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STATE DEPARTMENT

Millions of Dollars Could Be Generated by Selling Unneeded Overseas Real Estate

Statement of Benjamin F. Nelson, Director, International
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Mr. Chairman, Members of the Subcommittee:

I am pleased to be here today to discuss our report on the Department of State's management of more than \$10 billion in U.S.-owned real estate at over 200 locations overseas.¹ State's management of overseas real property, through its Office of Foreign Buildings Operations (FBO), has been criticized since the early 1960s. In the early 1990s, we put overseas real property on our list of federal programs most vulnerable to waste and mismanagement.² State, to its credit, has since made substantial progress in improving its management through actions such as assigning skilled maintenance professionals to overseas posts and establishing maintenance assistance centers. In view of that progress, we removed real property from our high-risk list in February 1995.³ However, we also told State that it should closely monitor this area. One remaining problem was State's retention of unused or excess property.

Results in Brief

Our current work indicates that State has not established an effective process for identifying and selling unneeded overseas real estate. Decisions concerning the sale of excess and unneeded property have often been delayed for years, largely because of parochial interests among the parties involved. As a result, State has a large inventory of excess real estate that could generate substantial revenue and reduce its budget requirements.

As of October 1995, State had listed over 100 overseas properties valued at \$467 million for potential sale. However, we identified other properties worth millions of dollars not on the list that appear excess to State's needs or that have a questionable value. We cannot state with any certainty the actual amount of real estate that could be sold because of weaknesses in State's identification process. State does not have a systematic way of determining whether property is excess or too expensive to maintain.

State's current process for identifying and selling unneeded property requires the weighing of multiple factors presented by different groups with competing interests. As a result, FBO and the embassies are sometimes unable to expeditiously (1) reach agreement on properties to

¹Overseas Real Estate: Millions of Dollars Could Be Generated by Selling Unneeded Real Estate (GAO/NSIAD-96-36, Apr. 23, 1996).

²High-Risk Series: Management of Overseas Real Property (GAO/HR-93-15, Dec. 1992).

³High-Risk Series: Quick Reference Guide (GAO/HR-95-2, Feb. 1995).

sell, (2) move forward on sales, and (3) determine the appropriate use of proceeds. State officials attribute many delays to resistance from host governments and the need to weigh this and other factors against the economic benefits of selling property. Unfortunately, resolving these considerations often delays potential sales for years.

Additionally, we believe that the process for using and accounting for sales proceeds needs to be improved. State sold \$53 million in real estate during fiscal year 1995. However, it did not routinely use the sales proceeds for State's highest priority real property needs. U.S. embassies involved in sales are usually given first priority in using sales proceeds. FBO believes that embassies will not cooperate in identifying excess properties unless they receive first consideration on how to use the proceeds. Further, State did not account separately for the use of the sales proceeds, making it difficult to verify the actual use of the funds.

Because of the strong interests embassies have in retaining their real estate and using the sales proceeds, external political pressures, and difficulties in resolving disputes, we believe that the Secretary of State should appoint an independent panel to decide which properties should be sold. In establishing this panel, consideration should be given to appointing representatives from State's Office of the Inspector General and Bureau of Finance and Management Policy as well as private sector representatives with real estate expertise. We believe the reasons for retaining any property should be weighed against the financial interests of the State Department and the U.S. government.

I would now like to describe more fully some of the more critical weaknesses in State's system. Let me begin with the property sales list.

Additional Property Could Be Listed for Potential Sale

Both State's October 1994 list and a second list submitted to the Office of Management and Budget in 1995 had about 100 properties listed for potential sale. Properties on the 1994 list were valued at \$250 million. One year later, State added high-value properties—including four in Singapore, Paris, and Bangkok—to its list, bringing the total value of properties available for sale to \$467 million.

However, State holds other properties that it could potentially sell that were not on these lists. Some of the properties we identified were worth millions of dollars. These include (1) properties that have been retained at closed posts, including Zanzibar, Tanzania; and Alexandria, Egypt;

(2) properties that are vacant, unneeded, or unsuitable for the purposes for which they were acquired, including some in Nassau, the Bahamas; Dakar, Senegal; and Rabat, Morocco; and (3) high-value properties that are over sized or not needed in Hamilton, Bermuda; Buenos Aires, Argentina; Prague, the Czech Republic; and Budapest, Hungary.

State has often been slow in taking action to dispose of property at closed posts.

- In Zanzibar, the consulate general residence has been kept and used predominantly for recreational purposes even though the consulate closed 17 years ago. According to State's Inspector General, the property was used 36 nights for representational purposes and 122 nights for recreational purposes in 1994. Renovation costs have exceeded \$130,000, and maintenance and salary costs relating to the property exceeded \$30,000 in 1994. Reportedly, there are several hotels in the area that could meet State's requirements.
- The consulate general residence in Alexandria, valued at over \$1 million, remains in FBO's inventory 3 years after the consulate closed, in part because State officials hoped that the post would be reopened. State has retained the property because it was ideal for representational purposes. The house, occupied by a representative of the U.S. Information Agency, was used to host 14 mostly academic and cultural events in 1995. State's Inspector General has questioned such retention, describing the situation regarding this property as an "apparent lack of concern for the financial loss being incurred by the U.S. government."

In Nassau, State did not act to sell an unneeded 11-acre site originally intended for construction of a new embassy. The need to dispose of it was recognized in 1993. In response to our work, State has now added Nassau to its disposal list, obtained updated appraisals, and outlined steps for sale of the property. The property is valued at \$1 million.

