

**Procedures and Practices to Comply With
the Rural Development Act of 1972
Have Improved**

July 2004

Reference Number: 2004-10-134

This report has cleared the Treasury Inspector General For Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

July 22, 2004

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Procedures and Practices to Comply With
the Rural Development Act of 1972 Have Improved
(Audit # 200410019)

This report presents the results of our audit to determine if the Internal Revenue Service (IRS) has implemented the corrective actions planned in response to our prior audit¹ and if the policies that have been established to comply with requirements of the Rural Development Act of 1972 (RDA) (as amended)² are adequate and being followed. This audit was performed in compliance with the requirements of the Consolidated Appropriations Resolution, 2004.³

The intent of the RDA was to help revitalize and develop rural areas by ensuring they receive adequate consideration when locating Federal facilities. The IRS established policy and procedures to promote compliance with the Act and documented them in a Location Policy in June 2002. The Location Policy uses a definition of a rural area that is consistent with the definition recommended by the General Services Administration.

In summary, our review of moves and relocations showed the procedures in the Location Policy are being followed in most instances. However, some projects initiated prior to the establishment of the Location Policy did not contain documentation showing that the RDA and Department of the Treasury requirements had been considered. Because of the length of the IRS' space acquisition process, projects initiated prior to establishment of the Location Policy may still not have been finalized, and the RDA and Department of the Treasury requirements could still be addressed. In addition, one of

¹ *Procedures Established to Ensure Compliance With the Rural Development Act of 1972 Were Not Consistently Followed* (Reference Number 2003-10-177, dated August 2003).

² 7 U.S.C § 2204b-1(b) (2000).

³ Pub. L. No. 108-199, Division F, Title VI, § 636.

the relocation projects misclassified the site of a new post-of-duty as rural instead of urban. While this particular IRS building may be best suited to an urban site, accurate classification is an important factor in making a proper determination.

We recommended the Chief, Agency-Wide Shared Services (AWSS), require that moves or relocations initiated prior to establishment of the Location Policy, but for which the Solicitations for Offers have not been made, be reviewed for compliance with the RDA. In addition, a definitive source, such as the United States Census, should be established for making decisions as to whether a location is rural or urban.

Management's Response: AWSS management agreed with our recommendations. Based on our conversations with management, we changed the wording of one of the recommendations to ensure its intent was clear. The AWSS will review projects approved prior to the Location Policy, where the Government has not yet issued a Solicitation for Offers, to ensure compliance with the RDA. The AWSS will also identify a preferred standard for obtaining population data. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Rural Development Act of 1972 Have Improved**

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Procedures and Practices to Comply With the Rural Development Act of 1972 Have Improved

Background

The Rural Development Act of 1972 (RDA) (as amended)¹ requires the heads of all Federal executive departments and agencies to establish and maintain departmental policies and procedures giving first priority to the location of new offices and other facilities in rural areas. The intent of this provision is to help revitalize and develop rural areas by ensuring they receive adequate consideration when locating Federal offices and facilities.

The Department of the Treasury issued a directive, Location of New Offices and Facilities in Rural Areas (Treasury Directive (TD) 72-03), which was updated August 19, 2003, to meet the requirements of the RDA. TD 72-03 states that the policy of the Department of the Treasury (and all bureaus) is to give first priority to locating new Treasury facilities in rural areas unless there are substantial reasons for not doing so. TD 72-03 also requires the bureaus to obtain written approval to deviate from the requirements of the Directive. Department of the Treasury approval is required for a major facility acquisition, a significant organizational change involving geographic or regional adjustments, or a program activity that involves, in its entirety, 50 or more employees. In all other instances, the appropriate bureau official may approve decisions to relocate to other than a rural area.

The Real Estate and Facilities Management (REFM) Division of the Agency-Wide Shared Services (AWSS) office is responsible for real estate acquisition and management for the Internal Revenue Service (IRS). To promote compliance with the RDA, the IRS established policy and procedures and documented them in the Memorandum on Location Policy in June 2002.² The Location Policy is published on the AWSS office web site and provides guidelines to ensure the RDA is addressed. Included with the Location Policy is a checklist developed to help evaluate new locations for RDA compliance. The policy also requires narrative support for decisions to locate in other than rural areas. Facilities Management Officers (FMO) and project managers for space projects are

¹ 7 U.S.C § 2204b-1(b) (2000).

² Memorandum from the Director, Real Estate and Facilities Management Division (dated June 17, 2002).

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responsible for preparing this documentation, which is forwarded to realty specialists at the National Headquarters for review for compliance with the policy. Once reviewed by a realty specialist, the documentation is returned to the FMOs or project managers for inclusion in their project files.

