

GAO

Testimony



136984

For Release
on Delivery
Expected at
10:00 a.m.
Wednesday
October 5,
1988

State Department's Management of
Real Property

Statement of
Frank C. Conahan, Assistant Comptroller General
National Security and International Affairs
Division

Before the
Legislation and National Security Subcommittee
Committee on Government Operations
House of Representatives



043440 / 136984

Mr. Chairman, Members of the Subcommittee:

I am pleased to be here to discuss our observations on the State Department's management of 7,500 U.S.-owned or leased properties overseas and its effort to resolve previously identified real estate problems.

During 1978 hearings, this Subcommittee expressed concerns about the lack of adequate overseas housing standards, which had resulted in the widely varying size and costs of housing, and the lack of adequate maintenance on U.S.-owned properties overseas. The Subcommittee subsequently recommended, among other things, that State

- centralize real estate management in its Office of Foreign Buildings Operations (FBO) and obtain a sufficient number of technical experts to handle worldwide real estate activities,
- ensure uniformity of housing support for all U.S. government agencies at overseas posts,
- prepare short- and long-range plans for its real estate needs, and
- establish and implement a management information system by 1980.

At the time of the hearings, Department officials agreed to take the recommended corrective actions. State officials now believe that they have methodically and, by and large, successfully addressed the Subcommittee's 1978 concerns.

Our review showed, however, that while FBO has made progress in establishing the framework for better management, it has not effectively used it to bring about needed improvements. Persistent shortcomings continue to contribute to the high cost of housing U.S. personnel abroad and to inadequate maintenance of overseas properties. These shortcomings include the wide-scale leasing of housing units that exceed State's established standards, ineffective long-term planning, lack of technical expertise, and a deficient and incomplete management information system.

FBO ORGANIZATION AND EXPERTISE

At the headquarters level, in 1978 State consolidated all real estate functions in FBO, and in December 1986 FBO established a real estate division.¹ However, this division relies heavily on others to help carry out the management of overseas real estate, including FBO area officers and maintenance officials, as well as administrative officials and housing boards at the overseas posts.

State is trying to manage this complex worldwide real estate program with a staff of foreign service generalists who rotate to other unrelated assignments every few years. The key FBO technical personnel staffing the real estate division have limited

¹ The Division's responsibilities are to analyze current property management practices and recommend changes if necessary; monitor compliance with established property management practices; monitor housing practices worldwide to identify areas of management improvements; assist area management division in the review of post leasing programs and maintain the real estate property management system.

experience or expertise in specific real estate activities. The staff is, in essence, learning on the job. FBO officials advised us that they hire outside experts and consultants to assist the real estate staff when addressing complex real estate transactions.

In response to the Subcommittee's recommendation to ensure uniform housing support, in March 1979, FBO established a requirement for each post to set up a board to manage and control housing assignments. However, the boards at most posts we visited have merely provided a forum for the post staff to air complaints; concerns for controlling housing costs or enforcing space standards have generally not received high priority.

HOUSING STANDARDS

Most of State's 5,000 short-term leased properties overseas are housing units. These short-term leases cost the U.S. government about \$193 million a year. To place a limit on the size of housing units, space standards have been developed based on adequate housing comparable to dwellings in the metropolitan Washington area, determined by family size and configuration. For example, a single employee with one child is authorized a two-bedroom housing unit. The space standards are adjusted for overseas locality and representational use.

In the seven countries we visited--Argentina, Belgium, Brazil, Egypt, Hong Kong, Nigeria, and the Philippines--we found

substantial use of over-standard housing, resulting in excess costs to the U.S. government. For example:

- In Buenos Aires, Argentina, 42 of the 64 short-term leased units were over-standard, and in Rio de Janeiro, Brazil, 21 of 47 units were over-standard.
- In some cases, the housing provided greatly exceeded the standards. For instance, in Brussels, two couples with no children were given six-bedroom homes, and a single employee occupied a seven-bedroom house. In Manila, a couple with one child was assigned a five-bedroom unit.
- We estimate that the use of over-standard housing in the Philippines and Hong Kong alone is costing the U.S. government an extra \$0.5 million, out of a total annual cost of \$5.7 million.

Our review indicated that overseas posts either ignore or misinterpret the space standards. Costly representational housing is often provided even though little or no representational functions are carried out in these residences.

FBO has set up procedures that require FBO Washington approval of all leases that exceed \$25,000 a year or exceed authorized square footage by more than 10 percent. According to FBO, the procedures were established as a mechanism to ensure that unusual proposals are fully justified and judged on their merits.

Although the \$25,000 threshold was established by law in 1966, State does not appear to be effectively enforcing this provision. At some of the posts we visited, lease files did not contain FBO approvals on a number of rental contracts that exceeded the \$25,000 threshold, and post officials could not locate them. According to officials at FBO Washington, because their records are not centralized, they cannot verify which of the leases have been approved or disapproved. In our opinion, the posts' justifications and FBO's approvals should be clearly documented and readily available.

