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September 2014

# OVERSEAS REAL PROPERTY

## State Department Needs to Improve Guidance and Records Management

# GAO Highlights

Highlights of [GAO-14-769](#), a report to the Committee on Foreign Affairs, House of Representatives.

## Why GAO Did This Study

The Department of State (State) holds or leases about 70-million square feet of real estate in about 275 posts worldwide and has the authority to construct, acquire, manage, and dispose of real property abroad.

GAO was asked to review State's management of overseas real property. This report examines: (1) what is known about State's overseas real property inventory, and (2) what factors State considers in managing its overseas real property portfolio and to what extent it documents its decision-making process pertaining to real property.

GAO requested 202 files for all acquisitions, disposals, and major leases pertaining to State's management of its real property abroad for the period from 2008-2013. In addition, GAO interviewed State officials in headquarters and at four posts abroad, selected because they had (1) ongoing or recently completed embassy construction or renovation projects without property disposals, (2) properties reported as identified for disposal for multiple years without being disposed, and (3) both owned and leased properties. The results of the four case studies cannot be generalized for the purpose of this review.

## What GAO Recommends

GAO recommends that the Secretary of State (1) clarify accounting code guidance for tracking expenses related to disposal of unneeded properties, and (2) take steps to collect and retain documents related to real property purchases, disposals, and leases in accordance with the *FAM* and OMB's guidance. State concurred with GAO's recommendations.

View [GAO-14-769](#). For more information, contact David J. Wise 202-512-2834 [wised@gao.gov](mailto:wised@gao.gov) or Michael J. Courts at 202-512-8980 or [courtsm@gao.gov](mailto:courtsm@gao.gov)

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## OVERSEAS REAL PROPERTY

### State Department Needs to Improve Guidance and Records Management

## What GAO Found

GAO's analysis of the overseas real property portfolio of the Department of State (State) indicates that the overall inventory has increased in recent years. State reported that its leased properties, which make up about 75 percent of its inventory, increased from approximately 12,000 to 14,000 between 2008 and 2013. State's numbers of federally owned properties increased, but comparing the total number of owned properties from year to year can be misleading because State's method of counting these properties has been evolving over the past several years. Specifically, according to State officials, they have been revising their method for counting properties to produce more precise counts and to meet reporting guidance from the Office of Management and Budget (OMB), among others. For example, State began counting separately structural assets previously included as part of another building's assets, such as guard booths or perimeter walls, and consequently reported approximately 650 additional structural assets in fiscal year 2012 than in 2011, and approximately 900 more structures in 2013.

State officials told GAO that they consider many factors in managing real property; however, GAO found State's available data and documentation on management decisions were limited. State officials said that they work with overseas posts to identify and dispose of unneeded properties, primarily using factors in State's *Foreign Affairs Manual (FAM)* guidance. Such factors include identifying properties deemed obsolete or with excessive maintenance costs. State collects data on costs associated with unneeded properties identified for disposal, relying on posts to charge all such costs to a specific accounting code. The four posts GAO visited did not use this code consistently. For example, officials at one post charged some disposal costs to a routine maintenance account. Officials at the other posts with properties for sale used the code to charge all related disposal costs. GAO also found that other posts with unneeded properties identified for disposal in fiscal year 2013 had not charged expenses to this account. The guidance provided in the *FAM* for using this code does not detail the types of costs that can be charged. This omission raises questions about the extent to which posts use the code as State intends and the extent to which State receives accurate and comprehensive cost information about its unneeded properties. State, without accurate data on unneeded property, may not have the information it needs to make a decision about property offers when attempting to maximize revenue for property sales. Also, posts may not have sufficient funding for routine property maintenance if they use funds designated for this type of maintenance on unneeded property. GAO requested to review 202 files between fiscal year 2008 through 2013 on acquisitions (72), disposals (94), and leases (36), but was provided 90, as State told GAO that these files were not centrally located and too time consuming to find and provide during the time frame of our review. State provided most of what it considers "core" documents for the acquisition and disposal files, but these documents do not constitute all of the documentation listed in the *FAM* and OMB guidance. In addition, although State provided all 36 of the requested lease files, some documentation that State agreed to provide was missing for 30 of the 36 files. Without the missing files and documentation, it is unclear how efficiently and effectively State is managing its overseas real property.

