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REPORT TO THE CONGRESS

Continued Loss Of Revenue
Because Of Low Rents ⁴⁶
Charged' For Personnel Quarters
By The Veterans Administration

B-133044

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

715092

SEPT 21, 1970

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

B- 133044

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the continued loss of revenue be-
cause of low rents charged for personnel quarters by the Vet-
erans Administration.

Our review was made pursuant to the Budget and Account-
ing Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act
of 1950 (31 U.S.C. 67)

Copies of this report are being sent to the Director, Of-
fice of Management and Budget, and to the Administrator of
Veterans Affairs.

A handwritten signature in cursive script, reading "James B. Peato".

Comptroller General
of the United States

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ABBREVIATIONS

BOB	Bureau of the Budget (Office of Management and Budget as of July 1, 1970)
FHA	Federal Housing Administration
GAO	General Accounting Office
VA	Veterans Administration

D I G E S T

WHY THE REVIEW WAS MADE

In 1963 the General Accounting Office (GAO) reported to the Congress that rents charged occupants of certain Government-owned housekeeping quarters at certain Veterans Administration (VA) field stations were much lower than rents for comparable private housing in the same communities. In setting the rental rates, VA had deviated from criteria established by the Bureau of the Budget, now the Office of Management and Budget. (See p. 4.) The results of our more recent review, which is a follow-up to the 1963 report, are discussed below.

FINDINGS AND CONCLUSIONS

GAO estimates that VA was losing \$590,000 a year in rental income because rents at 13 VA hospitals were too low. The 243 housekeeping quarters and the 932 nonhousekeeping quarters at these stations represented about 13 percent and 16 percent, respectively, of the total housekeeping and nonhousekeeping quarters maintained by VA nationwide. (See p. 8.) To the extent that similar conditions exist at those hospitals which GAO did not visit, VA is losing an even larger amount of income nationwide. Additional rental income could reduce the amount of appropriated funds needed to operate VA's medical care program. (See pp. 5 and 8)

To evaluate the reasonableness of the VA rates, GAO compared

- rental rates for VA housekeeping quarters with local realtors' estimates of what private rental rates would be for the quarters and
- rental rates for VA nonhousekeeping quarters with rental rates for private housing which GAO believed was comparable to the VA quarters.

In almost all instances, the rental rates estimated by realtors for housekeeping quarters were significantly higher than the VA rental rates. (See pp. 9 to 13.) Rental rates for nonhousekeeping quarters which GAO believed were comparable were also significantly higher than the VA rental rates. (See p 14)

Bureau of the Budget Circular A-45 prescribes the principles and procedures for establishing rental rates for Government quarters. The

circular provides that basic rents be based on prevailing rates for comparable private housing; if no housing is available for comparison, the rents should be based on the income a property should produce, taking into account its fair market value. (See pp. 6 and 7)

The Federal Housing Administration (FHA) appraised the VA quarters included in GAO's review and recommended the rental rates. Approval of the FHA-recommended rates was the responsibility of VA field station directors.

The FHA appraisals in many instances were not made in accordance with the provisions of Circular A-45.

For example, rents for 551 of the 1,175 VA housing units included in GAO's review were based on rents for specific private housing units cited by FHA as being comparable. GAO checked 107 of the private housing units cited by the appraisers as comparable and found that the private housing in 46 cases was inferior to VA quarters in size, number of rooms, and amenities. In every case, the VA rental rate was lower. (See pp. 15 and 16.)

The circular allows certain adjustments in basic rents for higher or lower standards of amenities; the limit was 50 percent at the time of the appraisals. At one VA station, the appraiser allowed reductions of 51 to 65 percent in the basic rent for VA quarters. (See pp. 19 and 20.)

Low VA rents resulted not only because the appraisers did not follow the provisions of Circular A-45 but also because they did not give VA station directors sufficient information on how appraisals were made to permit the directors to make adequate evaluations of the appraisers' recommendations.

Moreover, the VA Central Office did not have adequate controls to ensure that rental rates were established in accordance with the provisions of the circular. (See p. 26.)

RECOMMENDATIONS OR SUGGESTIONS

The Administrator of Veterans Affairs should require the VA Central Office to

- issue instructions to field station directors specifying the data they should obtain in support of FHA appraisals of VA quarters and
- direct field station officials to review and evaluate appraisal reports and supporting data.

To help ensure that rental rates are established in accordance with Circular A-45, VA Central Office officials also should evaluate, on a timely basis, appraisal reports and supporting data and make selective

evaluations of activities relating to the approval of rents in the field. The latter evaluations should be made through the use of VA internal audits and field visits by VA Central Office representatives (See pp 26 and 27.)

GAO made a draft copy of this report available to FHA for its comment. Because of the actions taken by FHA, discussed below, GAO is not making any recommendations on FHA appraisal activities.

AGENCY ACTIONS AND UNRESOLVED ISSUES

FHA indicated that a revision of its instructions for appraisals would do much toward eliminating the undervaluations and variations from Circular A-45 discussed in this report.

In May 1970, FHA issued revised instructions on FHA appraisals of Federal employee quarters. The new instructions require that all appraisals be reviewed by FHA officials and that FHA headquarters approval be obtained if an appraiser intends to set rental rates on any basis other than rents for comparable private housing (See p. 25.)

The Deputy Administrator of Veterans Affairs informed GAO that VA

- agreed to coordinate with FHA or other appraisers to ensure that VA obtains enough information to enable its personnel to make meaningful evaluations of rental value appraisals and to revise VA's appraisal record form to include the data necessary to make such evaluations and
- agreed to more carefully review the appraisal record forms submitted to the VA Central Office and to obtain reappraisals where indicated.

In subsequent discussions, VA officials informed GAO that the VA Central Office would review all appraisals in detail for compliance with the provisions of Circular A-45. Additional staff would not be required to perform that function.

