



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT
DIVISION

B-217512

MARCH 14, 1985

The Honorable Michael G. Oxley
House of Representatives

Dear Mr. Oxley:

Subject: GSA's Sale of a Surplus Federal Warehouse
in Shelby, Ohio (GAO/GGD-85-38)

By letter dated June 4, 1984, you requested that we investigate the General Services Administration's (GSA) recent sale of a surplus GSA warehouse in Shelby, Ohio. You pointed out in your letter that, in August 1983, GSA rejected a company's bid of \$2 million for the surplus warehouse but then, in April 1984, accepted a \$1,369,000 bid for the warehouse from another company. You expressed your concern that GSA could have gotten \$631,000 more for the warehouse 9 months earlier and asked us to investigate the matter.

In our inquiry into this matter we interviewed GSA officials responsible for real property disposals in GSA's central office and its Chicago region, which administered the warehouse sale. We reviewed the laws, regulations, policies, and procedures which govern GSA's sale of surplus real property and examined central office and Chicago region files and records pertinent to the sale. We developed the disposal history on this sale and compared it to the established policies and procedures for GSA's surplus property sales. We did not attempt to evaluate the validity of the appraisals of the warehouse's value that were prepared by independent appraisers and evaluated by GSA appraisers.

On August 2, 1984, we met with you and briefed you on the information on the sale that we had developed in our inquiry. At that time, you requested that we provide you the information in writing. The enclosure contains the information we provided you at the meeting.

In summary, we advised you that we learned that GSA's Chicago region rejected the August 1983 \$2 million bid because it believed, based on an independent appraisal and the region's evaluation of that appraisal, that the bid was too low. The



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independent appraisal and region evaluation indicated the warehouse was worth about \$3.4 million and GSA's surplus property disposal procedures authorize the rejection of bids where the high bid is less than the appraised fair market value.

In preparation for a second attempt to sell the property, the Chicago region requested two additional appraisals by different independent appraisers and again offered the warehouse for sale. When the region received the appraisals, one of the appraisers estimated the warehouse's value at \$2.1 million, and the other estimated the warehouse's value at \$2.5 million. However, the high bid the region received this time, in February 1984, was \$1,369,000. The region decided it would not incur the costs and delay of attempting a third sale so, in April 1984, it accepted the \$1,369,000. While the region is authorized to accept a bid lower than the appraised fair market value, it should, under procedures, get GSA's central office approval if the high bid it plans to accept is less than 90 percent of the appraised fair market value. The Chicago region, believing that it had the authority to accept the offer, did not in this case, request and receive such approval.

On January 16, 1985, we provided a draft of this report to GSA for review and comment. A response, signed by the Acting Administrator of General Services, stated that GSA concurred in the findings as presented in the draft and planned to review the need to change delegations of sales authority.

As you agreed, we are sending a copy of this report to the Administrator of General Services and will make copies available to others upon request.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director

Enclosure

GSA'S SALE OF A SURPLUS WAREHOUSE
IN SHELBY, OHIO

BACKGROUND

Disposal of real property by GSA is governed by the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 471 et seq.). Section 205(c) of the act authorizes the Administrator of General Services to prescribe

"regulations as he deems necessary to effectuate his functions under this Act; and the head of each executive agency shall cause to be issued such orders and directives as such head deems necessary to carry out such regulations."

Regulations issued by GSA under this authority are codified in part 101-47 of the Federal Property Management Regulations. These regulations are published in title 41 of the Code of Federal Regulations (41 CFR 101-47). Federal Property Management Regulation, subpart 101-47.3, deals specifically with the disposal of surplus real property.

After GSA determines that real property is surplus (that there is no federal need for the property) GSA notifies state and local governments that the property is available and gives them the first opportunity to acquire it. Surplus property not disposed of to public bodies will be offered for public sale.