PLANNING

Our review indicated that long-range and short-range plans for acquiring and disposing of government-owned properties are generally not prepared by the real estate division, even though this is one of its major stated functions. Acquisitions and dispositions appear to be carried out on an ad hoc basis.

FBO has not developed country plans to determine what real estate needs exist and how best to satisfy them. Rather it uses an ad hoc technique it refers to as "rationalization." According to FBO officials, this involves selling off high-dollar-value, prime properties and purchasing cheaper substitute properties. FBO officials also told us that they buy residential properties when "targets of opportunity" occur.

Various FBO officials offered the following reasons as to why formal long-and short-range plans were not being prepared: (1) funding is not available to implement such plans; (2) FBO buys and sells properties as opportunities arise, and formal planning is therefore of marginal benefit; and (3) FBO has plans but they are not written down.

The lack of effective planning has resulted in FBO decisions that may not have been in the best interest of the government. For example, in 1986, FBO had three ambassador residences in Cairo. To generate funds for other projects, FBO sold two of them, believing that the remaining one was adequate. Now the Ambassador is requesting a new residence, and FBO is considering different options for providing one.

As another example, State recently paid millions of dollars to buy its way out of a lease-purchase arrangement for a 79-unit apartment building in Hong Kong, even though it had been built to FBO specifications. As a result, State has had to continue leasing some very costly rental units. State's leases in Hong Kong run as high as \$76,000 a year for an individual housing unit.

LACK OF ADEQUATE MAINTENANCE

According to a recent State estimate, U.S.-owned property managed by State is valued at about \$10 billion. During the 1978 hearings, we pointed out that maintenance of U.S.-owned buildings was

neglected and the buildings were rapidly deteriorating. We indicated that the problem had resulted from (1) a lack of technically qualified personnel to make maintenance inspections, (2) weak maintenance criteria and priorities, and (3) deficient information used by the post and FBO maintenance managers.

Our review indicated that few improvements have been made in the last 10 years. State officials recently stated during appropriations hearings that, because of years of neglect, a serious maintenance problem exists at a number of the 2,500 government-owned and long-term leased properties overseas. According to State officials, the root of the problem is that the responsibility for identifying maintenance needs typically rests with foreign service generalists at overseas locations who do not have the technical skills to assess maintenance problems. The same conclusion was reached during the 1978 hearings.

In 1985 FBO revised its Building Maintenance Handbook and in 1987 established a branch whose responsibilities include periodic inspections. However, State officials pointed out that at many smaller posts, the facility maintenance responsibility falls to a junior officer with little experience and no maintenance background.

A scheduled cycle of preventive maintenance has not been used and FBO officials stated that they lack the resources to carry out the

necessary inspections. FBO officials have advised us that they plan to hire consultants in the near future to survey the maintenance problem and hope to develop some methodology to address these long-standing problems.

MANAGEMENT INFORMATION SYSTEM

An effective management information system for worldwide real estate should enable State officials to know exactly what properties it has on hand and the related costs. It should also provide data to assist in the proper management (leasing, acquisition, disposition, and maintenance) of these facilities.

In response to the Subcommittee's 1978 recommendation to develop a management information system, State initiated an elaborate Real Estate Management System (REMS) in September 1982. However, after 6 years and \$9 million REMS is still incomplete. In addition, the system contains inaccurate, incomplete, and unreliable data. The current status of REMS can be highlighted as follows:

- The automated REMS has been installed at only 24 of 144 posts.
- In fiscal year 1987 FBO developed and tested a personal computer (PC) version of REMS for overseas posts. It was to be installed at 40 medium-sized posts in fiscal year 1988. However, as of August 1988 the PC version had been installed at only two posts, Lisbon and Oslo. Another PC version was to have been installed in Caracas during fiscal year 1988, but it has not yet been completed.
- REMS does not adequately reflect the State Department's real property inventory. REMS quarterly inventory reports continue to contain inaccurate and incomplete data. For example, in each of the countries we visited, lease costs and square footage were inaccurately reported, and/or properties were not properly added or deleted from the inventory lists.

At the post level, day-to-day REMS management is usually assigned to a foreign national employee such as a supply clerk or a secretary. The foreign service officer--typically the general services or administrative officer--who has overall responsibility for managing real property at the post and for REMS, does not usually ensure that the REMS data submitted to Washington is complete, timely, and accurate.

One reason provided for the lack of priority at the post level is the perception that REMS is not useful to the post. Some posts have developed local manual systems to manage their real estate instead of using REMS. At the Washington level, sufficient staff have not been assigned to monitor and interpret the system.

In the last 10 years, State has reorganized and established procedures for administering its overseas real estate. However, a greater commitment is clearly needed to enforce the housing procedure effectively and ensure that government owned property is adequately maintained.

This concludes my prepared remarks. I will be happy to respond to any questions.