



GAO

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United States Government Accountability Office
Washington, DC 20548

March 1, 2007

The Honorable Daniel K. Inouye
Chairman
The Honorable Ted Stevens
Co-Chairman
Committee on Commerce, Science, and Transportation
United States Senate

The Honorable Bart Gordon
Chairman
The Honorable Ralph M. Hall
Ranking Member
Committee on Science and Technology
House of Representatives

Subject: *NASA: Enhanced Use Leasing Program Needs Additional Controls*

In 2003, the National Aeronautics and Space Administration (NASA) was authorized to demonstrate enhanced use leasing (EUL) at two centers, allowing the agency to retain the proceeds from leasing out underutilized real property and to accept in-kind consideration in lieu of cash for rent. NASA selected Ames Research Center and Kennedy Space Center for the demonstration program. The agency had requested that Congress extend this authority to additional NASA centers during formulation of the NASA Authorization Act of 2005.

NASA's request was not granted. Instead, Section 710 of the NASA Authorization Act of 2005 (Public Law 109-155) directed GAO to review NASA's EUL program. We examined (1) the financial impact of the EUL authority on NASA and whether EUL revenue and other financial benefits would have been realized without the authority, (2) NASA's use of the authority and whether the arrangements made under the authority would have been made in the absence of the authority, and (3) what controls are in place to ensure accountability and transparency and to protect the government. The act also directed GAO to report back to the Congress by December 30, 2006.

We presented our preliminary findings to your staff in December 2006. Because of your committees' interest in how NASA is implementing its EUL authority, we are enclosing the full briefing that supported that December presentation with this report (see encl. II), along with a summary of our findings and conclusions. To ensure that NASA's EUL program is transparent and protects the interests of the government, we

are recommending that before considering further expansion of the program, NASA develop an agency wide EUL policy, based upon sound business practices and lessons learned from the demonstration centers, that establishes minimum standards for controls and processes, such as best economic value criteria, measures of effectiveness, and specific accounting controls. In written comments, NASA concurred with our recommendation and stated that the agency has begun taking the steps necessary to develop an agency wide EUL policy and to adopt mechanisms to keep the Congress fully informed of its activities under EUL authority (see encl. I).

Background

Because of long-standing problems with excess and underutilized property, deteriorating assets, unreliable real property data, and costly facilities challenges, GAO designated federal real property as a high-risk area in January 2003. We have reported that many federal real property assets—including facilities and land worth hundreds of billions of dollars—are in an alarming state of deterioration, and agencies have estimated restoration and repair needs to be in the tens of billions of dollars.¹

Like many federal agencies, NASA faces considerable challenges addressing facilities needs with limited funds. As the ninth largest federal government property holder, NASA owns more than 100,000 acres of real estate, as well as over 3,000 buildings and 3,000 other structures totaling over 44 million square feet. However, the agency has large and growing capital repair needs. NASA's property database shows over \$1.8 billion of deferred maintenance for the agency's facilities. In addition, over 10 percent of the agency's facilities are underutilized or not utilized at all. According to NASA's 2004 Real Property Management Plan, critical attention to maintenance and recapitalization is required to ensure NASA's ability to safely and effectively achieve its vision and mission.

We have reported that in an era of limited resources and growing mission needs, many agencies have turned to approaches other than full up-front appropriated funding to finance real property acquisitions and improvements.² EUL authority—which allows agencies to accept cash and/or in-kind consideration for real property leases and to retain the proceeds—is one of these alternative approaches.

We have also reported that although third-party financing arrangements, such as EUL, can make it easier for agencies to manage within a given amount of budget authority, they also increase the need for effective implementation and monitoring by agencies to ensure that the government's interests are protected.³ We found that many

¹Statement of David M. Walker, before the Senate Committee on Governmental Affairs, *Federal Real Property: Actions Needed to Address Long-standing and Complex Problems*, [GAO-04-119T](#) (Washington, D.C.: Oct. 1, 2003).

²GAO, *Budget Issues: Alternative Approaches to Finance Federal Capital*, [GAO-03-1011](#) (Washington, D.C.: Aug. 21, 2003).