In Hamilton, Bermuda, State owns an expensive-to-maintain residence, known as Chelston, for the consul general. In April 1994, the post estimated that the property was worth over \$12 million. An FBO survey in February 1993 disclosed that the residence needed \$240,000 in major repairs. Annual operational and maintenance costs for this residence were reported in excess of \$100,000. The 10,000 square-foot main house is part of a 14-acre beachfront estate. State's Inspector General has repeatedly recommended selling the property and, in a September 1993 report, stated that "at a time of continual budget constraints, the Department cannot

afford the luxury of maintaining this ostentatious piece of property.” State responded that the government of Bermuda opposed the sale and has taken no further action on the matter.

State also did not take full advantage of opportunities to sell properties in Tokyo that are valued at millions of dollars. In April 1995, we reported that the Treasury Department owned a residence (formerly used by the Treasury financial attache) that had deteriorated and was no longer usable.⁴ It was estimated that the house could have sold for \$15 million in 1991. However, Treasury and State could not reach agreement on its sale, and by 1994 the estimated value of the property had decreased to \$5 million. We recommended that Treasury sell the property and deposit the proceeds in the general fund of the Treasury. In May 1996, Treasury negotiated a transfer of the property to State in return for free housing on the Mitsui compound for Treasury employees. The residence is now on State’s list of property for potential sale. We also recommended that State sell the Deputy Chief of Mission residence.⁵ State did not agree with our position believing that the residence plays an important role in bilateral relations with Japan and that cost considerations should not be the sole determinant in whether to sell the residence. We believe the merits of this argument could be best assessed by an independent panel.

No Systematic Process to Identify and Dispose of Excess Property

Properties on FBO’s potential sales list were identified for sale through the individual actions of embassies, FBO officials, and State’s Inspector General. State indicated that the totality of these actions constitutes a systematic process for identifying real estate that should be sold. We disagree, particularly since embassies lack incentives to identify, report on, and sell property unless they can use the proceeds for their own use.

Also, in several cases embassies and FBO had protracted and costly disagreements over whether to sell property and how to use the proceeds. For example, in Brasilia the embassy and FBO had a standoff for over 2-1/2 years over whether to (1) sell vacant lots and use the proceeds to renovate a 29-unit apartment building or (2) sell an apartment building and other property and use the proceeds to build residences on the vacant lots. During this dispute, the embassy spent \$580,000 annually to lease housing, while the 29 apartments remained vacant.

⁴Overseas Real Estate: Inaction on Proposals to Sell High-Value Property in Tokyo (GAO/NSIAD-95-73, Apr. 7, 1995).

⁵A 1991 study appraised the property, which contains the Deputy Chief of Mission residence, at \$92 million. A replacement residence could have been provided for \$4 million on the Mitsui compound.

The ambassador's 43,000 square-foot residence in Buenos Aires is an example of State's lack of incentives to sell property. The issue of selling this property dates back to 1969. In 1993, after a delegation of congressional and State officials visited Argentina, State announced it would retain and restore the \$20-million residence. According to the Inspector General, "The residence will continue to represent a major expense which the inspectors doubt can be justified indefinitely if budgets continue to shrink."

FBO policy states that unresolved disputes will be submitted to State's Assistant Secretary for Administration for further review and discussion. However, disputes sometimes drag on for years. Of the cases that we reviewed, the Assistant Secretary was involved in only the Brasilia dispute, but only after the dispute had been ongoing for 2-1/2 years. The problem of conflicting interests and difficulties in agreeing on property sales is the reason we recommend that the Secretary establish an independent panel to facilitate the identification and disposal of excess, unusable, or uneconomical overseas real property.

FBO Has No System to Account for Proceeds and Ensure That They Are Spent for Most Urgent Needs

From fiscal years 1990 to 1995, State made real estate sales totaling \$133 million.⁶ FBO has not developed a procedure for routinely using sales proceeds to meet priority worldwide requirements. As an incentive for embassies to agree to a sale, FBO normally gives those embassies first consideration when determining the use of sales proceeds. For any sales proceeds not used in a country where the sale occurred, FBO may use the funds to reduce its lease costs or to acquire new property. FBO maintains that it evaluates the legitimacy and economic soundness of each proposal, but it does not routinely weigh the proposal against the needs of other embassies.

State has the authority to retain and use proceeds from real estate sales. State reports the use of proceeds to the Congress in its annual budget submission. However, the reliability of the information is questionable because proceeds are commingled with appropriated funds and State does not detail how the funds are specifically used. We note that State has recently reported that it intends to establish a separate program activity for sales proceeds. This may help improve accountability for the actual use of sales proceeds.

⁶This figure includes \$48.8 million from the forced sale of property in Singapore because of road construction.

Recommendations

In summary, the State Department has millions of dollars invested in overseas properties that may be unneeded or too expensive to maintain, particularly given budget constraints. Proper management of State's overseas property could generate considerable revenue for higher priority use. As noted earlier in my testimony, we recommended that State establish an independent panel to review and recommend the sales of excess property. We believe such a panel can help effectively reduce the current inventory of property and ensure proper management in the future. Further, to provide a routine process for expeditiously resolving disagreements between FBO and the embassies, we have recommended that State prepare annual reports identifying all excess properties whose sale FBO and the embassies cannot agree on. We have also recommended that State improve its accounting and reporting on the use of sales proceeds.

Mr. Chairman, this concludes my prepared statement. I will be happy to respond to any questions you may have.

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