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## Abbreviations

ACT	Foreign Buildings Act
CSCS	Capital Security Cost Sharing
DOD	Department of Defense
<i>FAM</i>	<i>Foreign Affairs Manual</i>
FRPP	Federal Real Property Profile
IG	Inspector General
NEC	new embassy compound
OBO	Bureau of Overseas Buildings Operations
OMB	Office of Management and Budget
STATE	U.S. Department of State

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September 25, 2014

The Honorable Edward R. Royce  
Chairman  
The Honorable Eliot L. Engel  
Ranking Member  
Committee on Foreign Affairs  
House of Representatives

The U.S. government, through the U.S. Department of State (State), owns or leases approximately 70-million square feet of real estate in approximately 275 posts worldwide. These properties include embassies, consulates, office space, warehouses, and housing for U.S. diplomatic staff. In addition, State currently has \$7.5 billion in projects to design and construct new facilities. This new construction will gradually replace vulnerable embassy facilities around the world. It may also result in potential revenue from the disposal of property vacated as personnel move into newly constructed facilities and savings as leases expire or State terminates unneeded leases. State is authorized to retain and reinvest the proceeds from foreign property disposals into United States government property acquisitions or other authorized purposes.

In our previous reports on State's real property, we have found problems such as inaccuracies with its real-property inventory database, problems that hindered State's ability to identify and dispose of properties that were unneeded or expensive to maintain, and that could produce millions of dollars in revenue for the U.S. government.<sup>1</sup> By implementing recommendations made in our 2002 report, State identified and sold unneeded properties resulting in nearly \$756 million in proceeds.<sup>2</sup> Furthermore, we have identified real property as high risk government-

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<sup>1</sup> GAO, *State Department: Sale of Unneeded Overseas Property Has Increased, but Further Improvements are Necessary*, [GAO-02-590](#) (Washington D.C.: June 11, 2002), and *Overseas Real Estate: Millions of Dollars Could Be Generated by Selling Unneeded Real Estate*, [GAO/NSIAD-96-36](#) (Washington D.C.: Apr. 23, 1996).

<sup>2</sup> For the purposes of this report, we use the term "unneeded" property to encompass the terms "excess, underutilized, surplus, and obsolete" property. In our 2002 report ([GAO-02-590](#)), we recommended that the Secretary of State take action to improve the accuracy of the real property inventory in order to improve State's ability to identify properties that may be available for disposal.

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wide, and since State has an expansive construction program, it is important that it manage its real property in ways to ensure efficient use of resources.<sup>3</sup> Given this importance, you asked us to review State's management of real property. Specifically, in this report we examine: 1) what is known about State's overseas real-property inventory, and 2) what factors State considers in managing its overseas real-property portfolio and to what extent it documents its decision-making process.

We took several steps to address these objectives. Specifically, to understand what is known about State's real property portfolio and how State reports real property data, we obtained and reviewed State's Federal Real Property Profile (FRPP) data from fiscal years 2008 through 2013, which State reports to the General Services Administration yearly. Additionally, we reviewed State's real property reports to Congress and compared these reports with State's annual FRPP submissions to determine differences in reported real property between these reports. We determined that FRPP data were sufficiently reliable for the purpose of reporting approximate numbers of properties in State's portfolio, by interviewing knowledgeable Bureau of Overseas Buildings Operations (OBO) and post officials about data quality-assurance procedures and reviewing related documentation, including previous State Inspector General (IG) reports, our prior work, data dictionaries and user manuals, and data verification practices. We also reviewed State's internal report on costs associated with properties identified for disposal to determine costs for unneeded properties that State is selling and found that the data had limitations, which we discuss later in this report.

To determine the extent to which State documents its decision-making process, we requested documentation from State's real property disposals, acquisitions, and leases from fiscal years 2008 through 2013. Specifically, we requested files on 202 properties. This request included all 94 property disposals reported to Congress during this period, of which State provided 20. We requested files on all 72 property acquisitions that State reported to Congress during this period, of which State provided 34.<sup>4</sup> We also requested, and were provided, all 36 major leases with

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<sup>3</sup> GAO, High-Risk Series An Update, [GAO-13-283](#) (Washington D.C.: February 2013).

