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Potential Savings Through Better
Procedures For Setting Rents For
Civilian Occupants Of Military
Family Housing B-157391

Department of Defense

*UNITED STATES
GENERAL ACCOUNTING OFFICE*

701283

OCT. 5, 1972



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

LOGISTICS AND COMMUNICATIONS
DIVISION

B-157391

Dear Mr. Secretary:

This is our report on potential savings through better procedures for setting rents for civilian occupants of military family housing.

In commenting on a draft of this report, the Department of Defense (DOD) generally concurred in our findings and specified corrective actions taken and to be taken. With reference to our suggestion to consider revising the Office of Management and Budget (OMB) Circular A-45, DOD said A-45 had been prepared by OMB and that agency therefore should take the lead in its revision. On the other hand, OMB said that it appeared that the cause for deficiencies we found was not the wording of A-45 but the failure of responsible DOD officials to carry out reasonably clear provisions.

Although OMB feels that the provisions of A-45 are reasonably clear, it is evident to us that its implementation within DOD has presented some problems apparently due to differing interpretations. In view of this, we recommend that you, in conjunction with the Director, OMB, take steps to be sure that there is agreement on interpretation of the provisions of A-45. We recommend also that you continue close surveillance of the establishment of rental rates to preclude such deficiencies as identified in our report.

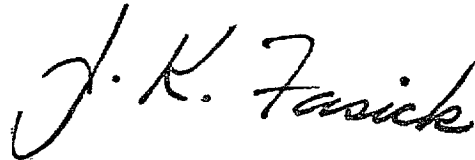
In commenting on our suggestion to consider testing the application of the Consumer Price Index as a basis for annual adjustment of rental rates, DOD said that this falls within the purview of OMB but offered to participate in the tests. OMB has also endorsed the suggestion and has begun informal discussions with interested agencies concerning the conduct of such tests.

In view of our continuing interest in the progress of the tests of using the Consumer Price Index to adjust rental rates, we are asking the Director, OMB, to advise us of the test results.

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Copies of this report are being sent to the appropriate congressional committees; certain individual Members of the Congress; the Director, Office of Management and Budget; and the Secretaries of the Army, Navy, and Air Force.

Sincerely yours,

A handwritten signature in cursive script that reads "J. K. Fasick". The signature is written in dark ink and is positioned above the printed name "Director".

Director

The Honorable
The Secretary of Defense

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ABBREVIATIONS

CPI	Consumer Price Index
DOD	Department of Defense
GAO	General Accounting Office
NAD	Naval Ammunition Depot
NWC	Naval Weapons Center
OMB	Office of Management and Budget

D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO) wanted to know if Department of Defense (DOD) policies and practices for rental of family housing to about 4,200 civilian employees were resulting in fair rental payments to the Government and compliance with legislation and administrative regulations. GAO also wanted to consider the feasibility of an alternative to the appraisal method of adjusting rental rates in order to simplify procedures, economize operations, and make rates more equitable.

Background

Office of Management and Budget (OMB) Circular No. A-45 prescribes the principles and procedures for establishing rents for quarters leased to Government employees. The rent should be based on prevailing rates for comparable housing or, if such housing is not present in the area, on the reasonable amount of income a property should produce with respect to its fair market value.

GAO's review was made at the Naval Ammunition Depot, Hawthorne, Nevada; the Naval Weapons Center, China Lake, California; and the Army's Dugway Proving Ground, Dugway, Utah. These installations have about 3,200 of the 4,200 civilian-occupied family housing units in the United States.

FINDINGS AND CONCLUSIONS

The Government has lost an estimated \$1.6 million in income because of unauthorized downward adjustments in rents, unauthorized utility charges, and delays in establishing and implementing the rates. This loss is continuing in some cases. (See p. 7 and app. I.)

The losses occurred primarily because of lack of control, at both the Washington and local levels, to insure that rental rates are properly and promptly established and put into effect. Additionally, regulations are equivocal in certain respects, and various people have interpreted them differently. (See pp. 7 and 21.)

The difficulties encountered in adjusting rental rates through use of appraisals suggest a need for a less complicated method. GAO believes that the Consumer Price Index of the Bureau of Labor Statistics, Department of Labor, could be used as a means of annually adjusting rental rates for military-owned housing. (See p. 24.)

RECOMMENDATIONS OR SUGGESTIONS

GAO suggested that:

- 2--The Secretary of the Navy have 1
rents at the Naval Weapons Center
and rents and utility charges at
the Naval Ammunition Depot re-
examined.

--The Secretary of Defense, along with the Director, OMB, consider 27 revising A-45 to clarify (1) what kind of adjustments, if any, may be made to basic shelter rents once such rents have been computed on the basis of comparable private housing and (2) what factors should be considered in computing utility charges.

--The Secretary of Defense provide for closer control over the establishment of rents and utility charges to insure that they are in accord with A-45 and are periodically revised and promptly put into effect. (See p. 21.)

To eliminate the need for a triennial appraisal and the associated problems in adjusting rental rates, GAO suggested also that the Secretary of Defense, in conjunction with OMB, conduct tests of the application of the Consumer Price Index as a basis for annual adjustment of rental rates charged to civilian tenants of DOD housing. The index would apply, as well, to about 10,000 family units which are administered as rental quarters because they have been classified as inadequate by military standards. Also affected would be an additional several thousand DOD family quarters, now considered adequate, if a current bill to reclassify them as inadequate is approved. (See p. 26.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

On need for improvement in establishment and implementation of rates

DOD said the rents at China Lake and the rents and utility charges at

Hawthorne would be reexamined.

DOD cited other corrective actions taken by the Navy, such as increases in utility rates at China Lake, which resulted in additional revenue to the Government of \$107,500 a year; revision of the Navy's Housing Administration Manual; preparation of appraisal schedules to insure that appraisals are made at proper intervals and are promptly put into effect; and implementation of a workshop on appraising which discussed in detail deficiencies noted in past appraisals. (See p. 21.)

DOD said A-45 had been prepared by OMB and that agency should take the lead in its revision. On the other hand, OMB felt the problem lay in DOD's implementation of A-45 rather than in the wording of the document. With respect to computing utility charges, OMB said it would consider modifying A-45 to provide additional guidance. (See p. 21.)

On potential for alternative method of adjusting rates

DOD said there seemed to be considerable merit in using the Consumer Price Index as a basis for annual adjustment of rental rates and offered to participate in such tests. OMB endorsed the GAO suggestion and said it had begun informal discussions with interested agencies concerning the tests.

GAO is asking the Secretary of Defense, in conjunction with the Director, OMB, to keep GAO advised of the results of the tests. If use of the index is found to be feasible, it would apply to all Government agencies providing rental housing to civilians. (See p. 26.)

