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**FEDERAL REAL
PROPERTY**

**An Update on High-Risk
Issues**

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Physical Infrastructure



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Highlights

Highlights of [GAO-07-895T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs

Why GAO Did This Study

In January 2003, GAO designated federal real property as a high-risk area due to long-standing problems with excess and underutilized property, deteriorating facilities, unreliable real property data, and costly space challenges. Federal agencies were also facing many challenges protecting their facilities due to the threat of terrorism.

This testimony is based largely on GAO's April 2007 report on real property high-risk issues ([GAO-07-349](#)). The objectives of that report were to determine (1) what progress the administration and major real property-holding agencies had made in strategically managing real property and addressing long-standing problems and (2) what problems and obstacles, if any, remained to be addressed.

What GAO Recommends

GAO recommended in April 2007 that OMB, in conjunction with the Federal Real Property Council, (1) develop a framework to better ensure the validity and usefulness of key agency data; (2) develop an action plan for addressing key problems, including reliance on leasing, security challenges, and the effect of competing stakeholder interests; and (3) create a clearer link between agencies' efforts under the real property initiative and broader capital planning requirements. OMB agreed with the report and concurred with its recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-895T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Mark L. Goldstein at (202) 512-2834 or goldsteinm@gao.gov.

FEDERAL REAL PROPERTY

An Update on High-Risk Issues

What GAO Found

The administration and real property-holding agencies have made progress toward strategically managing federal real property and addressing long-standing problems. In response to the President's Management Agenda real property initiative and a related executive order, agencies have, among other things, established asset management plans; standardized data reporting; and adopted performance measures. Also, the administration has created a Federal Real Property Council (FRPC) and plans to work with Congress to provide agencies with tools to better manage real property.

These are positive steps, but underlying problems still exist. For example, the Departments of Energy (Energy) and Homeland Security (DHS) and the National Aeronautics and Space Administration (NASA) reported that over 10 percent of their facilities are excess or underutilized. Also, Energy, NASA, the General Services Administration (GSA), and the Departments of the Interior (Interior), State (State), and Veterans Affairs (VA) reported repair and maintenance backlogs for buildings and structures that total over \$16 billion. The Department of Defense (DOD) reported a \$57 billion restoration and modernization backlog. Also, Energy, Interior, GSA, State, and VA reported an increased reliance on leasing to meet space needs. While agencies have made progress in collecting and reporting standardized real property data, data reliability is still a challenge at DOD and other agencies, and agencies lack a standard framework for data validation. Finally, agencies reported using risk-based approaches to prioritize security needs, which GAO has suggested, but some cited obstacles such as a lack of resources for security enhancements.

In past high-risk updates, GAO called for a transformation strategy to address the long-standing problems in this area. While the administration's approach is generally consistent with what GAO envisioned, certain areas warrant further attention. Specifically, problems are exacerbated by underlying obstacles that include competing stakeholder interests, legal and budgetary limitations, and the need for improved capital planning. For example, agencies cited local interests as barriers to disposing of excess property, and agencies' limited ability to pursue ownership leads them to lease property that may be more cost-effective to own over time.

Examples of Excess Federal Facilities



Sources: VA and USPS.

From left to right: former Main VA Hospital Building, Milwaukee, WI; former Main Post Office Chicago, IL.

Mr. Chairman and Members of the Committee:

We welcome the opportunity to testify on the actions that are needed to address the long-standing problems that led to our designation of federal real property as a high-risk area. As you know, at the start of each new Congress since 1999, we have issued a special series of reports, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In January 2003, we designated federal real property a high-risk area as part of this series, and we issued updates on this area in January 2005 and January 2007.¹ My testimony is based largely on a recent report on federal real property high-risk issues,² and other GAO reports and testimonies on real property issues. My testimony focuses on the progress made by the administration and major real property-holding agencies³ to strategically manage real property and address long-standing problems, and what problems and obstacles, if any, remain to be addressed. I will also provide an update of the President's Management Agenda (PMA) executive branch management scorecard results for the real property initiative for the second quarter of fiscal year 2007.

Summary

The administration and major real property-holding agencies have made progress toward strategically managing federal real property and addressing some long-standing problems. In response to the PMA real property initiative and a related executive order, agencies covered under the executive order have, among other things, designated senior real

¹GAO, *High-Risk Series: Federal Real Property*, [GAO-03-122](#) (Washington, D.C.: Jan. 2003); the report on real property is a companion to GAO's 2003 high-risk update, GAO, *High-Risk Series: An Update*, [GAO-03-119](#) (Washington, D.C.: Jan. 2003); GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: Jan. 2005), and *High-Risk Series: An Update*, [GAO-07-310](#) (Washington, D.C.: Jan. 2007).

²GAO, *Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform*, [GAO-07-349](#) (Washington, D.C.: Apr. 13, 2007).

³For the purpose of this review, we are focusing on eight of the largest real property-holding agencies (these agencies are the Departments of Defense (DOD), Energy (Energy), Homeland Security (DHS), the Interior (Interior), State (State); and Veterans Affairs (VA); the General Services Administration (GSA); the National Aeronautics and Space Administration (NASA). Also included is the United States Postal Service (USPS), which is an independent establishment in the executive branch and is among the largest property holders in terms of owned and leased space.

property officers, established asset management plans, standardized real property data reporting, and adopted various performance measures to track progress. The administration has also established a Federal Real Property Council (FRPC) that supports reform efforts. In addition, the administration intends to work with Congress to provide agencies with asset management tools to more effectively manage real property. For example, VA, NASA, DOD, Energy, Interior, and USPS have limited authorities that allow the agency to enter into enhanced-use lease (EUL) agreements. Each agency has been provided its own statutory authority, and the authority varies from agency to agency. These agencies are also authorized to retain proceeds from the lease and to use them for items specified by law, such as improvement of their real property assets. Additionally, certain agencies such as GSA and VA have been authorized to retain the proceeds from disposal of their real property and to use these proceeds for their real property needs.