<sup>4</sup> An acquisition or disposal reported to Congress may include multiple properties. For example, State, in fiscal year 2010, acquired a housing compound of 60 units in Nairobi that was reported to Congress as one property acquisition.

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\$500,000 or more in annual rent, as defined in State's *Foreign Affairs Manual (FAM)* that were active from fiscal years 2008 through 2013 and still were listed as active in FRPP at the end of fiscal year 2013.<sup>5</sup> We compared State's documentation of the disposals, acquisitions, and leases to the documentation specifications in *FAM* and Office of Management and Budget (OMB) circulars. Also, we obtained information on how State reinvested revenue generated from property disposals between fiscal years 2008 through 2013. We reviewed this information and determined that it was sufficiently reliable for our purposes by interviewing knowledgeable officials and corroborating the data with information reported to Congress.

To gather information on factors State considers in managing its real property portfolio, we interviewed State Department officials at OBO and at four selected posts (Belgrade, Serbia; Helsinki, Finland; London, United Kingdom; and Sarajevo, Bosnia and Herzegovina). We selected these posts because they had (1) ongoing or recently completed embassy construction or renovation projects without disposing of properties, (2) properties reported as identified for disposal for multiple years without being disposed of, and (3) a mix of owned and leased properties. We based our site-visit selection on these factors in order to observe posts with (1) higher numbers of property disposals than other posts due to recently completed or ongoing construction of new embassies, (2) persistent challenges in selling unneeded properties, and (3) experience managing both owned and leased properties. The results of the case studies provide insight into State's management and decision-making practices but cannot be generalized for the purposes of this review.

We conducted this performance audit from June 2013 to September 2014 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.

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<sup>5</sup> U.S. Department of State, *Foreign Affairs Manual: Leased Space Abroad*, 15 FAM 311 (Apr. 21, 2014). Under the *FAM*, annual rent is one of several ways a lease can be categorized as a major lease.

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## Background

State has authority to acquire, manage, and dispose of real property abroad. Specifically, the Foreign Buildings Act (Act) of 1926, as amended, authorizes the Secretary of State to acquire by purchase, construction, exchange, or lease sites and buildings in foreign cities for use by diplomatic and consular establishments of the United States.<sup>6</sup> The Act allows State to alter, repair, furnish, and dispose of these properties, and to provide residential and office space and necessary related facilities to federal agencies abroad. It also authorizes the Secretary to apply disposal proceeds toward real property needs or to deposit proceeds into the Foreign Service Buildings Fund and use the proceeds for authorized purposes.

OBO manages State's real property abroad to support U.S. government presence at embassies and consulates, which are also known as missions or posts. This office is responsible for managing U.S. government-owned and government-leased real property, which includes land, structures, and buildings such as embassies, warehouses, offices, and residences. OBO coordinates directly with officials at posts tasked with managing the post's real property. Posts are responsible for implementing OBO policies related to the management, acquisition, disposal, and reporting of real property, outlined in State's *FAM*. Table 1 below provides an overview of OBO's and the posts' roles and responsibilities for real property management.

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<sup>6</sup> 22 U.S.C. §§ 291-303. For the purposes of this report, we identify real property purchases as acquisitions, and we identify current leases and lease acquisitions as leases.



