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Report to the Chairman, Legislation and National Security Subcommittee, Committee on Government Operations, House of Representatives

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STATE DEPARTMENT

Management of Overseas Real Property Needs Improvement

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National Security and
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The Honorable John Conyers
Chairman, Legislation and National
Security Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In response to a request from the former Subcommittee Chairman, we reviewed the Department of State's management of 7,500 U.S.-owned and leased overseas properties. Specifically, we reviewed State's (1) implementation of its housing standards, (2) building maintenance program, (3) development of a real estate management system, and (4) planning associated with the acquisition and disposal of overseas properties.

Results in Brief

Our review showed wide-scale leasing of housing units that exceed State's established standards, inadequate maintenance of government-owned properties, lack of technical expertise, a real estate management information system that is incomplete and inaccurate, and ineffective short- and long-range planning to acquire and dispose of property. These deficiencies contribute to the increasing costs of stationing personnel at overseas posts.

Over-standard Housing

State's 5,000 short-term leased overseas properties, most of which are housing units, cost about $193 million a year. These housing units, provided free of charge to U.S. personnel living overseas, are to be assigned according to space standards set by the State Department. Exceptions are to be approved by high-level State officials.

The State Department space standards are 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 localities and representational use. Responsible State officials have indicated that the current space standards are adequate.

However, our review indicated substantial use of over-standard housing, resulting in excess cost to the U.S. government. Overall, one out of every three housing units provided to U.S. employees by State in the seven countries we visited were over-standard. For example:

- In Brussels, two couples with no children were given six-bedroom houses, and in Manila, a couple with one child was assigned a five-bedroom unit. Such housing assignments greatly exceeded the standards.
- In Buenos Aires, Argentina, 42 of the 77 short-term leased units were over-standard, and in Rio de Janeiro, Brazil, 21 of 47 units were over-standard.
- We estimate that the use of over-standard housing in the Philippines and Hong Kong 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 each overseas post had either ignored or misinterpreted the space standards at least to some extent. Typically, at the posts we visited, officials could not provide documentation to justify why various housing units were over-standard or show that such over-standard housing had been authorized by State headquarters officials as required. In addition, our review corroborated the State Inspector General's 1987 finding that costly representational housing[1] was often provided even though little or no representational functions were carried out in these residences.

At the posts we visited, the local housing boards, which were established to manage and control housing assignments, were generally not giving priority attention to controlling housing costs or enforcing space standards.

Officials who sign leases for unauthorized over-standard housing could be subject to disciplinary action, but State has not used this leverage to enforce compliance with housing procedures. Employees who obtain unauthorized housing units that exceed the maximum standards are not charged for the extra space. The use of over-standard housing has resulted in the U.S. government's paying more to house personnel abroad than it should. If government housing is to be provided, we

[1]Representational housing is authorized for certain employees to provide a suitable environment for entertaining guests as part of their official duties. Representational housing tends to be larger and more expensive than nonrepresentational housing.

believe that employees could be given the option of accepting the standard housing or paying the extra cost for the additional space they want.

At the overseas posts we visited, officials had been lax in controlling housing costs and complying with the housing standards. State can enforce the housing standards by holding accountable post officials who are signing leases for over-standard properties without proper authorization by State headquarters. State headquarters officials have not adequately monitored the housing activities at the overseas posts and have not used available measures to ensure compliance with housing procedures.

Lack of Adequate Maintenance

According to a 1988 State estimate, the 2,500 U.S.-owned and long-term leased overseas properties managed by State were valued at about $10 billion. State officials have acknowledged that a number of these properties have serious maintenance problems because of years of neglect. Good, solid buildings have deteriorated, lost value, and now require costly rehabilitation to sustain efficient operations. One State report estimated that as much as $1 billion will be needed to address the maintenance backlog. Our review showed that State had been spending less than $50 million annually for maintenance.

At the Subcommittee's request, we are currently performing a more detailed review of State's overseas maintenance program. The results of that work will be reported separately.