Although progress toward strategically managing real property and addressing some long-standing problems has been made, these problems largely persist and the underlying obstacles remain. For example, Energy, DHS and NASA reported that over 10 percent of their facilities are excess or underutilized. In addition, Energy, NASA, GSA, Interior, State, and VA reported repair and maintenance backlogs that total over \$16 billion. DOD reported a backlog of more than \$57 billion, which includes the cost of restoring and modernizing obsolete buildings. Furthermore, Energy, Interior, GSA, State, and VA reported an increased reliance on operating leases—an approach which we have reported is often more costly for long-term space needs. While agencies have made progress in collecting and reporting standardized real property data, data reliability is still a challenge at some of the agencies, and agencies lack a standard framework for data validation. Finally, all of the major real property-holding agencies reported using risk-based approaches to prioritize security needs, as we have suggested, but cited a lack of resources for security enhancements as an ongoing problem.

In our past high-risk reports, we called for a transformation strategy to address the long-standing problems in this area. The administration's approach is generally consistent with what we envisioned, but certain areas warrant further attention. More specifically, underlying obstacles, such as competing stakeholder interests, legal and budgetary limitations, and a need for improved capital planning, persist. For example, some agencies cited local interests, such as historic preservation advocates or various advocacy groups that want to keep the federal government in their community, as barriers to disposing of excess property. Furthermore,

agencies' limited ability to pursue ownership often leads them to lease property that may be more cost-effective over time for them to own. Finally, long-term capital planning efforts to improve the efficiency of government operations continue to be a challenge, and these efforts are not clearly linked with the real property initiative. The federal government has generally not planned or budgeted for capital assets, such as real property, over the long term. In our April 2007 report,⁴ we made recommendations aimed at (1) ensuring the validity of agency data, (2) focusing reform efforts to better address the leasing problem and security challenges, (3) and addressing obstacles that include competing stakeholder interests and the need for improved capital planning. OMB agreed with the report and concurred with its recommendations. VA, Energy, DHS, GSA, and NASA generally agreed with the report. State, DOD, Interior, and USPS did not state whether they agreed or disagreed with the report and its recommendations.

The Administration and Major Real Property-Holding Agencies Have Taken Actions to Strategically Manage Real Property and Address Some Long-standing Problems

Pursuant to Executive Order 13327, the administration has taken several key actions to strategically manage real property. FRPC was established in 2004, which subsequently created interagency committees to work toward developing and implementing a strategy to accomplish the executive order. FRPC developed a sample asset management plan and published Guidance for Improved Asset Management in December 2004. In addition, FRPC established asset management principles that form the basis for the strategic objectives and goals in the agencies' asset management programs and also worked with GSA to develop and enhance an inventory system known as the Federal Real Property Profile (FRPP). FRPP was designed to meet the executive order's requirement for a single database that includes all real property under the control of executive branch agencies. The FRPC, with the assistance of the GSA Office of Government-wide Policy, developed 23 mandatory data elements, which include four performance measures. The four performance measures are utilization, condition index, mission dependency, and annual operating and maintenance costs. In addition, a performance assessment tool has been developed, which is to be used by agencies to analyze the inventory's performance measurement data in order to identify properties for disposal or rehabilitation. In June 2006, FRPC added a data element for disposition that included six major types of disposition, including sale, demolition, or public benefit conveyance. Finally, to assist agencies in their data




⁴[GAO-07-349](#).

submissions for the FRPP database, FRPC provided standards and definitions for the data elements and performance measures through guidance issued on December 22, 2004, and a data dictionary issued by GSA in October 2005. The first governmentwide reporting of inventory data for FRPP took place in December 2005, and selected data were included in the fiscal year 2005 FRPP published by GSA, on behalf of FRPC, in June 2006. Data on the four performance measures were not included in the FRPP report.

Agencies Have Met Scorecard Standards to Varying Degrees

Adding real property asset management to the PMA has increased its visibility as a key management challenge and focused greater attention on real property issues across the government. OMB has identified goals related to the four performance measures in the inventory for agencies to achieve in right-sizing their real property portfolios and it is the administration's goal to reduce the size of the federal real property inventory by 5 percent, or \$15 billion, by disposing of unneeded assets by 2015. In October 2006, the administration reported that \$3.5 billion in unneeded federal real property had been disposed of since 2004.

Figure 1: PMA Executive Branch Management Scorecard Standards for the Real Property Initiative

Green standards 	Yellow standards 	Red standards 
<p>Agency:</p> <ul style="list-style-type: none"> Meets all yellow standards for success; Established an OMB-approved 3-year rolling timeline with date certain deadlines by which agency will address opportunities and determine its priorities as identified in the asset management plan; Demonstrated steps taken toward implementation of asset management plan as stated in yellow standards (including meeting established deadlines in 3-year timeline, meeting prioritized management improvement actions, maintaining appropriate amount of holdings, and estimating and optimizing cost levels); Accurate and current asset inventory information and asset maximization performance measures are used routinely in management decision making (such as reducing the amount of unneeded and underused properties); The management of agency property assets is consistent with the agency's overall strategic plan, the agency asset management plan, and the performance measures established by the FRPC as stated in the Federal Real Property Asset Management Executive Order. 	<p>Agency:</p> <ul style="list-style-type: none"> Has a Senior Real Property Officer (SRPO) who actively serves on the FRPC; Established asset management performance measures, consistent with the published requirements of the FRPC; Completed and maintained a comprehensive inventory and profile of agency real property, consistent with the published requirements of the Federal Real Property Council; Provided timely and accurate information for inclusion into the government wide real property inventory database; Developed an OMB-approved comprehensive asset management plan that: <ul style="list-style-type: none"> Complies with guidance established by the FRPC Includes policies and methodologies for maintaining property holdings in an amount and type according to agency budget and mission Seeks to optimize level of real property operating, maintenance, and security costs. 	<p>Agency:</p> <ul style="list-style-type: none"> Does not actively participate on the FRPC; Has not established asset management performance measures or has asset management performance measures that are inconsistent with the published requirements of the FRPC; Has not completed or does not maintain a comprehensive inventory and profile of agency real property consistent with the published requirements of the FRPC; Does not provide timely and accurate information for inclusion into the government wide real property inventory database; OR Has not developed an OMB-approved comprehensive asset management plan.

