
July 2012

FEDERAL BUILDINGS FUND

Improved Transparency and Long-term Plan Needed to Clarify Capital Funding Priorities
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Improved Transparency and Long-term Plan Needed to Clarify Capital Funding Priorities

What GAO Found

The Federal Buildings Fund's (FBF) balance has increased from $56 million in fiscal year 2007 to $2.2 billion in fiscal year 2012 primarily due to the growing difference between the resources provided to the FBF and the General Services Administration's (GSA) use of these funds as determined through the budgeting and appropriations process. In the last 2 years, Congress has provided fewer resources than requested by the executive branch and generated by the FBF. Office of Management and Budget (OMB) staff and GSA officials stated that if GSA were able to spend all of the funds collected by the FBF each year, these funds would generally be sufficient to fund GSA's needs. However, GSA, through the annual President's Budget Request, has sought less obligational authority than the balance available in the fund. While the FBF's balance has increased, various factors have limited the fund's income. Funds from operations—revenue less costs excluding depreciation—that contribute to FBF income have declined from 2006 to 2011 when adjusted for inflation. Revenues have declined while costs have outstripped inflation over this time period. In addition, portions of GSA's inventory operate at a loss. For example, about 30 percent of GSA's owned assets lost money in 2011, while GSA's total leased portfolio lost about $75 million. Despite the losses in its leased portfolio, GSA continues to rely extensively on leasing. GSA is taking steps to reduce the size of its overall real estate portfolio.

GSA has identified $4.6 billion in maintenance and repairs expected from 2012 to 2021 and anticipates that nearly a quarter of this amount is needed immediately. However, funding for maintenance and repairs has declined since 2006. GSA officials noted that reduced funding for capital reinvestments could result in deferred maintenance and repairs, and increase the cost and extent of such work in the future. These concerns are consistent with the National Research Council's findings that each $1 in deferred maintenance and repair work results in a long-term capital liability of $4 to $5.

GSA's use of information to make capital investment decisions conforms to some leading practices from GAO and OMB guidance, but GSA lacks a transparent process for prioritizing projects and a comprehensive long-term capital plan that fully aligns with leading practices. GSA keeps a baseline of information on its assets and needs—as leading practices suggest—through various tools and databases. GSA's process and guidance for evaluating capital investment alternatives substantially meet leading practices as its project planning process explores alternatives to meeting investment needs. GSA's process for prioritizing capital investments partially meets leading practices as its project planning process

What GAO Recommends

GAO recommends that GSA (1) document in its budget submission how it prioritizes capital investments and (2) develop and annually submit a 5-year long-term capital plan to OMB and Congress. GSA agreed with our recommendations. Technical comments from GSA and OMB were incorporated as appropriate.
Contents

Letter

Background
Growing FBF Balance Belies Revenue and Cost Challenges 3
GSA Has Identified Billions in Repair Liability, but Decreased Funding May Increase Future Resource Demand from the FBF 5
GSA Could Better Conform Some of Its Capital Planning to Leading Practices 16
Conclusions 20
Recommendations for Executive Action 32
Agency Comments 33

Appendix I

Objectives, Scope, and Methodology 35

Appendix II

Comments from the U.S. General Services Administration 40

Appendix III

GAO Contact and Staff Acknowledgments 43

Tables

Table 1: Changes to the Federal Buildings Fund, Fiscal Years 2006–2012 (Dollars in millions) 6
Table 2: Maintenance and Repair Liability of GSA’s Owned Assets, Fiscal Year 2011 17
Table 3: Leading Capital Planning Practices for Using Information to Make Capital Investment Decisions 21
Table 4: GAO’s Assessment of GSA’s Conformance to Leading Practices for Using Information to Make Capital Investment Decisions 22

Figures

Figure 1: Funds from Operations Generated by GSA-Owned Assets, Fiscal Years 2006 – 2011 9
Figure 2: GSA-leased Asset Income, Fiscal Years 2006-2011 13
Figure 3: Change in Owned and Leased Rentable Square Feet, 2006-2011 15
Figure 4: Repairs and Alterations and New Construction
Obligational Authority, Fiscal Years 2005-2012

Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>ABP</td>
<td>Asset Business Plan</td>
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<tr>
<td>BER</td>
<td>Building Evaluation Report</td>
</tr>
<tr>
<td>CRS</td>
<td>Congressional Research Service</td>
</tr>
<tr>
<td>DHS</td>
<td>Department of Homeland Security</td>
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<tr>
<td>ePCS</td>
<td>Enhanced Physical Condition Survey</td>
</tr>
<tr>
<td>FBF</td>
<td>Federal Buildings Fund</td>
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<td>GSA</td>
<td>General Services Administration</td>
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<td>IRIS</td>
<td>Inventory Reporting Information System</td>
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<tr>
<td>OMB</td>
<td>Office of Management and Budget</td>
</tr>
<tr>
<td>PCS</td>
<td>Physical Condition Survey</td>
</tr>
<tr>
<td>REXUS</td>
<td>Real Estate across the United States</td>
</tr>
<tr>
<td>SSA</td>
<td>Social Security Administration</td>
</tr>
<tr>
<td>TAPS</td>
<td>The Automated Prospectus System</td>
</tr>
</tbody>
</table>

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July 12, 2012

The Honorable Thomas R. Carper
Chairman,
Subcommittee on Federal Financial Management,
   Government Information, Federal Service, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

Dear Mr. Chairman:

Capital assets, such as real estate, can require significant resources to construct, operate, and maintain over the course of their life cycle. To provide a predictable source of revenue for the General Services Administration (GSA) to manage its real estate portfolio, the Public Buildings Act Amendments of 1972 established the Federal Buildings Fund (FBF).1 Since that time, GSA has collected rent from tenant agencies, deposited it into the FBF, and used that money to fund its real property acquisition, operation, maintenance, and disposal. Currently, funds from the FBF support nearly 10,000 assets—including about 1,500 GSA-owned buildings and 8,100 GSA-leased buildings—which provide an inventory of more than 370 million square feet of workspace for 1.1 million federal employees.2

Historically, however, the fund has not generated sufficient revenues to meet all needs. We reported in 1981 that the then 9-year-old fund faced difficulty funding GSA’s real property expenses because it did not generate sufficient revenue from the rental of its assets.3 We reported in 2000 that GSA had struggled to fund the capital repairs identified at its

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2 In this report, we refer to buildings and structures that are owned by the federal government and under the custody and control of GSA as GSA-owned assets or buildings. While the definition of real property includes land, our review focused on buildings and structures and excluded land because future maintenance costs are generally associated with buildings (such as offices and courthouses) or structures (such as airfields or ports).

buildings and that GSA faced a potential repair liability of billions of dollars. These conditions contributed to our initial characterization of federal real property management as a high-risk area in 2003. Furthermore, the high cost of capital assets creates challenges for budgeting in an era of resource constraints. In this context, you asked us to review the viability of the fund.

This report focuses on (1) the factors that have affected the resources available in the FBF, (2) GSA’s potential maintenance and repair liability for its owned assets and the implications for the fund, and (3) the information GSA considers when evaluating capital investment proposals and how its practices compare to leading practices for prioritizing capital investments. Our overall approach to addressing these topics was to (1) review laws, studies, and GAO, GSA Inspector General, and Congressional Research Service reports on federal real property and the FBF; (2) analyze data and documents pertaining to the fund’s balance, including budget requests and appropriations acts from fiscal years 2006 to 2012; (3) evaluate the financial performance of GSA’s real property portfolio of approximately 10,000 assets based on data from fiscal years 2006 through 2011; (4) analyze data maintained by GSA on the identified repairs needed in its owned assets; (5) compare GSA capital investment practices to leading practices for making capital investment decisions identified in the Office of Management and Budget’s (OMB) Capital Programming Guide and GAO’s Executive Guide; (6) interview GSA officials and OMB staff on the state of GSA’s real property portfolio; and (7) review the four highest cost repairs and alterations projects of GSA’s fiscal year 2012 budget submission to assess data used to determine project requirements and how GSA evaluated project alternatives. We also interviewed GSA system administrators, analysts, and managers about the quality of data obtained from GSA’s real property and financial databases and tested the data for missing variables and abnormal trends.

We found that they were generally reliable for our purposes, which was to provide a summary level description of the physical and financial condition of GSA’s portfolio.

We conducted this performance audit from August 2011 to July 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Further details on our scope and methodology can be found in appendix I.

Background

The FBF, administered by GSA, is a quasi-revolving fund financed by rents received from other agencies and authorized and established by the Public Buildings Act Amendments of 1972.8 Instead of GSA receiving direct appropriations, the FBF operates as the primary means of financing the operating and capital costs associated with federal space, but GSA sometimes receives supplemental appropriations to meet repair or new construction needs. The FBF is financed by income from rental charges assessed to tenant agencies occupying GSA-owned and -leased space that approximate commercial rates for comparable space and services. GSA appraises its inventory on a 5-year cycle—approximately 20 percent of its owned inventory annually—and charges rent based on rates for comparable assets in the private sector.9 GSA charges its tenants in space leased from the private sector rates equal to the cost of the lease plus either a 7 percent (for cancelable assignments) or 5 percent (for noncancelable assignments) administrative fee to cover its management costs.10 During fiscal year 2011, GSA deposited about $9 billion into the

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8 Pub. L. No. 92-312. A revolving fund is a fund established by Congress to finance a cycle of business like operations through amounts received by the fund. GAO, A Glossary of Terms Used in the Federal Budget Process, GAO-05-734SP (Washington, D.C.: Sept. 2005) at 88. Because congressional action is needed for the funds to be available for obligation, it is not a true revolving fund.