The Consolidated Appropriations Resolution, 2004³ requires the Inspector General of each applicable department or agency to submit to the House of Representatives Committee on Appropriations a report detailing what policies and procedures are in place for each department or agency to give first priority to the location of new offices and other facilities in rural areas, as directed by the RDA.

For the last 2 years, the Treasury Inspector General for Tax Administration has performed reviews to determine the IRS' compliance with the RDA. In last year's report,⁴ we noted that, in most of the project files we reviewed, there was no documentation as to whether the RDA requirements were considered before moves were completed. We also determined that the definition of a rural area that the IRS used in its procedures was not consistent with the definition recommended by the General Services Administration (GSA) and did not comply with the Interim Procedures for TD 72-03. The IRS responded by revising the rural area definition; it is now consistent with the definition recommended by the GSA and TD 72-03. The definition is included in the IRS Location Policy and is posted on the REFM Division web site.

This review was performed at the IRS National Headquarters in Washington, D.C., in the REFM Division during the period March through May 2004. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

³ Pub. L. No. 108-199, Division F, Title VI, § 636.

⁴ *Procedures Established to Ensure Compliance With the Rural Development Act of 1972 Were Not Consistently Followed* (Reference Number 2003-10-177, dated August 2003).

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Procedures to Ensure Compliance With the Rural Development Act Are Generally Being Followed

To accomplish this year's review, we selected a judgmental sample of 19 of the 94 space projects that were either completed between January 2003 and April 2004 or pending at the end of this period. We reviewed the project files to evaluate the IRS' compliance with the requirements of the RDA.⁵ Of the 19 projects in our sample, 15 were for moves to urban areas, and 4 were for moves to rural areas.

The project files contained documentation that the RDA requirements were considered and Department of the Treasury approval was obtained when necessary for 14 of the 19 projects in our sample. The other five projects were missing some documentation needed to determine compliance with the RDA or Department of the Treasury policy. However, they were initiated before the IRS established its Location Policy in June 2002, which required IRS employees to retain documentation in the project file on the consideration of the RDA requirements and receipt of Department of the Treasury approval. For four of these five projects, the moves are complete; however, for one project, the new site location had not been finalized. We believe the IRS should review this project, document whether the RDA was considered, and obtain Treasury approval for this site, because it involves more than 50 employees.

The IRS' space acquisition process usually begins well in advance of the need for that space. Furthermore, delays caused by lack of funding, union negotiations, etc., can increase the amount of time between the initiation and completion of a project. As such, the IRS should review the project files for any moves that were initiated prior to the establishment of the Location Policy but for which the Solicitations for Offers have not been issued and commitments to specific locations have not yet been made. Such a review would help ensure compliance with the RDA and the IRS Location Policy.

Recommendation

1. The Chief, AWSS, should require the review of space projects that were initiated prior to establishment of the

⁵ See Appendix I for a description of the methodology used to select our judgmental sample.

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IRS Location Policy, but for which the Solicitation for Offers has not been issued, to ensure those moves are in compliance with the RDA.

Management's Response: The AWSS will evaluate projects approved prior to the adoption of the Location Policy, where the Government has yet to issue a Solicitation for Offers, to ensure compliance with the RDA.

Use of a Definitive Source for Population Statistics Would Help Properly Classify Locations

The definition of rural is a city, town, or unincorporated area that has a population of 50,000 inhabitants or less, other than an urbanized area immediately adjacent to a city, town, or unincorporated area that has a population in excess of 50,000 inhabitants. To meet the requirements of the RDA, an agency must determine whether a location meets this definition. There are several sources for population statistics, which can differ in the statistics they provide. We searched several sources for the populations of the cities in our sample and found there was considerable variation in the populations cited.

In our sample of 19 cases, there was 1, a planned relocation to Santa Maria, California, in which the site of the new post-of-duty was misclassified as rural. The narrative attached to the request for space for this particular move states "this requirement is outside the boundary of a metropolitan area, and therefore, does not require further Rural Development Act analysis." We researched the United States Census for 1990 and 2000 and found the populations for Santa Maria were 61,284 and 77,423, respectively. Based on the definition of rural that was established by the GSA and adopted by the IRS, this city would not qualify as rural. This particular IRS building will house employees who have day-to-day contact with taxpayers and may be best suited to an urban site instead of a rural location. However, because the site was not properly classified, that determination was not made.

For consistency, the IRS Location Policy should include a recommended source for obtaining population information during RDA consideration. Neither the RDA nor GSA guidelines set a specific source for population information; however, the United States Census is the official population census of the United States. If different or more current population information is available elsewhere, that

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information could be used and the reason documented in the project file.

Recommendation

2. The Chief, AWSS, should modify the IRS Location Policy to establish a definitive source for obtaining population information when the RDA is being considered for new or relocated sites. Using a consistent, reliable source, such as the most recent United States Census, would help ensure sites are properly classified as either rural or urban. If population information from a source other than the United States Census is used, it should be documented in the project file.

