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May 10, 2002

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# **Defense Infrastructure**

Department of Defense Policies and  
Procedures to Implement the Rural  
Development Act of 1972  
(D-2002-089)

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Department of Defense  
Office of the Inspector General

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INSPECTOR GENERAL  
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ARLINGTON, VIRGINIA 22202-4704

May 10, 2002

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS

SUBJECT: Audit Report on Department of Defense Policies and Procedures to  
Implement the Rural Development Act of 1972  
(Report No. D-2002-089)

We are providing this audit report for review and comment. We performed the audit in response to Public Law 107-67, "Treasury and General Government Appropriations Act, 2002," section 647, which requires the Inspector General of each applicable department or agency to submit a report to the Committee on Appropriations detailing what policies and procedures are in place for each department or agency to give first priority to the location of new offices and other facilities in rural areas.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Under Secretary of Defense for Acquisition, Technology, and Logistics provide comments on the recommendation.

Management comments should indicate concurrence or nonconcurrence with the finding and recommendation. Comments should describe actions taken or planned in response to agreed-upon recommendations and provide the completion dates of the actions. State specific reasons for any nonconcurrence and propose alternative actions, if appropriate. We request that management provide comments by June 10, 2002.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Bobbie Sau Wan at (703) 604-9259 (DSN 664-9259) or Mr. Wayne K. Million at (703) 604-9312 (DSN 664-9312). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, appearing to read "Thomas F. Gimble", is positioned above the typed name.

Thomas F. Gimble  
Acting  
Deputy Assistant Inspector General  
for Auditing

## Inspector General of the Department of Defense

**Report No. D-2002-089**  
(Project No. D2002CG-0042)

**May 10, 2002**

### **Department of Defense Policies and Procedures to Implement the Rural Development Act of 1972**

#### **Executive Summary**

**Introduction.** The audit was performed to determine whether DoD has established policies and procedures to implement the requirements of the Rural Development Act of 1972. Public Law 107-67, "Treasury and General Government Appropriations Act, 2002," section 647, November 12, 2001, requires the Inspector General of each applicable department or agency to submit a report to the Committee on Appropriations detailing what policies and procedures are in place for each department or agency to give first priority to the location of new offices and other facilities in rural areas, as directed by the Rural Development Act of 1972.

**Results.** The Office of the Secretary of Defense, the Military Departments, and Defense agencies did not establish policies and procedures to specifically give first priority to the location of new offices and other facilities in rural areas. Existing DoD guidance dictates that a thorough analysis of all alternatives be made before the acquisition of new facilities. However, specifically reflecting the requirements of the Rural Development Act of 1972 in DoD policies will result in additional assurance that DoD meets the intent of the Act. For details, see the Finding section of the report and Appendix A for details on the management control program.

**Summary of Recommendation.** We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics revise existing policies and procedures to require DoD Components to give first priority consideration to rural areas for location of new offices and other facilities as required by the Rural Development Act of 1972.

**Management Comments.** We provided a draft of this report on April 15, 2002. No management comments were received. We request that the Under Secretary of Defense for Acquisition, Technology, and Logistics provide comments on this report by June 10, 2002.

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## **Background**

Public Law 107-67, “Treasury and General Government Appropriations Act, 2002,” section 647, November 12, 2001, states:

“Not later than 6 months after date of enactment, the Inspector General of each applicable department or agency shall submit to the Committee on Appropriations a report detailing what policies and procedures are in place for each department or agency to give first priority to the location of new offices and other facilities in rural areas, as directed by the Rural Development Act of 1972.”

## **Objectives**

The overall objective was to determine whether DoD has established policies and procedures that implement the requirements of the Rural Development Act of 1972. Specifically, we determined whether the Office of the Secretary of Defense, the Military Departments, and Defense agencies have policies and procedures in place to give first priority to the location of new offices and other facilities in rural areas. We also reviewed the management control program as it related to the implementation of legislation affecting DoD. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program. Also see Appendix A for a summary of prior audit coverage related to the audit objectives.

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# Implementation of the Rural Development Act of 1972

The Office of the Secretary of Defense, the Military Departments, and the Defense agencies did not establish policies and procedures to specifically give first priority to the location of new offices and other facilities in rural areas. This occurred because DoD believed its first priority related to mission requirements and that existing policies and procedures satisfied the intent of the Rural Development Act. Revising DoD policies to specifically reflect the requirements of the Rural Development Act of 1972 will result in additional assurance that DoD meets the intent of the Act.