9 GSA performs fair annual rent appraisals to determine commercially equivalent rental rates in a given location and bases rental rates charged to its tenants on these appraisals.

10 The actual administrative fee percentage is dependent upon whether the Occupancy Agreement allows the tenant agency the right to release space during the lease term. This is termed a cancelable lease.
fund. GSA’s lease payments have increased over the last decade as leased space has grown to comprise more than half of GSA’s current total portfolio. Starting in 2008, GSA has leased more space than it owns; at the end of fiscal year 2011, leased square footage exceeded owned, 193 million to 182 million (51 percent).

Congress exercises control over the FBF through the appropriations process that sets annual limits—called obligational authority—on how much of the fund can be obligated for various activities. GSA, as an executive branch agency, requests obligational authority from Congress as part of the annual President’s Budget Request. In annual appropriations legislation, Congress provides obligational authority to GSA to incur obligations and make expenditures from the FBF in five categories of activities:

1. **Rental of Space** – funds leases of privately owned space or buildings for federal agencies.
2. **Repairs and Alterations** – funds repairs and alterations of existing buildings as well as associated design and construction services.
3. **Construction and Acquisition of Facilities** – funds the construction or purchase of facilities and major extensions to existing buildings.
4. **Building Operations and Maintenance** – funds services for government-owned and -leased facilities, including cleaning, utilities and fuel, maintenance, miscellaneous services (such as moving), evaluation of new materials and equipment, and field and general management and administration.
5. **Installment Acquisition Payments** – funds debt incurred as the result of building acquisition and lease purchase arrangements.

Revenue from GSA’s owned facility inventory is the main source of the FBF’s operating income used to fund repair and alteration, new construction activities, and operations and maintenance. GSA’s portfolio of properties leased from the private sector is designed to be revenue neutral in disbursing all the funds it collects from federal agencies occupying the space to pay the cost of the underlying leases.

Building repairs and alterations as well as construction and acquisition projects that are expected to cost more than the prospectus-level threshold must be submitted to certain congressional committees for
authorization and funding.\textsuperscript{11} GSA in its annual budget submission, with OMB approval, provides Congress with a prospectus for each repair and alteration project estimated to exceed the prospectus-level threshold. The prospectus includes information on the size, cost, location, and other features of the proposed work; a justification for proceeding with the work; and an economic analysis of the alternatives to the requested repairs and alterations.

### Growing FBF Balance Belies Revenue and Cost Challenges

| FBF Balance | The FBF’s balance has increased significantly in recent years, growing from $56 million at the beginning of fiscal year 2007 to $2.2 billion by the beginning of fiscal year 2012. The increased balance has primarily resulted from the growing difference between the resources deposited into the FBF and use of these funds as determined through the budgeting and appropriations process. Specifically, the total available balance is a function of the resources deposited into the fund, the amount of obligational authority requested by GSA as part of the President’s Budget Request, and the actual obligational authority provided by Congress.\textsuperscript{12} Beginning in fiscal year 2007, the total resources deposited into the FBF have exceeded the obligational authority provided by Congress. (See table 1.) According to OMB staff, a portion of the growth in the FBF’s balance is attributable to inaccuracy in GSA’s estimation of its rental revenues. The result of these budgetary and appropriations actions has been the near quadrupling of the fund balance in the last 2 years. |

\textsuperscript{11}40 U.S.C. § 3307. Prospectus-level projects involve major work or acquisitions that are estimated to cost more than a statutorily prescribed amount ($2.79 million for fiscal year 2013 projects), which GSA’s Administrator is authorized to adjust annually.

\textsuperscript{12} In this report, we refer to requests made through the President’s Budget Request for obligational authority as requests for obligational authority from GSA, though the request is made as part of request for budget authority for executive branch programs.
Table 1: Changes to the Federal Buildings Fund, Fiscal Years 2006–2012 (Dollars in millions)

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Beginning fund balance&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Fund deposits&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Total available resources</th>
<th>President’s Budget Request</th>
<th>Appropriated obligatory authority&lt;sup&gt;c&lt;/sup&gt;</th>
<th>Change from the beginning fund balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>521</td>
<td>7,495</td>
<td>8,016</td>
<td>7,769</td>
<td>7,961</td>
<td>(465)</td>
</tr>
<tr>
<td>2007</td>
<td>56</td>
<td>7,583</td>
<td>7,639</td>
<td>8,047</td>
<td>7,498</td>
<td>85</td>
</tr>
<tr>
<td>2008</td>
<td>141</td>
<td>8,280</td>
<td>8,420</td>
<td>8,091</td>
<td>8,133</td>
<td>147</td>
</tr>
<tr>
<td>2009</td>
<td>288</td>
<td>8,765</td>
<td>9,053</td>
<td>8,378</td>
<td>8,450</td>
<td>316</td>
</tr>
<tr>
<td>2010</td>
<td>604</td>
<td>8,956</td>
<td>9,560</td>
<td>8,531</td>
<td>8,527</td>
<td>428</td>
</tr>
<tr>
<td>2011</td>
<td>1,032</td>
<td>8,841</td>
<td>9,873</td>
<td>9,154</td>
<td>7,659</td>
<td>1,156</td>
</tr>
<tr>
<td>2012</td>
<td>2,239</td>
<td>9,223&lt;sup&gt;d&lt;/sup&gt;</td>
<td>11,462</td>
<td>9,509</td>
<td>8,018</td>
<td>1,205</td>
</tr>
</tbody>
</table>

Source: GAO analysis of GSA information.

Note: Analysis excludes revenue and obligatory authority resulting from GSA’s use of its various indefinite authorities (e.g., Historical Properties, 16 U.S.C. § 470h-3(b); Energy and Recycling Rebates, 40 U.S.C. § 592; and Rental of Space, 40 U.S.C. § 586(d)).

<sup>a</sup>The total balance of the FBF as of the beginning of the fiscal year.

<sup>b</sup>Fund deposits include revenue and rent from operations, appropriations, reprogrammings, redemption of debt, transfers, prior year recoveries, transfers, and rescissions.

<sup>c</sup>Appropriated obligatory authority includes approved reprogrammings.

<sup>d</sup>GSA estimates the FBF will receive $9.2 billion from revenue and other fund deposits in 2012.

In using authority to direct the expenditure of public funds and establish priorities among federal programs, Congress decides whether to fund a particular program or activity, and if so, sets the level of that funding. In the case of the FBF, Congress has provided in the last 2 fiscal years less obligatory authority to GSA than was requested in the President’s Budget Request. For example, in fiscal year 2012 Congress provided about 16 percent less than the President’s Budget Request. In addition, in both 2011 and 2012 Congress provided less obligatory authority than funds deposited into the FBF. According to OMB staff and GSA officials, Congress provided less obligatory authority than requested to balance competing priorities among government programs and meet spending caps.

OMB staff and GSA officials stated that the funds collected by the FBF might sufficiently support GSA’s projects for its assets. For example, OMB staff stated that if GSA were able to spend all of the funds collected by the FBF each year, these funds would generally be sufficient to fund GSA’s identified repairs and alterations projects and a modest new construction program. GSA officials noted that when Congress provides less obligatory authority than requested, repairs and alterations and new construction projects are the most affected because available funds must
first be used to pay leasing, operations and maintenance, and debt costs. GSA officials also stated that the authorization to obligate and spend the balance of funds in the FBF, which it anticipates will double to $4.5 billion by the end of fiscal year 2013, would enhance the agency’s ability to manage its real property portfolio by ensuring that operations and maintenance are sufficiently funded and that capital investments, such as repairs and alterations and new construction projects, can continue to be made. However, OMB staff stressed that the current FBF balance is not available for obligation and that in order to make additional obligations from the fund, congressional action would be needed.

While the appropriations process has resulted in less obligational authority for GSA than was sought in the President’s Budget Request, the agency has not always communicated through its annual budget request to Congress its interest in reducing the fund’s balance by increasing spending. Rather, since 2008, GSA has consistently requested obligational authority less than the total resources available in the fund. Also since 2008, GSA has only twice requested an amount of obligational authority that would reduce the existing fund balance, meaning that it requested more obligational authority than funds deposited for that year. Specifically, GSA requested to reduce the existing FBF balance by about 30 percent in 2011 and 13 percent in 2012. GSA officials stated that in preparing their budget requests they work with OMB to discuss their needs in relation to competing priorities from other executive branch agencies. According to GSA officials, budget requests for FBF obligational authority reflect efforts to balance GSA’s needs with those of other federal agencies within the overall budget framework.

**Factors Affecting FBF**

**Imbalance between Revenue and Costs**

While budgeting and appropriations decisions have contributed to a significant increase in the FBF balance the last 2 years, various factors have limited the fund’s income from GSA’s real property operations. These factors include an imbalance between revenue and costs, decreased revenue from underperforming assets, and a reliance on leasing.

