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GAO

High-Risk Series

December 1992

Management of Overseas Real Property



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**Comptroller General
of the United States**

December 1992

The President of the Senate
The Speaker of the House of Representatives

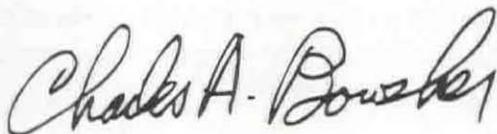
In January 1990, in the aftermath of scandals at the Departments of Defense and Housing and Urban Development, the General Accounting Office began a special effort to review and report on federal government program areas that we considered "high risk."

After consulting with congressional leaders, GAO sought, first, to identify areas that are especially vulnerable to waste, fraud, abuse, and mismanagement. We then began work to see whether we could find the fundamental causes of problems in these high-risk areas and recommend solutions to the Congress and executive branch administrators.

We identified 17 federal program areas as the focus of our project. These program areas were selected because they had weaknesses in internal controls (procedures necessary to guard against fraud and abuse) or in financial management systems (which are essential to promoting good management, preventing waste, and ensuring accountability). Correcting these problems is essential to safeguarding scarce resources and ensuring their efficient and effective use on behalf of the American taxpayer.

This report is one of the high-risk series reports, which summarize our findings and recommendations. It describes our concerns over the Department of State's management of the government's overseas real estate programs. It focuses on the need for better oversight of the government's facilities abroad to avoid mismanagement and waste of funds.

Copies of this report are being sent to the President-elect, the Democratic and Republican leadership of the Congress, congressional committee and subcommittee chairs and ranking minority members, the Director-designate of the Office of Management and Budget, and the Secretary-designate of State.



Charles A. Bowsher

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Overview

The State Department, through its Office of Foreign Buildings Operations (FBO), manages overseas properties of the U.S. government. These include 8,300 leased properties and 1,750 government-owned properties at nearly 300 locations worldwide. The properties, which include embassies, consulate office buildings, residences, warehouses, garages, and construction sites, are worth approximately \$8 billion to \$10 billion.

FBO oversees acquisition, construction, sales, operations, and maintenance. It establishes standards and procedures for overseas posts, which conduct routine maintenance and implement housing programs for U.S. government employees overseas. FBO also manages a \$2.1 billion Diplomatic Security Construction Program to build secure facilities at overseas sites that face threats of terrorism and violence.

The Problem

The State Department's program of overseas real estate and construction has long been susceptible to waste and mismanagement. Overseas posts have built facilities and made other questionable expenditures without FBO's approval. Some have provided over-standard housing for U.S. employees

living overseas, at increased cost to the government. Maintenance has been postponed or ignored, while many buildings continue to deteriorate to the point of being unsafe. Further, decisions on the acquisition and disposal of overseas property have not always reflected the best long-term interest of the U.S. government.

The security construction program has experienced significant delays and cost increases, and the State Department does not know whether the objectives of the program will be achieved. In the meantime, U.S. government employees and facilities overseas remain vulnerable to acts of violence and breaches of security.

The Causes

FBO's management has demonstrated four areas of weakness:

- **Lax oversight.** FBO's mechanisms for oversight have not ensured that overseas posts are complying with established policies and procedures. Area managers responsible for monitoring post activities have not given this task a high priority, and FBO has not monitored posts' compliance with housing standards.

- **Inadequate information systems.** FBO does not maintain the financial data that managers need to track costs for specific buildings, to budget for future costs, or to assess management efficiency. The data FBO does collect has traditionally been inaccurate and incomplete.
- **Insufficient maintenance.** The poor condition of many buildings overseas is a direct result of a lack of professional maintenance capabilities at the posts, a lack of programs for systematic rehabilitation, and inadequate funding for maintenance. Also, FBO has neglected to assess the condition of its properties, leading to costly repairs that might have been avoided by preventive maintenance.
- **Poor planning.** Although FBO needs to develop facilities plans at key posts to link the Department's foreign policy and security objectives, to this date FBO has not established milestones to develop such plans.