Shortcomings in Staff Expertise

State is trying to manage the complex worldwide real estate program at its headquarters with a staff of foreign service generalists who rotate to other assignments every few years. The key technical personnel in State's Real Estate Division had limited experience or expertise in specific real estate activities. The staff, in essence, has learned on the job. First-line management responsibility for controlling leasing costs and identifying maintenance problems rests with the overseas posts, which generally have not placed a high priority on such activities.

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 1978 the Legislation and National Security Subcommittee, House Government Operations Committee, recommended that State develop a management information system for its overseas properties within 2 years. In response, State initiated its Real Estate Management System (REMS) in September 1982. REMS was intended to be an automated system, but until the computers could be installed at the various posts, post officials were to prepare the reports manually. 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, at the end of the fiscal year the PC version had been installed at only two posts, Lisbon and Oslo.
- 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.

Officials at the posts we visited generally did not perceive REMS as being useful to them. At the post level, day-to-day REMS management was usually assigned to foreign national employees, and their work was not being adequately reviewed by responsible U.S. officials at the posts. State has not provided adequate training or follow-up REMS assistance to more than 100 posts that have not received the automated REMS. Two of the seven posts we visited had developed other, local systems to manage their real estate instead of using REMS. At the State headquarters level, REMS has not been widely used and sufficient staff have not been assigned to monitor the system.

Inadequate Planning

Sound real estate planning could help State to (1) prioritize needs and allocate resources to overseas real estate projects of most importance to the U.S. government, (2) establish multiyear real estate goals consistent with broader U.S. foreign policy goals, (3) promote greater interaction with other State officials and officials of other agencies working overseas, (4) better support budget requests for overseas real estate acquisitions, and (5) project expected results from the planned courses of action and provide a basis for measuring progress and ensuring accountability.

State has generally not prepared long-range and short-range comprehensive plans for acquiring and disposing of government-owned properties. Decisions to acquire or dispose of property are made on an ad hoc basis.

State officials acknowledge that they have not developed country plans to determine what real estate needs exist and how best to satisfy them. Rather, they use a technique they call "rationalization,"which involves selling high-dollar-value, prime properties and purchasing cheaper substitute properties. State officials also told us that they buy residential properties when "targets of opportunity" occur.

Various State 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 (Office of Foreign Buildings Operations) 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.

Our review indicated that in two of the seven countries we visited, the lack of effective planning has resulted in State decisions to buy and sell property that may not have been in the best interest of the government. In both cases, responsible State officials had been influenced by pressure from post officials.

Because of the transitory nature of foreign service assignments, a lack of continuity is a recurring problem in the management of State's overseas real estate program. State officials who are now making decisions on large overseas real estate projects (some with useful lives of up to 30 years) will not be in those positions even a few years from now. Without sound plans, State's overseas real estate efforts will continue to lack overall direction or goals.

Recommendations

We recommend that the Secretary of State

- vigorously enforce compliance with the procedures concerning the space standards for overseas housing,
- require the development of long- and short-range plans for the systematic acquisition and disposition of overseas properties, and

- expend the requisite effort to ensure that State has an effective real estate management system that contains current, reliable information for each post on a property-by-property basis. This effort should include training and follow-up assistance to the over 100 posts that do not have automated REMS, better supervision at all posts to ensure the accuracy of the data, and obtaining feedback from posts on how to make the system more useful to them.

Agency Views

As requested, we did not ask State to comment on a draft of this report. However, we testified before the Subcommittee on the results of our work in October 1988. The State Department witness at the hearings said he did not take exception to the thrust of our findings. He said that some specific actions were being initiated to address the maintenance problems and that State planned to ask senior post management officials, either the Ambassador or Deputy Chief of Mission, to provide annual certifications of post compliance with all regulations, policies, and procedures governing real property management. As of February 1989, no steps had been taken regarding implementation of the latter.