GSA’s owned assets generate most of the resources used for capital improvements. From 2006 through 2011, the financial performance of these assets has stagnated despite GSA’s increasing the amount of rentable square feet in its owned portfolio from 174 million to 182 million.
square feet.\textsuperscript{13} As measured by funds from operations—meaning revenue less costs excluding depreciation—GSA generated approximately $1.6 billion from its owned assets in 2006 and a nearly identical amount in 2011, though the annual amount varied during this time period.\textsuperscript{14} When taking the effects of inflation into account, we found that the real value of the funds from operations generated by GSA’s owned assets and measured in 2006 dollars has decreased by 9 percent over this time.\textsuperscript{15} (See fig. 1.)

\textsuperscript{13} Over the same time, the amount of leased space has grown from 172 million to 193 million square feet.

\textsuperscript{14} Funds from operations (FFO) is a metric used by GSA to measure the financial performance of its assets.

\textsuperscript{15} In this report, where indicated, we adjusted values for inflation using a chain-weighted gross domestic product (GDP) index based on the averages of quarterly indexes from U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts, table 1.1.4 last revised Jan. 21, 2012.
Funds from operations generated by GSA’s owned assets have been affected by declining revenue and rising costs.

- **Revenue.** Since 2006, revenue growth has not kept pace with inflation. Specifically, the revenue from GSA’s owned portfolio adjusted for inflation has decreased by 2 percent. GSA officials said that revenue generated by its owned assets is highly dependent upon the fair annual rent appraisal of the asset which, in turn, is based on the value of rental charges at comparable private sector properties. GSA officials noted that from 2006 to 2011, increased commercial office vacancies contributed to soft rental markets and minimal growth in rental rates. According to these officials, changes in revenue primarily reflect the downward pressure on GSA’s rental rates caused by market conditions.

- **Costs.** Since 2006, costs associated with operating, maintaining, and repairing GSA’s owned facilities have risen faster than inflation. GSA’s annual operating costs, representing the direct costs of operating its facilities (including utilities, janitorial services, and routine
maintenance) have risen by about 6 percent total in constant dollars from 2006 to 2011, though year to year these costs are volatile and can vary significantly.\(^\text{16}\) GSA officials stated that reasons for the increase in operating costs include general inflation in utilities, maintenance, and administrative costs. Furthermore, GSA estimates that construction costs have increased since 2005. We found that from October 2005 to September 2011, for example, construction costs rose by nearly 20 percent, or by nearly twice the general rate of inflation, eroding the value of FBF resources generated to fund capital repairs and construction.\(^\text{17}\)

GSA officials also noted that, with decreased obligational authority, the growing amount and cost of leased space in its portfolio have reduced the proportion of obligational authority available to fund repairs and alterations that could potentially reduce operating costs in its owned portfolio. From 2006 through 2011, obligational authority for the acquisition of leased space increased from $3.9 billion (49 percent of obligational authority) to $4.8 billion (62 percent) as the amount of leased space increased from 172 million to 193 million square feet. At the same time, obligational authority for repairs and alterations has decreased from $1.1 billion (14 percent of obligational authority) in 2006 to $341 million (4 percent) in 2011.

### Underperforming Assets

While the FBF as a whole has generated positive funds from operations, portions of GSA’s inventory operate at a loss. For example, within its owned portfolio, about 30 percent of GSA’s assets lose money in a given year. In fiscal year 2011, the loss from these assets was $170 million, and GSA has incurred a similar loss on that portion of its portfolio each year from 2006 to 2010. These assets tended to be older and smaller than

\(^{16}\) For example, from 2006 to 2010, GSA’s operating costs from its owned assets rose from $847 million to $1,124 million, an increase of 33 percent or 23 percent when adjusted for inflation. However, in 2011, these operating costs fell to $990 million. GSA officials attribute this decrease to lower costs in its janitorial and maintenance contracts, including a 34 percent reduction in its elevator maintenance contract.

\(^{17}\) We used the Engineering News Record’s Construction Cost Index to calculate the increase in construction costs from October 2005 to September 2011. The index measures how much it costs to purchase a mix of construction, labor, and materials compared to what it cost in the base year.
other assets in the owned portfolio.\(^{18}\) We determined that most of these losses are attributable to about 200 assets, each of which lost more than $100,000 in 2011. GSA officials noted that in some cases, operating an asset at a loss can be more cost effective in the short term than the cost of acquiring new space, moving an agency, and disposing of the asset. GSA officials further explained that there are various reasons they retain facilities that generate losses, for example because an asset is mission critical, has symbolic importance, or establishes a necessary federal presence in a sparsely populated area. For example, the Prince H. Preston Building and Courthouse, located in Statesboro, Georgia, provides space for the U.S. District and Bankruptcy Courts and other agencies’ facilities on an as-needed basis. However, the building has consistently generated negative funds from operations because the amount of space required for the federal presence in Statesboro has decreased since the building was constructed in 1963. Specifically, while the building was originally constructed to provide space to the Social Security Administration and the Department of Agriculture in addition to the Courts, both executive branch agencies have since vacated the space. Despite the vacant space and financial losses resulting from departure of two of its original tenants, GSA intends to retain this facility until the Judiciary determines its long-term plan for maintaining a presence in Southeast Georgia. GSA officials also noted that when their managed facilities undergo major renovations, the space in those facilities is often temporarily vacated and does not generate revenue during that time. For example, space in the Eisenhower Executive Office Building in Washington D.C., which is currently undergoing a multiphase renovation, was unavailable for tenant occupancy in 2011, contributing to a $15 million operating loss for the building.

In addition to these types of losses, GSA has formally agreed with its tenants to provide below-market rent on about 240 assets, which has modestly reduced revenue deposited in the FBF. In fiscal year 2011, GSA estimated that rent restrictions reduced the revenue generated for the FBF by about $175 million. These reduced rental rates have resulted from a combination of GSA and congressional exemptions that have been in

\(^{18}\) Specifically, the median asset in GSA’s owned portfolio is 45 years old and occupies about 20,000 square feet, while the median asset among those generating negative income is 55 years old and occupies about 11,000 square feet.
Reliance on Leasing

From 2006 through 2011, as the amount of space that GSA leased from the private sector grew from 172 million to 193 million square feet, GSA’s losses (as measured by funds from operations) on its leased assets have increased. (See fig. 2.) Over the past 4 years, cumulative losses on its leases have exceeded $200 million; approximately $75 million in losses occurred in fiscal year 2011. Most of the losses in 2011 were concentrated in about 300 leases, each of which lost more than $100,000. Relative to the total revenue generated by its leased portfolio in 2011 ($5.6 billion), the net losses from its leased assets (about $75 million) in 2011 are comparatively small. Nevertheless, such losses require GSA to use funds generated from other revenue sources to offset them, which in turn decreases the funds available for investing in GSA’s owned assets.\(^{20}\)

These exemptions were provided for a number of reasons, including lack of funds from the tenant agencies, agreements resulting from the sale of property from an agency to GSA, and security concerns. For example, in 1996, GSA granted an exemption to the Woodrow Wilson Center for the organization’s use of approximately 100,000 square feet of office space in the Ronald Reagan Building and International Trade Center in Washington, D.C. through 2026. GSA estimates this rent exemption reduced FBF revenue by $5 million in fiscal year 2011.

\(^{19}\)Of the 13 exemptions currently in place, 11 were authorized by the GSA Administrator and the Office of Management and Budget, and the remaining 2 were authorized by Congress.

\(^{20}\)According to GSA officials, the $75 million loss from GSA’s leased assets in fiscal year 2011 was absorbed by both the FBF and funds from the American Reinvestment and Recovery Act of 2009 (Recovery Act). Specifically, the FBF absorbed $35 million in losses from GSA’s leased assets. The remaining loss of $40 million, resulting from the need to acquire temporary leased space during Recovery Act improvements, was absorbed by Recovery Act funds in accordance with GSA pricing policy.
GSA officials noted that leasing losses have primarily resulted from several factors, including reductions in its administrative fee, accounting adjustments, billing and payment errors, lease buyouts and formulation costs, and vacant space.21 Specifically:

- According to GSA officials, the agency reduced the administrative fee that it charges to agencies for managing leases from the private sector from 8 percent to 7 percent for many leases in 2008, resulting in an estimated annual $50 million (1 percent) reduction in revenue. According to GSA officials, because the leasing portfolio was producing a modest surplus in 2007, GSA lowered its administrative fee to reduce the cost of leasing for its tenant agencies. These officials noted that, in 2011, for instances where a lease lost less than $100,000, many of these losses are attributable to overhead expenses that exceed revenue from administrative fees. GSA officials

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21 We did not evaluate the extent to which these or other factors have contributed to losses in GSA’s leased portfolio, and have planned future work to explore these topics.
explained they are currently reevaluating whether its administrative fee is sufficient to cover the cost of the leasing program.