VA officials agreed that reviews of rental rate activities would be made by VA internal auditors and by other VA Central Office representatives during their visits to field stations. (See p. 27)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This matter is called to the attention of the Congress because of the opportunity for VA to increase its rental income which can be used to cover some of the cost of operating the medical care program

CHAPTER 1

INTRODUCTION

The General Accounting Office made a review to determine whether the rental rates charged for Government quarters leased by the Veterans Administration to its employees were set in accordance with the criteria prescribed by the Bureau of the Budget (BOB).¹ The scope of our review is described in greater detail in chapter 5 of this report.

In a 1963 report to the Congress,² we reported that rental charges to occupants of certain Government-owned housekeeping quarters were significantly lower than rentals charged in nearby communities for comparable housing. The lower rentals resulted from consideration of certain allowances that were not specifically provided for by BOB as reasons for modifying the principle that rents should be set at levels similar to those prevailing for comparable private housing. The report recommended that VA instructions be revised to eliminate such allowances and that modification of rental values, established on the basis of comparability, be limited to those considerations provided by BOB instructions.

Subsequently, during our audits for the settlement of accounts of accountable officers at various VA hospitals, we noted that the rental rates for Government-owned personnel quarters seemed to be too low. We noted also that, in several instances, VA's Internal Audit Service, in its audit of individual stations, questioned the adequacy of rental rates for VA quarters and recommended that station directors have the quarters reappraised. Corrective action was taken at the stations involved. However, most internal audits at that time covered all operational phases of one VA station,

¹Office of Management and Budget as of July 1, 1970.

²"Review of Rental Charges, Costs, and Other Matters Relating to Quarters Provided to Employees at Selected Stations," Veterans Administration, B-133044, dated January 15, 1963.

rather than a specific activity, such as the operation of quarters, at several VA stations. Therefore, we made a follow-up review of the adequacy of rental rates for quarters provided VA employees. The results of this follow-up review are discussed in this report.

RENTAL INCOME

In fiscal year 1968, VA had income of about \$1.5 million and \$1.2 million from renting 1,853 housekeeping and 5,664 nonhousekeeping quarters, respectively, principally to its employees at most of its 166 hospitals and at one of its 16 domiciliaries. The rental income from housekeeping quarters does not include payments to the Government for utilities and services, whereas the rental income from non-housekeeping quarters includes charges for utilities and services which are included as part of the rental charges.

Rentals are generally collected by deduction from employees' salaries and are credited to the VA's medical care appropriation. The costs of maintaining and repairing the quarters are paid from the same appropriation except for housekeeping quarters at the VA hospital at Perry Point, Maryland. Repair and maintenance costs for housekeeping quarters at the Perry Point Hospital are financed by the use of the rental income deposited to a special revolving fund established for such purposes, whereas in all other cases rental income can be used for other purposes.

REGULATIONS AND POLICIES ON THE RENTAL OF QUARTERS

VA policy requires that five designated key hospital or domiciliary officials reside at the station in quarters provided by the Government, if such quarters are available. Under extenuating circumstances, key officials may be granted permission to live off the station and the quarters are then available to others. Quarters in excess of the five required for key officials at a VA station are made available to others in accordance with priorities established by the station director.

Pursuant to the authority in 5 U.S. Code 5911, the head of an agency may provide employees with quarters and

facilities when conditions of employment or of availability of quarters warrant the action. The law provides that rental rates for quarters be based on the reasonable value of the quarters to the employees in the circumstances under which the quarters are provided, occupied, or made available. The law also specifies that the President may prescribe regulations to govern the provision, occupancy, and availability of quarters and the determination of rental rates. Executive Order 11184, dated October 13, 1964 (superseded by Executive Order 11230, dated June 28, 1965), delegated such authority to the BOB.

BOB Circular A-45, Revised, dated October 31, 1964, prescribes the principles and procedures for establishing rental rates for Government quarters based on the concept of reasonable value. The principle established by BOB is that basic rentals should be based on prevailing rental rates for comparable private housing or established through use of the real estate concept of rental value when no private rental properties are available for comparison. Comparable housing should be in a community which is within 5 miles of the Government quarters and which offers a rental housing market. In the absence of such a community, rentals should be based on prevailing rates for comparable housing in the nearby representative private community or by comparison with the average of rental rates for comparable private housing in an economically homogeneous area in which the Government quarters are located. The real estate rental value concept is based on the reasonable amount of income a property should produce with respect to its fair market value.

BOB Circular A-45 also provides that certain adjustments be made to basic rentals in determining the rates to be charged for the quarters. These adjustments include those for the higher or lower standards of amenities which exist for the Government quarters in relation to those of the private comparable housing. For example, the amenities listed in the circular include the reliability and adequacy of utility services, police and fire protection, and the general attractiveness of the neighborhood. An adjustment of 2 percent of the basic rental rate is allowable for each applicable amenity.

Circular A-45 also allows a reduction in the basic rental rates when the quarters are not located within prescribed distances or travel times from established communities, as defined in the circular, to lessen the direct economic effect of the unusual transportation costs incurred. In no instance may the established rental rate, after all adjustments, be less than 50 percent of the basic rental rate, except that the minimum will be 33 percent in instances where the transportation deduction--as computed in accordance with an August 3, 1968, revision to A-45--exceeds \$45.

BOB Circular A-45 states that employees may live within the confines of a Government installation or reservation as a condition of their employment, by choice, or because of the lack of a suitable alternative and that such conditions will not serve as the basis for a rental deduction to compensate for the inconvenience to the employee or his family. The circular states also that the rental rate will not be decreased for so-called "institutional atmosphere" or "hazards of the job or to the family" or such other conditions and that basic rental rates may not be set so as to provide an inducement to either encourage the occupancy of quarters or in the recruitment or retention of employees.

Circular A-45 delegates the responsibility for establishing rental rates to the head of each Federal agency and prescribes that the rates be reviewed at least once every 3 years. BOB encourages the use of professional staff appraisers of the agency, if any, or of the Federal Housing Administration (FHA) to assist in setting rental rates.

