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The State Department is responsible for acquiring, constructing, selling, maintaining, and operating about $3 billion worth of U.S. Government-owned and leased properties in 215 cities and 135 countries. Responsibilities are divided among the Office of Foreign Buildings (FBO), departmental bureaus, and the overseas missions. Management is fragmented, and there has been ineffective use of construction funds, increasingly higher housing costs, inadequate maintenance, and unreliable real-property information. Decisions made by FBO have not been cost effective because of a lack of sound long-range planning, poor cost estimating, external pressures, and insufficient technical personnel. The management system for overseas housing does not provide adequate criteria for the size and cost of housing or a centralized review and uniform housing policy. Employees are often provided with housing that exceeds reasonable space standards and living quarters allowances. Properties are not maintained and managed properly because of a lack of qualified personnel to make inspections, weak maintenance criteria, and deficiencies in information used by managers. A reliable real-property management information system is not yet in effect in spite of FBO plans and GAO work on this subject more than 8 years ago. Recommendations made to correct the deficiencies included establishing sound maintenance criteria and priorities, cost information, and followup procedures needed to maintain the properties. (HTW)

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STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON LEGISLATION AND

NATIONAL SECURITY

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

ON

THE DEPARTMENT OF STATE'S MANAGEMENT OF

REAL ESTATE OVERSEAS

Mr. Chairman and Members of the Subcommittee:

We are pleased to have the opportunity to discuss with you today our report entitled "The Department of State Has Continuing Problems In Managing Real Estate Overseas." We earlier issued two other reports concerning the Department's management of real estate overseas--one in 1969 and one in 1974.

The State Department is responsible for acquiring, constructing, selling, maintaining and operating about $3 billion worth of U.S. Government-owned and leased properties in 215 cities and 135 countries. Managing such a huge program is a difficult task. In the Department, this task is divided among the Office of Foreign Buildings (FBO), departmental bureaus and the overseas missions.

In our report, we concluded that management is fragmented and that there has been ineffective use of construction funds, increasingly higher housing costs, inadequate maintenance, and unreliable real property information. The Department is aware of these problems and has informed us that it is, or plans, to take action to correct them. I would like to discuss each of these areas in more detail.

FBO Management Problems With Construction Programs

Decisions made by FBO in carrying out its construction program overseas are not cost effective because of (1) a lack of sound long-range planning, (2) poor cost estimating, (3) hesitancy to resist interference from external pressures, and (4) insufficient technical personnel. As a result, unnecessary costs are incurred to complete projects, projects are often delayed or postponed, unplanned projects are initiated, and cost overruns and time delays are common.

Authority and responsibility for evaluating and developing real estate space requirements and preparing country-by-country plans is not centralized--there is no central point in the Department where housing and space needs are determined or plans are devised to meet these requirements. Therefore, the State Department does not know the total number of properties that should be owned or rented or the most economic and efficient way of acquiring needed properties.

The Office of Foreign Buildings has no systematic method, specific criteria, or policies for determining the best and most economical way to satisfy the State Department's overseas real estate needs. Long-range planning for each post is erratic or nonexistent. Senior personnel at the post on tours of duty for 2 to 3 years make the primary inputs to real estate and construction decisions for buildings designed to last 30 to 40 years, long after the personnel have been reassigned. Most of these personnel are not qualified or experienced in the real estate or construction fields. Consequently, construction, acquisition, and leasing of properties to meet the needs of overseas posts are not carried out in a sound and efficient way.

In addition to weak long-range planning, FBO has problems with its cost estimating for capital projects. FBO's estimates of capital project costs prepared for budget and congressional justification are seriously understated and as a result many complex management problems are created because (1) construction costs are overrun (2) projects are deleted or delayed to a later time but built at a much higher cost, and (3) design drawings and sites are purchased and not used. All these factors drive up costs to the Government.