## Congressional Guidance

Public Law 92-419, "Rural Development Act," August 30, 1972 (as codified in section 2204b-1, title 7, United States Code [7 U.S.C. 2204b-1]), defines the approach to rural development by giving priority for new Government offices and facilities to rural areas. Specifically, section 601 of Public Law 92-419 states:

Congress hereby directs the heads of all executive departments and agencies of the Government to establish and maintain departmental policies and procedures giving first priority to the location of new offices and other facilities in rural areas as defined in the private business enterprise exception in section 306(a)(7) of the Consolidated Farmers Home Administration Act of 1961, as amended (7 U.S.C. 1926). The President is hereby requested to submit to the Congress not later than September 1 of each fiscal year a report reflecting the efforts during the immediately preceding fiscal year of all executive departments and agencies in carrying out the provision of this section, citing the location of all new facilities, and including a statement covering the basic reasons for the selection of all new locations.

## DoD Policy and Procedures on the Rural Development Act

**Office of the Secretary of Defense.** The Office of the Secretary of Defense had issued no specific guidance on implementation of the Rural Development Act of 1972, which is intended to boost rural economies and save the Government money on new facilities. DoD Directive 4165.6, "Real Property Acquisition, Management and Disposal," September 1, 1987, prescribes that the Military Departments and Defense agencies shall determine which real property is needed to satisfy military requirements and ensure that the property is obtained and disposed of only when the real property has no foreseeable military requirement. The directive establishes the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics as the responsible office for DoD policy regarding the acquisition, management, and disposal of real property. Specifically, the Office of the Deputy Under Secretary of Defense (Installations and Environment) is responsible for implementing policy, including the provisions of the Rural Development Act.

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Installations and Environment officials stated that, although their office is responsible for this function, they have not specifically established policies or procedures for implementing the requirements of the Rural Development Act.

Although DoD guidance does not state that rural locations will be given first priority for new offices and facilities, rural areas are given appropriate consideration through the established site selection process based on mission requirements and cost considerations. Specifically, DoD Directive 4165.6 provides conditions for the acquisition of real property. When DoD Components acquire real property, the DoD Components must first determine that the requirements cannot be satisfied by:

- emergency use or national defense clauses in deeds of conveyance,
- excess or otherwise available property held by other Military Departments or Federal agencies, or
- exercise of existing DoD authorities or those of the General Services Administration for the exchange of DoD-controlled real property or surplus Federal property for privately owned property.

Before acquiring real property, DoD Components are also required to perform an economic analysis, as prescribed by DoD Instruction 7041.3, "Economic Analysis for Decisionmaking," November 7, 1995. The economic analysis is used to evaluate the costs and benefits of investment alternatives and applies to the evaluation of decisions about acquisition of real property or other assets, either by lease or purchase. A key principle of the economic analysis is that each feasible alternative for meeting an objective must be considered, and its life-cycle costs and benefits evaluated. Each analysis must, at a minimum, consider and document the alternatives of status quo, new acquisition, leasing, and modification of existing assets. The analysis also requires that each alternative be fully investigated and a determination made whether it satisfies the functional requirements for the project. If a rural area is the best alternative for the location of new DoD offices or facilities, this existing DoD guidance dictates that it will be selected.

DoD Directive 4165.6 requires the Secretaries of the Military Departments and Directors of Defense agencies to adhere to policy guidance provided by the Office of the Secretary of Defense and to establish procedures to carry out those policies. Therefore, without guidance on rural areas, none of the Military Department or Defense agency current procedures contained provisions that specifically assign a priority to the location of new offices and facilities in rural areas.

**Department of the Army.** The Office of the Assistant Secretary of the Army (Installations and Environment) has policies governing the acquisition of real estate by transfer, purchase, lease, or condemnation as established in Army Regulation 405-10, "Acquisition of Real Property and Interests Therein," August 1, 1970. Army real estate officials stated that they do not have policy or procedures in place to specifically meet the requirements of the Rural Development Act of 1972.

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**Department of the Navy.** Secretary of the Navy Instruction 11011.47, “Acquisition, Use by Others and Disposal of the Department of the Navy Real Property,” June 20, 1983, is the governing policy guidance for Navy acquisition and management of real property. The Office of the Assistant Secretary of the Navy (Installations and Environment) stated that it does not have policy or procedures in place to meet the requirements of the Rural Development Act of 1972, but will issue a memorandum that will instruct Navy commands to comply in response to the Office of the Deputy Under Secretary of Defense (Installations and Environment).