- According to GSA officials, their use of accrual-based accounting—where revenues are recorded when earned and expenses are recorded when incurred, irrespective of whether any cash has flowed in or out during the accounting period—results in adjustments that essentially level the lease payment stream throughout the life of a lease. This adjustment can result in expenses being recorded in a single accounting period that are greater or less than the actual lease payment during that period. GSA estimates that, after eliminating the impact of accounting adjustments and transactions related to the Recovery Act, the agency lost approximately $18.5 million in the leased portfolio during fiscal year 2011.

- Billing and other administrative errors have also contributed to losses in its leased portfolio, according to GSA officials. For example, GSA officials noted that the agency may begin to pay a lessor for space before GSA has finalized the occupancy agreement with the tenant agency and entered it into GSA’s financial management system. While GSA officials acknowledged that these funds can be recouped from the tenant agencies after the occupancy agreement is finalized, they estimated that these actions reduced funds from operations from the leased portfolio by nearly $17 million in 2011.

- GSA officials also noted that lease formulation costs, lease buyouts, and vacant space within its leased portfolio result in costs and lost income that have contributed to losses. GSA officials explained that when tenant agencies move out of leased space, GSA attempts to place another tenant agency in that same space. However, between the occupancy periods of the two tenants, GSA is responsible for paying the cost of the space, unless GSA terminates the lease and pays a buyout to the private sector lessor. GSA officials noted that while the cost of a lease buyout may contribute to losses in the year of the buyout, over the long-term, pursuing a lease buyout may reduce the amount of vacant space in its portfolio. GSA officials noted that, as of the end of fiscal year 2011, 2.3 percent of the space in the leased portfolio was vacant.

Even with these losses in its leased portfolio, GSA continues to rely extensively on leasing to meet its tenants' increasing demand for office space. In 2008, the amount of rentable space leased by GSA exceeded the amount of its owned space for the first time. (See fig. 3.) GSA officials
noted that, as a result of the funding constraints in recent years discussed earlier in this report, the agency has primarily used leasing to meet new office space requirements of its tenant agencies. Nevertheless, our previous work has shown that leasing often costs more than federal building ownership, particularly if operating leases are used to meet long-term space needs.22

Figure 3: Change in Owned and Leased Rentable Square Feet, 2006-2011

GSA is taking steps to manage its financial resources more effectively by reducing the size of its overall real estate portfolio, both in terms of the number of assets and the amount of square feet it manages. In a June 2010 memorandum, the administration directed GSA, along with other agencies, to accelerate efforts to identify and eliminate excess properties and to make better use of remaining real property assets. As part of these efforts, GSA is reducing its owned assets through the sale of excess and

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underutilized property and consolidation actions. For example, according to GSA, in 2011, it disposed of 52 assets, resulting in a reduction of 3.3 million rentable square feet of space. In addition, GSA is encouraging its tenant agencies to use alternative working arrangements, such as teleworking and hoteling (where personnel use unassigned seating when they are in the office) to reduce space needs. Further, GSA officials noted that budget constraints across the executive branch have forced its tenant agencies to reexamine their space needs and that GSA expects demand will continue to shrink.

GSA measures its investment needs for maintaining and improving the condition of its owned facilities through its maintenance and repair liability, which identifies the estimated aggregated cost of future maintenance and repairs across its portfolio.\(^\text{23}\) At the end of fiscal year 2011, GSA identified a $4.6 billion liability for the next 10 years.\(^\text{24}\) Of this total, $1.3 billion is for immediate maintenance and repair needs, and

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\(^{23}\) GSA assesses the basic structure and systems of each asset on a biannual basis to estimate the cost of needed maintenance and repairs which contribute to the overall maintenance liability.

\(^{24}\) Within its 10-year maintenance and repair estimate GSA categorizes maintenance and repair cost into subcategories that reflect repairs needed immediately (1 year), within 1-2 years, within 3-5 years, and more than 5 years from now.
$3.3 billion is for maintenance and repairs that will be needed in future years.\footnote{According to GSA officials, the maintenance liability has decreased from fiscal year 2009 by approximately $1 billion due in large part to use of Recovery Act funds. As part of the Recovery Act GSA received approximately $5.5 billion dollars to convert federal facilities to high-performance green buildings, as well as renovate and construct federal buildings, courthouses, and land ports of entry.}

The estimated cost of maintenance and repairs to GSA’s owned assets varies across the portfolio. GSA’s data show that 40 percent of its assets have maintenance and repair liabilities of $500,000 or less and about 22 percent have a liability exceeding $2 million. (See table 2.) GSA’s data also indicate that approximately 23 percent of the assets in the portfolio have no recorded maintenance and repair liability. GSA officials explained that a facility having no maintenance and repair liability may mean that (1) there is no maintenance liability for that asset, (2) a condition assessment has not been conducted, or (3) its maintenance liability was recorded as part of the maintenance liability for a larger facility.

Table 2: Maintenance and Repair Liability of GSA’s Owned Assets, Fiscal Year 2011

<table>
<thead>
<tr>
<th>Liability of maintenance and repair (over the next 10 years)</th>
<th>Number of assets</th>
<th>Percent of owned portfolio(^a)</th>
<th>Median gross square feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1 to $500,000</td>
<td>681</td>
<td>39.5%</td>
<td>7,169</td>
</tr>
<tr>
<td>$500,001 to $1,000,000</td>
<td>133</td>
<td>7.7%</td>
<td>52,254</td>
</tr>
<tr>
<td>$1,000,001 to $2,000,000</td>
<td>147</td>
<td>8.5%</td>
<td>64,421</td>
</tr>
<tr>
<td>$2,000,001 to $5,000,000</td>
<td>184</td>
<td>10.7%</td>
<td>134,846</td>
</tr>
<tr>
<td>$5,000,001 to $10,000,000</td>
<td>85</td>
<td>4.9%</td>
<td>233,987</td>
</tr>
<tr>
<td>$10,000,001 to $20,000,000</td>
<td>45</td>
<td>2.6%</td>
<td>414,691</td>
</tr>
<tr>
<td>$20,000,001 or more</td>
<td>58</td>
<td>3.4%</td>
<td>781,429</td>
</tr>
</tbody>
</table>

Source: GAO analysis of GSA information.

\(^a\)This analysis does not include the 392 assets (or approximately 23 percent of GSA’s owned assets) with a repair and maintenance liability of zero.

GSA’s data also suggest that a facility’s age is related to its maintenance and repair liability. According to the fiscal year 2011 data GSA provided, its owned assets average 48 years in age, and those over 61 years old are responsible for about 40 percent of its total maintenance liability. In addition, according to GSA, more than one-fourth of its owned buildings
are listed in or eligible for the National Register of Historic Places, the nation's listing of historic properties. According to GSA officials, these historic buildings require comparatively more maintenance and repair work. GSA officials also noted that they hold assets longer than assets maintained in the private sector in part because of GSA’s stewardship responsibility to preserve historic buildings.

### Funding for Repair and Alteration Projects

As previously discussed, GSA’s overall obligational authority has trended downward in recent years, and much of this reduction has been absorbed by the repairs and alterations and new construction accounts within the FBF, meaning that GSA has reduced its spending on repairs and alterations and construction work. Specifically, GSA’s obligational authority for repairs and alteration projects, decreased from $855 million in 2005 to $280 million in 2012. Obligational authority for construction, decreased from $760 million in 2005 to $50 million in 2012. (See fig. 4.)

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26 Obligational authority includes adjustments due to reprogrammings and rescissions.
GSA officials and OMB staff suggested that absent sufficient funding, the cost of operating GSA facilities could increase and the condition of GSA’s portfolio could decline. These officials noted that repairs identified now have the potential to be more expensive if they are delayed, thereby increasing the amount of funding needed from the FBF, possibly resulting in an array of undesirable outcomes. For example, delayed repairs can increase the frequency of unplanned interruptions and downtime of facility systems and components, and can decrease the useful life of real property. GSA officials noted some instances in which funding restrictions delayed repair and maintenance activities, increasing the cost to operate its existing assets. For example, they explained that GSA’s Heating Operation and Transmission District system, which provides steam and chilled water for heating and cooling operations at approximately 80 facilities in Washington, D.C., requires substantial repair work. The delay
in modernizing key components of the system has increased the risk of service failure during the winter months. In order to ensure the reliability of the system, GSA has required additional staff hours from its maintenance and engineering personnel to maintain the system, increasing the overall plant operating costs and resulting in higher steam charges to GSA’s customer agencies. Delayed repairs could also affect the funding generated for the FBF. Specifically, if an asset’s appraisal decreases due to its deteriorated condition, the rent charged to the tenant agency could also decrease, resulting in less revenue for the FBF.

The concerns of GSA officials and OMB staff are consistent with those of the National Research Council of the National Academies which has stated that public sector organizations facing limited resources often first defer or cut facilities investments, particularly investments in maintenance and repairs. The National Research Council estimates that each $1 in deferred maintenance results in a long-term capital liability of $4 to $5, and that “an accumulation of deferred investments over the long term may be significantly greater than the short-term savings that public-sector decision makers were initially seeking.”

Making informed capital investment decisions requires full information about an agency’s current and long-term needs, alternative courses of action, and how potential projects compare amongst each other. We identified leading practices for using information to make capital investment decisions primarily from GAO’s Executive Guide and OMB’s Capital Programming Guide. We also drew from leading capital investment practices identified by the National Research Council. We assessed GSA’s performance in using information to make capital investment decisions against the criteria established in these guides. (See table 3.)