The results of our review are discussed in more detail in appendix I. Appendix II sets forth the objectives, scope, and methodology of our review.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of issuance. At that time, we will send copies to the appropriate congressional committees; the Secretary of State; the Director, Office of Management and Budget; and other interested parties.

This report was prepared under the general direction of Joseph E. Kelley, Director, Security and International Relations Issues. Other major contributors are listed in appendix III.

Sincerely yours,

Frank C Conahan

Frank C. Conahan
Assistant Comptroller General

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Abbreviations

FBO	Office of Foreign Buildings Operations
REMS	Real Estate Management System

State Department's Management of Overseas Real Estate

The State Department is responsible for managing about 2,500 U.S.-owned or long-term leased properties overseas and about 5,000 short-term leased properties. According to a State estimate, the U.S.-owned property managed by State is valued at about $10 billion. The U.S. government pays about $193 million a year for short-term leased properties overseas.

Most of the short-term leased properties are housing units for U.S. personnel assigned to overseas posts. These housing units are provided free to the employees. The U.S. government also pays related housing costs, such as utilities and condominium fees.

To determine the appropriate size of a housing unit for an employee stationed overseas, space standards were developed based on adequate housing comparable to dwellings in the metropolitan Washington area. Family size and the employees' positions are the basis for the number of square feet allotted. For example, a single employee with one child is authorized a two-bedroom housing unit. The space standards are adjusted for overseas localities and representational use.

According to State documents, the housing standards represent maximums and cannot be considered as a housing entitlement for employees. In other words, State can provide housing up to a certain size as set forth in the housing standards, but State is not required to always provide the employee with a housing unit of that size (square footage). State regulations establish procedures that are to be followed whenever the standards are exceeded.

In 1978, all real estate functions at State's headquarters level were consolidated in its Office of Foreign Buildings Operations (FBO), and in December 1986, FBO established its Real Estate Division. This Division's responsibilities are to analyze current property management practices and recommend changes if necessary, monitor compliance with established property management practices, monitor worldwide housing practices to identify areas of management improvements, maintain the real estate property management system, and participate in reviews of post leasing programs.

However, this Division relies heavily on others—including FBO area officers and maintenance officials, as well as administrative officials and housing boards[1] at the overseas posts—to help manage overseas real estate. Overseas posts have first-line management responsibility for controlling leasing costs and identifying maintenance problems.

Over-Standard Housing

Our review in the seven countries showed substantial use of over-standard housing. Overall, one out of every three of the housing units provided by State to U.S. employees in these countries was over-standard. (See table I.1.) Our review indicated that FBO procedures were not being followed, post officials were not adequately controlling housing costs, and FBO had not used available leverage to ensure compliance with housing procedures.

Table I.1: Use of Over-Standard Short-Term Leased Housing Units

City	Total units	Over-standard units	Percent
Brussels	176	13	7.4
Buenos Aires	77	42	54.5
Cairo	199	43	21.6
Hong Kong	82	33	40.2
Lagos	53	5	9.4
Manila	170	96	56.5
Rio de Janeiro	47	21	44.7
Total	**804**	**253**	**31.5**

The following are examples of cases in which the housing provided exceeded the standards.

- In Brussels, two couples with no children each resided in a six-bedroom home, a single employee occupied a seven-bedroom house, and a couple with one child occupied a seven-bedroom house. In Manila, a couple with one child was assigned a five-bedroom unit.
- A couple was given a three-bedroom housing unit in Manila because they had a large dog.
- In Brussels, an employee was provided over-standard housing to accommodate adult children when they came to visit.
- In Lagos, larger representational housing was given to employees who were not entitled to it.
- In Hong Kong, the post had a general policy that permitted the assigning of extra bedrooms.

[1]There is also an Interagency Housing Board in Washington, D.C., but it has met only once in the past 2 years.

- In Buenos Aires, a single employee with no dependents was occupying a 1,973 square foot housing unit, but FBO standards indicate that the maximum space entitlement for this employee is 860 square feet.
- In Manila, an employee was given an extra bedroom to provide space for possessions he had accumulated.
- In Buenos Aires, the housing board informally approved over-standard housing for senior employees based on the rationale that they would ordinarily have large houses in the United States.
- In Cairo, the post had leased five units that were 900 to 1,300 square feet over the authorized levels.