CHAPTER 1

INTRODUCTION

Office of Management and Budget (then Bureau of the Budget) Circular No. A-45, revised, dated October 31, 1964, prescribes the principles and procedures for establishing rental rates for quarters leased to Government employees. The principle established by the Office of Management and Budget (OMB) is that the basic rental should be based on prevailing rental rates for comparable private housing or established through the use of the real estate concept of rental value if comparable housing is not available. Comparable housing should be in a community which is within 5 miles of the Government quarters and which offers rental housing. In the absence of such a community, rentals should be based on prevailing rates for comparable housing either in nearby private communities or in an economically homogeneous area in which the Government quarters are located. The rental value concept is based on the reasonable amount of income a property should produce with respect to its fair market value.

OMB delegated the responsibility for establishing rental rates to the head of each Federal agency and prescribed that the rates be affirmed or adjusted at least once every 3 years.

Circular A-45 provides that certain adjustments to basic rentals be made in determining the rates charged for the quarters. These adjustments should consider higher or lower standards of amenities which may exist for the Government quarters. The amenities are listed in A-45, and an adjustment of 2 percent of the basic rental rate is allowable for each applicable amenity. Also charges for utilities that are not metered or measured are to be based on the cost of such services to occupants of comparable private housing.

OMB directs further that basic rental rates not be reduced as an inducement to either encourage the occupancy of quarters or assist in recruiting or retaining employees.

Department of Defense (DOD) Instruction 4165.42 dated October 18, 1965, implemented A-45. This instruction provided the policies and procedures to be followed by DOD components in reviewing and approving rate schedules developed by professional or qualified staff appraisers. Installation commanders are responsible for implementing the approved schedules of rents and charges.

According to the DOD instruction, initial appraisals are to be made by professional fee appraisers. Appraisals for alternate 3-year periods thereafter may, at the discretion of the DOD components, be made by qualified staff appraisers.

We examined (1) the effectiveness of DOD family housing rental policies in achieving fair rent value and in complying with basic legislation, (2) the degree of DOD compliance with A-45 and the adequacy of supplementary DOD regulations, and (3) the alternative methods of establishing rental rates for civilian occupants with the objective of simplifying procedures, economizing operation, and making rates more equitable.

We reviewed the rent-setting practices at the Naval Ammunition Depot (NAD), Hawthorne, Nevada; the Naval Weapons Center (NWC), China Lake, California; and the Dugway Proving Ground, Dugway, Utah. Civilians occupying military-owned family housing are heavily concentrated at these locations; they comprise about 3,200 of the total of about 4,200 civilian employees within DOD who occupy such housing throughout the country.

NAD is in the Nevada Desert, about 135 miles southeast of Reno, Nevada. It is also about 2 miles northwest of the town of Hawthorne, which is the nearest established community offering the minimal services described in A-45. According to the latest available statistics, Hawthorne has a population of about 5,700, including 1,400 depot employees. The depot is the primary source of income for the community, and since private, local rental housing is not sufficient, the Navy must furnish housing for depot employees. As of June 30, 1970, 451 Navy-owned housing units were occupied by civilians. Details on depot housing are shown below.

<u>Occupants</u>	<u>Public quarters (note a)</u>	<u>Rental quarters (note b)</u>	<u>Total</u>
Military	87	28 ^c	115
Civilian	2	449	451
Vacant	<u>6</u>	<u>121</u>	<u>127</u>
Total	<u>95</u>	<u>598</u>	<u>693</u>

^aQuarters meeting military standards of adequacy. Military occupants forfeit their full quarters allowances; civilian occupants pay established rental rates.

^bQuarters, both adequate and inadequate, designated principally for civilian occupants.

^cInadequate quarters. Occupants retain a portion of their quarters allowances as compensation.

NWC is in the Mojave Desert, about 150 miles northeast of Los Angeles, California. It is adjacent to the city of Ridgecrest, California, which is the nearest established community offering the minimal services described in A-45. According to the latest available statistics, Ridgecrest has a population of about 7,400 and NWC has about 11,400 residents, including 4,700 employees. NWC is the primary source of income for the community, and since private rental housing is not sufficient, the Navy must furnish housing for NWC employees.

As of June 30, 1970, 2,487 Navy-owned housing units were occupied by civilians. Details on the Navy-owned housing are shown below.

<u>Occupants</u>	<u>Public quarters</u>	<u>Rental quarters</u>	<u>Total</u>
Military	495	-	495
Civilian	-	2,487	2,487
Vacant	<u>53</u>	<u>109</u>	<u>162</u>
Total	<u>548</u>	<u>2,596</u>	<u>3,144</u>

The Dugway Proving Ground is 71 miles southwest of Salt Lake City, Utah. Tooele, the closest city offering the minimal services described in A-45, is about 43 miles northeast of Dugway. Tooele was used primarily for obtaining comparable rentals, although some were obtained from other locations, including Salt Lake City. Tooele has a population of about 20,000. The bulk of the base population, both civilian and military, lives on the base.

Civilians occupied 228 housing units on the base. Details on base housing are shown below.

<u>Occupants</u>	<u>Public quarters</u>	<u>Rental quarters</u>	<u>Total</u>
Military	2	250	252
Civilian	-	228	228
Vacant	<u>-</u>	<u>62</u>	<u>62</u>
Total	<u>2</u>	<u>540</u>	<u>542</u>

Prior to July 1, 1970, the Western Division, Naval Facilities Engineering Command, at San Bruno, California, and the Southwest Division, Naval Facilities Engineering Command, at San Diego, California, were responsible for various aspects of Navy-owned housing at NAD and NWC, respectively. Effective July 1, 1970, the Western Division, through a consolidation, assumed responsibility for functions previously performed by the Southwest Division.

CHAPTER 2

NEED FOR IMPROVEMENT IN ESTABLISHING AND IMPLEMENTING

RENTAL RATES CHARGED CIVILIAN OCCUPANTS

OF MILITARY-OWNED HOUSING

Improvement is needed in establishing and implementing rental rates charged civilian occupants of military-owned housing at NAD, NWC, and Dugway Proving Ground. These rates have not always been properly charged in accordance with the criteria set forth in A-45. Consequently, in many instances, the Government has had an unwarranted loss of rental income.

For example, professional fee appraisers made downward adjustments, not authorized by A-45, to shelter rents.¹ The Naval Facilities Engineering Command made other unauthorized downward adjustments in reviewing NAD appraisal reports, and NWC made further unauthorized downward adjustments after shelter rents had been established and put into effect. In addition, utility charges were not established in the prescribed manner, and rental rates were not put into effect within the time frame provided in A-45.

During the period covered by our review, August 1, 1964, to December 1, 1970, the Government lost an estimated \$1.6 million in rental income at the above installations, because of unauthorized downward adjustments in shelter rents, unauthorized computations of utility charges, and delays in establishing the rates and putting them into effect. (See app. I for a summary of rental losses.)

We believe that the losses have been caused primarily by lack of control, at both the Washington and divisional levels of the Naval Facilities Engineering Command, to insure that rental rates are properly established and implemented. Ambiguous wording of certain portions of A-45 and

¹Rental charge for a building, exclusive of utilities charges.

related DOD regulations may have been a contributing factor. Details of these deficiencies are discussed in the following sections.