³GAO, *Capital Financing: Partnerships and Energy Savings Performance Contracts Raise Budgeting and Monitoring Concerns*, [GAO-05-55](#) (Washington, D.C.: Dec. 16, 2004).

partnership arrangements, such as EUL, included specific attributes that did not require agencies to reflect the full, up-front costs in the budget. For example, in one case, under its EUL authority, the Veterans Administration (VA) leased out land to a developer with a 35-year no-cost enhanced use lease. The developer built a facility on the property to provide housing for single homeless individuals. The developer agreed to give veterans referred by VA priority placement for at least 50 percent occupancy of the property. Although the improvements may be surrendered to VA at the end of the lease term, the transaction was completely invisible in VA's budget because it did not involve cash consideration.

The Comptroller General has also testified that public-private partnerships can be a viable option for redeveloping obsolete federal property if they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of the property.⁴ He also testified that full transparency with regard to the government's real property activities and an effective system to measure results are needed.

Results in Brief

Since beginning the EUL demonstration, NASA has realized about \$1.3 million in EUL-related financial benefits—\$972,546 of lease revenue and over \$350,000 of in-kind consideration—most of which would not have been realized by NASA without EUL authority.⁵ Under its existing authorities, the agency would have been required to remit lease revenue in excess of costs to the U.S. Treasury and would not have been allowed to accept in-kind consideration exceeding costs for rent, except to a limited extent for historic property. Of the lease revenue collected, NASA spent about \$480,000—all at Ames Research Center—on maintenance and improvement of real property assets.

NASA is using EUL authority to develop underutilized real property at Ames and Kennedy for use by others. Ames and Kennedy have entered into EUL agreements for underutilized office space, unique research and development facilities, and land. In addition, both centers plan to use EUL authority to incorporate research parks (for Kennedy, an “exploration park”) into their plans for expansion of their capabilities to support the NASA mission. According to agency officials, while NASA would have leased some of its underutilized property under existing authorities, the ability to collect rent as well as in-kind consideration under NASA's EUL authority provided the agency with increased incentive and flexibility to develop underutilized real property.

While each demonstration center has mechanisms to ensure that EUL agreements provide benefit, beyond rent, to NASA and fair market consideration is received for

⁴GAO-04-119T.

⁵In addition to the \$1.3 million, NASA collected \$1.2 million—that could have been collected without EUL authority—that agency officials told us offset, to some extent, the agency's costs for common services such as security.

all property, we found that the agency does not have adequate controls in place to ensure accountability and transparency and to protect the government. For example, the agency has not established measures of effectiveness or criteria for determining whether EUL represents the best economic value to the government. Further, the agency has no accounting system for tracking and reporting the value of in-kind consideration, and in some instances, we could not trace financial data to source documents and other financial data was not readily available. Finally, NASA's implementation of EUL could lessen budget transparency. For example, NASA's EUL authority allows the agency to accept in-kind consideration in the form of services or construction that is not recognized in the agency's budget. In addition, EUL cash revenue is not readily apparent within the agency's reimbursable budget line. And even though this cash revenue is reported to the Congress in NASA's annual EUL report, the budget does not fully inform the Congress regarding NASA's use of its EUL authority.

Conclusion

Although EUL authority provides NASA with increased flexibility in managing its real property, it also increases the need for effective controls and monitoring to ensure that the government's interests are protected. Without measures of effectiveness, criteria for determining best economic value, and adequate accounting controls and processes, it will be difficult for NASA to ensure that EUL is the best option for each instance in which EUL is used and that the purpose of the law providing NASA with EUL authority is met. In addition, when EUL funds and their use are not transparent within the agency's budget, congressional decision makers face a knowledge gap relative to monitoring NASA's EUL activities. Improved transparency would provide the Congress with a more complete basis for assessing NASA's wants and needs. If the EUL program is to be expanded, NASA needs to develop an agency wide policy that ensures accountability, protects the government, and provides transparency regarding the agency's EUL activities.

Recommendation for Executive Action

Before NASA considers requesting that the Congress extend EUL authority to additional centers, we recommend that the NASA Administrator develop an agency wide EUL policy, based upon sound business practices and lessons learned from the demonstration centers, that establishes controls and processes to ensure accountability and protect the government's interests, including

- criteria for determining that EUL represents the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of the property;
- measures of effectiveness for the EUL program, such as reductions in the square footage of underutilized property and in the dollar amount of deferred maintenance; and

- accounting controls and processes to ensure accountability, such as an
 - accounting system for tracking the value of in-kind consideration and an
 - audit trail and documentation to readily support financial transactions.