Management's Response: The AWSS will identify a preferred standard for population data and require files be documented as to source and reason if an alternate standard is used.

Detailed Objective, Scope, and Methodology

The objective of this review was to determine if the Internal Revenue Service (IRS) implemented the corrective actions planned in response to our prior audit¹ and if the policies that have been established to comply with requirements of the Rural Development Act of 1972 (RDA) (as amended)² are adequate and being followed. This audit was performed in compliance with the requirements of the Consolidated Appropriations Resolution, 2004.³ To accomplish our objective, we:

- I. Determined whether the IRS established adequate procedures to comply with the RDA and Treasury Directive (TD) 72-03, Location of New Offices and Facilities in Rural Areas.
 - A. Verified whether the IRS revised the definition of a rural area to be consistent with the definition recommended by the General Services Administration and TD 72-03.
 - B. Reviewed the procedures established by the IRS for locating new facilities.
- II. Evaluated whether the IRS is in compliance with the RDA and TD 72-03. We selected a judgmental sample of 19 of the 94 space projects that were either completed between January 2003 and April 2004 or pending at the end of this period. We used judgmental sampling due to time constraints, as we are required to report on the IRS' compliance with the RDA by July 2004. We ensured we selected projects from each of the five Real Estate and Facilities Management Division geographic areas.
 - A. Determined whether the IRS complied with the RDA and TD 72-03 when establishing new offices.
 - B. Determined whether the IRS received the required approval if there were any deviations from the RDA.

¹ *Procedures Established to Ensure Compliance With the Rural Development Act of 1972 Were Not Consistently Followed* (Reference Number 2003-10-177, dated August 2003).

² 7 U.S.C § 2204b-1(b) (2000).

³ Pub. L. No. 108-199, Division F, Title VI, § 636.

Major Contributors to This Report

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Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

RECEIVED

JUL 16 2004

JUL 16 2004

MEMORANDUM FOR GORDON C. MILBOURN III
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *Norris L. Walker*
Norris L. Walker
Acting Director, Real Estate and Facilities Management

SUBJECT: Draft Audit Report - Procedures and Practices to Comply With
the Rural Development Act of 1972 Have Improved
(Audit # 200410019)

I have reviewed your draft report and agree with the recommendations. Attached are the corrective actions that address the two recommendations. We have made great strides in managing this program and, through the joint efforts of IRS and Treasury Inspector General for Tax Administration's annual audit of this program, continued success is anticipated.

However, on the first recommendation, I have a qualification. For projects approved prior to June 2002, for which a Solicitation for Offers has not been issued, we will evaluate them for compliance with our location policy. This action will enhance program delivery by avoiding delays, increased costs, and potential legal ramifications related to contract issues. My staff vetted this proposal with the Senior Auditor in charge of the audit on June 28, 2004, and they agreed. As such, I ask that you modify this recommendation in the final version of the audit, as it reduces risk of legal liabilities (i.e., lease holdovers and bid protests due to stopping and reworking lease procurements for a rural area location) without diminishing our obligations under the Statute or the intent of the original recommendation.

If you have any questions, please call me at (202) 283-9400 or Naida Meares, Chief, Real Estate Management Branch at (202) 283-9385.

Attachment

cc: Assistant Deputy Commissioner Operations Support
Chief, Agency-Wide Shared Services
Management Controls Coordinator OS:A:F

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ATTACHMENT

RECOMMENDATION 1:

The Chief, Agency-Wide Shared Services shall review moves or relocations initiated prior to establishment of the Location Policy, but for which a final site decision has not been made for compliance with the RDA.

CORRECTIVE ACTION:

The IRS will conduct evaluations of valid projects approved prior to adoption of internal policy implementing RDA where the Government has yet to issue a Solicitation for Offers.

IMPLEMENTATION DATE:

October 15, 2004.

RESPONSIBLE OFFICIAL:

Acting Director, Real Estate and Facilities Management OS:A:REFM

CORRECTIVE ACTION MONITORING PLAN:

The Headquarters Real Estate Management Branch will track the evaluation of projects.

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2

RECOMMENDATION 2:

The Chief, AWSS, should modify the IRS Location Policy to establish a definitive source for obtaining population information when the RDA is being considered for new or relocated sites.

CORRECTIVE ACTION:

We will identify a preferred standard for population data and require file documentation as to source and reason, if an alternate standard is utilized.

IMPLEMENTATION DATE:

September 15, 2004

RESPONSIBLE OFFICIAL:

Acting Director, Real Estate and Facilities Management OS:A:REFM

CORRECTIVE ACTION MONITORING PLAN:

Not Applicable