UNAUTHORIZED DOWNWARD ADJUSTMENTS
MADE TO SHELTER RENTS BY APPRAISERS

In establishing rental rates, fee appraisers made downward adjustments to shelter rents for distances, market factors, lengths of occupancy and assurance of payments, and utility charges. These are not authorized adjustments under the criteria set forth in A-45.

Adjustments for distance

In the August 1969 appraisal of 25 newly constructed single-family duplex units at NAD, the fee appraiser used for comparison private housing in Nevada communities located 72 to 135 miles from the depot. Comparable units in Fallon, Gardnerville, Minden, Sparks, and Reno were used because, in his opinion, Hawthorne had no comparable units. In establishing the shelter rents for these units, the appraiser reduced the rentals of comparable private housing by 10 to 25 percent, because tenants in NAD housing would have to travel a considerable distance to obtain a greater variety of community services than those available in Hawthorne.

According to A-45, deductions for distance are not allowed if the Government housing is located within 10 miles of an established community where minimal community services (medical, educational, shopping, religious, and public transportation) and minimal social, cultural, or entertainment facilities are available, even though that community may not serve as the location of comparable private housing used in establishing basic rental rates.

Since Hawthorne is only about 2 miles from the depot and does offer the minimal services and facilities described in A-45, we believe that the appraiser should not have made adjustments for distance. As a result of these adjustments, the Government lost about \$1,400 a month in rental income. As of December 1, 1970, this loss amounted to about \$17,000.

The Western Division staff appraiser did not question this procedure in his review of the fee appraiser's report. Western Division officials told us that, in their opinion, the distance adjustments were proper since Hawthorne did not have comparable private housing.

Adjustments for market factors

In the December 1962, December 1966, and June 1970 appraisals of NWC housing, the fee appraisers obtained data on comparable private housing in the adjacent city of Ridgecrest. They also included other desert communities, such as Tehachapi, Boron, Inyokern, Mojave, Barstow, and Lancaster, because Ridgecrest did not have sufficient comparable housing.

In considering the rentals of comparable private housing in these communities, the appraisers classified the rental markets as normal, inflated, or depressed. Upward or downward adjustments were then made to the rentals of the private housing to provide a normal base for establishing the rents of China Lake housing.

For example, in the June 1970 appraisal, the appraiser classified the rental markets of five of the seven communities listed above as inflated and the remaining two as normal. The rentals of comparable private housing located in the inflated communities were reduced accordingly.¹ The December 1966 appraisal report said some of the same communities had inflated rental markets but of somewhat lesser intensity. The December 1962 appraisal report mentioned one or two communities with depressed rental markets. There are indications, not verified by us, that upward adjustments to the rentals of comparable private housing in these communities were made.

¹Adjustments ranged from 5 to 25 percent and included an isolation factor. A-45 authorizes adjustments to rentals of housing isolated from established communities.

By contrast, in the March 1965 appraisal for housing of NAD, the staff appraiser did not raise the rentals of comparable private housing in Hawthorne even though he classified the rental market there as depressed. Instead, he based the rentals for the Navy housing on the prevailing depressed rentals of comparable private housing in Hawthorne.

A-45 does not mention adjustment factors for rental market conditions. The professional fee appraisers for the China Lake housing advised us that the adjustments were accepted appraisal practice but could not document their statement. The inconsistent treatment--lowering inflated rentals at China Lake to obtain normal rates but not raising depressed rentals at Hawthorne to achieve the same purpose--was not questioned by the Western Division, which has responsibility for reviewing the housing appraisals within its jurisdiction to insure that the proposed rates meet the A-45 criteria for establishing them.

Although we have no firm opinion on whether any adjustments for rental markets should be allowed, we believe that specific guidelines are needed on whether adjustments of the nature just discussed will be permitted and, if so, under what circumstances. Such guidelines would help insure uniform treatment consistent with the intent of A-45.

Adjustments for length of occupancy and assurance of rental payments

In the June 1970 appraisal of NWC housing, the fee appraiser reduced the shelter rents of comparable private rental units by about 5 percent. He made the reduction because (1) the average tenant occupancy in Government rental quarters is typically longer than that in private rental housing and (2) control over a tenant's income assures the Government of more prompt payment of rent and costs from damages by tenants.

The Western Division's staff appraiser, who reviewed the appraisal report and approved the 5-percent reduction, told us that such a reduction is a commonly accepted appraisal practice in private industry.

A-45 does not specifically authorize or prohibit such a reduction, but we believe that this reduction is not in accordance with the intent of A-45 or the implementing regulations. It is not mentioned as an allowable deduction in A-45, and it is similar to other reductions which are specifically prohibited by DOD and Department of the Navy regulations.

For example, regulations prohibit appraisers from (1) deducting taxes from rentals of comparable private housing on the basis that the Government does not pay taxes and (2) deducting the profits made by private landlords from rental charges for comparable private housing on the basis that the Government cannot or should not charge rents resulting in profits.

On December 1, 1970, NWC implemented the appraisal, which will decrease rental income to the Government by about \$10,800 a month, or about \$130,000 a year. (See note d to app. I.)

Adjustments for utility charges

In the 1962, 1966, and 1970 appraisals at NWC, fee appraisers established a so-called total basic rental rate, which consisted of (1) an amount for shelter rent and (2) an amount for utility charges.

Under the terms of the appraisal contract, the appraiser was provided with utility charges computed by NWC's Public Works Department. He was to add these charges to the shelter rent in lieu of his computed charges to arrive at the total basic rental rates. In doing so, the appraiser made compensating adjustments in the shelter rents in order that the total basic rental rates as initially appraised would remain unchanged. An example of these adjustments follows.

	<u>Initial appraisal</u>	<u>Adjusted appraisal</u>
Shelter rent	\$129	\$115.20
Utility charges computed by appraiser	36	-
Utility charges computed by Public Works Center	<u>-</u>	<u>49.80</u>
Basic rental rate	<u>\$165</u>	<u>\$165.00</u>

The Southwest Division, in reviewing the 1962 and 1966 appraisal reports, approved this type of adjustment of shelter rents. However, the Western Division, in reviewing the 1970 appraisal report, questioned this adjustment and directed NWC to retain shelter rents as originally computed by the fee appraiser without adjustments for the utility charges computed by the Navy. As a result of the 1966 appraisal report's adjustment, the Government lost about \$89,000 in rental income for the 44-month period these rental rates were in effect.

The fee appraiser, who had made the 1970 appraisal and who had participated in the 1966 appraisal, told us that the adjustments were not a commonly accepted appraisal practice but that he had made them because they had been made in prior appraisals.

On the other hand, the Southwest Division's former staff appraiser, who had reviewed the 1962 and 1966 appraisal reports and who had approved these adjustments, told us that in his opinion, they were valid and explained his reasoning as follows: In their appraisal reports, the fee appraisers established the combined amounts that tenants of comparable private housing must pay for shelter rent and utilities. Therefore, when the fee appraisers later obtained utility charges computed by NWC, it was proper for them to adjust recommended shelter rents so that tenants of Navy housing and comparable private housing would pay the same total rents.

