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WASHINGTON, D.C. 20548

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HUMAN RESOURCES
DIVISION

NOVEMBER 1, 1979

B-114859

The Honorable Robert T. Matsui
House of Representatives



Dear Mr. Matsui:

Subject: Veterans Administration Decision to Close the Sacramento Loan Guaranty Office and Planned Study of Other Loan Guaranty Operations (HRD-80-16)

Your June 7, 1979, letter requested that we review the Veterans Administration's (VA's) decision to close the loan guaranty office in Sacramento, California, and have that office's duties performed by VA's San Francisco regional office. You asked us to respond to your request before VA's planned closure date of July 13, 1979.

On July 11 we briefed your office on the preliminary results of our review. This briefing included our observations on the criteria used to close the Sacramento office, the alternative to closure, the ability of the San Francisco regional office to adequately handle the additional workload while maintaining service at the level provided by the Sacramento office to veterans in the area, and the scope of VA's considerations in terms of nationwide loan guaranty activities. We told your office that the preliminary results of our review did not provide a basis for delaying the closure of the Sacramento office on July 13.

On the basis of our review, which is discussed in detail in the enclosure to this letter, we believe VA's decision to close the Sacramento office was reasonable, assuming planned actions are properly implemented. In addition, we agree with VA's plans to study other small loan guaranty offices with the intent of making additional consolidations where practical. However, in light of the recent declining loan guaranty workload nationwide, we are recommending the study be expanded to include all stations having loan guaranty operations to determine whether present and projected workloads justify existing staff levels.

Letter Report 507664

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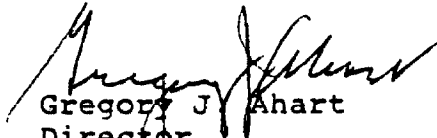
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The enclosure contains our recommendation to the Administrator of Veterans Affairs on page 10.

At your request, we did not obtain written comments from VA. We did, however, discuss the matters covered in this report with officials of VA's Department of Veterans Benefits, and their comments have been included as appropriate.

Also, as requested by your office, we plan no further distribution of this report until 30 days after its issue date. At that time we will send copies to the Veterans Administration and to other interested parties and make copies available to others upon request.

Sincerely yours,


Gregory J. Ahart
Director

Enclosures - 3

VETERANS ADMINISTRATION DECISION
TO CLOSE THE SACRAMENTO LOAN GUARANTY
OFFICE AND PLANNED STUDY OF OTHER LOAN
GUARANTY OPERATIONS

In a June 7, 1979, letter, Congressman Robert T. Matsui asked us to review the Veterans Administration's (VA's) decision to close the loan guaranty satellite office in Sacramento, California, and to consolidate the operations and staff at that office with the VA San Francisco regional office.

BACKGROUND

Title III of the Serviceman's Readjustment Act of 1944 established the VA loan guaranty program. Under this program, VA provides housing credit assistance to eligible veterans, active duty servicemen, and certain widows and widowers. The program also encompasses mobile homes to be used as permanent dwellings and the purchase of land upon which to build a permanent dwelling. Credit assistance substitutes the guaranty of the Federal Government for the investment protection afforded by substantial down payments and shorter terms of loans under conventional mortgages. The lender that makes loans on a veteran's dwelling is guaranteed against loss up to 60 percent of the loan with a maximum guaranty of \$25,000.

VA is also responsible for administering a direct loan program, which was initiated in 1950 by Public Law 81-475. This law authorized VA to make loans directly to veterans in rural areas, small cities, and towns where private credit for VA-guaranteed home loans is not generally available.

VA administers its responsibilities for these and other programs through its Department of Veterans Benefits (DVB). DVB maintains 58 regional offices, of which 49 have a loan guaranty division. Of these 49 regional offices, 11 maintain small satellite loan guaranty operations in distant locations within their respective regional jurisdictions. As of January 1979, there were 15 satellite offices staffed with from 1 to as many as 36 positions. At that time, the San Francisco regional office had three satellite offices--one each in Sacramento and Fresno, California, and in Reno, Nevada. According to VA, the Sacramento satellite office was established in 1960 to better enable the San Francisco office to handle the then-increasing loan guaranty workload in the Sacramento area.

Events leading to closure

In a July 1978 memorandum to the field director, western region, the director of the San Francisco VA regional office stated that because of a decrease in workload his region was experiencing low productivity in the loan guaranty division in general and in the Sacramento and Fresno satellite offices in particular.