VA procedures specify that appraisals be made by FHA unless such service cannot be provided. VA field station officials are required to contact the appropriate FHA field office directly for appraisal service. FHA, utilizing its field office appraisers, performs the appraisals on a cost-reimbursable basis. If FHA appraisal service is not available, appraisals may be made by private real estate appraisers.

A list of the principal officials of VA responsible for the administration of activities discussed in this report is shown as Appendix III.

CHAPTER 2

RENTAL RATES FOR PERSONNEL QUARTERS WERE TOO LOW

Our review at 13 VA hospitals showed that the rental rates for the quarters provided to VA employees at these stations were too low because, in many instances, the rental rates for the quarters were less than the prevailing rates for comparable private housing in nearby communities and because the basic rentals, in some instances, were adjusted downward in amounts in excess of those allowed by BOB or allowances were made for factors and lack of amenities which were not authorized by the BOB.

We selected the 13 hospitals for review because all but one maintained both housekeeping and nonhousekeeping quarters. The 243 housekeeping quarters and the 932 nonhousekeeping quarters at these stations represent about 13 percent and 16 percent, respectively, of the total housekeeping and nonhousekeeping quarters maintained by VA nationwide. Further, some appraisers who recommended rental rates for these quarters also appraised quarters at other VA stations not included in our review.

We estimate that the low rental rates resulted in a loss of rental income of about \$590,000 annually at the 13 stations. To the extent that similar conditions exist at those hospitals which GAO did not visit, we believe that VA is losing an even larger amount of rental income annually.

COMPARISON OF VA AND PRIVATE RENTAL RATES FOR PERSONNEL QUARTERS

The following section of this report discusses our comparisons of (1) rental rates for the VA housekeeping quarters with local realtors' estimates of what private rental rates would be for the quarters and (2) rental rates for nonhousekeeping quarters with rental rates for private housing, which we believe was comparable to the VA quarters.

Housekeeping quarters

To determine the reasonableness of the VA rental rates for the 243 housekeeping quarters, we compared the rates with estimates obtained from local realtors of rental values of comparable private housing in the nearby communities. We furnished the realtors with exterior pictures and interior layout charts of the VA quarters, and described the age, construction, and overall condition of the quarters.

We requested the realtors to estimate the reasonable rental value of the VA quarters as if they were part of the housing market of the nearby community. We asked the realtors to consider, in their estimates, the amenities or lack of amenities of the VA quarters. Further, we requested that realtors not consider the fact that the quarters were on hospital grounds because Circular A-45 states that rental rates will not be reduced for institutional atmosphere or hazards of the job or to the family. Because the VA quarters were located within prescribed distances or travel time from established communities, as defined by BOB Circular A-45, we did not request the realtors to make any rate adjustments for travel time. At each hospital, we obtained estimates from several realtors.

In almost all instances, rental rates estimated by the realtors were significantly higher than the VA rental rates. In some instances the realtors' estimates exceeded the VA rates four times. In one instance involving two quarters at the Butler, Pennsylvania, VA Hospital, a realtor's estimate of the rental rates for the VA quarters was lower than the rates charged by VA.

The following listing shows by hospital (1) a comparison of total VA annual rental income for the 243 housekeeping quarters with the total annual rental income for these quarters based on realtors' estimated rental rates and (2) a comparison of the average of the VA monthly rental rates for the 243 housekeeping quarters with the average of realtors' estimated monthly rates for these quarters. The average rates are for quarters in an unfurnished condition and without charges for utilities.

Hospital	Number of quarters	Total annual rental income based on			Average monthly rental rates (note a)		Excess of real- tors' estimated rates over	
		VA rental rates	Realtors' rental rates	Differ- ence	VA	Realtors'	VA rates	
							estimates	Amount
Ann Arbor	5	\$ 7,680	\$ 9,960	\$ 2,280	\$128	\$166	\$ 38	30
Battle Creek	11	11,640	20,282	8,642	88	154	66	75
Brecksville	4	5,880	11,848	5,968	123	247	124	101
Butler	19	12,120	26,664	14,544	53	117	64	121
Castle Point	15	6,732	24,225	17,493	37	135	98	265
Coatesville	13	9,672	18,981	9,309	62	122	60	97
Fort Howard	25	9,492	43,080	33,588	32	144	112	350
Fort Lyon	63	27,990	45,131	17,141	37	60	23	62
Lebanon	9	7,500	15,083	7,583	69	140	71	103
Lyons	12	7,104	30,840	23,736	49	214	165	337
Minneapolis	24	16,890	42,612	25,722	59	148	89	151
Montrose	21	14,604	36,428	21,824	58	145	87	150
Pittsburgh	22	15,492	45,095	29,603	59	171	112	190
Total	243	\$152,796	\$370,229	\$217,433	\$ 52	\$127	\$ 75	144

^aIn computing the average, we considered the number of quarters at each rate

The excess of the realtors' estimated rates over the VA rates may be attributable, to some extent, to increases in rental rates since the last rental appraisals of the VA quarters. Such appraisals are generally made triennially. We do not believe, however, that this factor accounts for much of the excess because the national increase in rental rates as shown by the housing series of the Consumer Price Index was about 6.6 percent during the period from 1966 to 1968.