The disagreement on this matter between the former staff appraiser at the Southwest Division and the staff appraiser at the Western Division indicates, we believe, a need to specify in A-45 and implementing regulations the

conditions under which shelter rents, once they have been computed on the basis of comparable private housing, may be changed.

UNAUTHORIZED ADJUSTMENTS MADE TO
SHELTER RENTS BY WESTERN DIVISION
IN REVIEWING NAD APPRAISAL REPORTS

As a result of adjustments made by the Western Division, tenants of NAD housing were paying about the same shelter rents in December 1970 as in September 1962 and, in a few cases, were paying lower rents. Examples of these shelter rents are shown below.

Type of <u>unit</u>	Fee appraisal approved, effective <u>Sept. 1, 1962</u>	Staff appraisal approved, effective <u>Aug. 1, 1965</u>	Recommended by fee appraiser <u>Mar. 5, 1968</u>	Mar. 5, 1968 appraisal adjusted and approved by staff appraiser, effective Oct. 12, 1968 (note a)
Babbitt Court:				
1 bedroom	\$34.50	\$31.20	\$39.50	\$35.10
2 bedroom	40.20	37.50	49.50	41.10
3 bedroom	48.90	45.60	54.50	49.80
4 bedroom	60.00	56.40	64.50	60.00
Title III:				
2 bedroom	46.20	42.60	53.50	46.80
3 bedroom	54.90	50.40	60.50	54.90
Dusty Acres:				
2 bedroom	51.30	45.00	56.50	49.80
4 bedroom	76.20	67.50	74.00	70.50

^aThese rates were still in effect as of December 1, 1970.

In 1965 the Western Division staff appraiser made the appraisal at NAD and recommended rates lower than those he had approved in 1962, since he considered the local rental market to be deflated. (See p. 10.)

In reviewing the March 1968 fee appraisal report, the staff appraiser (who has since retired) adjusted the recommended shelter rents downward by about \$3,800 a month. In our view, the basis for these adjustments is not adequately supported by documentation available at the Western Division. Nowhere in his review did he state that he had not made the fee appraisal in accordance with the criteria established by A-45 or the implementing regulations.

On the basis of the appraisal report and discussions with the fee appraisers, we believe that the downward adjustments were not warranted. The Western Division current staff appraiser agreed. As of December 1, 1970, the adjustments to the 1968 fee appraisal report had resulted in a rental loss to the Government of about \$40,000, and the loss was continuing at the rate of about \$1,500 a month.

UNAUTHORIZED DOWNWARD ADJUSTMENTS MADE TO
SHELTER RENTS BY NWC AFTER
RENTAL RATES HAVE BEEN PUT INTO EFFECT

In accordance with requirements of A-45 and implementing regulations, NWC periodically sets new utility charges for Navy tenants. However, in setting these new charges, NWC also makes compensating changes to shelter rents, so that total rental charges to tenants remain unchanged until the next appraisal. For example, the following rents were charged for one type of three-bedroom house.

<u>Effective date</u>	<u>Appraisal or rate adjustment</u>	<u>Shelter rent</u>	<u>Utility charges</u>	<u>Total rent</u>
1964	\$1.20 rate adjustment	\$95.40	\$27.60	\$123.00
1965	\$1.20 rate adjustment	94.20	28.80	123.00
1966	\$1.50 rate adjustment	92.70	30.30	123.00
1967	Appraisal	97.80	30.30	128.10
1968	\$3.30 rate adjustment	94.50	33.60	128.10
1969	\$3.90 rate adjustment	90.60	37.50	128.10

This practice was approved by the Southwest Division in July 1964 but was disapproved by the Western Division effective December 1, 1970. The rental loss to the Government resulting from this practice since September 1964 amounted to about \$299,000.

We believe the practice approved by the Southwest Division and followed by NWC was contrary to the policy established in A-45, paragraph 4, since it resulted in Navy tenants' paying lower shelter rents than employees who live in private housing. Also paragraph 6.b of A-45 states that shelter rents are to be based on recommendations by professional staff appraisers, professional fee appraisers, or employee committees and does not authorize installations to make adjustments to the recommended rates.

NEED FOR CLARIFICATION OF FACTORS TO BE USED
IN DETERMINING UTILITY CHARGES

As stated previously, NWC periodically computes utility charges for tenants of Navy-owned housing. At NAD the depot or the Western Division also periodically computes these charges on the basis of data furnished by the depot. Paragraph 8 of A-45 requires that these charges be set by applying domestic rates for similar services in the locality used for comparison.

Customer service charge at NWC

In computing the charges, NWC has excluded from gas and electricity rates that portion which represents a customer service charge on the basis that this charge covered such items as the costs of installing and maintaining meters, reading meters, and billing customers, which are not done by NWC. This practice has been followed since at least 1961 and, from September 1, 1964, to December 1, 1970, resulted in a rental loss to the Government of about \$620,000.

In April 1961 the Navy Area Audit Office in Los Angeles questioned the practice but did not take exception to it. The reason for questioning the practice was that it gave an advantage to employees living in Navy housing over those employees who must live in private housing and pay the service charge. Over the years, the Southwest Division approved the practice of excluding the customer service charge; however, in October 1970 the Western Division disapproved the practice and directed NWC to include the customer service charge in the rental rates implemented on December 1, 1970.

Charges for gas at NAD

At NAD the rates charged Navy tenants over the years for liquified petroleum gas have been from 8 to 11 cents a gallon lower than the rates for residences. The reasoning was that the residence rates were based on the costs of delivering the gas to houses and filling tanks, whereas NAD had a central distribution system. We were told at the Western Division that this practice had been approved by Naval Facilities Engineering Command Headquarters in June 1964. As of December 1970 Navy tenants at Hawthorne were still

being charged the lower rates, and since August 1, 1964, this practice had resulted in a rental loss to the Government of about \$283,000 and was continuing at the rate of about \$4,400 a month.

We believe that the foregoing practices at NWC and NAD are not in accordance with paragraphs 4 and 8 of A-45 and that their existence over a long period indicates a need for revising A-45 to clearly state what factors are to be considered in computing utility charges and what adjustments, if any, are to be made in the rates for the computations.

DELAYS BY ENGINEERING COMMAND DIVISIONS
IN PUTTING RENTAL RATES INTO EFFECT

A-45 requires that rent schedules be affirmed or adjusted by appraisal at least once every 3 years, to make sure that rents reflect changes in the private market. The most recent appraisals of rental rates at NWC and NAD were late in being implemented because of delays by the Southwest Division and the Western Division in awarding appraisal contracts and reviewing appraisal reports.

At NWC new rental rates were due to go into effect by April 1, 1970, 3 years after the effective date of the prior appraisal, but did not go into effect until December 1, 1970. Because of this 8-month delay, the Government lost about \$290,000 in rent, due to the increase in shelter rents provided for in the new appraisal.