The Administrator of General Services has delegated responsibilities for the sale of most properties to the administrators of GSA's regional offices. The preferred method of sale is by advertising for competitive bids for an all cash price. Before putting surplus real property up for sale, GSA must determine the appraised fair market value of the property. Although GSA has employees who are qualified to make appraisals, most appraisals are currently prepared for GSA by commercial appraisers through contracts. The resulting appraised fair market value is reviewed and approved by GSA's regional office staff appraisers and becomes the proposed minimum price when the property is publicly offered for competitive bids. If the highest bid is not at least 90 percent of the appraised fair market value, the GSA regional office may reject it, although there is a provision for the regional office to accept a bid of less than 90 percent of appraised fair market value if the regional office obtains the prior approval of GSA's central office.

DESCRIPTION OF THE PROPERTY

The Shelby warehouse property was originally constructed in 1955 by the Air Force as a depot at the former Wilkins Air Force Base in Shelby, Ohio. The property consists of 59 acres of land and the warehouse. The warehouse is a one-story concrete block structure enclosing 808,350 square feet of space. Additional improvements on the property include rail spurs, a security fence, utilities, roads and three small support buildings. The acquisition cost of the property was \$5,878,000.

After the Air Force closed Wilkins in 1961, the 59 acres and the warehouse were transferred to GSA whose Federal Supply Service (FSS) used it as a storage depot. In February 1982, FSS determined that it no longer needed the warehouse because it was in the process of consolidating its depot operations. In June 1982, GSA's Office of Real Property accepted responsibility for the property and initiated actions for its disposal.

FIRST SALE ATTEMPT

Having found no federal, state or local government interest in acquiring the property, GSA's Chicago regional office recommended disposing of the property through a sealed-bid public sale. After analysis, the region determined that the highest and best use of the property was for warehousing or manufacturing. If sold for these purposes, the region believed the government would receive the highest price. The region's disposal plan called for sale advertising to begin in January 1983, with sealed bids to be opened in late April.

In September, 1982, GSA's Chicago region solicited six appraisers to bid competitively for the contract to appraise the warehouse. In making its selection of appraisers to solicit for bids to appraise the warehouse, the region chose appraisers whom it considered qualified to perform the appraisal based on a review of their qualifications and on experience the region may have had with the appraisers previously. The selected appraiser was given 30 days to make an appraisal. The appraiser's November 8, 1982, report valued the property at \$14,864,000.

The Chicago region appraisal staff analyzed the appraisal report and concluded that the appraiser's evaluation of the property was too high. The Chicago region chief appraiser met with the contract appraiser in December 1982 and recommended that the contract appraiser reconsider some factors used in the appraisal. Consequently, on January 31, 1983, the contractor sent GSA a revised appraisal establishing a value of \$8,149,000

for the warehouse property. That figure was further reduced \$75,000 by the Chicago region's chief appraiser after additional analysis on February 14, 1983. The region chief appraiser concluded the fair market value of the property to be \$8,074,000.

GSA began sales advertising in March 1983, with a scheduled bid opening date of June 30, 1983. During the period between commencement of advertising and bid opening, one bidder asked the Chicago region about the condition of the warehouse roof. The bidder said there were indications of possible deterioration. The region claimed it had little knowledge about roof problems but gave the bidder what information it was able to develop. A GSA engineer estimated that roof repairs might cost \$124,800, but the region official transmitting the estimate described it as "just an opinion and [it] may be a pessimistic view of the problem."

Three bids were received. These were opened on June 30, 1983. The high bidder, who offered \$1,250,000 for the property, was the same bidder who had made the inquiries about the possible deterioration of the roof. The region did not immediately reject the high bid. Instead, in conformance with GSA's procedures and usual practice, the region informed the high bidder on July 5, 1983, that the bid was substantially below GSA's estimate of the property's value and gave the bidder an opportunity to increase it. The high bidder was asked to respond by July 18, 1983.