In addition, if NASA receives expanded EUL authority, the agency also needs to adopt mechanisms to keep the Congress fully informed of the agency's activity under EUL authority, including

- identifying and quantifying the value of in-kind consideration arrangements and expenditures of EUL revenue in its annual EUL reports to the Congress, and
- reporting the availability and use of EUL funds in the agency's operating plans.

Agency Comments and Our Evaluation

In written comments on a draft of this report (see encl. I), NASA concurred with our recommendation.

Scope and Methodology

To determine the financial impact of EUL authority on NASA, we obtained and analyzed pertinent EUL records and quantified financial impact in terms of cash and in-kind consideration. To ascertain whether these benefits would have been realized in the absence of the authority, we obtained and analyzed copies of all of NASA's pre-existing real property authorities, and determined whether they could have provided NASA with the revenue and financial benefits realized with EUL authority. To clarify our understanding, we conducted interviews with cognizant and responsible NASA officials at NASA Headquarters, Ames Research Center, and Kennedy Space Center.

To evaluate the use of the program, we reviewed leasing agreements and visually inspected selected leased properties at both demonstration centers. We reviewed the centers' future plans for the program and discussed NASA's use and plans for the program with cognizant and responsible NASA officials at both centers and NASA Headquarters. To ascertain whether existing arrangements would have been made in the absence of the program, we examined the existing EUL agreements in light of NASA's pre-existing real property authorities, discussed NASA's pre-EUL authority development plans, and identified instances when NASA originally planned to develop property, currently being developed under EUL authority, with other real property authorities. We also interviewed responsible NASA officials to determine whether NASA would have made the current arrangements and plans without the EUL authority.

To assess the controls NASA has in place to ensure accountability and transparency and to protect the government, we judgmentally sampled EUL leasing agreements and discussed the selected lease arrangements with cognizant and responsible NASA

officials. We obtained each center's records of the financial transactions associated with the selected leasing agreements, and we attempted to reconcile these records with the leases and support agreements. We also had extensive discussions with cognizant and responsible NASA officials regarding in-kind consideration transactions, fair market value, value beyond rent to NASA, criteria for determining the best economic value to the government, accounting for EUL in NASA's budget, and measures of effectiveness.

To accomplish our work, we visited NASA Headquarters, Washington, D.C.; Ames Research Center, California; and Kennedy Space Center, Florida. We conducted our work from July 2006 through December 2006 in accordance with generally accepted government auditing standards.

We will send copies of the report to NASA's Administrator and interested congressional committees. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

Should you or your staff have any questions on matters discussed in this report, please contact me at (202) 512-4841 or lia@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Principal contributors to this report were Jim Morrison, Assistant Director; Sylvia Schatz; Erin Schoening; Robert Swierczek; and John Warren.



Allen Li
Director
Acquisition and Sourcing Management

Enclosures

Enclosure I: Comments from the National Aeronautics and Space Administration

National Aeronautics and
Space Administration
Office of the Administrator
Washington, DC 20546-0001



February 20, 2007

Mr. Allen Li
Director
Acquisition and Sourcing Management
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Li:

NASA has reviewed the Government Accountability Office (GAO) draft report entitled "NASA: Enhanced Use Leasing (EUL) Program Needs Additional Controls" (GAO-07-306R).

In the draft report, GAO recommends that the Administrator take the following action:

Recommendation: Before NASA considers requesting that the Congress extend EUL authority to additional Centers, we recommend that the NASA Administrator develop an Agency-wide EUL policy, based upon sound business practices and lessons learned from the demonstration Centers, that establishes controls and processes to ensure accountability and protect the Government's interests, including:

- criteria for determining that EUL represents the best economic value for the Government, compared with other options, such as Federal financing through appropriations or sale of the property;
- measures of effectiveness for the EUL program, such as reductions in the square footage of underutilized property and in the dollar amount of deferred maintenance;
- accounting controls and processes to ensure accountability, such as an
 - o accounting system for tracking the value of in-kind consideration;
 - o audit trail and documentation to readily support financial transactions.

In addition, if NASA receives expanded EUL authority, the Agency also needs to adopt mechanisms to keep the Congress fully informed of the Agency's activity under EUL authority, including:

- identifying and quantifying the value of in-kind consideration arrangements and expenditures of EUL revenue in its annual EUL reports to the Congress;
- reporting the availability and use of EUL funds in the Agency's operating plans.

Concur -

NASA concurs with the recommendation. NASA has begun taking the steps necessary to develop an Agency-wide EUL policy and to adopt the mechanisms to keep the Congress fully informed of its activities under EUL authority.