In the \$2.1 billion security construction program, inadequate planning and coordination have contributed to delays and cost increases. Since 1986, FBO has completed only 8 of the 57 projects under

this program. In addition, FBO has not adequately assessed contractors' performance and has lacked sufficient staff to manage construction.

**GAO's
Suggestions for
Improvement**

FBO has begun to correct some of its chronic problems in accordance with many of our previous audits and recommendations. It intends, for example, to establish priorities for construction projects based on specific criteria, to better evaluate contractors' performance, to hire additional qualified staff, to survey the maintenance conditions of posts worldwide, to require yearly maintenance inspections, to streamline and update housing standards, and to improve information systems.

We believe that these reforms show promise. But some key improvements are still in the initial stages and will take years to implement. It is important to continue these efforts to make long-lasting improvements especially in consideration of the increased work load and the demand for resources associated with opening new posts in the former Soviet Union.

Managing Real Estate Overseas

The Foreign Service Buildings Act of 1926, as amended, directs the State Department to manage overseas properties of the U.S. government. The Department has delegated responsibility for overseas real estate operations to FBO. These operations include acquiring, constructing, selling, operating, and maintaining U.S. government-owned and leased property at several hundred locations abroad.

To manage the maintenance of overseas real property, FBO establishes policies, standards, and procedures and provides technical guidance to posts on real estate matters. Posts are responsible for implementing overseas housing programs for U.S. government employees and for conducting routine maintenance, repairs, and minor improvements in accordance with FBO's policies, standards, and procedures.

FBO also manages overseas construction projects. In 1986, the Department initiated a \$2.1 billion Diplomatic Security Construction Program in response to the need to build secure new facilities at posts facing threats of terrorism and other acts of violence. FBO estimated that 57 projects could be completed under the program. To date, FBO has completed only eight projects, and funds

appropriated for the program total about \$1.2 billion.

Management of Real Estate Overseas Has Been Ineffective

For the past three decades, ineffective management practices have caused overseas posts to make questionable expenditures without FBO's approval and have perpetuated problems in the maintenance of real estate property overseas. In addition, State's information systems to track funds and resources have proved inadequate, and ineffective planning has led to decisions that were not in the best interest of the U.S. government. Persistent problems with the Department's maintenance of real property have led the Department to identify it as an area that carries a heightened risk for waste or mismanagement.

Oversight Has Been Limited

FBO's mechanisms for the oversight of overseas post activities have not ensured that posts were complying with established policies and procedures. In the absence of sufficient oversight, some posts have acted unwisely in taking real estate actions without the knowledge or approval of FBO. For example, a past GAO audit uncovered improper expenditures at one post for the construction of buildings to house racquetball and squash courts without FBO's approval. Another post executed an unnecessary \$8.5 million extension on a lease without FBO's knowledge or approval.

Another audit revealed that posts were not complying with FBO's standards for leased residential housing provided to Department employees living overseas and, as a result, many employees resided in houses that exceeded FBO's standards, at greater cost to the U.S. government.

FBO's primary mechanisms for oversight of overseas post activities are (1) monitoring by FBO area managers and other officials and (2) automated information systems that provide data on posts' real property inventory and expenditures of resources. In the past, monitoring of posts' activities has not been a high priority in FBO. Although area managers seemed to be aware of their responsibilities, they had not made monitoring a priority because (1) they did not want to give the impression that they did not trust post managers and (2) they had not been trained to perform monitoring activities.

The U.S. government provides free housing for its personnel assigned to overseas posts. To determine the appropriate size of a housing unit for an employee, the Department of State developed standards based on (1) comparable housing available in the metropolitan Washington, D.C., area;

(2) family size; and (3) the employee's position at the overseas post. In 1989, a GAO review of Department posts in seven countries showed substantial use of leased residential housing that was over-standard. Specifically, one of every three of the housing units in these countries was over-standard. A recent review of one overseas post showed that only 19 percent of the families were provided housing in accordance with FBO's standards. Our reviews indicate that posts are not following FBO procedures, post officials are not adequately controlling housing costs, and FBO has not monitored posts' compliance with housing standards.