Most of the capital projects initiated and constructed during 1970-77 had substantial cost overruns when measured against the FBO budget justifications to the Congress. For example for 11 major capital projects during this period the total approved budgeted amount was $24,665,000, but completion costs were $49,990,700--an overrun of $25,325,700 or about 103 percent.

When project costs exceed budgeted amounts, funds are shifted to complete ongoing projects and other projects are deleted or delayed. Deleted projects are sometimes started at much later dates and at higher costs because of inflation or other cost growths. Because funds are shifted to complete higher priority or ongoing projects, design drawings and sites accumulate and become obsolete or inadequate and must be updated, exchanged, or sold.

Another problem which hinders FBO management is interference from external pressures concerning real estate decisions. Orderly and efficient planning and execution of construction projects is at times hindered by interference from Ambassadors and senior officials, sometimes to satisfy their personal desires.

It is unreasonable and costly to stop, change, or interfere in a project once it is in process, except for reasons which have foreign policy implications or when a significant change of conditions has occurred.

Another significant problem is the lack of sufficient technical staff to manage the worldwide real estate operation. The FBO does not have sufficient technical staff to inspect, maintain, and advise the overseas posts where the U.S. Government has property holdings. This is evidenced by the fact that properties are deteriorating becuase of improper maintenance, uneconomical properties are being operated and maintained, and post administrative officers are entering into construction contracts without proper technical knowledge to protect the Government interest, all of which results in increased costs to the U.S. Government.

We made several recommendations to the Department to ensure more effective use of construction funds. These related to (1) assigning responsibility for developing real estate plans and criteria to FBO, (2) asking the Congress for full funding of construction projects, (3) issuing a directive to preclude unnecessary changes in building plans and projects and (4) encouraging FBO to establish overseas regional offices. We also recommended that the FBO obtain and use the most current data available at the overseas missions in developing cost estimates for its construction projects.

In commenting on our report the Department agreed with our recommendations and stated that it was taking actions to improve the use of construction funds. These include (1) assigning FBO the responsibility to develop country-by-country real estate plans; (2) developing information on foreign real estate markets to determine whether properties should be owned, long-term leased or short-term leased; (3) requesting additional positions for possible regional office activities; and (4) using economic and commercial data from overseas posts for FBO planning and estimating building projects.

Once fully implemented, we believe the actions planned by the Department should result in an improved use of construction funds.

OVERSEAS HOUSING

Management of Department of State employee housing overseas is fragmented among the overseas posts, headquarters geographic bureaus, and FBO. The present management system does not provide adequate criteria for the size and cost of housing or a centralized review and centralized uniform housing policy. Consequently, the U.S. Government is paying increasingly higher housing costs because employees are provided with housing that exceeds reasonable space standards and living quarter allowances.

FBO is responsible for funding and controlling long-term leased and Government-owned property, while the Department's five geographic bureaus are responsible for short-term leased properties. The overseas posts have been delegated responsibility for short-term leased properties costing under $25,000, and FBO is responsible for approving those in excess of $25,000.

Each post attempts to develop its own housing criteria. Size and space seem to be reasonably basic standards to use for housing criteria. FBO has established space guidelines for construction of new housing but has developed no criteria to serve as a guide for determining leased housing space. The bureaus have developed no housing criteria for the posts. Bureau personnel told us that the judgment of the post staff is the main criteria used to select housing within funds available to the post.

Because the posts are responsible for executing short-term leases not exceeding $25,000 annually for less than 5 years without prior approval, most of the $29 million annual residential space has been obtained without headquarter's approval. The Department of State has not established systematic review procedures to assure that all available alternatives have been considered in satisfying its space needs abroad. The Department should institute criteria for the posts to use in deciding on the best alternatives and should monitor the posts' efforts to satisfy housing needs.

The State Department requested a $20 million fiscal year 1978 supplemental appropriation as part of a proposed $100 million capital fund to acquire or construct housing in foreign countries that have extreme shortages and excessive rents. Although the request was approved, it was divided equally between fiscal years 1978 and 1979. We believe this is a move in the right direction if the purchases are backed by adequate cost-benefit studies, and ownership will save the Government money through lower living quarter allowances and corresponding offsets in salary and expense money spent for leasing.