The schedule for development of this policy will include meetings with the resource managers from the Centers, as well as the representatives from the Agency's Office of the Chief Financial Officer, the General Counsel, the Center Chief Counsel's offices, and the property managers from the two demonstration Centers (the Ames Research Center and the Kennedy Space Center). Since these two Centers have experience in developing EUL leases, they would be the primary participants. The following schedule applies:

- Headquarters/Center workshop for Agency-wide EUL guidance February 2007
- Initial draft for review by Centers February 2007
- Finalize and disseminate Agency-wide EUL guidance March 2007

Thank you for the opportunity to respond to this draft report.

Sincerely,



Shana Dale
Deputy Administrator



Briefing

Why GAO Did This Study

In 2003, the National Aeronautics and Space Administration (NASA) was authorized to employ enhanced use leasing (EUL) at two demonstration centers, allowing the agency to retain the proceeds from leasing out underutilized real property and to accept in-kind consideration in lieu of cash for rent. NASA selected Ames Research Center and Kennedy Space Center for the demonstration program. The agency has requested that the Congress extend this authority to at least six NASA centers.

Section 710 of the NASA Authorization Act of 2005 (Public Law 109-155) directed GAO to review NASA's EUL program. We examined (1) the financial impact of the EUL authority on NASA and whether EUL revenue and other financial benefits would have been realized without the authority, (2) NASA's use of the authority and whether the arrangements made under the authority would have been made in the absence of the authority, and (3) what controls are in place to ensure accountability and transparency and to protect the government. The act also directed GAO to report back to the Congress by December 30, 2006.

NASA's Enhanced Use Leasing Demonstration Program

Summary

Since beginning the EUL demonstration, NASA has realized about \$1.3 million in EUL-related financial benefits—\$972,546 of lease revenue and over \$350,000 of in-kind consideration—most of which would not have been realized by NASA without EUL authority. Under its existing authorities, the agency would have been required to remit lease revenue in excess of costs to the U.S. Treasury and would not have been allowed to accept in-kind consideration exceeding costs for rent, except to a limited extent for historic property. Of the lease revenue collected, NASA spent about \$480,000—all at Ames Research Center—on maintenance and improvement of real property assets. In addition to the \$1.3 million, NASA collected \$1.2 million—that could have been collected without EUL authority—that agency officials told us offset, to some extent, the agency's costs for common services such as security.

NASA is using EUL authority to develop underutilized real property at Ames and Kennedy for use by others. Ames and Kennedy have entered into EUL agreements for underutilized office space, unique research and development facilities, and land, and both centers plan to use EUL agreements to develop research parks. According to agency officials, while NASA would have conducted some development under existing authorities, EUL authority provided the agency with increased incentive and flexibility to develop underutilized real property.

While each demonstration center has mechanisms to ensure that EUL agreements provide benefit, beyond rent, to NASA and fair market consideration is received for all property, we found that the agency does not have adequate controls in place to ensure accountability and transparency and to protect the government. For example, the agency has not established measures of effectiveness or criteria for determining whether EUL represents the best economic value to the government. In terms of financial accountability, we found weaknesses that hamper accountability and transparency. For example, the agency has no accounting system for tracking and reporting the value of in-kind consideration, and in some instances, we could not trace financial data to source documents and financial data were not readily available. Finally, NASA's implementation of EUL could lessen budget transparency. For example, NASA's EUL authority allows the agency to accept in-kind consideration in the form of services or construction that is not recognized in the budget. In addition, EUL cash revenue is not readily apparent within the agency's reimbursable budget line.

Briefing Structure

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Background

Related GAO Reports

GAO, *Defense Infrastructure: Greater Management Emphasis Needed to Increase the Services' Use of Expanded Leasing Authority*, GAO-02-475 (Washington, D.C.: June 6, 2002).

Statement of David M. Walker, before the Senate Committee on Governmental Affairs, *Federal Real Property: Actions Needed to Address Long-standing and Complex Problems*, GAO-04-119T (Washington, D.C.: Oct. 1, 2003).

GAO, *Budget Issues: Alternative Approaches to Finance Federal Capital*, GAO-03-1011 (Washington, D.C.: Aug. 21, 2003).

GAO, *Capital Financing: Partnerships and Energy Savings Performance Contracts Raise Budgeting and Monitoring Concerns*, GAO-05-55 (Washington, D.C.: Dec. 16, 2004).