**Information
Systems Have Not
Provided
Necessary Data**

The Department's property managers do not have relevant and useful financial information on the government's investment in or the cost to maintain the extensive inventory of buildings and real estate holdings overseas. Financial information of this nature is necessary to assess the value of the Department's assets and the manner in which it maintains stewardship over them.

FBO relies on two information systems—the Real Estate Management System and the Central Financial Management System—to

monitor real estate programs at overseas posts. The Real Estate Management System does not fully support the Department's property managers in managing foreign buildings because it does not provide historical cost information on government-owned and leased property or maintenance and repair cost information for each building overseas. Consequently, FBO cannot (1) track costs for each building, (2) determine the total costs of operating properties and the feasibility of retaining them, (3) budget for future building costs, and (4) develop performance measures to assess the efficiency and effectiveness of the management of overseas property. Without this information, it is difficult for the Department to adequately predict funding for FBO operations. The system also relies on data reported by the posts, and this data has traditionally been inaccurate and incomplete.

The Real Estate Management System also does not include information on changes in the value of buildings and real estate, the current service life and replacement cost of property, changes in the condition of property, backlogs of deferred maintenance, exposure to possible loss, and programs to

safeguard assets. This information would assist property managers in their work.

Financial data categorized by functional program and project would also be helpful to property managers. Currently, however, FBO cannot provide such information for many overseas transactions. Further, the Department's Bureau of Finance and Management Policy, which operates the Central Financial Management System, has postponed indefinitely a system modification that would support FBO's needs for project cost accounting.

Facilities Are Deteriorating

With an average age of 37 years, the support systems in many of the buildings overseas are approaching the end of their useful lives.¹ The deterioration of the Department's aging inventory is a direct result of the lack of (1) professional maintenance capabilities at the post level, (2) programs for systematic maintenance and rehabilitation, and (3) adequate funding for maintenance and repair of facilities. These deteriorating facilities create health, safety, and environmental hazards for employees of the Department and other federal agencies

¹Support systems in buildings include heating, ventilation, electrical, and other systems.

overseas and impede the operations of embassies and consulates abroad.

The poor condition of many buildings overseas is a direct result of FBO's past neglect in assessing the condition of its properties. In 1990, we found that a number of overseas buildings and building systems had deteriorated to the point that rehabilitating them would cost a significant amount. For example, the ambassador's residence at one post required rehabilitation and maintenance at a cost of \$10 million. According to FBO officials, many of the repairs and costs could have been avoided if routine and preventive maintenance had been done.

Persistent management problems with the Department's maintenance of real property overseas have led the Department to identify it as an area that carries a heightened risk for waste or mismanagement.

**Real Estate
Program Has Not
Been Well
Planned**

FBO established a policy in 1990 requiring a master facilities plan for each overseas post. The plan is to match each post's requirements for the short and long term with current assets to develop cost-effective alternatives. FBO has made very limited

progress in preparing master plans and has not developed master plans for posts where multimillion-dollar construction programs are planned. For example, FBO undertook an \$80 million construction and renovation project at one post without a master plan.

FBO officials are considering modifying this policy because they do not think all posts require the same detailed level of planning. Instead, FBO would like to develop abbreviated plans at posts where such plans can materially affect the decision-making and budgeting process. These plans would be developed based on criteria such as security and foreign policy considerations. To date, FBO has not established milestones to develop the abbreviated and full master plans. At the very minimum, FBO will need to establish milestones for the development of both types of plans to link the Department's foreign policy and security objectives, among others, to FBO's operations.

In 1989, FBO developed a 5-year plan for its real estate program for fiscal years 1992 through 1996. This plan, which outlines FBO's budgetary and staffing needs for the 5-year period, represents a major step in FBO's planning efforts. However, this plan does not include the potential proceeds from sales of

properties that FBO reviews periodically in its asset management studies. The proceeds from the sale of high-valued properties could substantially offset FBO's costs in other areas, such as the capital construction program. Linking the asset management studies with the 5-year plan would provide options for the use of proceeds from sales of property.