Housing Costs Increased Unnecessarily

Housing costs have increased unnecessarily at overseas missions because staff have been provided with larger, more costly housing units than are necessary according to State's standards. We estimate that the use of over-standard housing in the Philippines and Hong Kong is costing an additional $0.5 million each year.

Our review indicated that posts have generally had the opportunity to obtain suitable but less expensive housing. For example, in Manila, State had leased many units that were well over the standard, while the U.S. Agency for International Development (AID) was independently leasing residences from the same housing market that were within or much closer to FBO standards, according to AID and State officials in country. In Rio de Janeiro, State employees were living in large apartments overlooking the beach, even though suitable housing within FBO standards was available a few blocks inland at a much lower cost.

A 1987 State Inspector General study indicated that post officials in Hong Kong had not been particularly cost conscious. It showed that the post had not selected available apartments in acceptable but less fashionable places. The study recommended that the post select more living space outside the high cost areas and more closely adhere to FBO standards. The study indicated that over-standard housing significantly increased housing costs. For example, the average difference between a two-bedroom apartment and a three-bedroom apartment in Hong Kong was about $11,700 annually. Assigning expensive representational housing to officials who do little or no representational entertainment in their residences also unnecessarily increases the cost of overseas housing. In 1987, the State Inspector General reported that, in general, posts were spending more than was necessary on representational housing and concluded that the provision of representational housing for officials below deputy chiefs of missions was no longer justified because most of these officials held representational functions at restaurants, not in their homes. The report also concluded that officials who did not use their representational housing for intended purposes should be moved to less expensive housing units.

Our review supports the Inspector General's findings. For example, our review of representation expense vouchers in Brussels for fiscal year 1987 and the first half of fiscal year 1988 showed that the overwhelming majority of representational functions hosted by officials below the deputy chief of mission level were held in local restaurants and not in representational residences. Similar conditions existed in Buenos Aires. In Manila, employees spent small sums of money for representational functions compared to the added expense of leasing the representational properties they occupied. In Hong Kong, some occupants of representational residences had not held any representational functions in their homes in more than 2-1/2 years.

In Cairo, 18 employees were on the Ambassador's authorization list for representational housing. Our review of the representational expenditures over 1-1/2 years for 16 of the 18 employees showed that no representational funds had been expended by 7 of the 16 employees, and 3 other employees had spent less than $200 on representational functions. In Cairo, we were told that the promise of representational housing was used to attract higher ranking officers to the post.

Lack of Adequate Controls

Since 1979, FBO has required each post to establish a housing board to manage and control housing assignments. A post housing board is made up of representatives from agencies attached to the post. Some members are permanent, and others are elected to serve for a specific period of time. The housing board is responsible for matching new incoming staff with available housing or for leasing housing required for new arrivals. If staff are living in over-standard housing, the board is required to terminate the leases when they expire or the staff leave the post. Housing within the standards is to replace the over-standard housing.

Our review indicated that local housing boards have little incentive for complying with housing standards. In Washington, an Interagency Board, which is chaired by the Deputy Assistant Secretary for Foreign Buildings and includes representatives from all foreign affairs agencies, was formed as a counterpart to the interagency housing boards at the respective posts. Among its functions are the reviewing of existing housing policy, updating of post locality types, and helping to resolve interagency conflicts that may arise at posts. The Board, however, has met only once in the past 2 years and has not been an important force in ensuring compliance with housing standards and in controlling costs.

At the overseas posts we visited, housing boards and housing officers had been lax in complying with housing procedures and in controlling housing costs and enforcing space standards. Housing boards were generally providing a forum for post employees to air complaints. The Boards have not been held accountable by FBO for providing over-standard housing.