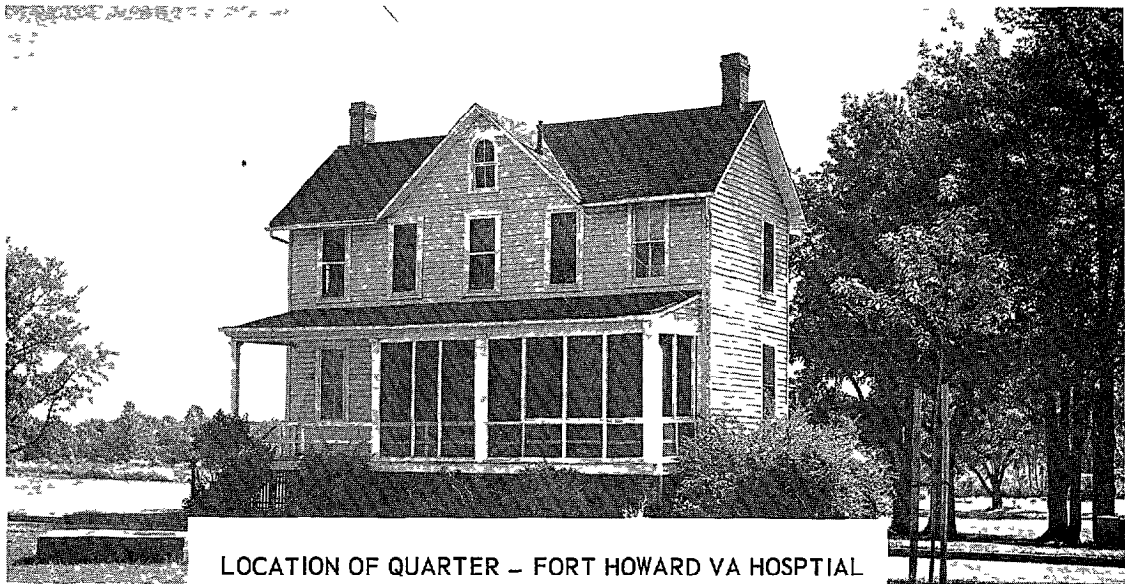
Photographs, provided by VA, of some of its housekeeping quarters for which there is a wide difference between the VA rental rates and the private realtors' estimated rates follow. The rates are for quarters in an unfurnished condition and do not include charges for utilities.



LOCATION OF QUARTER – BRECKSVILLE VA HOSPITAL

TYPE OF DWELLING – SINGLE

- VA MONTHLY RENTAL RATE – \$ 105
- RANGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$ 200 TO \$ 275
- AVERAGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$ 239



LOCATION OF QUARTER – FORT HOWARD VA HOSPITAL

TYPE OF DWELLING – SINGLE

- VA MONTHLY RENTAL RATE – \$ 22
- RANGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$ 100 TO \$ 135
- AVERAGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$ 123



LOCATION OF QUARTER – CASTLE POINT VA HOSPITAL

TYPE OF DWELLING – SINGLE

- VA MONTHLY RENTAL RATE – \$45
- RANGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$191 TO \$234
- AVERAGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$205



LOCATION OF QUARTER – MINNEAPOLIS VA HOSPITAL

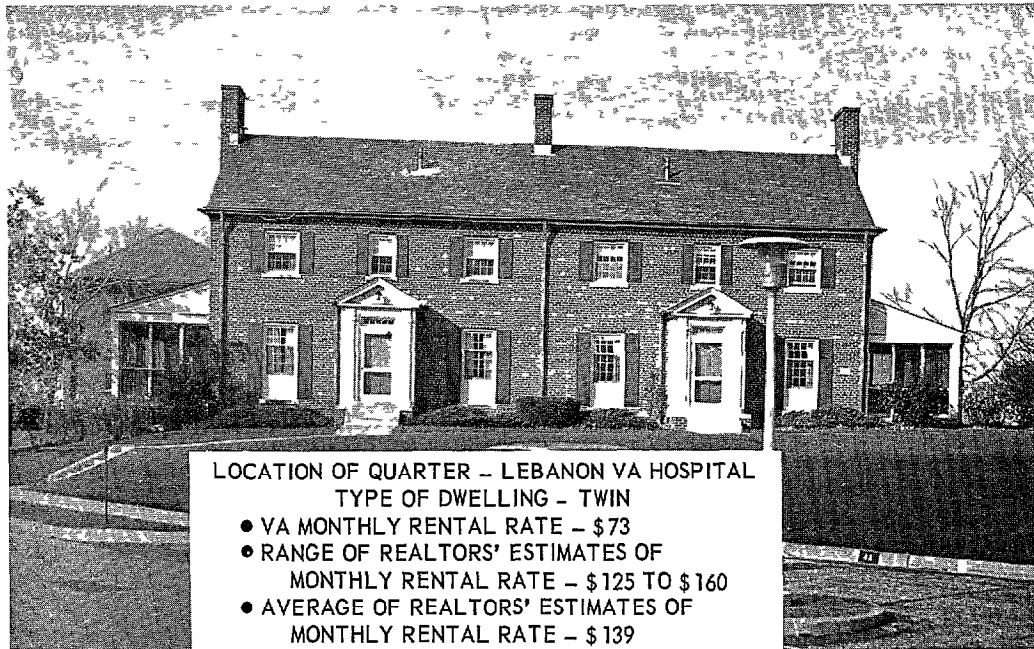
TYPE OF DWELLING – SINGLE

- VA MONTHLY RENTAL RATE – \$105
- RANGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$250 TO \$375
- AVERAGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$300



LOCATION OF QUARTER – MONTROSE VA HOSPITAL
TYPE OF DWELLING – SINGLE

- VA MONTHLY RENTAL RATE – \$77
- RANGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$275 TO \$400
- AVERAGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$319



LOCATION OF QUARTER – LEBANON VA HOSPITAL
TYPE OF DWELLING – TWIN

- VA MONTHLY RENTAL RATE – \$73
- RANGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$125 TO \$160
- AVERAGE OF REALTORS' ESTIMATES OF MONTHLY RENTAL RATE – \$139

Nonhousekeeping quarters

When citing comparable quarters, appraisers indicated generally that private rooms or quarters at institutions such as the YMCA or a private hospital were comparable to VA nonhousekeeping quarters. We compared the VA rental rates for the 932 nonhousekeeping quarters with rates for private housing accommodations such as YMCAs, YWCAs, college dormitories, and private hospitals, which we believed were comparable. In most instances, the VA rates were significantly lower.

The following listing shows by hospital (1) a comparison of the total annual rental income for the 932 nonhousekeeping quarters with the total annual rental income for these quarters based on rental rates for private quarters which we believe are comparable to VA quarters and (2) a comparison of the average of the VA monthly rental rates for the 932 nonhousekeeping quarters with the average of rates for the private quarters.