Delays in Construction Programs Persist

In 1986, the Department of State initiated a \$2.1 billion Diplomatic Security Construction Program to build secure new diplomatic facilities at high-threat and serious risk posts around the world. The Department began this program in response to (1) the increased risk from terrorist attacks and other acts of violence posed to U.S. diplomatic personnel overseas beginning in the late 1970s and (2) the placement of sophisticated Soviet listening devices in the structural shell of a new U.S. embassy office building in Moscow in 1985.

As revealed in audits since the 1960s, the Department of State has encountered significant problems in managing its overseas construction programs. These problems have resulted in delays and cost increases in the Department's security construction program. Due to continuing delays in construction, U.S. facilities and personnel stationed overseas still remain vulnerable to acts of violence. The Department has identified the security of U.S. facilities and personnel abroad as a material internal control weakness.

The Department has made limited progress in implementing its \$2.1 billion security construction program and cannot be assured

that program objectives are being met. FBO has completed an average of less than two projects per year since the program began in 1986. Specifically, FBO has completed only 8 of the 57 projects under the construction program, and costs continue to escalate. At the current pace, at least 20 years would be required to complete all the projects.

**Inadequate
Planning and
Coordination Led
to Delays and
Cost Increases**

The Department has planned the security construction program inadequately from the beginning. The program has experienced delays and cost increases as a result.

The program's initial estimated costs in the 1986 budget request were inaccurate. As shown in an internal 1988 review, one of the major causes of cost overruns was the lack of coordinated planning of post requirements prior to project programming and budgeting. As noted in our 1991 review, building size and cost requirements for specific projects were poorly defined in many instances. Inadequate planning resulted in cost increases of \$47 million for three projects. For example, the lack of coordination between FBO and the Department in establishing requirements for the size of a new building at the post in Pretoria, South Africa, led to a 4-year delay

in the award of the construction contract and subsequent cost increases of \$17 million.

FBO officials believe that the division of responsibility between FBO and the Bureau of Diplomatic Security for the security-related aspects of construction management has led to delays in both construction design and certification of security procedures. In 1990, State transferred the responsibility for construction security management to FBO, a decision FBO officials believe will lead to better management of overseas projects.

State Has Not
Assessed
Contractor
Performance
Adequately

The Department relies on contractors to implement its security construction program at specific overseas sites. These contractors can affect the program positively or negatively based on their performance. Although State acknowledged that the performance of contractors significantly affects construction, in the past it did not adequately assess their performance.

Some contractors have failed to perform as expected, and as a result, projects have been delayed, and costs have increased. For example, all 26 projects under one contract had been delayed. In spite of these delays, FBO had not assessed the contractor's

performance. Due to the delays, this contract had to be extended, and the cost increased by \$20 million. In addition, for one project alone, FBO faced additional costs of \$3 million—an increase of 8 percent of the total cost for the project—due to contractor performance problems.

**Staffing Levels to
Manage
Construction Are
Low**

FBO has encountered difficulties in filling authorized staff positions to manage increasingly complex construction projects. Reasons cited by FBO include its reorganization in 1987, the need to develop position classifications when the security construction program started, and the time it takes to obtain security clearances for new employees. Staff shortages in critical areas like program planning, project management, construction monitoring, and cost estimation have directly contributed to program delays and cost increases. According to FBO, shortages of direct-hire employees in the construction area can create the undesirable condition of too small a ratio of direct-hire to contract employees.

**Other Factors
Adversely Affect
Construction
Program**

Several problems encountered in the implementation of the security construction program have been beyond FBO's control. These problems include the difficulty

encountered in getting construction sites and changing security requirements within the Department.

In its initial planning, FBO believed that site selection and acquisition for most posts would be completed within 6 months after funds were authorized. However, the process often took much longer than expected, often years instead of months. In some cases, the lack of coordination within the Department delayed the process; in other cases, factors beyond FBO's control made acquisition difficult, if not impossible. These delays have contributed to cost increases of over \$37 million. Changing security requirements also led to delays and increased construction costs by approximately \$5 million in some projects.

Planned Reforms Will Take Years to Implement

After many years of neglect, the Department has recognized the urgency of improving its chronic mismanagement of overseas real estate programs and is taking action to correct past problems. Many of the actions will take time to fully implement because they are still in the planning stages or early stages of implementation. Consequently, it may take years before expected improvements are fully realized.