In August 1978 the director of the San Francisco office requested permission to close the satellite offices in Sacramento and Fresno, consolidate their operations with that of the San Francisco office, and relocate the four satellite office personnel (two at each location) to the San Francisco area. According to the director, productivity at those stations was low because of a decreasing workload in the Sacramento and Fresno areas, and closing them would be cost beneficial. Also, by relocating the staff to the regional office, their productivity would be increased by making their services available to the entire region. In addition, savings would result by releasing rented Government vehicles used by satellite office personnel.

In late 1978 DVB's management staff conducted a study of all 15 satellite offices. This study included the collection of background information, some workload data, and regional office directors' recommendations for closing or continuing their satellite loan guaranty operations. In response to this inquiry, the director of the San Francisco office again recommended closing the Sacramento and Fresno offices; the director of the Los Angeles regional office recommended reducing two positions at the satellite office in San Diego, California, because of a declining workload; two directors made no recommendations; and the other directors recommended continuing satellite operations.

In January 1979 the management staff issued a report on their study. The report was directed to the issue of closing satellite loan guaranty offices and, therefore, did not address the alternative issue of staff reductions, nor did it include the recommendation to reduce the San Diego operation by two positions. (As of July 1979, the San Diego office had been reduced by one position.) The action taken as a result of this report was to recommend closure of the Sacramento and Fresno offices and to conduct a followup study in early fiscal year 1980 of five of the smaller (one-position) satellite offices. This followup study will also include the San Francisco regional office's satellite operation in Reno, Nevada.

In a February 7, 1979, memorandum to the Administrator of Veterans Affairs, the Chief Benefits Director, DVB, recommended closure of the Sacramento and Fresno offices and stated that, in view of the continuing reduction in staff and the austere DVB budget for fiscal year 1979, it was essential that staff be used in such a way that maximum efficiency be achieved. DVB estimated that closing the Sacramento and Fresno loan guaranty offices would result in a 5-year savings of \$149,630 and \$93,578, respectively.

On March 29, 1979, the Administrator of Veterans Affairs approved the planned closure of the Sacramento and Fresno offices.

The offices were closed on July 13, 1979.

SCOPE OF REVIEW

We discussed the closure of the Sacramento loan guaranty office with VA central office officials and reviewed information provided by VA relating to

- net benefits estimated to accrue as a result of the Sacramento closure, including the methodology used to develop the estimates;
- actions taken or planned to assure the ability of the San Francisco regional office to maintain an adequate level of service to the public in the Sacramento area;
- workload data from fiscal year 1975 to date on regional office loan guaranty activities; and
- DVB's intent to study the feasibility of closing other loan guaranty satellite offices.

BASIS FOR CLOSURE

The decision to close the Sacramento loan guaranty office and to reassign the staff to the San Francisco regional office was based on VA's

- estimate of the net benefits to accrue and
- ability to maintain an adequate level of service to the public in the Sacramento area.

Net benefits

In June 1979 VA prepared a study which brought together all of the previously mentioned benefits and costs associated with the closing of the Sacramento loan guaranty office. This study identified an expected 5-year savings of \$149,630 based on a comparison of the lower cost of performing the Sacramento workload at VA's San Francisco regional office with the higher cost of continuing the Sacramento operation. This savings was based on an estimated recurring benefit of \$31,977 per year and a one-time staff relocation expense of \$10,255. Hence, the first-year net benefit was \$21,722 (\$31,977 - \$10,255) with an annual benefit of \$31,977 thereafter.

We reviewed the methodology as well as the accuracy and completeness of the information used by VA to develop its estimates. As a result of this review and our discussions with VA central office officials, VA prepared a revised estimate. The revised savings are based on an estimated recurring benefit of \$24,607 per year and a one-time staff relocation expense of \$11,255. Hence, the first-year net benefit is estimated to be \$13,352 (\$24,607 - \$11,255) with an annual benefit of \$24,607 thereafter. (For details, see enc. II.)