We made several recommendations for improving the management of overseas housing. These included (1) centralizing funding and control of the Department's overseas housing in FBO, (2) establishing and using uniform leasing criteria, (3) reviewing all present and future leases to ensure compliance with applicable criteria, (4) and providing real estate training and experience to overseas managers.

In commenting on our report, the Department stated that it has initiated action to centralize management of and reporting on overseas housing and plans to establish and enforce space criteria. In addition the Foreign Service Institute is establishing courses to provide needed real estate training for overseas managers.

PROPERTY IMPROVEMENTS,
MAINTENANCE, AND REPAIRS

State Department-owned and long-term leased properties are not maintained and managed properly due to a (1) lack of technically qualified personnel to make inspections,

(2) weak maintenance criteria and priorities, and (3) serious deficiencies in information used by both post and FBO managers. Consequently, maintenance and repair funds are spent to rehabilitate neglected properties, maintenance costs escalate, unit property values diminish, and funds are used to operate and maintain uneconomical buildings.

Our review at FBO and at posts in Europe, the Far East, and South America disclosed that the overseas properties are not maintained efficiently and methodically because responsible post property management officials do not systematically follow a preventive maintenance schedule. They do not clearly understand and use maintenance and repair criteria nor establish maintenance priorities on U.S. properties to preserve the condition of a property to avoid deterioration and subsequent need for later major repairs.

The estimated maintenance and repair budgets for fiscal years 1976, 1977, and 1978 was about $8 million, $9 million, and $11 million, respectively, for U.S. properties and about $2 milliion, $3 million, and $3 million for short-term leased properties.

We found at the posts we visited that the Embassies do not keep records which would enable them to readily account for the improvement, maintenance, and repair projects that have been undertaken or the source and amount of funds used to complete each project; thus they lack financial management information to determine whether their properties are economical to operate and maintain.

We made several recommendations for improving the maintenance and management of overseas properties. These included establishing (1) sound maintenance criteria and priorities, (2) periodic property inspections, (3) a scheduled cycle of preventive maintenance, (4) proper cost information, and (5) follow up procedures needed to maintain the properties in good condition.

In commenting on our report the Department stated that it has informed overseas posts of certain maintenance actions to be taken and is preparing a detailed maintenance handbook. In addition, the Department is working on an automated accounting system.

MANAGEMENT INFORMATION SYSTEM

Over the years, FBO has planned to establish a real property management information system to provide inventory and cost data for management decision-making and to serve as a base of other subsystems. More than 8 years ago, GAO addressed this subject, but a reliable system is not yet in place. A department management information specialist estimated that it will be at least 5 years before a reliable system is fully operational.

FBO's property books were not reliable and reflected an overall error rate of about 20 percent, or about 33,000 coding errors as of September 30, 1976. Our test of these books revealed numerous inconsistencies when compared with data at the posts and headquarters. An inventory list published in January 1978 indicates that there is some improvement in recording of inventories.

We made several recommendations for improving the management information system. These included (1)directing posts to properly submit inventory information to FBO, (2) assuring adequate staffing in FBO, (3) having all real estate matters at the posts assigned to the General Services Officer, and (4) having the mission establish and maintain a ledger-card cost system until the automated cost system is operational.

In commenting on our report the Department stated that the 1977 property inventory record printed in January 1978 has an error rate of less than 4 percent. While attempting to determine how FBO arrived at this error rate, FBO officials told us that it is an estimate based on information contained in their current property book rather than a calculated and documented percentage.

We noted differences between the September 1976 FBO inventory book used during our field work and the newly published September 1977 book. FBO officials stated that these differences could not be easily reconciled. We believe that the property inventory books still contain errors and need improvement to be a reliable management tool.

This concludes my prepared statement. I would be glad to answer any questions you might have on the matters I have discussed.