Source: OMB.

To achieve these goals and gauge an agency's success in accurately accounting for, maintaining, and managing its real property assets so as to efficiently meet its goals and objectives, the administration established the real property scorecard in the third quarter of fiscal year 2004. The scorecard consists of 13 standards that agencies must meet to achieve green status, which is the highest status. These 13 standards include 8 standards needed to achieve yellow status, plus 5 additional standards. An agency reaches "green" or "yellow" status if it meets all of the standards for success listed in the corresponding column in figure 1 and red if it has any of the shortcomings listed in the "red" column.

OMB evaluates agencies quarterly on progress and agencies then have an opportunity to update OMB on their status towards achieving green. According to PMA real property scorecards, for the second quarter of fiscal year 2007, the Department of Labor is the only real property-holding agency included in the real property initiative that failed to meet the standards for yellow status as shown in figure 2. All of the other agencies, have, at a minimum, met the standards for yellow status.

Figure 2: PMA Executive Branch Management Scorecard Results for the Real Property Initiative

	FY 2004	FY 2005				FY 2006				FY 2007	
	4 th quarter	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	1 st quarter	2 nd quarter	3 rd quarter	4 th quarter	1 st quarter	2 nd quarter
GSA	●	●	●	●	●	●	●	●	●	●	●
State	○	○	○	●	●	●	●	●	●	●	●
VA	○	●	●	●	●	○	○	●	●	●	●
NASA	○	○	○	●	●	○	○	●	●	●	●
Energy	○	○	○	●	●	○	○	○	●	●	●
Labor	○	○	○	●	●	○	○	○	○	○	○
HHS	○	○	○	○	○	○	○	○	○	○	○
Interior	○	○	○	○	○	○	○	○	○	○	○
Justice	○	○	○	○	○	○	○	○	○	○	○
DOT	○	○	○	○	○	○	○	○	○	○	○
USAID ^a	NA	NA	NA	NA	○	○	○	○	○	○	○
Defense	○	○	○	○	○	○	○	○	○	○	○
Army Corps	○	○	○	○	○	○	○	○	○	○	○
DHS	○	○	○	○	○	○	○	○	○	○	○
USDA	○	○	○	○	○	○	○	○	○	○	○

- Red for unsatisfactory
- Yellow for mixed results
- Green for success

Source: OMB scorecards.

Among the 15 agencies under the real property initiative, 5 agencies—GSA, NASA, Energy, State, and VA—have achieved green status. According to OMB, the agencies achieving green status have established 3-year timelines for meeting the goals identified in their asset management plans; provided evidence that they are implementing their asset management plans; used real property inventory information and performance measures in decision making; and managed their real property in

accordance with their strategic plan, asset management plan, and performance measures. Once an agency has achieved green status, OMB continues to monitor its progress and results through PMA using deliverables identified in its 3-year timeline and quarterly scorecards. Each quarter, OMB also provides formal feedback to agencies through the scorecard process, along with informal feedback, and clarifies expectations. Yellow status agencies still have various standards to meet before achieving green.

Agency Actions Intended to Address Some Long-standing Problems

In addition to addressing their real property initiative requirements, some agencies have taken steps toward addressing some of their long-standing problems, including excess and underutilized property and deteriorating facilities. Some agencies are implementing various tools to prioritize reinvestment and disposal decisions on the basis of agency needs, utilization, and costs. For example, GSA officials reported that GSA's Portfolio Restructuring Strategy sets priorities for disposal and reinvestment based on agency missions and anticipated future need for holdings. In addition, GSA developed a methodology to analyze its leased inventory in fiscal year 2005. This approach values leases over their life, not just at the point of award; considers financial performance and the impact of market rental rates on current and future leasing actions; and categorizes leases by their risk and value.

Additionally, some agencies are taking steps to make the condition of core assets a priority and address maintenance backlog challenges. For example, Energy officials reported establishing budget targets to align maintenance funding with industry standards as well as programs to reduce the maintenance backlogs associated with specific programs. In addition, Interior officials reported that the department has conducted condition assessments for 72,233 assets as of fourth quarter fiscal year 2006.

Further Efforts Made to Strategically Manage and Address Problems

As mentioned previously, Executive Order 13327 requires that OMB, along with landholding agencies, develop legislative initiatives to improve federal real property management and establish accountability for implementing effective and efficient real property management practices. Some individual agencies have obtained legislative authority in recent years to use certain real property management tools, but no

comprehensive legislation has been enacted. Some agencies have received special real property management authorities, such as the authority to enter into EUL agreements.⁵ These agencies are also authorized to retain the proceeds of the lease and to use them for items specified by law, such as improvement of their real property assets. DOD, Energy, Interior, NASA, USPS, and VA are authorized to enter into EUL agreements and have authority to retain proceeds from the lease. These authorities vary from agency to agency, and in some cases, these authorities are limited. For example, NASA is authorized to enter into EUL agreements at two of its centers,⁶ and VA's authority to enter into EUL agreements expires in 2011.⁷ In addition, VA was authorized in 2004 to transfer real property under its jurisdiction or control and to retain the proceeds from the transfer in a capital asset fund for property transfer costs, including demolition, environmental remediation, and maintenance and repair costs.⁸ VA officials noted that although VA is authorized to transfer real property under its jurisdiction or control and to retain the proceeds from such transfers, this authority has significant limitations on the use of any funds generated by any disposal under this authority. Additionally, GSA was given the authority to retain proceeds from disposal of its real property and to use the proceeds for its real property needs. Agencies with enhanced authorities believe that these authorities have greatly improved their ability to manage their real property portfolios and operate in a more businesslike manner.