In addition to our review of VA's study of the costs and benefits of closing the Sacramento loan guaranty office, we asked if other alternatives to closure were considered, such as sharing support staff from other DVB divisions located in Sacramento while keeping the loan guaranty office open or keeping the office open part time. VA central office officials told us that the only other DVB staff member stationed in Sacramento was a veterans' benefits counselor who did not have any clerical support. In addition, VA officials stated that keeping the office open part time would not be cost effective. An additional part-time position would need to be established for a new staff member at the Sacramento office, the relocation expense of \$10,255 would still have been incurred to move the current staff member to San Francisco, no savings would be derived from the release of a Government vehicle, savings accrued as a result of supervisory visits would be reduced, and there would be little reduction in space and other costs.

We agree with the basis used by VA in its study, and we are reasonably assured of the accuracy and completeness of the information supporting its estimated net benefits. Accordingly, VA has adequately shown that there are net benefits to accrue as a result of closing the Sacramento loan guaranty office and consolidation of the operations and staff of that office with the San Francisco regional office.

Service to the public

Another primary concern surrounding the closure of the Sacramento office is the ability of the San Francisco regional office to handle the Sacramento area loan guaranty workload, while maintaining an adequate level of service to the veterans, real estate industry, and financial institutions in the area.

Unlike many VA loan guaranty operations, the Sacramento office does not process VA loan applications or loan closures or issue certificates of eligibility for loans. These have been traditionally performed by the staff at the San Francisco regional office. On the basis of information provided by VA, the workload of the Sacramento office includes the following activities:

	<u>Estimated percentage of staff time</u>
Review appraisal reports submitted by fee-basis appraisers and issue certificates of reasonable value	53
Conduct appraisal appeal reviews and onsite inspections	26
Service VA loans in or about to go into default	17
Other work including managing VA- owned properties	4

We reviewed the San Francisco regional office procedures for processing the Sacramento workload associated with the first three activities above. (This represents about 96 percent of the Sacramento staff time.) Our review included comparing the apparent time frames for performing this work at the Sacramento and San Francisco offices. We found that, of the activities reviewed, the Sacramento closure would result in

--the elimination of file and record transfers between the San Francisco and Sacramento offices, which would improve the timeliness of processing work in all activities;

- a potential extension in the time to complete work requiring travel (onsite property inspections and nontelephone interviews incident to servicing defaulted loans), if such travel is not properly scheduled or San Francisco staff are not available at the time needed; and
- a perceived negative impact on timeliness and service if Sacramento area veterans and concerned businesses do not have adequate telephone access to loan guaranty staff in San Francisco.

VA central office officials told us that, after the closure of the Sacramento office, there would be nine loan guaranty specialists in San Francisco available for travel to the Sacramento area. VA believes that, by scheduling travel to all areas in the San Francisco region from one office, it will have the flexibility and control necessary to combine travel to the Sacramento area with trips to contiguous areas or, if necessary, to direct individual trips to the Sacramento area. VA is projecting an annual travel increase of 3,240 miles for these trips to the Sacramento area.

To assure that service to the public in the Sacramento area not requiring travel is maintained, VA

- provided the DVB representative remaining in the Sacramento area with 2 days of additional training in loan guaranty matters in June so as to be better able to respond to loan guaranty questions,
- requested two studies by the telephone company to measure toll-free line capacity at the San Francisco regional office,
- initiated its own evaluation of outside telephone accessibility to the San Francisco loan guaranty staff, and
- updated its written loan guaranty operating procedures in May to encompass the Sacramento office activities.

We found the San Francisco office procedures for processing the Sacramento workload to be adequate. VA actions, taken or planned, are comprehensive enough to assure a level of service that is approximately equivalent to the service provided by the Sacramento office, providing VA properly

- schedules timely trips to the Sacramento area and
- implements solutions to telephone access problems, if any, identified as a result of ongoing studies.

Therefore, VA has taken or is taking the appropriate steps which, if properly implemented, will assure the ability of the San Francisco regional office to maintain an adequate level of service to the veterans and concerned businesses in the Sacramento area.

Conclusion

VA has

- shown it is cost beneficial to close the Sacramento loan guaranty office and
- taken or is taking steps which, if properly implemented, will assure an adequate level of service to the public in the Sacramento area.

Accordingly, if planned actions are properly implemented, we agree with VA's decision to close the Sacramento office and consolidate the operations and staff of that office with the San Francisco regional office.