GSA Could Better Conform Some of Its Capital Planning to Leading Practices

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Table 3: Leading Capital Planning Practices for Using Information to Make Capital Investment Decisions

<table>
<thead>
<tr>
<th>Leading practices</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Needs assessment</td>
<td>A comprehensive needs assessment identifies the resources needed to fulfill both immediate requirements and anticipated future needs based on the results-oriented goals and objectives that flow from the organization’s mission. A comprehensive assessment of needs considers the capability of existing resources and makes use of an accurate and up-to-date inventory of capital assets and facilities, as well as current information on asset condition. Using this information, an organization can make decisions about where to invest in facilities.</td>
</tr>
<tr>
<td>Alternatives evaluation</td>
<td>Agencies should determine how best to bridge performance gaps by identifying and evaluating alternative approaches. Before choosing to purchase or construct a capital asset or facility, leading organizations carefully consider a wide range of alternatives, such as using existing assets, leasing, or undertaking new construction.</td>
</tr>
<tr>
<td>Project prioritization</td>
<td>Leading organizations have processes in which proposed capital investments should be compared to one another to create a portfolio of major assets ranked in priority order.</td>
</tr>
<tr>
<td>Long-term capital plan</td>
<td>The long-term capital plan should be the final and principal product resulting from the agency’s capital planning process. The capital plan should cover 5 years or more and should reflect decision makers’ priorities for the future. Leading organizations update long-term capital plans either annually or biennially. Agencies are encouraged to include certain elements in their capital plans, including a statement of the agency mission, strategic goals and objectives; a description of the agency’s planning process; baseline assessments and identification of performance gaps; and a risk management plan.</td>
</tr>
</tbody>
</table>

Sources: GAO and OMB.

GSA’s practices for using information to evaluate capital investment proposals substantially conforms to leading practices in the area of needs assessment and alternatives evaluation. GSA’s project prioritization process partially conforms to leading capital planning practices. GSA’s long-term capital plan minimally conforms to leading capital planning practices. (See table 4.)
Table 4: GAO’s Assessment of GSA’s Conformance to Leading Practices for Using Information to Make Capital Investment Decisions

<table>
<thead>
<tr>
<th>Leading practice</th>
<th>Conformance to leading practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Needs assessment</td>
<td>![Rating Icon]</td>
</tr>
<tr>
<td>Alternatives evaluation</td>
<td>![Rating Icon]</td>
</tr>
<tr>
<td>Project prioritization</td>
<td>![Rating Icon]</td>
</tr>
<tr>
<td>Long-term capital plan</td>
<td>![Rating Icon]</td>
</tr>
</tbody>
</table>

Note: For each capital investment planning criterion assessed, a rating of fully conforming met over 90 percent of criteria, a rating of substantially conforming met about 75 percent of criteria, a rating of partially conforming met about 50 percent of criteria, a rating of minimally conforming met about 25 percent of criteria, and a rating of does not conform met less than 10 percent of criteria.

Needs Assessment

GSA’s process for assessing its assets’ condition and needs substantially meets leading practices. Leading practices suggest that to establish a baseline of condition and needs, organizations should maintain systems that track the use and performance of existing assets. GSA uses many documents, tools, and databases to track a baseline of information on its assets’ condition and needs. For its part, GSA primarily conducts two types of assessments to gather information on the condition of its buildings: physical condition surveys (PCSs) and web-based building evaluation reports (BERs).

- **Physical Condition Surveys.** The PCS is a walk-through assessment that determines the relative condition of building and infrastructure systems. GSA gathers information on its individual assets through PCSs to obtain a general assessment of the condition of all active or excess buildings in its portfolio. GSA conducts PCSs for property that meets the following criteria: (1) GSA has repairs and alterations responsibility, (2) the asset maintains a status of “active” or “excess”, and (3) the asset has a real property type of “building” or “structure”.

- Asset business teams, which include representatives from the major GSA disciplines, play a key role in an asset’s capital development process by assisting with the scope of work and execution of the project.
document the long-term needs of a building’s basic structure and systems and represent the inventory of items in need of repair or replacement. The results from the PCS survey are entered into GSA’s PCS database to provide a total dollar value of needs that can be used to forecast the building’s reinvestment requirements and determine asset strategy.

- **Building Evaluation Reports.** The BER functions as a source document for the development of a comprehensive reinvestment strategy to meet a building’s short-term (up to 5 years) and long-term (up to 20 years) needs. GSA uses web-based BERs to provide a more detailed assessment of those buildings targeted for major repairs. BERs are typically performed by contracted architectural and engineering firms. A BER is not required for each asset but is required for all prospectus-level projects.

GSA has other key documents that help track a range of individual asset information including not only the condition and needs of a building, but also the financial performance of and specific work items planned for individual buildings within its owned portfolio or information on its entire real property portfolio.

- **Asset Business Plans.** Asset Business Plans (ABPs) help GSA make asset-specific project decisions with respect to each asset’s overall needs and GSA’s long-term plans for the asset. ABPs house key information such as an asset’s revenues, vacancy rates, cost of needed repairs, and planned work items. For example, the ABP for the State Department’s headquarters at the Truman Building in Washington, D.C. estimates revenues for fiscal year 2011 of $45 million, a vacancy rate of 5.8 percent, and that planned repairs and alterations in 2013 will cost about $61.3 million.

- **State of the Portfolio report.** At a macro level, GSA’s annual State of the Portfolio report tracks trends affecting the portfolio including revenue generation, vacancy rates, inventory changes such as new construction and disposals, and the cost of major repairs and alterations.

GSA uses multiple databases to track key asset information including a building’s condition, revenue generation, and repair needs to inform capital investment decisions. These databases are the enhanced Physical Condition Survey (ePCS) system, the Real Estate across the United States (REXUS), the Inventory Reporting Information System (IRIS), and Pegasys—GSA’s financial management information system.
• **Enhanced Physical Condition Survey.** GSA’s ePCS database maintains data on building needs and deficiencies collected by the walk-through assessment. A key metric from the ePCS database is the maintenance and repair liability that tracks estimates of GSA’s needs in four categories, those that are needed immediately, in 1-2 years, 3-5 years, and more than 5 years.

• **Real Estate across the United States.** GSA tracks general inventory information such as building type, square footage, and location through its REXUS database. GSA transitioned from its old inventory system to REXUS in July 2011 to incorporate more tools to check the data and provide more accurate information.

• **Inventory Reporting Information System.** IRIS is a web-enabled application that supports GSA in developing, planning, and authorizing work for its buildings. IRIS is used to plan and schedule all repairs and alterations projects for its buildings and track execution of construction projects. Through its direct link to the ABP, projects in IRIS are vetted and prioritized by the asset business teams.

• **Pegasys.** GSA’s financial management information system, Pegasys, tracks information such as revenue generation and operating costs for each building in GSA’s owned portfolio.

GSA also tracks customer satisfaction with its building services through an annual survey, a leading needs assessment practice, which allows GSA to use customer feedback to improve its property management processes to provide a base level of information about what conditions might need priority attention. GSA has tracked the satisfaction of its tenants since 1993. It does so for both its owned and leased portfolios at the national level and for each of its 11 regions. Since fiscal year 2008, satisfaction rates at the national level for its owned and leased portfolios have ranged from 74 percent to 84 percent.\(^{31}\)

While GSA’s needs assessment efforts substantially meet leading practices, GSA’s portrayal of facilities with no recorded maintenance and repair liability could be misleading. In particular, 392 assets—about one-fourth of total assets—are listed as having a maintenance and repair liability of zero, but this may not accurately reflect the condition of each asset. As discussed earlier, having no recorded maintenance and repair liability may indicate that there are no maintenance needs for that asset;

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\(^{31}\) A satisfied tenant is one that gave a 4 or 5 on a 5-point satisfaction scale.
however, it may also indicate that a physical condition assessment was not conducted or that its maintenance needs are recorded under a larger facility. In addition, in our report on excess and underutilized property, we found that GSA gave higher condition ratings to some properties in very poor condition than properties elsewhere in their portfolio in good condition.\(^{32}\)

In addition, our review of documentation and data for GSA’s four highest cost repair and alteration projects in fiscal year 2012 found that the ABPs for three of the four projects had data from a condition survey conducted within the last 2 years.\(^{33}\) Only the State Department Headquarters (Truman Building) renovation project did not have an ABP with data from a condition survey completed within the last 2 years. We also conducted spot checks of 11 real property data fields supplied by the ePCS, REXUS, and Pegasys databases for the ABPs of these four projects and found that the data generally seemed to match.