Statement of David M. Walker, before the Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, and International Security, *Budget Process: Better Transparency, Controls, Triggers, and Default Mechanisms Would Help to Address Our Large and Growing Long-term Fiscal Challenge*, GAO-06-761T (Washington, D.C.: May 25, 2006).

Real Property is a High-Risk Area

Because of long-standing problems with excess and underutilized property, deteriorating facilities, unreliable real property data, and costly space challenges, GAO designated federal real property as a high-risk area in January 2003. We have reported that many federal real property assets—including facilities and land worth hundreds of billions of dollars—are in an alarming state of deterioration, and agencies have estimated restoration and repair needs to be in the tens of billions of dollars.

Like many federal agencies, NASA faces considerable challenges addressing facilities needs with limited funds. As the ninth largest federal government property holder, NASA owns more than 100,000 acres of real estate, as well as over 3,000 buildings and 3,000 other structures totaling over 44 million square feet. However, the agency has large and growing capital repair needs. NASA's property database shows over \$1.8 billion of deferred maintenance for the agency's facilities. In addition, over 10 percent of the agency's facilities are underutilized or not utilized at all. According to NASA's 2004 Real Property Management Plan, critical attention to maintenance and recapitalization is required to ensure NASA's ability to safely and effectively achieve its vision and mission.

Alternative Financing Has Been Used by Other Agencies

We have reported that in an era of limited resources and growing mission needs, many agencies have turned to approaches other than full up-front appropriated funding to finance capital. EUL authority—which allows agencies to accept cash and/or in-kind consideration for real property leases and to retain the proceeds—is one of these alternative approaches.

In December 2004, we reported that although third-party financing arrangements, such as EUL, can make it easier for agencies to manage within a given amount of budget authority, they also increase the need for effective implementation and monitoring by agencies to ensure that the government's interests are protected. We reported that many partnership arrangements, such as EUL, were structured to include specific attributes that did not require agencies to reflect the full, up-front costs in the budget. For example, in one case, the Veterans Administration (VA) outleased land to a developer with a 35-year no-cost enhanced use lease. The developer built a facility on the property to provide housing for single homeless individuals. The developer agreed to give veterans referred by VA priority placement for at least 50 percent occupancy of the property. Although the improvements may be surrendered to VA at the end of the lease term, the transaction was completely invisible in VA's budget because it did not involve cash consideration.

Findings

NASA's EUL Authority

NASA's EUL authority—granted by the Congress in 2003—affords the agency the opportunity to lease out underutilized real property in exchange for cash and/or in-kind consideration, such as improvement of NASA's facilities or the provision of services to NASA. Further, NASA can deposit funds not used to cover lease costs in a no-year capital account to be available for maintenance, capital revitalization, and improvement of the real property, albeit only at the demonstration centers. Unlike other agencies with EUL authority, however, NASA is not authorized to lease back the property during the term of the lease.

NASA is required by the enabling law to submit an annual report by January 31 of each year regarding the status of the EUL demonstration. Thus far, these annual reports have included descriptions of the status of the demonstration and planned activities, as well as tables listing enhanced use lease agreements and showing annual rent and common service charges for each lease.

NASA Has Realized about \$1.3 Million in EUL Benefits

NASA has realized about \$1.3 million in EUL-related financial benefits since beginning the EUL demonstration—most of which would not have been realized by NASA without EUL authority. However, without EUL authority, some of these financial benefits could have accrued to the federal government.

- Under its existing real property authorities, NASA would have been required to return lease proceeds in excess of costs to the general fund of the U.S. Treasury and could not have accepted in-kind consideration exceeding costs for rent, except to a limited extent for historic property under the National Historic Preservation Act (NHPA).
- The agency collected \$972,546 of gross lease revenue. Of this amount, \$58,792 for general and administrative expenses would have been retained by NASA, leaving \$913,754 net rent that NASA would have been required to return to the U.S. Treasury, without specific authority allowing the agency to retain the funds. For example, under NHPA, NASA could have retained \$416,029 net rent for 2 years, but the funds had to be used in conjunction with preserving historic property. With EUL authority, NASA can retain the entire \$913,754 net rent indefinitely and can expend the funds on any properties at the demonstration centers.
- Ames realized in-kind consideration worth over \$350,000 for tenant improvements and animal husbandry services, according to agency officials, that could not have been accepted without EUL authority.