The appraisal contract was not awarded by the Southwest Division until March 2, 1970, and the completed appraisal report was forwarded to the Western Division for review on July 6, 1970. On July 1, 1970, the Western Division assumed responsibility for functions previously performed by the Southwest Division. On October 14, 1970, more than 3 months after receiving the report, the Western Division forwarded the new rental schedule to NWC, and on December 1, 1970, in accordance with DOD and Navy regulations, NWC put the new rates into effect.

A former Southwest Division official told us that in October 1969, about the time the appraisal contract should have been awarded in order for the appraiser to have sufficient leadtime, the planned consolidation with the Western Division had been announced and that this announcement had disrupted operations and had delayed the award of the contract.

As already discussed on pages 12 and 16, when the appraisal report reached the Western Division in July 1970, the Division took exception to NWC's practice of excluding the customer service charge in computing utility charges and to the appraiser's practice of adjusting shelter rents according to differences between utility charges estimated by him and those computed by NWC.

At NAD new rental rates were due to go into effect by August 11, 1968, but did not go into effect until October 12, 1968. Because of this 8-week delay the Government lost about \$4,000 in rent. The appraisal contract was awarded by the Western Division on February 12, 1968, and the completed appraisal report was forwarded to the Western Division for review on March 12, 1968. The Western Division review resulted in a downward adjustment of the shelter rents, as discussed on page 14. On August 28, 1968, more than 5 months later, the Western Division forwarded the new rental schedule to NAD, and on October 12, 1968, in accordance with DOD and Navy regulations, the depot put the new rates into effect.

At the time of our review, controls were not adequate at either the headquarters or division levels of the Naval Facilities Engineering Command to insure that rental rates were put into effect within the time limits provided in A-45. Navy regulations require that the command's divisional offices notify the command's headquarters without delay when revised rents and charges are placed in effect at an activity or when they have not been placed in effect within prescribed time limits. However, by the time the Western Division notified command headquarters, the delays had already occurred.

By letter dated October 29, 1970, command headquarters stated that these regulations were generally not being followed and instructed divisional offices in the future to notify headquarters within 15 days of the dates new rates go into effect. We question the adequacy of these new instructions, since command headquarters will not become aware of delays until after they have already occurred.

When the setting of rental rates has been delayed, A-45 is not clear as to when new rates are due to go into effect in the future--whether they are due within 3 years of the dates the current rates actually went into effect or 3 years from the dates they should have gone into effect. Western Division officials told us that, in their opinion, new rates would be due 3 years from the dates current rates actually went into effect--October 12, 1971, at NAD and December 1, 1973, at NWC.

DEFERRED IMPLEMENTATION OF RENTAL RATES
AT DUGWAY PROVING GROUND

A reappraisal of the 540 units at the Dugway Proving Ground was completed in August 1969, and new rates, to be effective on January 1, 1970, were established by the Corps of Engineers.

The commander of Dugway appealed the new rental rates, and the Corps subsequently made a reappraisal. He appealed the rates on the ground that they were excessive in comparison with those in surrounding communities and that the magnitude of the proposed increases appeared to be completely unreasonable. Implementation of the new rates was deferred pending the receipt of revised rates.

Under DOD Instruction 4165.42, the new rates should have been placed in effect on January 1, 1970, and retroactively adjusted if the rates were again changed as the result of the appeal. Since the rental rates were not increased until April 26, 1970, the Government lost about \$17,800 in rents and utility charges.

CONCLUSIONS

In some instances the intent of A-45--basing rental rates for civilian occupants of Government-owned housing on prevailing rates for comparable private housing--has not been accomplished. As a result, the Government has lost rental income of more than \$1.6 million since 1964 at NWC, NAD, and Dugway Proving Ground. (See app. I.) Moreover, tenants in the Government-owned housing enjoyed an economic advantage over fellow employees who lived in comparable private housing.

We believe that these situations occurred primarily because of lack of control, at both the Washington and local levels, to insure that rental rates are properly and promptly established and implemented. Additionally, A-45 and implementing regulations are equivocal in certain respects, and appraisers and agency personnel have therefore interpreted them differently.

Because the appraisal process involves judgment, appraisers and agency personnel reviewing the appraisal reports for compliance with the provisions of A-45 apparently have differing concepts of what adjustments to shelter rents are applicable or permissible. The disagreements have led to subsequent revisions of rental rates by agency personnel--usually downward at the expense of the Government.

The purpose of hiring qualified appraisers to establish fair rentals--fair to both tenants and the Government--is largely defeated if the appraisers' professional opinions are disregarded.

AGENCY COMMENTS AND GAO EVALUATION

We brought our findings to the attention of the Secretary of Defense and the Director, OMB, in a draft report dated March 8, 1972. We suggested that the Secretary require the Navy to have the rents at NWC and the rents and utility charges at NAD reexamined to see that the losses of income discussed in this report are discontinued.

In commenting on our suggestion, the Deputy Assistant Secretary of Defense, Installations and Logistics, said that

the Navy concurred that the rents at NWC and the rents and charges at NAD should be reexamined and that the Western Division was being asked to reexamine the June 1970 appraisal at China Lake in accordance with our comments. He further said that a new appraisal at NAD had been completed and was being reviewed. Implementation of new rents and charges was expected on June 1, 1972.

DOD cited other corrective actions taken by the Navy, such as increases in utility rates at NWC, which resulted in additional revenue to the Government of \$107,500 a year; revision of the Navy's Housing Administration Manual; preparation of appraisal schedules to insure that appraisals are made at proper intervals and are promptly put into effect; and implementation of a workshop on appraising for personnel of the Engineering Field Divisions which discussed, in detail, deficiencies noted in past appraisals.

We suggested also that the Secretary of Defense, in conjunction with the Director, OMB, consider revising A-45 to clarify what kind of adjustments may be made to basic shelter rents once they have been computed on the basis of comparable housing and what factors should be considered in computing utility charges.

DOD said that A-45 had been prepared by OMB and that OMB therefore should take the lead in its revision. The Deputy Assistant Director, Organization and Management Systems Division, OMB, felt that the cause for the deficiencies in DOD was not the wording of A-45 but the failure of responsible DOD officials to carry out reasonably clear provisions. The adjustments made were larger than permitted by, or were contrary to, A-45.

Regarding the factors to be considered in computing utility charges, OMB said that information on the China Lake situation was not sufficient for a complete analysis of the problem. However, it appeared that the rent charged China Lake residents was correct under the terms of A-45. Nevertheless, OMB will consider whether A-45 should be modified to expand the provisions of paragraph 8 to cover situations where utility charges to employees are established on the basis of the average utility costs in comparable housing rather than on the basis of metered readings.

We suggested also that the Secretary of Defense provide for closer control over the establishment of rents and utility charges to insure that they are in accord with A-45 and are periodically revised and promptly put into effect.

In commenting on this suggestion, DOD said that the measures already instituted by the Navy, perhaps together with some revisions to A-45, should accomplish the purpose intended by our suggestion.