Hospital (note b)	Number of quarters	Total annual rental income			Average monthly rental rates (note a)		Excess of com- parable quar- ters rental rates over VA rates	
		VA rental rates	Rental rates for comparable private quarters	Differ- ence	VA	Comparable private quarters	Amount	Percent
Ann Arbor	10	\$ 5,280	\$ 5,760	\$ 480	\$44	\$48	\$ 4	9
Brecksville	12	5,280	10,773	5,493	37	75	38	103
Butler	50	22,284	27,522	5,238	37	46	9	24
Castle Point	52	12,444	34,052	21,608	20	55	35	175
Coatesville	73	23,592	35,496	11,904	27	41	14	52
Fort Howard	41	11,112	26,280	15,168	23	53	30	130
Fort Lyon	35	8,370	14,028	5,658	20	33	13	65
Lebanon	70	29,160	32,316	3,156	35	38	3	9
Lyons	164	43,902	131,965	88,063	22	67	45	205
Minneapolis	120	37,566	68,640	31,074	26	48	22	85
Montrose	214	55,356	202,137	146,781	22	79	57	259
Pittsburgh	91	29,208	62,829	33,621	27	58	31	115
Total	932	\$283,554	\$651,798	\$368,244	\$25	\$58	\$33	132

^aIn computing the average, we considered the number of quarters at each rate.

^bVA Hospital at Battle Creek, Michigan, did not have nonhousekeeping quarters

ANALYSIS OF APPRAISALS

The 1,175 VA quarters included in our review were appraised by FHA employees for the purpose of establishing the rental rates for the quarters. Our analysis of the appraisals showed that in many instances the VA hospitals and FHA field offices had little or no data indicating the methodology used in establishing the recommended rental rates or that the appraisers did not make appraisals of VA personnel quarters in accordance with the provisions of BOB Circular A-45. Our observations on the techniques used in appraising the VA quarters included in our review, as shown in the appraisals, are discussed below.

Basic rental rates

The basic rental rates for 551 of the 1,175 VA housekeeping and nonhousekeeping quarters were based on rental rates for specific private housing units cited by the appraiser as being comparable to the VA quarters. For 410 of the 1,175 quarters, the appraisers indicated that rental rates were established on a basis other than comparable private housing units, and for the remaining 214 quarters, the appraisers did not state the basis for determining the basic rent.

For 235 of the 410 quarters, the appraiser stated that the rates were based on the real estate concept of "rental value" but did not show how this concept was applied in determining the rates. For instance, the appraiser of the rental quarters at the Montrose, New York, VA Hospital stated that his recommended rates were established using this concept. Under this concept rates are established on the basis of the reasonable amount of income which a property should produce with respect to its fair market value. The appraiser's report did not cite the fair market value of the VA quarters or show the methodology used in arriving at the recommended rates.

For an additional 52 of the 410 quarters, the rates were based on rates at a State hospital and at another VA hospital. BOB directs, however, that rental rate surveys may not be based on housing owned by Federal, State, or

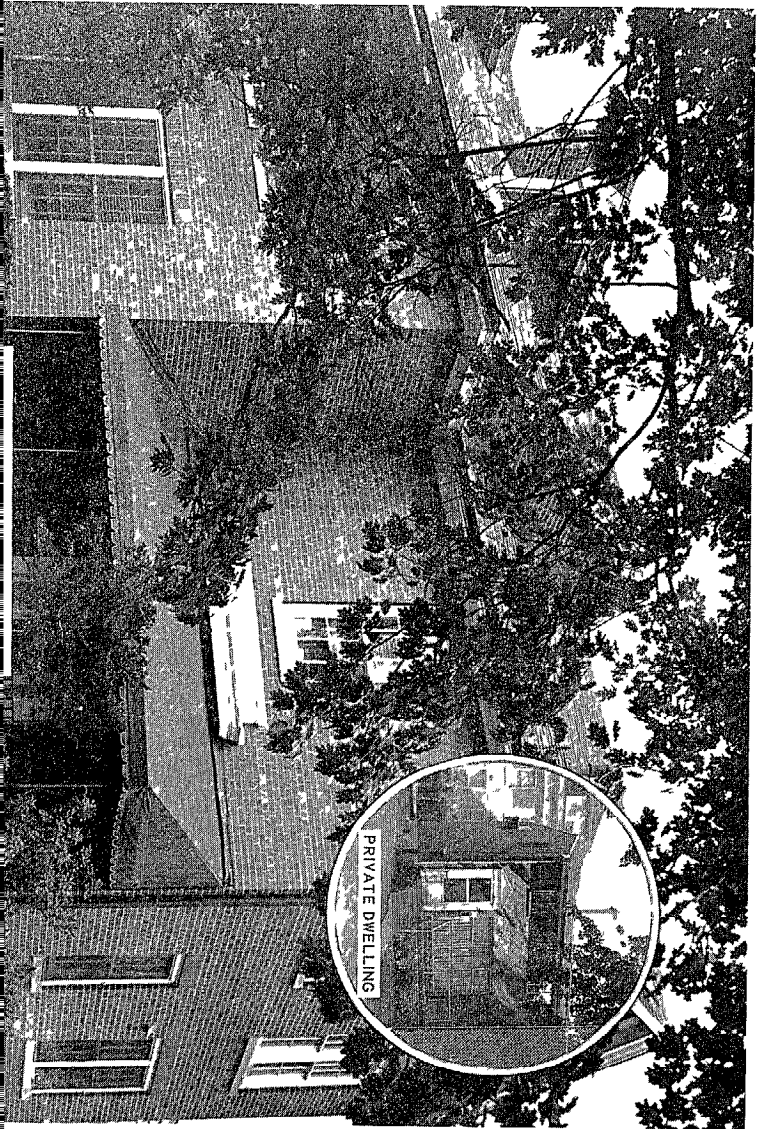
local governments. For the remaining 123 of the 410 quarters, the appraiser cited the lack of comparable private housing and stated that basic rental rates were established after the rental market was studied, but he did not show the method used in establishing the basic rental rates.