**Department of the Air Force.** The Office of the Deputy Chief of Staff of the Air Force (Installations and Logistics) is currently drafting a revision to Air Force Handbook 32-9007, “Acquiring Real Property,” May 1, 1999, to make the requirements of the Rural Development Act of 1972 a consideration when major commands acquire real property by lease or purchase. Section 1.51.1., “Requests for GSA-Owned or -Leased Space,” provides that the originator of the request acknowledge that the delineated area is in compliance with all laws and Executive Orders governing the location of space, including the Rural Development Act of 1972, 42 U.S.C. 3122, and Executive Order 12072, “Federal Space Management,” August 16, 1978 (section 3100.41, title 7, Code of Federal Regulations). The revision is expected to be final by the end of calendar year 2002.

**Defense Agencies.** Officials in the Office of the Deputy Under Secretary of Defense (Installations and Environment), who are responsible for DoD installation policy, stated that they are not aware of any Defense agency implementing procedure that gives first priority to rural areas when determining their real property needs.

## **Recommendation**

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics revise existing policies and procedures to require Defense agencies and Military Departments to give first priority consideration to rural areas for the location of new offices and other facilities as required by the Rural Development Act of 1972.

## **Management Comments Required**

The Under Secretary of Defense for Acquisition, Technology, and Logistics did not comment on a draft of this report. We request that the Under Secretary of Defense for Acquisition, Technology, and Logistics provide comments on the final report by June 10, 2002.

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## Appendix A. Audit Process

### Scope

**Work Performed to Overall Audit Scope.** We reviewed DoD guidance, visited the Office of the Secretary of Defense staff elements and Service headquarters to discuss implementation of the guidance, and reviewed published literature and congressional transcripts.

**Scope Limitation.** We limited our assessment of the management control program to the implementation of the Rural Development Act of 1972.

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Infrastructure high-risk area.

### Methodology

**Audit Dates and Standards.** We performed this audit from November 2001 through March 2002 in accordance with generally accepted government auditing standards.

**Contacts During the Audit.** We visited or contacted organizations within DoD. Further details are available on request.

### Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Adequacy of Management Controls.** We identified a material management control weakness as defined by DoD Instruction 5010.40. The absence of DoD policy and procedures to implement the requirements of the Rural Development Act of 1972 is a material management control weakness. The recommendation, if implemented, will assist in improving compliance with the Rural Development Act.

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## Prior Coverage

### General Accounting Office

General Accounting Office Report, GAO-01-85, “Facilities Location: Agencies Should Pay More Attention to Costs and Rural Development Act,” July 31, 2001. The review focused on Federal functions that lend themselves to locations other than Washington, D.C. and Federal regional cities. DoD was excluded from the review since it has vacant space available at bases nationally and must consider its existing vacant space when locating new operations. The review included:

- executive branch functions recently locating to urban locations compared to rural locations,
- laws and policies governing facility location and agency guidance for implementation,
- lessons learned from private sector site selections, and
- functions that lend themselves to being located in rural areas.

The report states that only 5 of the 13 cabinet departments contacted had established policies and procedures to implement the Rural Development Act. Of 113 relocation sites responding to a survey, 24 had agency policies, 61 did not have agency policies, and 28 did not know if their agencies had policies. Functions recently located at urban sites were loans, grants, and benefits administration processing; inspection and auditing; and health and medical services. Functions recently located in rural areas were research and development, supply and storage, automatic data processing, and finance and accounting.

The report observed that rural areas are not clearly defined. Prior to 1996, the private business enterprise exception in section 306(a) of the Consolidated Farmer Home Administration Act of 1961 referred to an exception in 7 U.S.C. 1926(a)(7) that defined rural as

. . . all territory of a State that is not within the outer boundary of any city having a population of fifty thousand or more and its immediately adjacent urbanized and urbanizing areas with a population density of more than one hundred persons per square mile.

In 1996, 7 U.S.C. 1926(a)(7) was repealed and replaced with a new section 1926(a)(7) that defines “rural” and “rural areas” only for the purpose of water and waste disposal grants and direct guaranteed loans as a city, town, or unincorporated area that has a population of no more than 10,000 inhabitants.

The report suggests that Congress consider enacting legislation to require agencies to consider, along with their mission and program requirements, real estate, labor, and other operational costs as well as applicable local incentives when deciding whether to relocate or establish a new site in a rural area or urban area and amend the Rural Development Act to clarify the definition of “rural area.”

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**Inspector General of the Department of Defense, and Service  
Audit Agencies**

No prior coverage has been conducted on this subject during the last 5 years.

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Deputy Under Secretary of Defense (Installations and Environment)  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Defense Organization**

Director, Defense Logistics Agency

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

## **Audit Team Members**

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing of the Department of Defense, produced this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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