Of the amount collected, NASA spent about \$480,000—all at Ames—on maintenance and improvement of real property assets.

In addition to the \$1.3 million, NASA collected \$1.2 million—that could have been collected without EUL—that agency officials told us offset, to some extent, the agency's costs for common services such as security and fire protection.

EUL Financial Benefits by Fiscal Year

	FY 2004	FY2005	FY 2006	Totals
Ames				
Cash	\$59,866	\$318,190	\$531,356	\$909,412
In-kind	94,967	108,000	149,029	351,996
Kennedy				
Cash	3,000	29,512	30,622	63,134
In-kind	0	0	0	0
Total	\$157,833	\$455,702	\$711,007	\$1,324,542

Source: NASA data, GAO analysis.

Note: Because of financial management weaknesses identified during our limited review of NASA's data, we were unable to confirm the accuracy of the amounts presented in this table. Also, amounts for fiscal year 2006 include estimates for September 2006.

Findings

cont'd

Key Elements of Other NASA Real Property Authorities

Concession Authority

This authorizes agreements for outreach and visitor centers. The concessionaire is allowed to charge admission fees and to make a profit commensurate with the capital invested and the obligations assumed.

Space Act—Lease Authority

These leases cannot exceed 5 years and require Treasury to receive fair value in money. But all amounts exceeding cost must be returned to the Treasury. These leases must include a termination-for-convenience clause.

Space Act—Other Transactions

There is no term limit on other transaction leases. NASA can obtain either monetary or in-kind consideration. However, unlike with EUL authority, the agency cannot retain consideration exceeding costs.

National Historic Preservation Act

NASA can lease historic property to ensure its preservation. Historic property can be leased for less than fair market value if the tenant assumes responsibility for maintaining and preserving the property. Cash consideration may be retained by NASA for up to 2 fiscal years to defray costs associated with the property.

NASA Uses EUL to Develop Underutilized Property

NASA is currently using EUL authority to maintain and develop underutilized real property at Ames and Kennedy.

- Ames has entered into over 50 EUL agreements, leasing out underutilized office space and unique research and development facilities. Much of the space is located in the historic portion of the old Moffett Field Naval Base.
- Kennedy has entered into 8 EUL agreements for ground leases for press sites and telecommunication equipment.
- Both centers plan to use EUL agreements, in conjunction with private financing, to develop research parks.

NASA would have developed some of the properties leased out under EUL using other authorities.

- Ames' research park, according to Ames officials, was first approved for development with existing authorities during the Clinton administration.
- Ames' renovation of historic property could have been done using NHPA. For example, Ames used NHPA to lease a historic building to a university.
- Kennedy, before receiving EUL authority, leased out press sites and worked with the Spaceport Florida Authority to build a laboratory facility as the "magnet facility" for the Kennedy research park under the Space Act.
- Kennedy, according to agency officials, may use EUL authority to develop improved visitor centers. The agency, however, has used concessions agreements to build and maintain visitor centers, including the new Saturn V concession.

SATURN V Concession at Kennedy Space Center



Source: GAO

Findings

cont'd

Centers' Implementation Models Differ

Ames Research Center

- Ames is acting as its own master developer.
- Ames property is in a fully developed, desirable high-rent area—Silicon Valley.
- Ames is required by an environmental impact study to include on-site housing to mitigate traffic.
- Ames' planned development is a campus-like addition, with common areas and recreation facilities, to the existing historic district of Moffett Field.

Kennedy Space Center

- Kennedy property is low-value, unimproved swampy land.
- Kennedy is using an acquisition-like approach, including a request for proposal, to select a research park developer.
- According to agency officials, Kennedy plans to use a similar approach for future developments, such as the visitor center.

NASA Uses EUL to Develop Underutilized Property (cont'd)

EUL authority provided NASA with increased incentive and flexibility to develop underutilized real property.

- Retaining revenue exceeding costs and maintaining no-year capital accounts motivate the agency to invest the time necessary to establish the arrangement.
 - NASA implemented an aggressive plan at Ames to vacate NASA employees from one historic building to lease the space to EUL tenants and increase the EUL revenue stream. According to agency officials, a second objective of vacating the employees was to consolidate them within Ames' fenced area to improve security and efficiency.
 - NASA used EUL funds to improve the historic building, making it more attractive to potential EUL tenants.
- Accepting in-kind consideration in lieu of cash for payment provides flexibility in negotiating agreements. For example,
 - Accepting building improvements in lieu of cash rent allowed NASA to negotiate some agreements. In these instances, NASA gets an improved building and the tenant gets tailored space at the same cost.
 - Accepting services in lieu of cash rent allowed NASA to receive needed services and to retain ownership of a unique asset—the Animal Care Facility—with no cash outlay.