The BOB defines a comparable quarter as a private housing unit which, in comparison to a Government rental quarter, is generally equivalent in size, with the same number of bedrooms, and with generally equivalent amenities and facilities. For 107 of the 551 VA quarters where appraisers cited comparable private housing units, we obtained, through visual observations and discussions with tenants, owners, or rental agents, a description of the private housing units. On the basis of the descriptions, we concluded that, for 46 of these quarters, the cited private housing was inferior to the Government quarters in size, condition, number of rooms, or amenities. In every case, the VA rental rate was lower than the rate charged for the private housing which the appraiser cited as being comparable.

Photographs and a brief description of both VA quarters at the Pittsburgh VA Hospital and private housing which the appraiser cited as being comparable to the VA quarters follow. VA provided the photographs of its quarters. Our staff photographed the private housing.



DESCRIPTION	VA QUARTER	PRIVATE DWELLING
TYPE OF DWELLING	SINGLE	SINGLE
TYPE OF CONSTRUCTION	BRICK	BRICK
NUMBER OF FLOORS	2 FLOORS BASEMENT, & ATTIC	2 FLOORS, BASEMENT, & NO ATTIC
TOTAL FIRST AND SECOND FLOOR AREA SIZE	2,209 SQUARE FEET	1,500 SQUARE FEET
TOTAL NUMBER OF ROOMS EXCLUDING BATHROOMS	9 Rooms and 2 Enclosed Porches	7
TOTAL NUMBER OF BEDROOMS	4	3
TOTAL NUMBER OF BATHROOMS	2 Full Bathrooms and 2 Half Bathrooms	2
AMENITIES	1 PAVED SIDEWALKS 2 STREET LIGHTS	1 NO PAVED SIDEWALKS 2 NO STREET LIGHTS



PRIVATE DWELLING

Adjustment of basic rental rates

In establishing recommended rates for VA quarters, the FHA appraiser made a downward adjustment of the basic rental rates for all or some of the quarters at four of the 13 hospitals covered by our review. Most of these adjustments related to the lack of amenities or travel times to established communities for the VA quarters. For the other nine hospitals, we did not find any indication that adjustments were made.

In most instances, the adjustments in the basic rental rates at the four hospitals were not in accordance with the principles and procedures contained in BOB Circular A-45. At three of the four hospitals the basic rentals were adjusted downward at rates in excess of those allowed by the circular. For example, the appraiser allowed reductions of 51 to 65 percent in the basic rental rates for housekeeping and nonhousekeeping quarters at the Fort Howard Hospital. These reductions were in excess of the maximum allowable deduction of 50 percent prescribed by the circular at that time.

In another case, the appraiser, in adjusting the basic rental rates for all 19 housekeeping quarters at the Butler, Pennsylvania, VA Hospital, cited that from two to seven amenities were lacking in the VA housing. BOB criteria allows a 2-percent adjustment for each amenity and the reduction in the basic rental rates should have ranged from 4 to 14 percent. However, in establishing the recommended rates, which were accepted by the VA, the appraiser allowed reductions in the basic rates ranging from 24 to 50 percent for such amenities. For the 50 nonhousekeeping quarters at this same hospital, the appraiser cited the lack of two amenities in the VA quarters but allowed reductions in the basic rates ranging from 22 to 26 percent instead of the 4-percent reduction which would be allowable on the basis of BOB criteria.

Also, at three of the four hospitals, the basic rental rates were adjusted downward for factors which were not authorized by BOB. For instance, the appraiser justified a 30-percent reduction of the basic rental rates for quarters

at the Fort Howard, Maryland, VA Hospital on the basis that the quarters were not located within prescribed distances from an established community. The BOB directs that deductions for excessive distance are allowable when the VA quarters are 10 or more miles from an established community, as defined by the BOB. The hospital quarters at Fort Howard are, however, within 5 miles of an established community as defined by BOB Circular A-45. The appraiser also allowed reductions ranging from 6 to 20 percent to assist in recruitment of professional hospital personnel, although an allowance for this purpose was specifically prohibited by the BOB.

Comments of FHA field office representatives

We contacted most of the FHA representatives who performed appraisals of Government-owned quarters at the 13 VA hospitals to obtain data and comments on the basis and methodology used by them in establishing recommended rental rates for the quarters. We found that FHA files contained little or no data showing how the recommended rates were determined. We obtained comments from some of the FHA representatives, which we believe indicate that rental value appraisals were not always made in accordance with the provisions of BOB Circular A-45.

One FHA representative told us that, although he was aware of the provisions of the circular, he used his own judgment in most instances when establishing recommended rental rates. Another representative told us that he believed that his professional opinion took precedence over the provisions of the circular. Another told us that he followed the guidelines of the circular, but later told us that he made adjustments to basic rental rates on the basis of his professional judgment rather than in conformance with the guidelines contained in the circular.

VA APPROVAL OF RENTAL RATES

The VA Central Office delegated the responsibility for approval of rental rates to field station directors without providing adequate controls to ensure that the rates were established in accordance with the provisions of BOB Circular A-45. We found that field station directors did not

comply with their assigned responsibility for ensuring that the appraisals, upon which rental rates were based, were made in accordance with the intent of the circular. VA Central Office officials have informed us that, although they reviewed the appraisal reports submitted by the field stations, they do not question the rental rates recommended by FHA and approved by field station directors because FHA is considered to be expert in appraisal matters.

VA field stations

VA procedures require that station directors obtain rental appraisals to assist them in determining rental rates and ensure that the appraisals are performed in accordance with the provisions of BOB Circular A-45. Also, VA procedures require that a full record of proceedings for establishing rental rates, including all supporting data, be maintained at each station. The procedures do not state what methods should be used by directors for ensuring that appraisals are properly performed and, in our opinion, do not provide sufficient guidance as to the extent of supporting data which a director should obtain to ensure that appraisals are made, and rental rates established, in accordance with BOB Circular A-45.