At the posts we visited, the housing boards tried to accommodate employees regarding their housing wishes. For example, in Buenos Aires, the board allowed employees, who were often accompanied by the housing officer, to canvass the local housing market and select housing units. In some cases, employees looked at 30 to 50 housing units prior to accepting a unit. Most of the housing units rejected by the employees were adequate, according to the housing officer.

Examples of the reasons given by employees for rejecting housing were that the units were not on the right floor, were not located on a plaza, did not have a river view, or did not have a swimming pool. Typically, housing units that provide such features cost more than comparable units without them.

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. However, in only a few cases could post officials or FBO Washington officials provide documentation that justified or authorized the leasing of over-standard housing. Files on leases at various posts generally did not contain approvals, and FBO Washington officials could not verify which leases had been approved or disapproved because of the lack of centralized records.

Some FBO and post officials stated that in some cases extenuating local circumstances may explain why posts have not complied with space standards. According to these officials, in some cases (1) available smaller units did not "conform to acceptable living standards," (2) available smaller units would not meet security standards, (3) the costs were reasonable despite the large size of the leased units, and (4) a spouse is considered a dependent for purposes of granting additional space at some posts. While such extenuating circumstances could be valid, the required documentation justifying and approving the over-standard housing was generally not on file.

According to the Deputy Assistant Secretary of State for Foreign Buildings, employees are subject to disciplinary action if they lease property in violation of the statutory or administrative requirements to obtain proper approval. He said that if an employee's action results in the unauthorized expenditure of funds, State can, if appropriate, take the necessary action to have the employee repay the amount expended without authorization. State, however, has not used this leverage to enforce compliance with the housing procedures. Instead, FBO indicated that it attempts to enforce the housing procedures by (1) periodically reminding posts through telegraphic circular; (2) requesting the involvement of chiefs of missions to ensure observance of the standards; (3) publishing guidance for post housing boards, emphasizing their responsibilities; and (4) having headquarters personnel review posts' practices as part of their ad hoc field visits.

Shortcomings in Expertise

State is trying to manage its complex worldwide real estate program at headquarters with a staff of foreign service generalists. The key FBO technical personnel staffing the Real Estate Division had limited experience or expertise in specific real estate activities; instead, the staff was learning on the job. FBO officials said that they hire outside experts and consultants to help them with complex transactions.

The Chief of the Real Estate Division and most of the area officers at FBO are foreign service officers who rotate every few years. Foreign service officers who replace them must go through a learning period before they can adequately perform their new responsibilities.

Other key technical officials within the Real Estate Division are not subject to rotation. These include two attorneys (with no previous real estate experience) and a former city planner, who occupy their positions on a contract basis while awaiting conversion to civil service status.

The leadership and administrative managers at the overseas posts are responsible for State's leasing and maintenance programs in the countries where they are located. These foreign service generalists are expected to help control the cost of housing for themselves and their fellow employees. They are also expected to identify and address maintenance problems even though they have little or no maintenance expertise or training.

Management Information

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 1978, the Legislation and National Security Subcommittee recommended that State develop such a management information system within 2 years. In response, State initiated the Real Estate Management System (REMS) in September 1982.

REMS was designed to monitor the worldwide inventory of facilities and their related costs and to assist in the proper management of these facilities. REMS was intended to be an automated system, but until the computers could be installed at the various posts, post officials were to prepare the reports manually. However, after 6 years and $9 million REMS is still incomplete. The system contains inaccurate, incomplete, and unreliable data. The automated REMS was to be installed at 144 posts. The current status of REMS can be highlighted as follows:

- The automated REMS has been installed at 24 posts, which account for about 40 percent of the Department's property worldwide.
- 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, the PC version was installed at only two posts, Lisbon and Oslo, in 1988.
- REMS does not correctly show the State Department's real property inventory. REMS quarterly inventory reports continue to contain inaccurate and incomplete data.
- Training in REMS procedures at the nonautomated posts has been lacking. FBO has not followed up at these posts as to the usefulness of REMS.