VA's PLANNED STUDY

During our inquiry into the closure of the loan guaranty office in Sacramento, we noted that a downward trend in loan guaranty workload prompted VA considerations which eventually led to

- closure of the Sacramento and Fresno satellite offices in the San Francisco region,
- reduction of staff at the San Diego satellite office in the Los Angeles region, and
- DVB's intention to conduct a closure study in early fiscal year 1980 of five of the smaller (one-position) satellite loan guaranty offices (this is a followup of DVB's 1978 study of 15 satellite offices).

As a result of this observation, we obtained selected VA loan guaranty workload data for all 49 regional offices which

operate loan guaranty divisions. We found a nationwide downward trend for fiscal years 1977-78 (actual) and projected it to continue through 1979 (estimate based on actual data for the first 8 months of fiscal year 1979), as follows:

<u>Fiscal year</u>	<u>Nationwide number of</u>		
	<u>Loan applications received</u>	<u>Loan appraisals requested</u>	<u>Loans closed</u>
	----- (thousands) -----		
1975	331	457	288
1976	370	501	325
1977	436	570	380
1978	396	506	377
1979 (estimated)	396	501	339

This recent nationwide decline is reflected in a similar trend in the loan guaranty workload of the San Francisco and Los Angeles regions, including those satellite offices that either were closed or sustained a staff reduction. (For details, see enc. III.)

We recognize that the above three workload categories do not reflect the entire workload at all loan guaranty stations; e.g., working with veterans facing default, managing properties acquired by default, and conducting construction inspections. However, this downward trend suggests that (1) a more comprehensive review of loan guaranty operations nationwide is in order and (2) a more detailed analysis of the above data should be made to isolate specific trends by regional office.

On the basis of the nationwide loan guaranty workload data, we have identified increasing and decreasing trends for fiscal years 1977-79 by regional office as follows:

<u>Workload category</u>	<u>Number of offices</u>	
	<u>Increasing</u>	<u>Decreasing</u>
Loan applications received	11	38
Loan appraisals requested	12	37
Loans closed	20	29
All categories (note a)	6	24

a/This identifies those offices whose workload is increasing or decreasing in all three workload categories.

The San Francisco and Los Angeles regional offices are included in those 24 offices showing a decreasing workload in all three categories. These trends suggest that further inquiry should be made to determine whether current and projected staff levels appropriately match the workload.

In addition, 12 loan guaranty operations had a lower volume of fiscal year 1978 work than the Sacramento office. This comparison was based on VA workload statistics for processing requested single case loan appraisals. Of these 12 offices, 10 were regional office loan guaranty divisions with staffing levels from 4 to 18, one was the satellite office in Fresno which was closed, and the other was the satellite office in Reno which is one of the five one-position offices included in DVB's planned closure study.

We recognize that a workload comparison based on requested loan appraisals does not account for work performed by the 10 loan guaranty divisions whose activities go beyond those of the Sacramento office; e.g., processing loan applications, performing construction inspections, and closing loans. However, the nine-position satellite office at San Diego, which was reduced by two positions because of declining workload, performs functions, if not similar to a typical loan guaranty division, certainly far in excess of those activities performed at the Sacramento office. In this regard, and excluding the 12 offices mentioned above and the Sacramento office, we found 11 additional loan guaranty operations had a lower number of fiscal year 1978 single case appraisal requests than the San Diego satellite office.

The foregoing suggests that DVB's planned closure study of five one-position satellite offices is too limited because it is not directed to the large offices, nor is it addressing the alternative issue of staff reductions or realignments.

Conclusion

There is a nationwide downward trend in loan guaranty workload, which is reflected in shifting loan guaranty workloads in VA's regional offices. These workload shifts need to be explored to determine their impact on the appropriateness of loan guaranty staff levels at each of the affected regional offices.

Prompted by this workload change, DVB

- has closed two satellite loan guaranty offices after (1) an analysis of the costs and benefits accruing and (2) a determination of actions necessary to maintain service to the public affected by the closure;
- has reduced staff at another satellite office; and
- intends to study, in early fiscal year 1980, the potential of closing five one-position satellite offices.

DVB's planned fiscal year 1980 closure study is too limited. It should be expanded to (1) encompass the impact of the changing loan guaranty workload on the staff levels of all regional offices performing loan guaranty activities and (2) explore other actions including staff realignments to assure effective use of loan guaranty staff.

Recommendation to the Administrator of Veterans Affairs

We recommend that the Administrator direct the Chief Benefits Director, DVB, to expand the planned closure study of five small satellite loan guaranty offices to include all stations having loan guaranty operations with the intent of determining if present and projected workloads justify existing staff levels and, where practical, realign staffing in relation to workload.