Overall, the administration's efforts to raise the level of attention to real property as a key management challenge and to establish guidelines for improvement are noteworthy. The administrative tools, including asset management plans, inventories, and performance measures, were not in place to strategically manage real property before we updated our high-risk list in January 2005. The actions taken by major real property-holding agencies and the administration to establish such tools are clearly positive

⁵This authority allows the agency to lease real property under its control or custody to public and private entities and to accept as payment under the lease either cash or other consideration, such as construction, maintenance, restoration, and repair of facilities, or services that are of benefit to the agency.

⁶42 U.S.C. § 2459j.

⁷38 U.S.C. § 8169.

⁸In 2004, VA was authorized to transfer real property under its control or custody that is not part of an EUL for fair market value and to deposit the proceeds in VA's Capital Asset Fund. 38 U.S.C. § 8118.

steps. However, these administrative tools and the real property initiative have not been fully implemented, and it is too early to determine if they will have a lasting impact. Implementation of these tools has the potential to produce results such as reductions in excess property, reduced maintenance and repair backlogs, less reliance on leasing, and an inventory that is shown to be reliable and valid.

Long-standing Problems in Real Property Largely Persist and Obstacles Remain

Although clear progress has been made toward strategically managing federal real property and addressing some long-standing problems, real property remains a high-risk area because the problems persist and obstacles remain. Agencies continue to face long-standing problems in the federal real property area, including excess and underutilized property, deteriorating facilities and maintenance and repair backlogs, reliance on costly leasing, and unreliable real property data. Federal agencies also continue to face many challenges securing real property. These problems are still pervasive at many of the major real property-holding agencies, despite agencies' individual attempts to address them.

The Federal Government Continues to Hold Many Unneeded Assets

Although the changes being made to strategically manage real property are positive and some realignment has taken place, the size of agencies' real property portfolios remains generally outmoded. As we have reported, this trend largely reflects a business model and the technological and transportation environment of the 1950s.⁹ Many of these assets and organizational structures are no longer needed; others are not effectively aligned with, or responsive to, agencies' changing missions. While some major real property-holding agencies have had some success in attempting to realign their infrastructures in accordance with their changing missions, others still maintain a significant amount of excess and underutilized property.¹⁰ For example, officials with Energy, DHS, and NASA—which are three of the largest real property-holding agencies—reported that over 10

⁹GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-352T (Washington, D.C.: Feb. 16, 2005).

¹⁰GSA Management Regulations define not utilized property as an entire property or portion of a property that is not occupied or used for current program purposes of the accountable agency or property that is occupied in caretaker status only. According to a GSA official, property that is not utilized is generally considered vacant. The regulations also define underutilized property as an entire property or portion of a property that is used only at irregular periods or intermittently by the accountable agency or property that is being used for the agency's current program purposes that can be satisfied with only a portion of the property. (41 C.F.R. 102-75.45 and 41 C.F.R. 102-75.50).

percent of the facilities in their inventories were excess or underutilized. The magnitude of the problem with underutilized or excess federal real property continues to put the government at risk for lost dollars and missed opportunities. Table 1 describes the status of excess and underutilized real property challenges at the nine major real property-holding agencies.

Table 1: Status of Excess Property Challenges at the Major Real Property-Holding Agencies

Agency	Status
DOD	DOD officials indicated that because its real property holdings are so extensive and DOD has just begun collecting detailed excess facility information, the department has not fully completed its reporting of all excess property.
Energy	Energy officials reported that approximately 16 percent of Energy's real property inventory has been identified as excess or underutilized.
DHS	According to DHS officials, for the 2006 FRPP submission, the percentage of underutilized real property is 9.7 percent.
Interior	In December 2006, Interior reported in the FRPP during fiscal year 2006 that 1,181 assets of 185,527 were disposed, or less than 1 percent of the inventory. Officials reported that Interior is working to address its excess and underutilized facilities, citing two major initiatives undertaken at Interior; (1) Bureau of Land Management (BLM), the Space Management Program and (2) Service First, to better meet space needs and priorities. ^a
GSA	According to GSA officials, 258 buildings, with 13.8 million rentable square feet (RSF), have been reported as excess property. Additionally, 21 buildings, with 0.7 million RSF, are pending disposal or demolition.
NASA	NASA officials reported that over 10 percent of all assets are underutilized or not utilized at all.
State	According to State officials, the department's properties showed a high level of utilization in 2005. Only about 1.5 percent of the portfolio was reported as underutilized. State has identified 65 properties (less than 0.4 percent of the overseas portfolio for government-owned assets) for potential disposal.
USPS	According to USPS officials, 1 percent of its inventory of 8,807 owned properties is considered excess or underutilized. Fewer than 50 properties are considered excess. ^b
VA	According to VA officials, VA has moved from 98 percent utilized space in fiscal year 2005 to 100 percent in fiscal year 2006. In fiscal year 2006, VA disposed of 77 buildings, including 6 buildings via sales, 19 buildings via demolition, and 52 buildings via EUL.

Source: GAO analysis of agencies' data.

^aThe Space Management Program is a top management initiative to review space requirements and reduce space allocations across the department. Started in 2003 and managed by the Office of Acquisition and Property Management, the program is designed to strengthen management decision making at all levels throughout the life cycle (acquisition through disposition) of owned, leased and GSA-provided space. The Service First Initiative is a cross-agency partnership between BLM and the Department of Agriculture's U.S. Forest Service. It was established several years ago with three broad goals to improve customer service, increase operational efficiency, and enhance land stewardship.

^bAs part of our ongoing work, we are reviewing USPS infrastructure realignment plans.