The REMS, which relies almost totally upon data input from the posts, does not adequately reflect the State Department's real property inventory. Quarterly REMS inventory reports contain inaccurate and incomplete data. In each of the seven countries we visited, lease costs and square footage were inaccurately reported and/or properties were not properly added to or deleted from the inventory lists. For example:

- In Lagos, the post did not report 5 of the 53 short-term leased properties and had not provided square footage information on several of the other properties. Such square footage data is needed to determine if properties are within authorized space standards.
- In Cairo, 4 of the 199 short-term leased properties were not listed in the REMS inventory, and 4 others were in REMS even though the leases had been terminated several months earlier. The post had not provided square footage information for 35 of the residential properties and four of the office properties on the REMS inventory.
- In Hong Kong, the number of bedrooms listed for 7 of 82 short-term leased properties in REMS did not match the corresponding leases.
- In Cairo, the post incorrectly reported the annual amounts paid for 23 of 199 short-term leased residential properties. The post reported the costs in Egyptian pounds rather than U.S. dollars. This resulted in a cost overstatement of over $400,000 (more than twice as much as should have been reported) in the REMS.

Internal State documentation indicated that hundreds of errors were in REMS and that numerous data input reports from overseas posts could not be entered into the system because of faulty or incomplete data.

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 officers—typically the general services or administrative officers—who have overall responsibility for REMS and for managing real property at the posts, did not ensure that the REMS data submitted to Washington was complete, timely, and accurate.

The majority of the posts continue to submit real estate inventory data on a manual basis. A written report of the data is prepared at the posts, sent to FBO Washington, and entered into the REMS. If all the data on a leased or owned property is not provided, REMS will not take the entry. This leaves the FBO Washington staff with the option of (1) not entering the property and sending the written report back for corrections, which is time-consuming and results in an incomplete inventory, or (2) entering dummy or best guess information into the incomplete fields, thereby creating erroneous data.

Our review also showed that REMS has not been used extensively. At the post level, the general perception was that neither the automated REMS nor the manual submission of information to be entered into REMS was useful. For example, in Lagos, Nigeria, a post that was manually submitting data to REMS, the Housing Officer indicated that he had developed his own system of inventory and reporting because post management did not believe that REMS was an effective tool for local management of real estate, particularly housing. The General Services Officer indicated that he needed a system that could promptly provide certain data elements not found in REMS, such as names of occupants, their rotation dates, and the lease costs in both local and U.S. currency. Officials in Cairo—an automated REMS post—also expressed concerns about REMS' usefulness. They indicated that weekly, monthly, and semiannual reports must be compiled manually because the needed information cannot be manipulated and extracted from REMS.

The lack of priority for implementing REMS is evident at the Washington level. FBO officials have not adequately emphasized REMS as an internal control element. We were told that the necessary efforts and resources required to ensure that the inventory system was accurate, complete, and timely—a major objective of REMS—would prevent the completion of other, more important activities. FBO's attitude toward the system, the perceptions of the posts, and, most of all, the unreliability of the data impede the extent to which the system can be an effective management tool.

In 1983, FBO sent a voluminous packet of instructions/guidelines to all 144 posts and provided detailed training on REMS (e.g., how to enter and use data in the systems) to the 24 posts that had installed the automated systems. Our review indicated that FBO had not (1) followed up with nonautomated posts to ascertain whether assistance was needed, (2) sought feedback from the posts on the usefulness of the system and its products, or (3) requested suggestions for improving the system. This has caused problems for the nonautomated posts. For example, in Lagos, U.S. officials indicated that the lack of adequate training has resulted in incorrect changes to the quarterly data-base submission.

Inadequate Planning for Real Estate Acquisitions and Dispositions

Sound real estate planning could help FBO management to (1) prioritize needs and allocate resources to overseas real estate projects of most importance to the U.S. government, (2) establish multiyear real estate goals consistent with broader U.S. foreign policy goals, (3) promote greater interaction with other State officials and officials of other agencies working overseas, (4) better support budget requests for overseas real estate acquisitions, and (5) project expected results from the planned courses of action and provide a basis for measuring progress and ensuring accountability.