### Alternatives Evaluation

GSA’s process for evaluating capital investment alternatives substantially conforms to leading practices. As outlined in its Project Planning Guide, GSA is supposed to evaluate a range of project alternatives during feasibility and program development study phases. Information from these studies helps decision makers evaluate project alternatives. Alternatives typically include a repair and alteration project, a leasing option, and a new construction option to meet an agency’s space needs. GSA’s feasibility study considers alternatives and sets a course of action for the project. GSA’s program development study refines the project created in the feasibility study phase, further considers alternatives, and

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\(^{33}\) To assess whether key GSA documents associated with project development showed alignment of GSA practices to leading needs assessment and alternative evaluation practices, we reviewed documentation from the four highest cost repairs and alterations projects of GSA’s fiscal year 2012 budget submission. We examined the physical condition surveys, asset business plans, and feasibility studies, among other documentation, associated with each project to the extent that they were available. The four repairs and alterations projects that we examined were for the Burton Federal Building in San Francisco, the Prince Jonah Kuhio Kalanianaole Federal Building in Honolulu, and the Department of State (Truman Building) and Interior headquarters buildings in Washington, D.C. Our findings are not generalizable across GSA’s real property portfolio.
develops a sound foundation to pursue construction funding. During both the feasibility study and program development study phases, GSA conducts a financial analysis through its Automated Prospectus System (TAPS) that examines net present value.

Our review of GSA’s documentation for the four highest cost repair and alteration projects from GSA’s fiscal year 2012 budget submission found that GSA generally conducted alternative analyses as leading practices suggest prior to initiating a project. For example, in evaluating alternatives for the Prince Jonah Kuhio Kalanianaole Federal Building and Courthouse in Honolulu, we found that GSA considered four alternatives including a repairs and alterations alternative, two new construction options, and a lease option. For the Burton Federal Building in San Francisco, GSA officials explained that after initially considering leasing, new construction, and renovation alternatives through its TAPS analysis, they determined that renovation of existing federal space was the clear best alternative and that a typical feasibility study that fully explored these alternatives was not necessary. GSA’s use of existing federal space to meet federal space needs is a leading practice. GSA officials explained that GSA did not consider alternatives to the renovations of the Truman and Main Interior Buildings in Washington D.C. because these projects are ongoing modernizations of historic buildings that began decades ago requiring upgrades to meet fire and life safety or historic preservation requirements, and there are no feasible alternatives. In addition, according to GSA officials, Truman and Main Interior Building repairs and alterations projects began prior to development of GSA’s 2004 Project Planning Guide.

Leading practices for alternatives evaluation also suggest that an agency consider project risk, level of control, and time horizons to ensure that projects are on time and within budget and that the agency considers the length of time it will need space. According to GSA planning documentation and senior officials, GSA considers these factors. GSA must evaluate project risk to determine the impact of not receiving requested funding and whether it can complete projects on time and within projected costs. Considering level of control is important to help

34 Our project review is not generalizable across GSA’s entire real property portfolio.

35 GSA did conduct a realignment and expansion study of the proposed move of the Federal Bureau of Investigation into the Burton Federal Building.
GSA understand aspects such as the security requirements of a particular agency, for example, when assessing its space needs and determining whether leasing or ownership would afford the agency a desired level of control. Time horizons are an important consideration because GSA must know how long an agency will likely need a building when deciding whether to own or lease space. For long-term, mission-critical functions, agencies may wish to have maximum control through ownership provided that funding is available; for the short term, leasing may be the most cost-effective option. Following are examples of GSA’s use of these leading practices in evaluating capital investment alternatives:

- **Project risk.** GSA mitigates risks to completing phased construction or repairs and alterations projects from non-availability of funds by designing each phase to stand alone. For example, GSA designed the renovation of its Washington, D.C., headquarters to be completed in independent phases. When a later phase of the project did not receive funding, GSA was still able to use all of the partially renovated building.

- **Level of control.** A key consideration in GSA’s selection of the St. Elizabeth’s campus for the consolidation of the Department of Homeland Security’s (DHS) headquarters in Washington, D.C., was the level of control that the site affords the agency. In particular, the site allows for the use of certain security features that will help DHS improve its security posture. For example, the St. Elizabeth’s site provides some natural buffer zones based on its terrain, whereas costly alteration of buildings for security purposes would be required if DHS were to remain in locations downtown.

- **Time horizon.** As we have previously reported, shifting demographics are a key consideration in GSA’s choice of space to meet the Social Security Administration’s (SSA) needs. Because SSA needs to be in facilities that are close to its customers, it requires the flexibility to relocate as population centers move and may not have a long-term need for some of its facilities. As a result, GSA often relies on leasing rather than ownership to give SSA the ability to relocate its smaller field offices closer to its customers, as necessary.36

### Project Prioritization

| GSA’s process for prioritizing capital investment projects partially meets leading practices, but its transparency can be improved. Leading capital |

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planning practices suggest that an agency’s project prioritization process (1) have weighted criteria for ranking and selecting projects, (2) have core information to help decision makers evaluate a project, (3) consider all capital projects as a portfolio, (4) prioritize projects using an organization’s goals as a criterion, (5) prioritize projects using a full set of economic factors as criteria, (6) prioritize projects using project risk as a criterion, (7) consider an organization’s long-term capital plan when prioritizing projects, and (8) be transparent about how project rankings were determined.

GSA’s project prioritization process meets some elements of leading practices including using criteria for ranking and selecting projects, having core information to help decision makers, considering organizational goals as a prioritization criterion, and considering economic factors as prioritization criteria.

- **Established criteria.** GSA has established criteria to rank and prioritize major proposed capital investments. According to GSA, these criteria include customer urgency and mission dependency, urgency based on physical condition, economic justification, asset utilization, project timing and execution, historical significance, alignment with mandated building performance criteria, and improvement of energy efficiency and sustainability.

- **Core information for decision makers.** We found that in the four projects we examined, documentation generally included a core set of information for decision makers. For example, GSA’s repairs and alterations project for the Prince Jonah Kuhio Kalanianaoele Federal Building and Courthouse in Honolulu included a physical condition survey, prospectus, building evaluation report, feasibility study, program development study, asset business plan, and TAPS analysis for use by GSA decision makers when considering this project in relation to others. GSA completed most core documents for the other three projects we examined, but GSA did not complete building evaluation reports and TAPS analyses for the Truman and Interior buildings because these were multi-phased, multiyear projects begun decades ago that did not have feasible alternatives other than continued modernization.

- **Organizational goals.** GSA considers links to an organization’s goals when prioritizing projects. For example, according to GSA senior officials, GSA considers customer need and mission dependency as top criteria for prioritizing projects.

- **Economic factors.** GSA considers a full set of economic factors as part of its economic considerations. For example, GSA considers
However, GSA’s project prioritization process does not fully incorporate other elements of leading practices such as promoting transparency in ranking projects, evaluating projects as a single portfolio, considering a long-term capital plan when ranking projects, and considering risk.

- **Promotion of Transparency.** We found GSA’s project prioritization process lacked transparency in that we were unable to determine how GSA used its criteria to prioritize major projects amongst each other, how or whether criteria are weighted in any way, and why certain projects are ultimately selected over others. In particular, we asked GSA officials for the rationale used in developing annual budget requests since 2008 and its fiscal year 2011 5-year prioritized project list. In response, these officials said they used their project prioritization criteria to develop these lists; however, they did not provide documentation of how the criteria were applied.

- **Evaluation of projects as a portfolio.** We found that GSA does not consider all projects as part of a single portfolio as leading practices suggest. In addition to its own project list, GSA provides separate lists for courthouse (Judiciary) and land port of entry (Department of Homeland Security) new construction projects in its annual budget requests. Because these projects are listed separately, it is difficult to ensure that the most deserving projects meeting the established criteria are selected for funding. GSA explained that these projects are listed separately because both agencies prepare and submit their own plans to OMB and Congress.

- **Consideration of long-term capital plan priorities.** GSA’s long-term capital plan, discussed further in the next section of this report, does not meet most leading practices so it is difficult for GSA to fully consider long-term priorities. A comprehensive long-term capital plan...
would include, for example, alternatives to meeting project goals given budget projections and constraints to aid in annual project prioritization.

- **Consideration of risk.** GSA’s project prioritization criteria lack explicit consideration of risk. A senior GSA official told us that risk is considered throughout the project development process, if not the prioritization process, but we found that GSA does not document how risk is considered, if at all, during prioritization. Without having risk as an explicit criterion in its prioritization criteria, GSA cannot ensure that projects that are inherently risky are ranked to reflect this.

According to GSA officials, the agency is currently working with its regional offices to refine weighted project prioritization criteria for use in new software that would allow them to more systematically prioritize projects in the future. GSA expects to have this software available for use this summer during the development of the fiscal year 2014 budget, which will in turn better position GSA to fully meet leading practices for project prioritization.

**Long-term Capital Plan**

GSA’s long-term capital plan minimally conforms to leading practices, which could limit GSA’s ability to make fully informed choices about long-term investment decisions. Both GAO and OMB guidance emphasize the importance of developing a long-term capital investment plan to guide the implementation of organizational goals and objectives and to help decision makers establish priorities over time. GAO guidance explains that requiring agencies to develop capital plans encourages them to think about the long term and reduces the number of surprise projects. It also encourages agencies to weigh and balance the need to maintain existing capital assets against the demand for new assets. According to GAO’s *Executive Guide*, the long-term capital plan, covering 5 years or more and completed annually or biennially, should identify the proper mix of existing assets and new investments needed to fulfill an organization’s mission, goals, and objectives, and should reflect decision makers’ priorities for the future. In particular, according to OMB, elements of a capital plan should include:

- a linkage of projects to agency missions, goals, and objectives;
- a baseline needs assessment and agency objectives that cannot be met with existing assets;
- a ranking of approved capital projects;
- an explanation of why projects selected are the best alternative;
- alternatives to meeting project goals;
• budget projections and financial forecasts and their implications;
• a summary of a risk management plan; and
• a discussion of timing issues, if part of a multiagency acquisition.