Major Real Property-Holding Agencies Still Have Multibillion-Dollar Repair and Restoration Backlogs

Addressing the needs of aging and deteriorating federal facilities remains a problem for major real property-holding agencies. According to recent estimates, tens of billions of dollars will be needed to repair or restore these assets so that they are fully functional. Furthermore, much of the federal portfolio was constructed over 50 years ago, and these assets are reaching the end of their useful lives. Energy, NASA, GSA, Interior, State, and VA reported repair and maintenance backlogs for buildings and structures that total over \$16 billion. In addition, DOD reported a \$57 billion restoration and modernization backlog.¹¹ We found that there was variation in how agencies reported data on their backlog. Some agencies reported deferred maintenance figures consistent with the definition used for data on deferred maintenance included in their financial statements.¹² Others provided data that included major renovation or restoration needs. More specifically,

- For DOD, facilities restoration and modernization requirements total over \$57 billion. Officials noted that the backlog does not reflect the impact of 2005 Base Realignment and Closures (BRAC) or related strategic rebasing decisions that will be implemented over the next several years.
- For Energy, the backlog in fiscal year 2005 for a portfolio valued at \$85.2 billion was \$3.6 billion.
- For Interior, officials reported an estimated maintenance backlog of over \$3 billion for buildings and other structures.¹³

¹¹To determine whether agencies still have repair and restoration backlogs, we asked each agency to provide updated estimates of their backlogs, which we defined as needs in facilities for which major upkeep, repair, and maintenance have not been funded and the repair and maintenance on these assets has been postponed.

¹²Deferred maintenance is defined by the Statement of Federal Financial Accounting Standards No. 6, which includes the accounting standards for deferred maintenance, as maintenance that was not performed when it should have been or scheduled maintenance that was delayed or postponed. Maintenance is the act of keeping fixed assets in acceptable condition, including preventative maintenance, normal repairs, and other activities needed to preserve the assets, so that they can continue to provide acceptable services and achieve their expected life. Maintenance excludes activities aimed at expanding the capacity of assets or otherwise upgrading them to serve needs different from those originally intended.

¹³It is important to note that the National Park Service, which has responsibility for trails and recreation sites in addition to buildings and other structures, has previously reported an estimated \$5 billion maintenance backlog. The estimated \$3 billion maintenance backlog reported here does not include roads, bridges, trails, irrigation, dams or other water structures.

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- GSA's current maintenance backlog is estimated at \$6.6 billion.
 - For State, the maintenance backlog is estimated at \$132 million, which includes all of the deferred/unfunded maintenance and repair needs for prior fiscal years.
 - For NASA, the restoration and repair backlog is estimated at over \$2.05 billion as of the end of fiscal year 2006.
 - For VA, the maintenance backlog for facilities with major repair needs is estimated at \$5 billion, and according to VA officials, VA must address this aged infrastructure while patient loads are changing.

Despite Long-Term Cost, Several Agencies Reported That Reliance on Leasing to Meet New Space Needs Is Increasing

Many of the major real property-holding agencies continue to rely on leased space to meet new space needs. As a general rule, building ownership options through construction or purchase are often the least expensive ways to meet agencies' long-term requirements. Lease purchases—under which payments are spread out over time and ownership of the asset is eventually transferred to the government—are often more expensive than purchase or construction but are generally less costly than using ordinary operating leases to meet long-term space needs.¹⁴ For example, we testified in October 2005 that for the Patent and Trademark Office's long-term requirements in northern Virginia, the cost of an operating lease was estimated to be \$48 million more than construction and \$38 million more than lease purchase. However, over the last decade we have reported that GSA—as the central leasing agent for most agencies—relies heavily on operating leases to meet new long-term needs because it lacks funds to pursue ownership.

Operating leases have become an attractive option, in part because they generally “look cheaper” in any given year, even though they are often more costly over time. Under current budget scorekeeping rules,¹⁵ the

¹⁴According to VA officials, VA does not enter into lease-purchase agreements.

¹⁵The extent to which capital costs are reflected in the budget depends on how they are “scored.” The Congressional Budget Office (CBO) and OMB separately “score” or track budget authority, receipts, outlays, and the surplus or deficit estimated to results as legislation is considered and enacted. CBO develops estimates of the budgetary impact of bills reported by the different congressional committees. OMB also uses the scorekeeping guidelines to determine how much budget authority must be obligated for individual agency transactions.

budget generally should record the full cost of the government's commitment. Operating leases were intended for short-term needs and thus, under the scorekeeping rules, for self-insuring entities, only the amount needed to cover the first year lease payments plus cancellation costs needs to be recorded. However, the rules have been stretched to allow budget authority for some long-term needs being met with operating leases to be spread out over the term of the lease, thereby disguising the fact that over time, leasing will cost more than ownership. Resolving this problem has been difficult; however, change is needed because the current practice of relying on costly leasing to meet long-term space needs result in excessive costs to taxpayers and does not reflect a sensible or economically rational approach to capital asset management, when ownership would be more cost effective.

Five of the nine largest real property-holding agencies—Energy, Interior, GSA, State, and VA—reported an increased reliance on operating leases to meet new space needs over the past 5 years. According to DHS officials, per review of GSA's fiscal year 2005 and 2006 lease acquisition data for DHS, there has been no significant increase in GSA acquired leased space for DHS. In addition, officials from NASA and USPS reported that their agency's use of operating leases has remained at about the same level over the past 5 years.

We did not analyze whether the leasing activity at these agencies, either in the aggregate or for individual leases, resulted in longer-term costs than if these agencies had pursued ownership. For short-term needs, leasing likely makes economic sense for the government in many cases. However, our past work has shown that, generally speaking, for long-term space needs, leasing is often more costly over time than direct ownership of these assets.

Governmentwide Real Property Data Inventory Is in Early Stages, and Data Reliability Is Still a Problem at the Agency Level

While the administration and agencies have made progress in collecting standardized data elements¹⁶ needed to strategically manage real property, the long-term benefits of the new real property inventory have not yet been realized, and this effort is still in the early stages. The federal government has made progress in revamping its governmentwide real property inventory since our 2003 high-risk designation. The first governmentwide reporting of inventory data for FRPP took place in December 2005, and GSA published the data on behalf of FRPC, in June 2006. According to the 2005 FRPP report, the goals of the centralized database are to improve decision making with accurate and reliable data, provide the ability to benchmark federal real property assets, and consolidate governmentwide real property data collection into one system. According to FRPC, these improvements in real property and agency performance data will result in reduced operating costs, improved asset utilization, recovered asset values, and improved facility conditions, among others.