We believe that the corrective actions taken or planned by DOD and OMB are generally responsive to our suggestions and should result in improved management, if close surveillance is provided. Although OMB feels that the provisions of A-45 are reasonably clear, it is evident to us that its implementation within DOD has presented some problems apparently due to differing interpretations of these provisions.

RECOMMENDATIONS

We recommend that the Secretary of Defense coordinate with the Director, OMB, to insure agreement on the interpretation of the provisions of A-45. We also recommend that the Secretary of Defense continue close surveillance of the establishment of rental rates to preclude such deficiencies as identified in our report.

CHAPTER 3

ALTERNATIVE METHOD OF ADJUSTING RENTAL RATES

The difficulties presently encountered in adjusting rental rates through triennial appraisals, as prescribed by A-45, suggest a need for a less complicated method of adjusting rental rates for tenants of military-owned housing. Because the method is complicated, it is confusing to tenants, and the 3-year cycle can result in substantial rental increases with traumatic impact on tenants. Therefore a more understandable and more frequent rental adjustment system (resulting in proportionately smaller changes than those in the 3-year cycle) should receive wider tenant acceptance.

A technique often used in drawing leases to run over a period of years is to escalate the lease rates on the basis of the Consumer Price Index (CPI) of the Bureau of Labor Statistics, Department of Labor. CPI has a variety of practical uses, such as setting wage rates, rental rates, and retirement benefits.

We believe that the application of the rent series of CPI could be used as a means of periodically adjusting rental rates for military-owned housing. Following establishment of a satisfactory base rate through an initial appraisal, annual adjustments could be made through use of CPI. For housing in standard metropolitan statistical areas, the index applicable to the area could be used. For housing in other than standard metropolitan statistical areas, the U.S. city average index could be used.

To test the method, we made a comparison to determine whether it would be feasible and equitable to adjust rental rates for Government-owned housing on the basis of changes in CPI. We estimated the shelter rents that should have applied to selected units at NAD and NWC since 1962 by eliminating the questionable adjustments made in setting the actual rents used. A comparison of the estimated rents with rents escalated by applying the CPI rent index for the same period is shown in the following schedule.

Year ending Dec. 31	CPI as of Dec. 31	Percent change in CPI	Estimated monthly rental at NAD	Monthly rental had CPI been used at NAD	Estimated monthly rental at NWC	Monthly rental had CPI been used at NWC
1962	94.5	1.18	\$40.00	\$40.00	(a)	(b)
1963	95.5	1.06	40.00	40.42	(a)	(b)
1964	96.4	.94	40.00	40.80	(a)	(b)
1965	97.4	1.04	37.50	41.22	\$66.70	\$66.70
1966	99.0	1.64	37.50	41.90	66.70	67.79
1967	101.0	2.02	37.50	42.75	67.70	69.16
1968	103.8	2.77	46.00	43.93	67.70	71.08
1969	107.7	3.76	46.00	45.58	67.70	73.75
1970	112.6	4.55	46.00	47.65	72.90	77.11

^aNot available.

^bNot applicable.

The above schedule shows that the monthly rentals would have increased an average of \$0.96 each year over a 9-year period at NAD, computed as follows:

Rental increase	1962 to 1963	\$0.42
"	" 1963 to 1964	.38
"	" 1964 to 1965	.42
"	" 1965 to 1966	.68
"	" 1966 to 1967	.85
"	" 1967 to 1968	1.18
"	" 1968 to 1969	1.65
"	" 1969 to 1970	<u>2.07</u>
		8) \$7.65(\$0.96)

At NWC the monthly rentals would have increased an average of \$2.08 each year over a 6-year period, as follows:

Rental increase	1965 to 1966	\$ 1.09
"	" 1966 to 1967	1.37
"	" 1967 to 1968	1.92
"	" 1968 to 1969	2.67
"	" 1969 to 1970	<u>3.36</u>
		5) \$10.41(\$2.08)

During the period covered by the above schedule, CPI increased and reflected the increase in average rents throughout the United States. Wage rates for civilian employees during this period also increased.

CPI is a reliable and acceptable statistical measure which we assume will continue to be compiled and used. CPI is periodically revised to account for changes in spending habits of consumers. These revisions insure that CPI is reasonably current and is based on current expenditure trends. CPI is widely written about in newspapers and periodicals and should be reasonably familiar to tenants. Further, as indicated by the table on page 25, the annual rental adjustments would be relatively modest and would minimize the impact on tenant expenditures.

Use of CPI would eliminate the need for periodic, short-term rental adjustment appraisals and would reduce considerably the cost of administrative effort required in reviewing the adjustment appraisals for compliance with administrative regulations. Also delays in implementing new rental rates could be avoided, which would eliminate losses of the nature identified in appendix I. We recognize that CPI-adjusted shelter rents may warrant occasional reappraisals due to long-term changes or unusual conditions.

We believe that application of CPI in adjusting rental rates would be a moderately simple clerical task which would be equitable to tenants as well as economical to the Government.

AGENCY COMMENTS AND GAO EVALUATION

In our draft report we suggested that DOD, in conjunction with OMB, conduct tests of the application of CPI as a basis for annual adjustment of rental rates charged civilian tenants of DOD rental housing. If the tests demonstrate the feasibility of this procedure, they would apply to all Government agencies providing rental housing to civilians.

In commenting on our suggestion, DOD considered that application of CPI falls within the purview of OMB but offered to participate in the tests, as the suggestion appears to have considerable merit. OMB endorsed our suggestion and has begun informal discussions with interested agencies concerning the tests. The results of the tests should indicate the extent to which CPI may be used to adjust individual rents.

CPI would apply, as well, to about 10,000 family units which are administered as rental quarters because they have been classified as inadequate by military standards. (Military occupants of quarters which are considered adequate forfeit their full quarters allowances, whereas civilian occupants of adequate quarters pay established rental rates.) Also affected would be an additional several thousand DOD family quarters, now considered adequate, if a current bill to reclassify them as inadequate is approved.

In view of the actions taken, we have no further recommendation. Because of our continuing interest in this subject, we are asking the Secretary of Defense, in conjunction with the Director, OMB, to advise us of the results of the tests and the course of action to be taken.

CHAPTER 4

SCOPE OF REVIEW

Our review included an examination of the policies, procedures, and practices used to establish rental rates for Government quarters provided to civilian employees at one Army and two Navy installations. We made our review at the following locations.

Army Corps of Engineers
Sacramento, California

Dugway Proving Ground
Dugway, Utah

Western Division, Naval Facilities Engineering Command
San Bruno, California

Southwest Division, Naval Facilities Engineering
Command
San Diego, California

Naval Ammunition Depot
Hawthorne, Nevada

Naval Weapons Center
China Lake, California

We examined records and held discussions with appropriate Army and Navy personnel and with professional fee appraisers. We did not question the judgment of professional appraisers, but we did review appraisal reports to ascertain whether the appraisals had been made in accordance with the provisions of A-45. During the review we considered whether an alternative method of adjusting rental rates--with the objective of simplifying procedures, economizing operations and insuring equitability of rates--could be substituted for the present appraisal method.