Because of the large difference between GSA's estimate of the value of the property (about \$8 million) and the high bidder's offer of \$1.25 million, GSA began to plan for the possibility that this sale might not be successful and a second offer to sell might be necessary. The Chicago region's chief appraiser initiated action to obtain a new appraisal of the property and to obtain an engineering report from an engineering contractor on the warehouse's roof damage and the cost of repair or replacement. In view of this, the deadline given to the high bidder for increasing the bid was extended to August 22, 1983.

The engineering report on roof damage was received from the engineering contractor on August 11. It estimated that it would cost \$2,609,375 to replace the roof. The Chicago region's chief appraiser began another analysis of the property's value based on the appraisal, the engineering report and the chief appraiser's estimate of a "general market downward trend" affecting the property's value. The chief appraiser's August 16, 1983, report described the reevaluation of the property at \$3,400,000 as a "preliminary adjusted valuation figure" which

did not take into account other expenses that would be incurred during the construction of a new roof.

On August 19, 1983, the high bidder increased the offer to \$2,000,000. GSA rejected the increased bid on August 25, declaring it "still substantially below our estimated value of this property."

SECOND SALE ATTEMPT

The Chicago region planned to begin advertising the second sealed bid sale of the warehouse on October 28, 1983, and for the bid opening to occur on February 10, 1984. In preparation for the sale, two appraisals of the warehouse property were sought. The region solicited six appraisers to provide the appraisal service; four appraisers replied.

The region appraisal staff recommended the selection of both the highest and lowest bidding appraisers who responded to the solicitation. The appraisal staff explained this recommendation by saying they had been required by GSA's Washington staff to place heavy emphasis on the technical expertise of the appraiser. They considered the high bidding appraiser to be the most technically qualified appraiser among the respondents. The respondent returning the lowest bid was considered by the appraisal staff to be the next most technically qualified bidder.

The two appraisals were received by early January 1984. One appraised the property at \$2,100,000; the other at \$2,500,000. By February 1, 1984, the region appraisal staff had reviewed both appraisals and approved them.

The bid opening occurred on February 10, 1984, with three bidders responding (the high bidder in the first sale did not participate in this sale). The high bidder, who did not bid on the first sale attempt, offered to purchase the warehouse for \$1,369,000. As at the first sale attempt, the region gave the high bidder an opportunity to increase the bid and established a deadline of February 27, 1984. The deadline was twice extended, ultimately to March 30, 1984.

The high bidder declined to increase the bid. The Chicago disposal division director recommended to the Chicago Regional Administrator that the offer to purchase at \$1.369 million be accepted. The justification for this recommendation considered the following factors:

- The cost of a third sale advertising campaign would be about \$20,000.
- The cost of continuing to provide regular protection and maintenance services until a third bid opening would be about \$30,000.
- The government would lose about \$75,000 in interest until a third bid opening by not accepting and depositing in the U.S. Treasury the current bid.
- Without a roof patch job, estimated to cost about \$200,000, the roof would continue to deteriorate.

On April 4, 1984, the Regional Administrator approved the recommendation and on April 5 a letter was sent to the high bidder stating that the bid had been accepted. However, the Chicago region did not obtain the approval of GSA's central office before accepting the \$1.369 million price which was below 90 percent of the appraised fair market value. Prior approval is required by GSA handbook PRM P 4000.1, entitled "Excess and Surplus Real Property," chapter 3, paragraph 105 h(2)(b). The Chicago Regional Administrator said that the authority to accept the bid was based on the GSA Delegation of Authority Manual ADM P 5450.39c chapter 15, paragraph 3a(10), page 8. The manual does not contain the same wording as the handbook. In May 1984, the GSA central office sent a notice to all GSA regions reminding them of the requirement to obtain the central office approval and stating that wording similar to the handbook would be added to the Delegation of Authority manual to help clarify this requirement.

On January 16, 1985, we provided a draft of this report to GSA for review and comment. A response, signed by the Acting Administrator of General Services, stated that GSA concurred in the findings as presented in the draft and planned to review the need to change delegations of sales authority.