Under current practices, station directors approve rental rates recommended by FHA appraisers for all quarters at their stations.

Appraisal reports submitted by FHA to station directors, in many instances, did not provide enough information to permit an evaluation to be made as to whether the appraisals were performed in conformance with the BOB Circular A-45. We did not find any evidence that station directors at the 13 hospitals had requested FHA to furnish them with supplemental information after receipt of appraisal reports. We did find several instances where deviations from the provisions of the circular, as shown in the appraisal reports, were not questioned by station directors. Four of the directors of the hospitals told us that they did not question the appraisals; the remaining nine directors were not asked to comment on the matter.

VA Central Office

The Office of Engineering Service, Department of Medicine and Surgery, VA Central Office, has responsibility for directing a continuing review of appraisals and appraisal methods for the establishment of rental rates for all personnel quarters to ensure compliance with VA and BOB instructions. The office is also responsible for reviewing and recommending appropriate action on rental rate appeals submitted by field stations.

Copies of appraisal reports are sent by field stations to the VA Central Office. The BOB guidelines provide that sufficient information be maintained by an agency at its central office to allow its officials to be informed of the status of the administration of the requirements of Circular A-45. However, VA Central Office officials did not require field station directors to obtain and forward to the VA Central Office sufficient supporting data to facilitate evaluations of the adequacy of rental rates.

We have been informed by VA Central Office officials that they review all appraisal reports received from VA field stations. They have stated that they review in detail schedules of utility charges prepared by field station personnel but that they do not question the rental rates established by FHA, unless the field station directors appeal, because FHA is considered to be expert in appraisal matters.

They have further stated that--if a field station director believes that the FHA appraisal is too high because, for example, it is not consistent with private rates in the local community or because allowable deductions for amenities have not been given proper consideration--he may request FHA to reconsider its appraisal or to reappraise the VA quarters. If the field station director is not satisfied with FHA action, he may file an appeal to the VA Central Office. We were informed by VA Central Office officials that, in most cases, they would uphold the FHA appraisal. We were informed also that the VA Central Office received only a limited number of appeals each year and that all appeals concerned rental rates which field station directors considered to be too high.

In the interest of good internal control, we believe that VA Central Office officials should obtain and evaluate appraisal studies and supporting data to ascertain whether basic rental rates and adjustments have been established in accordance with BOB instructions.

CHAPTER 3

AGENCY COMMENTS AND GAO EVALUATION

In November 1969 we brought our findings to the attention of the Department of Housing and Urban Development and the Veterans Administration. We proposed that the Administrator of Veterans Affairs require VA Central Office officials to obtain and evaluate appraisal studies and supporting data to ensure that recommended rental rates are established in accordance with the provisions of BOB Circular A-45.

We further proposed that station directors (1) arrange for rental value appraisals of VA quarters at their stations, (2) review appraisal reports and supporting data for completeness, and (3) submit the appraisal studies, supporting data, and recommended rental rates to the VA Central Office.

We proposed also that VA seek agreement with FHA or any other appraisers for them to provide VA with information in a format and in sufficient depth to enable VA personnel to evaluate rental value appraisals for conformance to the requirements of BOB Circular A-45.

On March 3, 1970, the Assistant Secretary-Commissioner of the Federal Housing Administration, Department of Housing and Urban Development, advised us (see app. I) that a review of a substantial number of the appraisals referred to in our draft report showed that BOB Circular A-45 had not been strictly complied with in all instances and that some of the appraisals were lacking in documentation and detail necessary for a VA station director's review. He further stated that a review was being made of FHA instructions with the objective of revising them to eliminate ambiguities and to facilitate carrying out the intent of BOB Circular A-45. He expressed the belief that revision of FHA instructions would do much toward eliminating the undervaluation and variance from the procedures of BOB Circular A-45 discussed in our draft report.

Revised instructions regarding FHA appraisals of Federal employee quarters were issued in May 1970. These instructions require that all appraisals be reviewed by FHA officials before forwarding to the requesting agency and that approval must be obtained from FHA headquarters if an appraiser intends to establish rentals on any basis other than the rental rates for comparable private housing. On the basis of the actions taken by FHA, we are not making any recommendations with regard to FHA appraisal activities.

In commenting on our draft report, the Deputy Administrator of Veterans Affairs advised us by letter dated March 16, 1970 (see app. II), that VA agreed with our proposal that VA coordinate with FHA or any other appraiser to ensure that VA obtains enough information to enable its personnel to make meaningful evaluations of rental value appraisals. He also stated that VA would revise its Quarters Appraisal Record form to include the data necessary to make a meaningful evaluation. He added that VA would more carefully review the Quarters Appraisal Record forms submitted to Central Office personnel and would obtain reappraisals where indicated.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

We estimate that the low rental rates resulted in a loss of rental income of about \$590,000 annually at the 13 stations covered by our review. To the extent that similar conditions exist at those hospitals which GAO did not visit, we believe that VA is losing an even larger amount of rental income nationwide.

We believe that the low rental rates resulted because the appraisers did not in all cases make rental value appraisals in accordance with the provisions of Circular A-45 and did not provide VA station directors with sufficient information on how the appraisals were made to permit them to make evaluations of appraisers' recommendations. Also, the VA Central Office did not have adequate controls to ensure that rates were established in accordance with the provisions of BOB Circular A-45.

We believe that, in the interest of good internal control, VA Central Office officials should evaluate rental value appraisals to ensure that rates have been established in accordance with BOB Circular A-45.

RECOMMENDATIONS TO THE ADMINISTRATOR OF VETERANS AFFAIRS

We recommend that the Administrator of Veterans Affairs require VA Central Office officials to (1) issue instructions to field station directors specifying the data they should obtain in support of FHA appraisals of VA quarters and (2) direct field station officials to review and evaluate appraisal reports and supporting data.