APPENDIX I

SUMMARY OF RENTAL LOSSES TO GOVERNMENT AT
 NAD, NWC, AND DUGWAY PROVING GROUND
 FROM AUGUST 1, 1964, TO DECEMBER 1, 1970

<u>Period covered</u>			
Losses due to unauthorized adjustments:			
Dec. 1, 1969, to Dec. 1, 1970	Fee appraiser did not use Hawthorne as nearest established community. (See p. 8.)	\$ 17,000 ^a	
Apr. 1, 1967, to Dec. 1, 1970	Fee appraiser made a compensating change to his shelter rents for NWC housing when using Navy utility charges. (See p. 12.)	89,000	
Oct. 12, 1968, to Dec. 1, 1970	Staff appraiser adjusted NAD shelter rents downward. (See p. 15.)	40,000 ^b	
Sept. 1, 1964, to Dec. 1, 1970	NWC made a compensating change in shelter rents as utility charges increased. (See p. 15.)	299,000	
Sept. 1, 1964, to Dec. 1, 1970	NWC excluded customer service charge from utility charges. (See p. 16.)	620,000	
Aug. 1, 1964, to Dec. 1, 1970	NAD charged a rate lower than the domestic rate for liquified petroleum gas. (See p. 17.)	283,000 ^c	
Total		<u>1,348,000^d</u>	
Losses due to delays in implementing new rates:			
Apr. 1, 1970, to Dec. 1, 1970	Delay in putting into effect new shelter rents at NWC. (See p. 18.)	290,000	
Aug. 11, 1968, to Oct. 12, 1968	Delay in putting into effect new shelter rents at NAD. (See p. 19.)	4,000	
Jan. 1, 1970, to Apr. 26, 1970	Delay in implementing new shelter rents at Dugway Proving Ground. (See p. 20.)	17,800	
Total		<u>311,800</u>	
Total loss to Government		<u>\$1,659,800</u>	

^aContinuing at the rate of about \$1,400 a month.

^bContinuing at the rate of about \$1,500 a month. Occupancy dropped from 99 percent in October 1968 to 83 percent in December 1970.

^cContinuing at the rate of about \$4,400 a month.

^dNot included in this total, but effective December 1, 1970, there was also a loss of about \$10,800 a month, or about \$130,000 annually, due to fee appraiser's adjustment for length of occupancy and assurance of rental payments. (See p. 11.)

APPENDIX II



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

2 MAY 1972

INSTALLATIONS AND LOGISTICS

Mr. R. G. Rothwell
Associate Director
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Rothwell:

This is in response to your letter of March 8, 1972 to the Secretary of Defense which forwarded copies of your draft report on "Need for Alternative Method of Adjusting Rental Rates Charged to Civilian Occupants of Military Owned Family Housing" (OSD Case No. 3425).

General Accounting Office (GAO) review was made to ascertain (1) whether Department of Defense (DoD) policies and practices for rental of family housing to civilian employees were resulting in fair rental values and compliance with legislation and administrative regulations, and (2) the feasibility of an alternative to the appraisal method of adjusting rental rates with the objective of simplifying procedures, economizing operations and ensuring equitability of rates. Review was conducted at the Naval Ammunition Depot (NAD) Hawthorne, Naval Weapons Center (NWC) China Lake, and Dugway Proving Ground.

During the period August 1, 1964, to December 1, 1970, GAO estimates the government lost about \$1.6 million in rental income at the installations reviewed because of unauthorized downward adjustments in shelter rents, unauthorized computation of utility charges, and delays in establishing and implementing the rates in a timely manner. The loss from some of these factors is continuing. GAO believes that these losses occurred because of lack of control at both Washington and local levels to assure that rental rates are properly established and implemented; additionally, regulations are considered equivocal in certain respects and have been interpreted differently.

GAO suggests using the Consumer Price Index to adjust rental rates because the difficulties encountered in implementing and adjusting these rates through use of appraisal suggest need for a less complicated method. GAO believes that the application of the rent series of the Consumer Price Index of the Bureau of Labor Statistics (BLS) could be used as a means of adjusting rental rates annually.

GAO presents four recommendations to Navy and the Secretary of Defense, which are commented upon as follows:

Recommendation 1. The Secretary of the Navy should re-examine rents at NWC China Lake, and rents and utility charges at NAD Hawthorne, to end the loss of income discussed in report.

Comment. Navy concurs that the rents at NWC China Lake and the rents and charges at NAD Hawthorne should be re-examined. The last triennial appraisal at China Lake was made in June 1970. Western Division, Naval Facilities Engineering Command, is being notified to re-examine this appraisal in accordance with comments made by GAO. A new appraisal will be obtained and a detailed review made to ensure compliance with the intent of Office of Management and Budget (OMB) Circular A-45. A new triennial appraisal at Hawthorne is completed. This appraisal is currently under review. Implementation of new rents and charges is expected on June 1, 1972.

The utility rates at China Lake were revised upward by Western Division, Naval Facilities Engineering Command, in 1970, resulting in additional revenue to the government of \$107,500 per year. A recent revision, effective March 1, 1972, has further increased the utility charges. Customer charges are included.

As the result of Navy's concurrence with GAO's statements at the close-out conference on Friday, November 20, 1970, action has been taken in an effort to correct the deficiencies.

Chapter 8, NAVFAC P-352, Housing Administration, was revised and issued in September 1971. It clearly shows the data that must be included in all appraisal reports. Downward adjustments are covered in detail and reviewers are cautioned to check for any unauthorized or unsupported reductions. Responsibilities of the Engineering Field Divisions are specifically defined stressing the importance of their review of all appraisals. Appraisal schedules are being maintained by Housing Management Centers to ensure that appraisals are made at the proper intervals and emphasis is placed on putting new rates into effect without delay.

In October 1971 a Real Property Management Appraisal Workshop on Appraising was held at Headquarters, Naval Facilities Engineering Command with attendees from all Engineering Field Divisions. The requirements of OMB Circular A-45 were discussed in detail emphasizing deficiencies noted in past appraisals. Appraisers were instructed to solicit guidance from Headquarters, Naval Facilities Engineering Command, whenever issues arise which are not clearly understood.

APPENDIX II

The Naval Facilities Engineering Command also reviews all appraisals for consistency with pertinent regulations and issues appropriate instructions for modification as required.

Recommendation 2. The Secretary of Defense, in conjunction with OMB, should consider revising OMB Circular A-45 to clarify (a) what kind of adjustments, if any, may be made to basic shelter rents once such rents have been computed on the basis of comparable private housing, and (b) what factors should be considered in computing utility charges.

Comment. Attention is invited to the fact that OMB Circular A-45 was prepared under the aegis of the Office of Management and Budget. The contents of Circular A-45 are applicable to all government agencies. Therefore, the Office of Management and Budget should take the lead in its revision. This office will be pleased to participate to the extent requested by OMB and to make all possible contributions.

Recommendation 3. The Secretary of Defense should provide for closer control over the establishment of rents and utility charges to ensure that they are in accord with A-45 and are periodically revised and put into effect in a timely manner.