We found that GSA has developed limited information similar to what might be found in a comprehensive long-term capital plan. For example, GSA has developed a 5-year prioritized list of projects that it included with its fiscal year 2011 budget submission. However, this 5-year list is only one of several elements that leading practices suggest a comprehensive long-term capital plan include. It is not apparent, for example, how GSA used its criteria to prioritize projects, why some projects are ranked higher than others, and how higher-priority projects better contribute to meeting agency goals. GSA’s 5-year plan also does not lay out GSA’s baseline of needs and where there might be gaps in what GSA’s real property portfolio provides. In addition, the 5-year plan does not consider alternative courses of action, the implications of varying budget levels and revenue forecasts, or include a risk management summary that includes an analysis of alternative ways of meeting program objectives should disruptions occur. As a result, GSA lacks a comprehensive analysis of options over a 5-year period given funding variability and how long-term investment decisions affect them. This situation is similar to what we found 12 years ago when we cited GSA’s lack of a comprehensive plan that (1) identified the total repair and alteration needs and corresponding funding requirements, (2) established the benefits and priorities of all competing projects, and (3) proposed a strategy and the funding needed to repair or modernize its most seriously deteriorated buildings. 38

In discussing challenges related to long-term capital planning, senior GSA officials and OMB staff explained that determining future requirements can be difficult because GSA’s customers may not know their needs, and therefore cannot articulate requirements to GSA. In addition, GSA officials said that fluctuating levels of annual obligational authority creates uncertainty that affects their ability to implement long-term plans, requiring adjustments to both the long-term plan and annual budget requests. While GSA does face uncertainty regarding the needs of its customers and its annual level of obligational authority, leading long-term capital planning practices suggest that there is still value to establishing

organizational priorities over time and considering alternatives to meeting organizational goals given funding constraints and uncertainties about agency needs. By thinking strategically long term rather than simply from year to year, GSA would better ensure that it makes fully informed choices about long-term investment needs and maximizes its use of available funding over time. GSA could better address budget uncertainty by analyzing what projects to pursue given various levels of funding in its long-term capital plan.

Conclusions

Since its inception, the FBF has been challenged to provide sufficient revenue to support GSA’s real property portfolio. In recent years, budgeting and appropriations decisions made by the executive branch and Congress, respectively, have limited the amount of resources made available to GSA to fund its real property operations. The FBF is further constrained by other factors including the declining value of revenue, growing operating costs, and an increased reliance on leasing, among other things. These conditions make it increasingly difficult for GSA to maintain its real property portfolio in an acceptable state of repair. As GSA works to address the maintenance and repair needs of its assets and improve the overall condition of its portfolio, it is important that the agency base its actions on a well-conceived investment strategy. GSA follows many leading practices to gather and evaluate information from its assets to inform its investment decisions, but it is not clear how it prioritizes and selects projects for funding consideration. In addition, the agency’s lack of a comprehensive long-term capital plan could limit its ability to provide perspective on how funding for requested projects aligns with its long-term investment strategy. Having such a plan would enable GSA and Congress to better evaluate the full range of real property priorities for using funds in the FBF both over the next 5 years and annually and, should fiscal constraints so dictate, identify which might take precedence over others. In short, more transparency would allow for more informed decision making among competing priorities. Without more insight into how GSA prioritizes repair and replacement of its assets, GSA cannot ensure that decision makers within the executive branch and Congress understand why the projects proposed by GSA merit selection when measured against competing priorities, both within and outside of GSA’s portfolio.
To enhance transparency, allow for more informed decision making related to GSA’s real property priorities, and make a stronger case for using funds in the FBF to meet capital investment needs, we recommend that the Administrator of GSA take the following two actions:

- Document in its annual budget request to OMB how GSA uses its prioritization criteria to generate its annual and 5-year lists of prioritized projects to ensure that Congress understands the rationale behind prioritized project lists and that GSA is maximizing return on FBF investments.
- Develop and publish a comprehensive 5-year capital plan and include a summary of it annually in its budget request to OMB and Congress to help ensure that long-term goals are fully considered when making decisions and to document how GSA would spend needed FBF funds.

We provided a draft of this report to GSA and OMB for review and comment. GSA’s comments are reproduced in appendix II.

GSA agreed with our findings and recommendations. GSA commented that it is taking steps to refine weighted prioritization criteria for use in a decision-making software tool that will help the agency to more systematically and transparently prioritize projects. GSA expects to use this software tool in development of its fiscal year 2014 budget request. With respect to our second recommendation, GSA indicated that it will work with stakeholders, OMB, and Congress in developing and providing a 5-year capital plan to include in its budget request. GSA and OMB also provided technical suggestions and clarifications, which have been incorporated in the report as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 21 days from the report date. At that time, we will send copies of this report to congressional committees with responsibilities for federal real property issues, the Director of OMB, and the Administrator of GSA. In addition, this report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-2834 or wised@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last
page of this report. GAO staff who made key contributions to this report are listed in appendix III.

Sincerely yours,

David J. Wise
Director, Physical Infrastructure Issues
Appendix I: Objectives, Scope, and Methodology

This report focuses on (1) the factors that have affected the resources available in the Federal Buildings Fund (FBF); (2) the General Services Administration’s (GSA) potential maintenance and repair liability for its owned assets and the implications for the fund; and (3) the information GSA considers when evaluating capital investment proposals and how its practices compare to leading practices for making capital investment decisions.

Factors Affecting the FBF

To determine what factors have affected the resources available in the FBF, we analyzed legislation, including the Public Buildings Act Amendments of 1972 and congressional appropriations acts to understand congressional direction and priorities for the FBF. We reviewed GAO, Congressional Research Service (CRS), and GSA Office of Inspector General reports on historical issues affecting the ability of the fund to generate revenue. We also analyzed GSA information on rent restrictions and exemptions granted to its tenant agencies to understand how these agreements have affected the resources in the FBF. In addition, we reviewed GSA’s congressional budget requests to obtain information on the amounts of obligational authority requested by GSA compared to the amounts provided by Congress and the amount available in the fund from fiscal year 2006 through fiscal year 2012.

To understand how the financial performance of GSA’s portfolio has changed over time, we analyzed data on GSA’s approximately 10,000 assets from 2006 through 2011 from the agency’s real property and financial management database systems. Specifically, we analyzed data on each of GSA’s assets from GSA’s Real Estate across the United States (REXUS) system as well as its System for Tracking and Administering Real Property to describe how the number of assets, the average age of the assets, and the amount of owned and leased space managed by GSA has changed. We also analyzed information from Pegasys, GSA’s financial management system. In particular, we obtained and analyzed information on the revenues, costs and various metrics, including funds from operations, used by GSA to describe the financial condition for each asset to provide a summary description of GSA’s financial performance.

We also analyzed financial data from the FBF using indices to account for inflation. To understand how the value of the revenue generated and cost incurred by the FBF had changed since 2006, we used a chain-weighted Gross Domestic Product index based on data from the averages of quarterly indexes from U.S. Department of Commerce Bureau of
Economic Analysis, National Income and Product Accounts, table 1.1.4 (last revised Jan. 21, 2012). To measure how construction costs had changed since 2006, we used the Engineering News-Record’s Construction Cost Index to calculate the increase in construction costs from October 2005 to September 2011. The index measures how much it costs to purchase a mix of construction labor and materials of goods compared to what it was in the base year.

As part of our review of GSA’s data, we tested the data for missing variables and abnormal trends from 2006 through 2011. We found no abnormal patterns or significant number of missing values for the rentable square footage, the leased or owned facility, age of building, or real property type data elements. We also interviewed GSA system administrators, analysts, and managers about their views of the quality of the data. We compared the results of our analyses to information published in other GSA documents, including GSA’s budget submissions, financial statement audits, and GSA’s State of the Portfolio report. While we did not independently verify the information for each asset, we believe these data are generally reliable for our purposes, which was to describe, at a summary level, the overall financial performance of GSA’s assets from 2006 through 2011.

To assess the condition of GSA’s owned assets and the implications for the FBF, we reviewed literature from the National Research Council, and prior CRS and GAO reports to determine the types of obstacles previously faced by GSA and discuss the known and possible consequences associated with delaying or not performing needed repairs and alterations. We reviewed GSA’s State of the Portfolio reports to understand how GSA manages and categorizes its assets. We also reviewed GSA’s budget requests to compare funding requested by GSA for repairs and alterations from fiscal year 2006 to fiscal year 2012 to the amount of new obligation authority granted by Congress.