FBO has been active in the real estate market in a number of countries, primarily in acquiring sites for new buildings as authorized by the Omnibus Diplomatic Security and Anti-terrorism Act of 1986. However, FBO's Real Estate Division has not prepared long-range and short-range plans for acquiring and disposing of government-owned properties, even though this is one of its major stated functions. Rather, it has been using an ad hoc technique, which it refers to as "rationalization," to acquire and dispose of property. 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 interests of the U.S. government in Cairo and Hong Kong. For example, because of poor planning, FBO owned three ambassador's residences in Cairo in 1986 when only one was needed. After FBO spent $1.0 million to renovate one of these residences the Ambassador did not want to move into it because, among other things, he perceived it to be too far from the chancery and the diplomatic community. Yet, the Embassy was constructing two new apartment buildings as well as leasing single family residences in this same area to house many of the embassy employees.

FBO sold off the renovated residence and another one in 1986, stating that the remaining one was adequate. However, the current Ambassador believes that the building is not adequate and has requested a new one. FBO is considering different options for providing one. If FBO supplies another residence, it will have owned four different ambassador's residences in Cairo within a short time frame, principally because the Ambassador at the time wanted something different. Without adequate plans that prioritize real estate needs worldwide, FBO has little basis to decide whether it needs to allocate its resources to other high priority projects. Accommodating personal preferences should not warrant high priority.

As another example of the inadequate planning, State recently paid about $3 million 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. FBO reported to congressional committees that it had abandoned its involvement in the project because the number of assigned U.S. officials is now expected to decrease to 50 in 1997 when Hong Kong reverts back to China, obviating the need for a 79-unit apartment. Knowledge that Hong Kong would revert to China was available long before FBO entered into the arrangements for the 79-unit apartment. Adequate planning should have addressed this issue.

Our review also indicated that for more than 2 years prior to the FBO decision to buy its way out of the arrangement, post employees had indicated that they did not want to move into the building because they believed it was not as good as the housing they already occupied. The Undersecretary of State for Management described the current housing in Hong Kong as "among the most luxurious in the Foreign Service." State's current leases in Hong Kong run as high as $76,000 a year for an individual housing unit. The average annual lease cost for housing units in Hong Kong is about $39,100. We believe that FBO decisions should be based on sound planning and not merely on personal preferences of officials at the posts for an assigned tour of duty.

Because FBO does not have formal plans, it appears that FBO has made acquisition and disposal decisions to accommodate the short-range interests of ambassadors and others, and at least in some cases this has been costly to the U.S. government.

Because of the transitory nature of foreign service assignments, a lack of continuity is a recurring problem in the management of State's overseas real estate program. State officials who are now making decisions on large overseas real estate projects (some with useful lives of up to 30 years) will not be in those positions even a few years from now. Without sound plans, State's overseas real estate efforts will continue to lack overall direction or goals.

Objectives, Scope, and Methodology

Our objective was to review the State Department's implementation of housing standards, building maintenance, the development of a real estate management information system, and the extent of planning for acquiring and disposing of overseas properties. Our review was conducted at the Department of State from January to September 1988 in accordance with generally accepted government auditing standards.

We held discussions with Washington and overseas embassy officials involved in the management of the Department's real estate. We reviewed documents and records pertaining to real estate matters and performed on-site inspections of facilities. We performed field work in Argentina, Brazil, Hong Kong, the Philippines, Belgium, Nigeria, and Egypt. We selected countries from differing geographic regions where State had varying numbers and types of properties.

As requested, we did not ask the Department of State for official comments on a draft of this report. However, during the October 5, 1988, hearings before the Legislation and National Security Subcommittee, the Deputy Assistant Secretary of State for Foreign Buildings indicated that he did not take issue with the thrust of our findings but did not have the data to confirm or take issue with the number of units that we reported as exceeding housing standards.

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