property.

Lack Of Complete Analysis

Management made its premature decisions without the benefit of complete analysis to support such decisions. Further, management did not fully determine if other agencies had an interest in reusing unneeded facilities, consider its own future office needs, and did not determine the market value of the site.

Management did not have all the necessary information to make decisions about the reuse of property and facilities at the Grand Junction site because the types of analysis for a sound decision process were not performed. Instead, its real property decisions and subsequent actions were focused on local community economic development. For example, Grand Junction worked with a community group called the Joint Utilization Committee (JUC) on ways to best reuse the property for the benefit of the community. In 1997, Grand Junction officials met with the JUC to discuss ways to reuse the property to promote economic development. Next, they contracted for a Strengths,

Weaknesses, Opportunities and Barriers (SWOB) Analysis. This analysis, however, determined the best use of the property by the community rather than best use by the government.

Management's August 4, 1999, response to the draft report said that AL would complete a more detailed analysis of its own space needs including an analysis of owning versus leasing needed space. Further, a more detailed analysis would determine excess facilities and the market value of the site. However, the response was dated almost two months after the decision was made to transfer the bulk of the site to the local community. Thus, there is little assurance that the analysis, if completed, would alter AL's decisions.

Costs Of Premature Decisions

The decision to transfer the balance of the property and facilities to the local community is consistent with DOE's philosophy to help the local community mediate the impact of downsizing. However, AL's decision to effect the transfer prior to completing its analysis and screening process may not be in the best interest of the community or the government. If AL successfully identified new government tenants for unneeded facilities, Federal construction or rental costs may be avoided and the community may gain a new employer. However, AL does not know if its decisions are in the best interest of the community or the Federal government because it did not complete its analyses or screen the property. Ultimately, the community may struggle to find tenants for the property even if it is acquired at no cost.

Since AL had not conducted all the necessary analyses, its decisions to date do not appear to be in the best interest of the government or the taxpayer. For instance, the five buildings were leased for about 16 cents per square foot or \$7,200 annually. This rate, however, was less than AL's appraisal that showed estimated gross rent of \$3.68 and net rent (after expenses) of \$1.81 per square foot annually. AL, therefore, should have charged annual rent of about \$79,800. The net rental rate should have been used because it already included an allowance for the lessee to perform maintenance and upkeep of the property.

Further, AL will incur additional costs to prepare Building 7 for use by the Army Reserves. After not providing the Army Reserves' initial request for Building 28, AL agreed to provide Building 7, which was scheduled for demolition at an estimated cost of \$1.5 million. To prepare this facility for the Army Reserves, however, AL must now

decontaminate it at an estimated cost of about \$2.2 million. Thus, AL will incur an additional expense of about \$700,000. If AL had not focused primarily on community interest, the additional expense may have been avoided. Finally, AL may incur additional costs each month for lease space for its remaining staff in Grand Junction if the decision to transfer the remaining Grand Junction property is carried out.

RECOMMENDATIONS

We recommended that the Manager, Albuquerque Operations Office:

1. conduct the necessary analysis of the site and consider the needs of DOE and other government agencies before taking any actions to lease or dispose of unneeded, unused, surplus, or excess real property; and,
2. stop all decisions or actions until the necessary analysis is done to identify what direction will provide the best reuse of the property excess to its needs.

MANAGEMENT REACTION

Management's August 4, 1999, response to the OIG draft report generally did not concur with the finding or recommendations because it contended that it only made a general decision to dispose of the site's property and facilities and a specific decision will not be made until the analysis is complete. Further, AL said that the audit was premature because most of the work needed for disposition had not yet occurred. This included the development of a Management Plan and analyses of AL's future space needs, excess facilities, and market value of the property. Finally, a cost comparison was planned and would be performed prior to disposition.

Also, AL stated that it has its own authority to transfer property under the DOE Organization Act and the Atomic Energy Act, and it does not need to follow the GSA process. However, it has checked with GSA and found that other agencies had not expressed an interest in the site and neither have other DOE programs.

Although the Grand Junction site is not a defense nuclear facility, AL said that it supports the DOE philosophy of reducing the impact on a local community when a downsizing occurs. Further, AL stated that the interest of Federal agencies and the local community are not mutually exclusive.

Finally, AL contended that the value of the lease is greater than the amounts DOE will receive because the lessee will pay utility costs and maintain the facilities to keep their current value. Management claimed cost savings or cost avoidance by leasing the facilities because maintenance and upgrades would not have to be performed.

AUDITOR COMMENTS

On June 7, 1999, AL sent a memo to Field Management that said it needed much less space than it currently occupies. Thus, it concluded that the appropriate course of action for the future of the Grand Junction site was to transfer a small portion of the site to the Army Reserves and the balance of the site to a local community entity. AL's goal is to have the site transfer complete by September 30, 2000. Thus, even though a thorough analysis had not been completed, a final not a general decision was made on the future of the site.

The OIG does not dispute the authority that AL has under the two Acts, but AL has not done a thorough job of determining if other agencies have an interest in using the site. Further, the GSA contact was made by a local community entity official not an AL official. Finally, the local community entity identified several other agencies that may have an interest in using the site, and AL representatives were aware of those agencies. In spite of their awareness, AL made no attempt to determine if those agencies would, in fact, be interested in the facilities. Instead, AL focused solely on the community's own interest in the property.

The OIG believes it is appropriate to assist the local community during a period of downsizing, and one way to achieve that objective is to thoroughly screen other agencies to determine if they could possibly use unneeded facilities. If so, new tenants may be able to bring employment and revenue to the affected community. Since a sizeable public investment has been made in the facilities at this site, the reuse of these facilities by another Federal agency may benefit not only the community but the Federal government as well.

The lessee's expenses were already factored into the reduced rental rate estimated by the appraiser.

Appendix

SCOPE

We performed the audit from November 1998 to July 1999 at the Albuquerque Operations Office and the Grand Junction Office located in Grand Junction, Colorado.

METHODOLOGY

To accomplish the audit objective, we:

- reviewed OMB, DOE, and GSA guidance on disposal of property and facilities;
- interviewed AL and Grand Junction officials to understand their procedures for proper disposal of property and facilities;
- interviewed DOE Field Management officials responsible for managing and planning for the reuse of excess facilities at the site;
- reviewed documents concerning the reuse of excess facilities from 1997-1999;
- reviewed Grand Junction's draft Site Transition Plan to understand the analyses done or to be done to achieve proper disposal actions; and,
- reviewed the *Government Performance & Results Act of 1993* and determined if performance measures were established.

We conducted the audit according to generally accepted government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Accordingly, we assessed the significant internal controls and performance measures established under the *Government Performance and Results Act* related to Grand Junction's site transition. AL officials had established a goal to complete the site transition by the fourth quarter of Fiscal Year 2001. However, no performance measures were attached to this goal. Because we limited our review, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did not rely on computer-generated data. Therefore, we did not examine the reliability of computerized data used.

Management waived an exit conference on November 26, 1999.

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