Findings

cont'd

Elements of Accountability and Transparency

NASA's financial management requirements stipulate that recorded transactions be adequately documented so they may be traced from original documents to financial statements, that a clear audit trail be established, and that accounting and financial management data be recorded and reported in the same manner throughout NASA, using uniform definitions. These internal controls protect the agency against fraud, waste, and abuse; ensure the accuracy and reliability of accounting and operational data; and ensure compliance with federal laws and regulations.

In October 2003, the Comptroller General testified that public-private partnerships can be a viable option for redeveloping obsolete federal property if they provide the best economic value for the government, compared with other options, such as federal financing through appropriations or sale of the property. He also testified that full transparency with regard to the government's real property activities and an effective system to measure results are needed.

NASA's EUL Program Needs Additional Controls

Each center has mechanisms to ensure that EUL agreements provide benefit, beyond rent, to NASA and fair market value consideration is received for all property. For example,

- Ames and Kennedy review potential EUL agreements to ensure that they support NASA's mission.
- The demonstration centers use a combination of property appraisals and rent surveys to determine fair market value.

However, NASA has not established adequate controls to ensure accountability and protect the government. For example,

- NASA has not adopted measures of effectiveness or criteria for determining best economic value to the government, according to agency officials.
- We found financial management weaknesses that hamper accountability.
 - The agency has no accounting system for tracking and reporting the value of in-kind consideration.
 - In some instances, we could not trace financial data to source documents and financial data were not readily available.

NASA's implementation of EUL could lessen budget transparency. For example,

- In-kind consideration agreements are not recognized in the budget.
- The collection and use of EUL revenue are not readily apparent within the agency's reimbursable budget line.
- NASA has previously proposed controls that could mitigate budget transparency concerns, including a \$25 million annual limitation on EUL income and prohibitions on the use of EUL for the purpose of construction of NASA-owned facilities.

Appendix

Contributors

If you have any questions concerning this briefing, please call Allen Li at (202) 512-4841. Other key contributors to this report were Jim Morrison, Assistant Director; Sylvia Schatz; Erin Schoening; Robert Swierczek; and John Warren.

Scope and Methodology

To determine the financial impact of EUL authority on NASA, we obtained and analyzed pertinent EUL records and quantified financial impact in terms of cash and in-kind consideration. To ascertain whether these benefits would have been realized in the absence of the authority, we obtained and analyzed copies of all of NASA's pre-existing real property authorities, and determined whether they could have provided NASA with the revenue and financial benefits realized with EUL authority. To clarify our understanding, we conducted interviews with cognizant and responsible NASA officials at NASA Headquarters, Ames Research Center, and Kennedy Space Center.

To evaluate the use of the program, we reviewed leasing agreements and visually inspected selected leased properties at both demonstration centers. We reviewed the centers' future plans for the program and discussed NASA's use and plans for the program with cognizant and responsible NASA officials at both centers and NASA Headquarters. To ascertain whether existing arrangements would have been made in the absence of the program, we examined the existing EUL agreements in light of NASA's pre-existing real property authorities, discussed NASA's pre-EUL authority development plans, and identified instances when NASA originally planned to develop property, currently being developed under EUL authority, with other real property authorities. We also interviewed responsible NASA officials to determine whether NASA would have made the current arrangements and plans without the EUL authority.

To assess the controls NASA has in place to ensure accountability and transparency and to protect the government, we judgmentally sampled EUL leasing agreements and discussed the selected lease arrangements with cognizant and responsible NASA officials. We obtained each center's records of the financial transactions associated with the selected leasing agreements, and we attempted to reconcile these records with the leases and support agreements. We also had extensive discussions with cognizant and responsible NASA officials regarding in-kind consideration transactions, fair market value, value beyond rent to NASA, criteria for determining the best economic value to the government, accounting for EUL in NASA's budget, and measures of effectiveness.

To accomplish our work, we visited NASA Headquarters, Washington, D.C.; Ames Research Center, Moffett Field, California; and Kennedy Space Center, Florida.

GAO's Mission

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