It is important to note that real property data contained in the financial statements of the U.S. government have also been problematic. The CFO Act, as expanded by the Government Management Reform Act, requires the annual preparation and audit of individual financial statements for the federal government's 24 major agencies. The Department of the Treasury is also required to compile consolidated financial statements for the U.S. government annually, which we audit. In March 2007, we reported that—for the tenth consecutive year—certain material weaknesses¹⁷ in internal controls and in selected accounting and financial reporting practices resulted in conditions that continued to prevent us from being able to provide the Congress and the American people with an opinion as to whether the consolidated financial statements of the U.S. government were fairly stated in conformity with U.S. generally accepted accounting principles. Further, we also reported that the federal government did not maintain effective internal control over financial reporting (including

¹⁶As previously mentioned in this report, GSA, working under the leadership of FRPC, collaborated with numerous agencies to develop 23 mandatory data elements, which include four performance measures.

¹⁷A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.

safeguarding assets) and compliance with significant laws and regulations as of September 30, 2006.¹⁸

Individual Agencies Continue to Struggle with Data Reliability Issues

While agencies have made significant progress in collecting the data elements from their real property inventory databases for the FRPP, data reliability is still a problem at some of the major real property-holding agencies and agencies lack a standard framework for assessing the validity of data used to populate the FRPP. Quality governmentwide and agency-specific data are critical for addressing the wide range of problems facing the government in the real property area, including excess and unneeded property, deterioration, and security concerns. Despite the progress made by the administration and individual agencies in recent years, decision makers historically have not had access to complete, accurate, and timely data on what real property assets the government owns; their value; whether the assets are being used efficiently; and what overall costs are involved in preserving, protecting, and investing in them. Also, real property-holding agencies have not been able to easily identify excess or unneeded properties at other agencies that may suit their needs. For example, in April 2006, the DOD Inspector General (IG) reported weaknesses in the control environment and control activities that led to deficiencies in the areas of human capital assets, knowledge management, and compliance with policies and procedures related to real property management. As a result, the military departments' real property databases were inaccurate, jeopardizing internal control over transactions reported in the financial statements.¹⁹

Compounding these issues is the difficulty each agency has in validating its real property inventory data that are submitted to FRPP. Validation of individual agencies' data is important because the data are used to populate the FRPP. Because a reliable FRPP is needed to advance the administration's real property initiative, ensuring the validity of data that agencies provide is critical. In general, we found that agencies' efforts to validate the data for the FRPP are at the very early stages of development. For example, according to Interior officials, the department had designed

¹⁸GAO, *Fiscal Year 2006 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Accountability and Fiscal Stewardship Challenges*, [GAO-07-607T](#) (Washington, D.C.: Mar. 20, 2007).

¹⁹DOD, Office of Inspector General, *Internal Controls Related to Department of Defense Real Property*, D2006-072 (Arlington, VA: Apr. 6, 2006).

and was to begin implementing a program of validating, monitoring, and improving the quality of data reported into FRPP in the last quarter of fiscal year 2006.

Furthermore, according to OMB staff, there is no comprehensive review or validation of data once agencies submit their real property profile data to OMB. OMB staff reported that both OMB and GSA review agency data submissions for variances from the prior reporting period. However, agencies are required to validate their data prior to submission to the GSA-managed database. OMB staff reported that some agencies, as part of the PMA initiative, have provided OMB with plans for ensuring the quality of their inventory and performance data. OMB staff reported that OMB has not, to date, requested these plans of all agencies. OMB staff reported that agencies provide OMB with information that includes the frequency of data updates and any methods used for data validation. In addition, according to OMB staff, OMB relies on the quality assurance and quality control processes performed by individual agencies. Also, OMB staff noted that they rely on agency IGs, agency financial statements, and our reviews to establish the validity of the data. Furthermore, OMB staff indicated that a one-size-fits-all approach to data validation would be difficult to implement. Nonetheless, a general framework for data validation that could guide agencies in this area would be helpful, as agencies continue their efforts to populate the FRPP with data from their existing data systems. A framework for FRPP data validation approaches could be used in conjunction with the more ad hoc validation efforts OMB mentioned to, at a minimum, suggest standards for frequency of validation, validation methods, error tolerance, and reporting on reliability. Such a framework would promote a more comprehensive approach to FRPP data validation. In our recent report, we recommended that OMB, in conjunction with the FRPC, develop a framework that agencies can use to better ensure the validity and usefulness of key real property data in the FRPP.

Physical Security Is Still a Problem for Major Real Property-Holding Agencies

The threat of terrorism has increased the emphasis on physical security for federal real property assets. All of the nine agencies reported using risk-based approaches to some degree to prioritize facility security needs, as we have suggested;²⁰ but some agencies cited challenges, including a lack of resources for security enhancements and issues associated with securing leased space. For example, DHS officials reported that the department is working to further develop a risk management approach that balances security requirements and the acquisition of real property and leverages limited resources for all its components. In many instances, available real property requires security enhancements before government agencies can occupy the space. Officials reported that these security upgrades require funding that is beyond the cost of acquiring the property, and, therefore, their acquisition is largely dependent on the availability of sufficient resources.

While some agencies have indicated that they have made progress in using risk-based approaches, some officials told us that they still face considerable challenges in balancing their security needs and other real property management needs with their limited resources. According to GSA officials, obtaining funding for security countermeasures, both security fixtures and equipment, is a challenge, not only within GSA, but for GSA's tenant agencies as well. In addition, Interior and NASA officials reported that their agencies face budget and resource constraints in securing real property. Interior officials further noted that despite these limitations, incremental progress is made each year in security.