VA'S JULY 10, 1979 ESTIMATE OF
BENEFITS TO ACCRUE AS A RESULT
OF CLOSING THE SACRAMENTO LOAN GUARANTY OFFICE

<u>Impact on loan guaranty operations</u>	<u>Estimated benefit increase or decrease (-)</u>	
Improved staff productivity (note a)	\$ 2,217	
Release of clerical staff (note b)	11,269	
Reduced staff travel:		
Release of Government vehicle (rental)	\$810	
Net increase in mileage fee (note c)	-218	
Net increase in per diem	<u>-418</u>	174
Eliminated supervisory visits to Sacramento:		
Salary while in transit	\$274	
Mileage fee	48	
Per diem	<u>240</u>	562
Release of space (note d)		8,360
Reduced telephone expense		1,645
Reduced supplies expense		<u>380</u>
Net annual benefit		24,607
One-time staff relocation expense		<u>-11,255</u>
First year net benefit		<u>\$13,352</u>

a/Based on VA's work measurement system, VA identified an 8-percent increase between the average productivity of the Sacramento (52 percent) and San Francisco (60 percent) loan guaranty operations. This percentage increase was applied to the Sacramento staff salary of \$27,707 to quantify improved productivity.

b/At the time of the closure decision, VA intended to transfer the Sacramento clerical staff member into a vacant clerical position in another DVB division in the San Francisco regional office because the loan guaranty division of that office would not require additional staff. Hence, the clerical staff salary represents a savings at the time of the closure decision to the loan guaranty division. Further, VA believes this savings was realized after the closure decision when the staff member voluntarily terminated employment with VA and because DVB does not now intend to fill the vacant position.

c/This represents an additional 3,240 miles per year at 6-3/4 cents per mile (General Services Administration charge at the time of the closure decision) to account for trips originating in San Francisco rather than Sacramento.

d/This represents a transfer of the Government charge for office space from DVB to VA's Department of Medicine and Surgery which operates a clinic in the building occupied by the Sacramento loan guaranty office. A Department of Medicine and Surgery official told us that this space was required because of the expanding clinic activity.

VA LOAN GUARANTY WORKLOADSTATISTICS FOR FISCAL YEARS 1975-79

<u>Workload category and selected offices</u>	<u>Fiscal year (note a)</u>				
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
	----- (thousands) -----				
Number of loan applications received:					
Nationwide	330.9	369.6	435.5	398.4	338.1
San Francisco region (note b)	21.4	22.9	20.5	17.0	16.4
Sacramento satellite office (note c)	-	-	-	-	-
Fresno satellite office (note c)	-	-	-	-	-
Los Angeles region (note b)	38.4	45.0	45.9	36.2	35.1
San Diego satellite office	6.6	6.8	8.8	5.6	5.1
Number of loan appraisals requested (single cases only):					
Nationwide	457.2	501.3	570.1	501.5	401.7
San Francisco region (note b)	23.2	24.1	20.9	18.3	16.4
Sacramento satellite office	-	4.4	4.1	3.0	2.8
Fresno satellite office	2.3	2.3	2.0	1.4	1.4
Los Angeles region (note b)	59.6	63.9	58.1	45.6	44.5
San Diego satellite office	9.5	10.0	9.4	7.6	7.4
Number of loans closed:					
Nationwide	288.2	325.0	379.8	376.6	301.7
San Francisco region (note b)	16.0	20.4	19.3	15.9	12.2
Sacramento satellite office (note c)	3.0	4.1	4.4	3.9	3.1
Fresno satellite office (note c)	1.0	1.1	1.1	0.8	0.8
Los Angeles region (note b)	34.2	40.4	41.7	36.1	30.6
San Diego satellite office (note c)	6.0	7.4	8.4	6.4	5.4

a/Actual 12-month data used for fiscal years 1975-78, excluding the transition quarter ended September 1976. Fiscal year 1979 estimate based on VA data covering the first 8 months activity where available. Adequate data for projections were not available for the satellite offices.

b/Includes satellite office workloads.

c/Although this work was applicable to the geographic areas for which the satellite office has jurisdiction, the regional office loan guaranty staff actually performed the work. In some cases the data for the area were not available.