Also, to help ensure that rates are established in accordance with BOB Circular A-45, VA Central Office officials should evaluate, on a timely basis, appraisal reports and supporting data and require selective evaluations of activities relating to the approval of rental rates at field

stations through the use of VA internal audits and field visits by VA Central Office personnel.

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We discussed our recommendations with VA officials. They informed us that the Quarters Appraisal Record forms were being revised so as to elicit sufficient data from FHA appraisers to enable field station directors and VA Central Office officials to review and evaluate the appraisals to determine whether the rental rates recommended by the FHA appraiser were established in accordance with the provisions of BOB Circular A-45. They stated that they were drafting revised procedures for field station directors requiring that all Quarters Appraisal Record forms be reviewed for completeness at the field stations and be forwarded to the VA Central Office for review. They added that VA Central Office personnel would review all appraisals in depth for compliance with the provisions of BOB Circular A-45. They stated that additional staff would not be required to perform this function.

VA Central Office officials agreed that reviews of rental rate activities at field stations would be made by VA internal auditors and by VA Central Office personnel during their visits to field stations.

CHAPTER 5

SCOPE OF REVIEW

Our review included an examination of the procedures and practices used to establish rental rates for Government quarters provided to employees at VA hospitals and domiciliarys. It was conducted at the VA Central Office, Washington, D.C., and at the following VA hospitals:

Ann Arbor, Michigan
Battle Creek, Michigan
Brecksville, Ohio
Butler, Pennsylvania
Castle Point, New York
Coatesville, Pennsylvania
Fort Howard, Maryland
Fort Lyon, Colorado
Lebanon, Pennsylvania
Lyons, New Jersey
Minneapolis, Minnesota
Montrose, New York
Pittsburgh, Pennsylvania
(University Drive and
Aspinwall divisions)

During our fieldwork, which was completed in July 1969, we examined records and held discussions with personnel at VA hospitals and FHA field offices. Also, we obtained realtors' estimates of rental values of VA quarters in relation to the prevailing rental rates for comparable housing in adjacent communities or areas. Our review at the FHA offices was limited to obtaining information relating to the basis and methodology used by appraisers in recommending rental rates for the VA quarters included in our review. The results of our review were discussed with the director of each of the 13 hospitals.

APPENDIXES



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D C 20411

ASSISTANT SECRETARY-COMMISSIONER

MAR 3 1970

Mr. Max Hirschhorn
Associate Director
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Hirschhorn:

This is in further reply to your letter of November 18, 1969, to Secretary Romney concerning the appraisal of Veterans Administration personnel quarters.

We initiated a field review of a substantial number of the appraisals referred to in the GAO report to ascertain whether the rental value appraisals were made in accordance with the provisions of the Bureau of Budget Circular A-45 and whether the FHA appraisers had provided VA station directors with sufficient information to enable the directors to evaluate the appraisals.

Our review revealed that BOB A-45 had not been strictly complied with in all instances and that some of the appraisals were lacking in documentation and detail necessary for a VA director's review.

Our Office of Technical and Credit Standards is making an in-depth review of our instructions regarding this subject with the objective of revising the FHA Manual instructions to eliminate ambiguities and to facilitate carrying out the intent of the governing BOB Circular A-45. We believe the revision of instructions will do much toward eliminating the undervaluation and variance from the procedures of BOB Circular A-45 to which you refer in your report.

If I can be of any further help to you in this regard, please call upon me.

Sincerely,

Eugene A. Gullledge
Eugene A Gullledge
Assistant Secretary-Commissioner



VETERANS ADMINISTRATION
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS
WASHINGTON, D C 20420

March 16, 1970

Mr. Max Hirschhorn
Associate Director, Civil Division
U. S. General Accounting Office (801)
Room 137, Lafayette Building
811 Vermont Avenue, N. W.
Washington, D. C. 20420

Dear Mr. Hirschhorn:

Thank you for the opportunity to review and comment on your proposed draft report entitled "Opportunity for Reducing Annual Appropriations to the Veterans Administration by Raising Undervalued Rental Rates for Personnel Quarters."

We agree with your recommendation to coordinate with FHA or any other appraiser to assure that we obtain enough information to enable our personnel to make a meaningful evaluation of rental value appraisals. We will also revise the Quarters Appraisal Record form to include the data necessary to make a meaningful evaluation.

[See GAO note.]

We

will more carefully review the Quarters Appraisal Record forms submitted to Central Office personnel and obtain reappraisals where indicated.

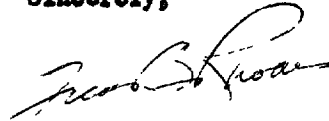
[See GAO note.]

GAO note. The deleted comments relate to matters which were discussed in the draft report but were omitted from the final report.

Mr. Max Hirschhorn
Associate Director, Civil Division
U. S. General Accounting Office (801)

We believe that implementation of the controls mentioned above will provide us with a means of assuring adequate rates for personnel quarters. Your interest in this matter is appreciated.

Sincerely,



FRED B. RHODES
Deputy Administrator

APPENDIX III

PRINCIPAL OFFICIALS OF THE VETERANS ADMINISTRATION
 RESPONSIBLE FOR THE ADMINISTRATION
 OF ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
ADMINISTRATOR OF VETERANS AFFAIRS:		
D. E. Johnson	June 1969	Present
W. J. Driver	Jan. 1965	May 1969
DEPUTY ADMINISTRATOR OF VETERANS AFFAIRS:		
F. B. Rhodes	May 1969	Present
A. W. Stratton	Nov. 1967	May 1969
Vacant	Sept. 1967	Nov. 1967
C. F. Brickfield	Feb. 1965	Sept. 1967
CHIEF MEDICAL DIRECTOR:		
M. J. Musser, M.D.	Jan. 1970	Present
H. M. Engle, M.D.	Jan. 1966	Jan. 1970
J. H. McNinch, M.D.	June 1963	Jan. 1966
DIRECTOR, ENGINEERING SERVICE:		
H. T. Ford, Jr.	Mar. 1964	Present