Given their competing priorities and limited security resources, some of the major real property-holding agencies face considerable challenges in balancing their security and real property management needs. We have reported that agencies could benefit from specific performance measurement guidance and standards for facility protection to help them address the challenges they face and help ensure that their physical

²⁰In GAO, *Homeland Security: Further Action Needed to Coordinate Agencies' Facility Protection Efforts and Promote Key Practices*, GAO-05-49 (Washington, D.C.: Nov. 30, 2004) we identified several key practices in facility protection, which included using risk management to allocate resources; leveraging security technology; coordinating protection efforts and sharing information; realigning real property assets to an agency's mission, thereby reducing vulnerabilities; strategically managing human capital; and measuring program performance and testing security initiatives.

security efforts are achieving the desired results.²¹ Without a means of comparing the effectiveness of security measures across facilities, particularly program outcomes, the U.S. government is open to the risk of either spending more money for less effective physical security measures or investing in the wrong areas. Furthermore, performance measurement helps ensure accountability, since it enables decision makers to isolate certain activities that are hindering an agency's ability to achieve its strategic goals. Performance measurement can also be used to prioritize security needs and justify investment decisions so that an agency can maximize available resources.

Despite the magnitude of the security problem, we noted that this area is largely unaddressed in the real property initiative. Without formally addressing security, there is a risk that this challenge could continue to impede progress in other areas. The security problem has an impact on the other problems that have been discussed. For example, to the extent that funding will be needed for a sustained investment in security, the funding available for repair and restoration, preparing excess property for disposal, and improving real property data systems may be further constrained. Furthermore, security requires significant staff time and other human capital resources and thus real property managers may have less time to manage other problems.

Underlying Obstacles Hamper Agency Real Property Reform Efforts Governmentwide

In past high-risk reports, we called for a transformation strategy to address long-standing real property problems. While the administration's current approach is generally consistent with what we envisioned and the administration's central focus on real property management is a positive step, certain areas warrant further attention. Specifically, problems are exacerbated by underlying obstacles that include competing stakeholder interests and legal and budgetary limitations. For example, some agencies cited local interests as barriers to disposing of excess property. In addition, agencies' limited ability to pursue ownership often leads them to lease property that they could more cost-effectively own over time. Another obstacle—the need for improved long-term capital planning—remains despite OMB efforts to enhance related guidance.

²¹GAO, *Homeland Security: Guidance and Standards Are Needed for Measuring Effectiveness of Agencies' Facility Protection Efforts*, [GAO-06-612](#) (Washington, D.C.: May 31, 2006).

Several Agencies Cited
Competing Stakeholder
Interests as Impeding Real
Property Management Decision
Making

Some major real property-holding agencies reported that competing local, state, and political interests often impede their ability to make real property management decisions, such as decisions about disposing of unneeded property and acquiring real property. For example, VA officials reported that disposal is often not an option for most properties because of political stakeholders and constituencies, including historic building advocates or local communities that want to maintain their relationship with VA. In addition, VA officials said that attaining the funding to follow through on Capital Asset Realignment for Enhanced Services (CARES) decisions is a challenge because of competing priorities. Also, Interior officials reported that the department faces significant challenges in balancing the needs and concerns of local and state governments, historical preservation offices, political interests, and others, particularly when coupled with budget constraints. Other agencies cited similar challenges related to competing stakeholder interests. If the interests of competing stakeholders are not appropriately addressed early in the planning stage, they can adversely affect the cost, schedule and scope of a project.

Despite its significance, the obstacle of competing stakeholder interests has gone unaddressed in the real property initiative. It is important to note that there is precedent for lessening the impact of competing stakeholder interests. BRAC decisions, by design, are intended to be removed from the political process, and Congress approves BRAC decisions as a whole. OMB staff said they recognize the significance of the obstacle and told us that FRPC would begin to address the issue after the inventory is established and other reforms are initiated. Without addressing this issue, however, less than optimal decisions that are not based on what is best for the government as a whole may continue.

Legal and Budgetary
Limitations Continue to
Hamper Agencies' Disposal
Efforts

As discussed earlier, budgetary limitations that hinder agencies' ability to fund ownership leads agencies to rely on costly leased space to meet new space needs. Furthermore, the administrative complexity and costs of disposing of federal property continue to hamper some agencies' efforts to address their excess and underutilized real property problems. Federal agencies are required by law to assess and pay for any environmental cleanup that may be needed before disposing of a property—a process that may require years of study and result in significant costs. As valuable as these legal requirements are, their administrative complexity and the associated costs of complying with them create disincentives to the disposal of excess property. For example, we reported that VA, like all federal agencies, must comply with federal laws and regulations governing property disposal that are intended, for example, to protect subsequent

users of the property from environmental hazards and to preserve historically significant sites.²² We have reported that some VA managers have retained excess property because the administrative complexity and costs of complying with these requirements were disincentives to disposal.²³ Additionally, some agencies reported that the costs of cleanup and demolition sometimes exceed the costs of continuing to maintain a property that has been shut down. In such cases, in the short run, it can be more beneficial economically to retain the asset in a shut-down status.

Given that agencies are required to fund the costs of preparing property for disposal, the inability to retain any of the proceeds acts as an additional disincentive. It seems reasonable to allow agencies to retain enough of the proceeds to recoup the costs of disposal, and it may make sense to permit agencies to retain additional proceeds for reinvestment in real property where a need exists.²⁴ However, in considering whether to allow federal agencies to retain proceeds from real property transactions, it is important for Congress to ensure that it maintains appropriate control and oversight over these funds, including the ability to redistribute the funds to accommodate changing needs. In our recent report, we recommended that OMB, in conjunction with the FRPC, develop an action plan for how the FRPC will address key problems, including the continued reliance on costly leasing in cases where ownership is more cost effective over the long term, the challenges of securing real property assets, and reducing the effect of competing stakeholder interests on businesslike outcomes in real property decisions.