We analyzed data from GSA’s real property and maintenance databases to understand what data GSA maintains about the condition of its owned assets. Specifically, we analyzed data from REXUS databases to describe demographic characteristics of the portfolio. We analyzed data from GSA’s enhanced Physical Condition Survey (ePCS), which GSA uses to track the results of its biannual condition inspections, to describe the total identified maintenance and repair liability of its owned assets over the next 10 years.
We excluded assets where GSA reported zero maintenance liability because GSA stated that the condition of these assets may have been incorporated as part of an assessment of a larger asset. In order to verify this information, we matched the address of assets with zero maintenance and repair liability with addresses of assets with a reported value of maintenance and repair liability greater than zero. We found that, of the 392 assets with zero reported maintenance and repair liability, 151 were located at the same address of an asset with a maintenance and repair liability greater than zero.

To assess the overall quality of the data, we interviewed GSA system administrators, analysts, and managers about the quality of the data and tested the data for missing variables and abnormal trends. During the course of our discussions with GSA, we were informed that GSA’s approach for calculating metrics to measure has recently undergone a variety of changes. Specifically, GSA officials informed us that the calculation of functional replacement values had changed in fiscal year 2011 in order to improve the precision of these values. As a result, because the data were not comparable across years, we limited our analysis to the maintenance and repair liability of GSA’s assets as of September 2011. In addition, we conducted a variety of data tests and found no abnormal patterns or significant numbers of missing values in the “age of building” or “real property type” data elements for GSA’s owned portfolio. However, during discussions with GSA officials about the “gross square footage” category, we observed that a number of assets, particularly those identified as structures, had values of “1” or similarly small numbers. GSA officials told us that the gross square feet for structures are measured in units that vary widely. Thus we did not aggregate or average the total square footage in a given year. To reduce the effect of these outliers, we used the median square feet in our report to describe the size of GSA assets. While we did not independently verify the information for each asset, we believe these data are generally reliable for our purposes, which was to describe, at a summary level, the overall condition of GSA’s assets as of the end of September 2011.

We interviewed GSA program managers to gain an understanding of how GSA conducts condition assessments and assesses the general condition of its owned assets. In addition we held discussions with GSA’s portfolio managers who oversee the buildings in the owned portfolio to discuss the overall condition of the assets, and understand the consequences associated with not completing needed repairs and alterations. We also spoke to senior leadership from Office of Management and Budget (OMB) to discuss their impressions of the
Appendix I: Objectives, Scope, and Methodology

Condition of GSA’s assets and perspectives on the amount of obligational authority available for repairs and alterations within GSA’s portfolio.

Comparison to Leading Capital Practices

To assess how GSA’s use of Information to make capital investment decisions conforms with leading practices, we identified leading practices for using information to make capital investment decisions from GAO’s Executive Guide\(^1\) and OMB’s Capital Programming Guide.\(^2\) We also drew from the National Research Council’s research in this area. We assessed whether GSA’s guidance and performance conformed to the criteria established in these guides rating their performance in the areas of needs assessment, alternatives evaluation, project prioritization, and long-term capital planning as fully conforming, substantially conforming, partially conforming, minimally conforming, or not conforming. For each capital investment planning criterion assessed, a rating of fully conforming met over 90 percent of criteria, a rating of substantially conforming met about 75 percent of criteria, a rating of partially conforming met about 50 percent of criteria, a rating of minimally conforming met about 25 percent of criteria, and a rating of does not conform met less than 10 percent of criteria. To conduct these analyses, one GAO analyst made the initial assessment which a second analyst reviewed and then provided either concurrence or suggested changes. We also reviewed past GAO reports including GAO-07-274 and GAO-11-197 to determine how these reports used these criteria to evaluate an agency’s capital planning process.

We conducted document analyses and interviews with GSA Public Buildings Service budget, planning, and program officials to assess how GSA is doing in each of these capital planning areas. Our document analysis included an examination of GSA’s Project Planning Guide and FY2013 Program Call to assess how GSA’s process for using information to make capital decisions conformed to leading practices. To conduct these analyses, one GAO analyst made the initial assessment which a second analyst reviewed and then provided either concurrence or suggested changes. To assess how GSA identifies its needs, we examined information in GSA’s ePCS, REXUS, and financial

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management information system databases as well as how these data were used to update GSA’s Asset Business Plans. To evaluate needs assessment data and how GSA evaluates project alternatives, we reviewed documentation from the four highest cost repairs and alterations projects of GSA’s fiscal year 2012 budget submission to assess the justification and analysis for undertaking these projects. We examined the physical condition surveys, asset business plans, feasibility studies, program development studies, prospectuses, and Automated Prospectus System (TAPS) analyses, among other documentation, associated with each project to the extent that they were available. The four repairs and alterations projects that we examined were for the Burton Federal Building in San Francisco, the Prince Jonah Kuhio Kalanianaole Federal Building and Courthouse in Honolulu, and the Harry S. Truman and Main Interior buildings in Washington, D.C. Our findings are not generalizable across GSA’s real property portfolio. To assess GSA’s project prioritization and long-term capital planning, we interviewed GSA program and budget officials and documentation that GSA provided in these areas such as its 5-year prioritized project list from fiscal year 2011 to fiscal year 2015.

We conducted this performance audit from August 2011 to July 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
June 21, 2012

The Honorable Gene L. Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Dodaro:

The General Services Administration (GSA) appreciates the opportunity to review and comment on the draft report, “Federal Buildings Fund - Improved Transparency and Long-term Plan Needed to Clarify Capital Funding Needs” (GAO-12-646). The Government Accountability Office (GAO) recommends that GSA takes the following two actions:

- Document in its annual budget request to the Office of Management and Budget (OMB) how GSA uses its ranking and prioritization criteria to generate its annual and five-year lists of prioritized projects to ensure that Congress understands the rationale behind prioritized project lists and that GSA is maximizing the return on Federal Building Fund (FBF) investments.

- Develop and publish a comprehensive five-year capital plan and include a summary of it annually in its budget request to OMB and Congress to help ensure that long-term goals are fully considered when making decisions and to document how GSA would spend needed FBF funds.

GSA agrees with the findings and recommendations and will use them to improve our capital investment planning process. However, we are concerned that certain aspects of the report do not accurately reflect the information and feedback GSA provided throughout the audit process. Specifically, sections of the report that reference the alternatives analysis of the Burton Federal Building project; the impact of deferring investment in the Heating, Operation and Transmission District system; the consideration of project risk as part of alternatives evaluation; and the use of new software to make project prioritization more collaborative and transparent do not accurately reflect information that GSA had previously transmitted to the GAO.
In addition, the report states that the FBF balance has increased from $56 million in fiscal year 2007 to $2.2 billion in fiscal year 2012. As noted in the report, Congress has provided fewer resources than requested by the executive branch and generated by the FBF Budget. As background, the FBF is an intra-governmental revolving fund that finances real property management and related activities of the GSA Public Buildings Service. Principal activities include the operation, maintenance, and repair of GSA-owned and leased buildings, and the construction of Federal buildings, courthouses, and land ports of entry. The FBF is financed by income from rent charged to occupants of GSA-controlled space. The FBF is subject to annual Congressional enactment of New Obligational Authority a limitation on the use of revenue.

OMB and GSA officials stated that if GSA were able to spend all of the funds collected by the FBF each year, these funds would generally be sufficient to fund GSA’s needs. GSA, however, in accordance with the President’s goals and priorities has sought less obligational authority than the balance available in the fund. Additionally, Congress, through the appropriations process, has not given GSA the authority to expend all of the funds requested. As funds become available for GSA’s use, GSA will prioritize requests and allocate funding in alignment with capital planning needs.

Technical comments that update and clarify statements in the draft report are enclosed.

If you have any additional questions or concerns, please do not hesitate to contact me or Ms. Linda Chero, Acting Commissioner, Public Buildings Service, at (202) 501-1100. Staff inquiries may be directed to Ms. Martha Benson, Assistant Commissioner for Real Property Asset Management at, (202) 208-7176.

Sincerely,

Dan Tangherlini
Acting Administrator

Enclosure

cc: Mark Goldstein, Director, Physical Infrastructure Issues
Appendix II: Comments from the U.S. General Services Administration

Federal Buildings Fund – Improved Transparency and Long-term Plan Needed to Clarify Capital Funding Priorities
GAO-12-646 – Dated June XX, 2012
General Services Administration
Comments to the Recommendations

Recommendation 1: GAO recommends that GSA documents in its annual budget request to OMB how GSA uses its ranking and prioritization criteria to generate its annual and 5 year lists of prioritized projects to ensure that Congress understands the rationale behind prioritized project lists and that GSA is maximizing return on FBF investments.

GSA Response: GSA agrees with the need for a transparent process for prioritizing projects and has refined weighted prioritization criteria for use in a decision-making software tool that would allow us to more systematically and transparently prioritize projects. GSA will be employing this method during the development of the fiscal year 2014 budget. GSA believes this approach will help to improve the transparency of its capital investment prioritization process to ensure that key stakeholders such as OMB and Congress understand the rationale behind it.

Recommendation 2: GAO recommends that GSA develop and publish a comprehensive five-year capital plan and include a summary of it annually in its budget request to OMB and Congress to help ensure that long-term goals are fully considered when making decisions and to document how GSA would spend needed FBF funds.

GSA Response: GSA agrees with the need to clearly communicate our capital funding needs, and will work with our stakeholders, OMB and Congress in developing and providing a five-year capital plan to include in our budget request.
Appendix III: GAO Contact and Staff Acknowledgments

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