Comment. DoD Instruction 4165.42, subject: "Establishment of Charges for Quarters and Related Facilities," dated May 5, 1971, is based upon OMB Circular A-45. Its contents are believed to be definitive and in accordance with both the spirit and letter of the Circular. We consider that the measures already instituted by the Navy as described above in our comments on Recommendation 1, perhaps together with some revisions to Circular A-45, should accomplish the purpose of this recommendation.

Recommendation 4. To eliminate the need for a triennial appraisal, the Secretary of Defense, in conjunction with OMB, should conduct tests of the application of the Consumer Price Index compiled by the BLS as a basis for annual adjustment of rental rates. If the tests demonstrate the feasibility of this procedure, it would have application to all government agencies providing rental housing to civilians.

Comment. We consider that application of the Consumer Price Index compiled by the BLS as a basis for annual adjustment of rental rates falls within the purview of OMB rather than the Secretary of Defense, for reasons identical to those described in our comments on Recommendation 2, above. We shall be pleased to participate in tests of the application of the Consumer Price Index, in lieu of triennial appraisals, as the recommendation appears to have considerable merit. The present system would be simplified considerably; occupants would easily understand the changes in rents and charges and would be more receptive;

an annual change rather than one large increase every three years would lessen the impact on the occupant; and the basis for appeals would be reduced or eliminated. It is reiterated that we offer our fullest cooperation in the testing of this idea and in its adoption, if proven feasible.

In summary, all GAO recommendations are concurred in, subject to the comments above.

Sincerely,

A handwritten signature in cursive script, appearing to read "Glenn V. Gibson".

Glenn V. Gibson
Deputy Assistant Secretary of Defense

APPENDIX III

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 2 1972

Mr. R. G. Rothwell
Associate Director
Defense Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Rothwell:

This is in response to your letter of March 8, 1972, to the Director requesting our comments on the draft report concerning the need for an alternative method of adjusting rental rates charged to civilian occupants of military owned family housing.

We endorse your recommendation concerning a study of the possibility of using the consumer price index for determining rent adjustments, and have begun informal discussions with interested agencies concerning the conduct of such a study. The results should indicate the extent to which the consumer price index may be used to adjust individual rents. We are concerned that such use should preserve the policy of fixing rental rates on the basis of the reasonable value of the particular quarters occupied in the community where located or in a comparable community.

Concerning your recommendation that OMB consider revising Circular No. A-45 to clarify the computation of rental charges, we have reviewed the Circular in the light of the draft report and the DOD response concerning that situation. It appears to us that the cause for the deficiencies in DOD was not the wording of the Circular but the failure of the responsible officials to carry out reasonably clear provisions. The adjustments which may be made in basic shelter rents of comparable private housing due to conditions applicable to the Government quarters are identified in the Circular and the amount of the authorized adjustment is specified. The commercial appraisers employed for the projects reviewed made larger downward adjustments in their appraisals than permitted by the Circular. In addition, they made some

downward adjustments not permitted by the Circular. We do not believe that those failures to follow the applicable instructions indicate a need for modifying these instructions.

With regard to possible clarification of the factors to be considered in computing utility charges as contained in A-45, the reported China Lake situation on which this recommendation is based does not provide sufficient information for complete analysis of the problem. It appears that utilities provided for the civilian housing at China Lake are not metered but that the Public Works Department at that installation increased utility charges on several occasions although the shelter rent charges were not being changed or even reviewed. Instead of increasing the employees total payment, the shelter rent portion was decreased in the amount of the increase in utility charges. The reason for the increases in utility charges is not given.

Paragraph 8 of Circular A-45 provides that, when utilities are metered, adjustments will be made in charges to employees when commercial utility rates for the comparable private housing are changed. No similar provision is made with respect to adjusting utility charges when those charges are based on the appraised average cost of utilities in the comparable private housing. Thus, on the basis of the information provided it appears that the total rent charged China Lake residents was correct under the terms of Circular A-45. We will consider, however, whether the Circular should be modified to expand the provisions of paragraph 8 to cover situations where utility rate changes occur in circumstances under which utility charges to employees are established on the basis of the average utility costs in the comparable housing rather than on metered readings.

Thank you for the opportunity to comment on this draft report.

Sincerely,



Alan L. Dean
Deputy Assistant Director
Organization and Management
Systems Division

APPENDIX IV

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF DEFENSE
AND THE MILITARY DEPARTMENTS
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE:		
Melvin R. Laird	Jan. 1969	Present
Clark M. Clifford	Mar. 1968	Jan. 1969
Robert S. McNamara	Jan. 1961	Feb. 1968
DEPUTY SECRETARY OF DEFENSE:		
Kenneth Rush	Feb. 1972	Present
Vacant	Jan. 1972	Feb. 1972
David M. Packard	Jan. 1969	Dec. 1971
Paul H. Nitze	July 1967	Jan. 1969
Cyrus R. Vance	Jan. 1964	June 1967
ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER):		
Robert C. Moot	Aug. 1968	Present
Robert N. Anthony	Sept. 1965	July 1968
Charles J. Hitch	Feb. 1961	Aug. 1965
ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS):		
Barry J. Shillito	Jan. 1969	Present
Thomas D. Morris	Sept. 1967	Jan. 1969
Paul R. Ignatius	Dec. 1964	Aug. 1967
DEPUTY ASSISTANT SECRETARY OF DEFENSE (FAMILY HOUSING):		
John J. Reed	Feb. 1962	Mar. 1969

Tenure of office	
<u>From</u>	<u>To</u>

DEPARTMENT OF DEFENSE (continued)DEPUTY ASSISTANT SECRETARY OF
DEFENSE (INSTALLATIONS AND HOUSING):

Edward J. Sheridan	May 1969	Present
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DEPARTMENT OF THE ARMY

SECRETARY OF THE ARMY:

Robert F. Froehlke	July 1971	Present
Stanley R. Resor	July 1965	June 1971
Stephen Ailes	Jan. 1964	July 1965

ASSISTANT SECRETARY OF THE ARMY
(INSTALLATIONS AND LOGISTICS):

J. Ronald Fox	June 1969	Present
Vincent P. Huggard (acting)	Mar. 1969	June 1969
Robert A. Brooks	Oct. 1965	Feb. 1969
Daniel M. Luevano	July 1964	Oct. 1965

DEPARTMENT OF THE NAVY

SECRETARY OF THE NAVY:

John W. Warner (acting)	Apr. 1972	Present
John H. Chaffee	Jan. 1969	Apr. 1972
Paul R. Ignatius	Aug. 1967	Jan. 1969
Paul H. Nitze	Nov. 1963	July 1967

ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND LOGISTICS):

Charles L. Ill	July 1971	Present
Frank P. Sanders	Feb. 1969	June 1971
Barry J. Shillito	Apr. 1968	Jan. 1969
Vacant	Feb. 1968	Apr. 1968
Graeme C. Bannerman	Feb. 1965	Feb. 1968

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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