Need for Improved Capital Planning Still Exists

Over the years, we have reported that prudent capital planning can help agencies to make the most of limited resources, and failure to make timely and effective capital acquisitions can result in acquisitions that cost more than anticipated, fall behind schedule, and fail to meet mission needs and goals. In addition, Congress and OMB have acknowledged the need to improve federal decision making regarding capital investment. A number of laws enacted in the 1990s placed increased emphasis on improving capital decision-making practices and OMB's *Capital Programming*

²²GAO, *VA Health Care: Key Challenges to Aligning Capital Assets and Enhancing Veterans' Care*, [GAO-05-429](#) (Washington, D.C.: Aug. 5, 2005).

²³[GAO-05-429](#).

²⁴GSA has determined, and OMB has concurred, that GSA was provided permanent authority to retain proceeds from the sale or disposition of real property in its annual appropriation for fiscal year 2005.

Guide and its revisions to Circular A-11 have attempted to address the government's shortcomings in this area.

Our prior work assessing agencies' implementation of the planning phase principles in OMB's *Capital Programming Guide* and our Executive Guide²⁵ found that some agencies' practices did not fully conform to the OMB principles, and agencies' implementation of capital planning principles was mixed.²⁶ Specifically, while agencies' capital planning processes generally linked to their strategic goals and objectives and most of the agencies we reviewed had formal processes for ranking and selecting proposed capital investments, the agencies have had limited success with using agencywide asset inventory systems and data on asset condition to identify performance gaps. In addition, we found that none of the agencies had developed a comprehensive, agencywide, long-term capital investment plan. The agency capital investment plan is intended to explain the background for capital decisions and should include a baseline assessment of agency needs that examines existing assets and identifies gaps and help define an agency's long-term investment decisions. In January 2004, we recommended that OMB begin to require that agencies submit long-term capital plans to OMB. Since that report was issued, VA—which was one of our initial case study agencies—issued its first 5-year capital plan. However, the results of follow-up work in this area showed that although OMB now encourages such plans, it does not collect them, and the agencies that were included in our follow-up review do not have agency wide long-term capital investment plans.²⁷ OMB agreed that there are benefits from OMB review of agency long-term capital plans, but that these plans should be shared with OMB on an as-needed basis depending on the specific issue being addressed and the need to view supporting materials.

²⁵GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, [GAO/AIMD-99-32](#) (Washington, D.C.: December 1998).

²⁶GAO, *Agency Implementation of Capital Planning Principles Is Mixed*, [GAO-04-138](#) (Washington, D.C.: Jan. 16, 2004).

²⁷GAO, *Three Agencies' Implementation of Capital Planning Principles Is Mixed*, [GAO-07-274](#) (Washington, D.C.: Feb. 23, 2007). This review covers the Offices of Science and Environmental Management within Energy and U.S. Customs and Border Protection within DHS.

Shortcomings in the capital planning and decision-making area have clear implications for the administration's real property initiative. Real property is one of the major types of capital assets that agencies acquire. Other capital assets include information technology, major equipment, and intellectual property. OMB staff said that agency asset management plans are supposed to align with the capital plans but that OMB does not assess whether the plans are in alignment. We found that guidance for the asset management plans does not discuss how these plans should be linked with agencies' broader capital planning efforts outlined in the *Capital Programming Guide*. In fact, OMB's asset management plan sample, referred to as the "shelf document," which agencies use to develop the asset management plans, makes no reference to the guide. Without a clear linkage or crosswalk between the guidance for the two documents, there is less assurance that agencies will link them. Furthermore, there could be uncertainty with regard to how real property goals specified in the asset management plans relate to longer term capital plans.

Federal Real Property Reform Efforts Still in Early Stages

The executive order on real property management and the addition of real property to the PMA have provided a good foundation for strategically managing federal real property and addressing long-standing problems. These efforts directly address the concerns we raised in past high-risk reports about the lack of a governmentwide focus on real property management problems and generally constitute what we envisioned as a transformation strategy for this area. However, these efforts are in the early stages of implementation, and the problems that led to the high-risk designation—excess property, repair backlogs, data issues, reliance on costly leasing, and security challenges—still exist. As a result, this area remains high risk until agencies show significant results in eliminating the problems by, for example, reducing inventories of excess facilities and making headway in addressing the repair backlog. Furthermore, the current efforts lack an overall framework for helping agencies ensure the validity of real property data in FRPP and do not adequately address the costliness of long-term leases and security challenges. While the administration has taken several steps to overcome some obstacles in the real property area, the obstacle posed by competing stakeholder interests has gone largely unaddressed, and the linkage between the real property initiative and broader agency capital planning efforts is not clear. Focusing on these additional areas could help ensure that the problems and obstacles are addressed.

We made three recommendations to OMB's Deputy Director for Management in our April 2007 report on real property high risk issues.²⁸ OMB agreed with the report and concurred with its recommendations.²⁹ We recommended that the Deputy Director, in conjunction with FRPC, develop a framework that agencies can use to better ensure the validity and usefulness of key real property data in the FRPP. At a minimum, the framework would suggest standards for frequency of validation methods, error tolerance, and reporting on reliability. OMB agreed with our recommendation and reported that it will work with the FRPC to take steps to establish and implement a framework. For our second recommendation to develop an action plan for how the FRPC will address key problems, OMB said that the FRPC is currently drafting a strategic plan for addressing long-standing issues such as the continued reliance on costly leasing in cases where ownership is more cost effective over the long-term, the challenge of securing real property assets, and reducing the effect of competing stakeholder interests on businesslike outcomes in real property decisions. OMB agreed that it is important to build upon the substantial progress that has been realized by both the FRPC and the federal real property community in addressing the identified areas for improvement. OMB said that it will share the strategic plan with us once it is in place and will discuss strategies for ensuring successful implementation. For our third recommendation to establish a clearer link or crosswalk between agencies' efforts under the real property initiative and broader capital planning guidance, OMB stated that as agencies update their asset management plans and incorporate updated guidance on capital planning, progressive improvement in this area will be realized.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time.

²⁸GAO-07-349.

²⁹VA, Energy, DHS, GSA, and NASA generally agreed with the report. State, DOD, Interior, and USPS did not state whether they agreed or disagreed with the report and its recommendations.

Contact and Acknowledgments

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