To improve the management of the security construction program, the Department and FBO are instituting the following reforms:

- The establishment of priorities for construction projects based on security standards, threat categories, budgetary realities, potential for successful execution, and other criteria.
- A value engineering program to identify potential savings in initial construction plans. This program resulted in \$6 million in savings in 1991.
- A configuration management system to control unnecessary design changes for projects costing more than \$5 million.

- A system to periodically evaluate the performance of contractors and a directive requiring FBO officials to consider FBO's previous experience with contractors before executing contracts exceeding \$25,000.
- A method to fund security construction projects on a yearly basis to enable FBO officials to more precisely estimate project costs. In the past, entire projects were funded at their beginning.
- An effort to hire a sufficient number of qualified staff to manage the security construction program. Of 163 positions authorized for direct-hire employees in fiscal year 1992, 74 employees (45 percent) are either on duty or awaiting imminent entry, 26 candidates (16 percent) are awaiting security clearances, 26 positions (16 percent) are in the recruitment process, and 37 positions (23 percent) are awaiting classification within the Department's personnel structure.

FBO has also initiated many actions to improve its management of real estate property overseas. These initiatives include the following:

- Determining the maintenance conditions of posts worldwide through engineering surveys. FBO expects to complete surveys at all posts worldwide toward the end of 1994.
- Enhancing maintenance assistance to posts through the establishment of two maintenance assistance centers in Europe and Washington, D.C. Both centers are fully staffed.
- Requiring post officials to conduct yearly maintenance inspections and provide inspection reports to FBO.
- Establishing new streamlined housing standards that realistically reflect the types of housing available to Department employees in the Washington, D.C., area and requiring posts to submit a list of the types of housing provided to employees for FBO's review and approval.
- Creating a facilities maintenance skill group within the Foreign Service and hiring experienced building professionals to handle the technical requirements of maintaining posts. FBO has hired 48 facilities maintenance specialists and expects to have 130 at posts by the end of fiscal year 1996.

- Installing an enhanced version of the Real Estate Management System at many posts worldwide to better support post management and improve the data reported by posts. FBO has installed this enhanced system at 66 posts and expects to install it at 156 posts by the end of 1996. According to FBO officials, this system is easier for post officials to use than the previous version, and FBO has already seen a great improvement in the data that posts provide.
- Conducting financial audits of the administration and use of FBO program funds at overseas posts with significant FBO resources.

Conclusions and Action Needed

For many years, we have reported long-standing problems with the Department's overseas real estate programs. It is important that Department and FBO officials continue their commitment to management reform and oversight of post activities if these problems are to cease. While FBO has recently initiated many corrective actions within a short time, FBO may face obstacles in fully implementing these actions. Likely challenges include overcoming uncertainty over the availability of funding and responding to shifts in foreign policy objectives due to changing political circumstances. For example, the added work load and costs associated with opening new posts in the former Soviet Union are the kinds of changes that without continued commitment could deflect FBO's attention from correcting its problems with overall real estate management.

Related GAO Products

Financial Management: Serious Deficiencies in State's Financial Systems Require Sustained Attention (GAO/AFMD-93-9, Nov. 13, 1992).

State Department: Management Weaknesses in the Security Construction Program (GAO/NSIAD-92-2, Nov. 29, 1991).

State Department: Efforts Under Way to Enhance Management of Overseas Real Property (GAO/NSIAD-91-277, Sept. 5, 1991).

State Department: Status of the Diplomatic Security Construction Program (GAO/NSIAD-91-143BR, Feb. 20, 1991).

U.S. Embassy, Moscow: Alternatives for Reconstruction and Their Costs (GAO/NSIAD-91-43FS, Dec. 28, 1990).

State Department: Need to Improve Maintenance Management of Overseas Property (GAO/NSIAD-90-216, Sept. 24, 1990).

State Department: Proposed Housing Standards Not Justified (GAO/NSIAD-90-17, Dec. 18, 1989).

Related GAO Products

State Department: Management of Overseas
Real Property Needs Improvement
(GAO/NSIAD-89-116, Apr. 13, 1989).

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