**Table 1: Department of State Overseas Real Property Management Roles and Responsibilities**

Activity	Responsibilities	
	Overseas Buildings Operations (OBO)	Overseas posts
Acquisitions	Identify markets with high returns on investment and work with posts to select properties to acquire; obtain independent fair market value appraisal(s), and hire brokers, if needed to assist.	Prepare and submit acquisition proposal to OBO; select legal expert and surveyor for title investigation, survey, pre-and post-purchase certifications.
Disposals	Approve or deny disposal requests from posts; obtain two independent appraisal(s); hire brokers to market properties.	Review owned and capital lease properties annually to identify and report to OBO any properties that are unneeded, underutilized, or uneconomical to retain; submit disposal request to OBO.
Leasing	Set leasing-cost targets for posts and review waiver requests for leases that exceed size and/or cost standards. Obtain an independent appraisal on functional leases with annual rents exceeding \$250,000, residential leases with annual rents exceeding \$120,000 per year, and all designated residences meeting certain criteria.	Identify potential residential properties for lease, contact landlord, and negotiate lease terms according to guidance and lease template provided in Foreign Affairs Manual.
Reporting	Input information on owned and capital lease properties into State's real property database. Prepare and submit State's annual Federal Real Property Profile report to the General Services Administration. Submit real property reports to Congress.	Input information about operating leases into State's real property database. The Chief of Mission at each post verifies the accuracy of all reported data in annual statement to OBO.

Source: GAO summary of Department of State Foreign Affairs Manual and additional information provided by State. | GAO-14-769

In 2004, the administration added managing federal real property to the President's Management Agenda and the President issued an executive order directing executive agencies to submit real property information annually for inclusion in a single, comprehensive database, which is now known as the Federal Real Property Profile (FRPP) that provides an annual report on the government's real property holdings.<sup>7</sup>

State is currently undertaking a multiyear, multibillion-dollar capital-security construction program to replace 214 of its facilities abroad due to security concerns. State is taking these steps due to continuing threats and incidences such as the terrorist bombings in 1998 of embassies in Dar es Salaam, Tanzania, and Nairobi, Kenya, that killed more than 220 people and injured 4,000 others. The program incorporates the requirements of the Secure Embassy Counterterrorism Act of 1999 and instructs State to replace facilities at vulnerable posts and to require that

<sup>7</sup> Federal Real Property Asset Management, Executive Order No. 13327, 69 Fed. Reg. 5897 (Feb. 6, 2004).

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all new diplomatic facilities be sufficiently sized to ensure that all U.S. government personnel at the post work onsite.<sup>8</sup> Construction projects are prioritized by State's annual risk matrix that ranks facilities based on their vulnerability across a wide range of security threats. In 2004, to aid in the construction of new embassies, a related program, the Capital Security Cost Sharing (CSCS) program was authorized, which required agencies with personnel overseas to provide funding for the construction of new, secure, and safe diplomatic facilities for U.S. government personnel overseas.<sup>9</sup> State expects funding of \$2.2 billion per year over a 5 year period through fiscal year 2018 to carry out new construction projects.

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## State's Overseas Real Property Inventory Has Increased, but Data Do not Allow for Comparisons across Years

Our analysis of State's real property portfolio indicated that the overall inventory has increased. State reported its leased properties, which make up approximately 75 percent of the inventory, increased from approximately 12,000 to 14,000 between 2008 and 2013.<sup>10</sup> However, comparing the total number of owned properties between years can be misleading because State's method of counting these properties has been evolving over the past several years. OBO officials explained that in response to changes in OMB's and FRPP's reporting guidance, they have made efforts to count properties more precisely. For example, OBO has focused on separately capturing structural assets previously recorded as part of another building asset, such as perimeter walls, guard booths, and other ancillary structures. As a result of this effort, State recorded approximately 650 additional structural assets in its fiscal year 2012 FRPP report and approximately 900 more structures the following year in its fiscal year 2013 FRPP report, according to OBO officials. Additionally, OBO officials told us that former Department of Defense (DOD) properties in Iraq and Afghanistan were transferred to State; the largest of these transfers occurred in 2012 when State assumed responsibility from DOD for approximately 400 properties in Iraq. State reported additional changes in its real property portfolio, which are described below.

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<sup>8</sup> Pub. L. No. 106-113, Div. B, tit. VI (1999). State elaborates on these requirements in the U.S. Department of State *Foreign Affairs Handbook*, 12 FAH-5.

<sup>9</sup> Consolidated Appropriations Act, 2005, Pub. L. No. 108-447, Div. B, tit. VI, § 629 (2004).

<sup>10</sup> According to OBO officials, reasons for leasing a large percentage of State's property include a large increase in overseas staffing, which translates directly into more leased housing; host country restrictions on owning properties; limited funding for purchasing properties; and the need for flexibility to respond to staffing changes at posts.

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*Acquisitions:* State reported spending more than \$600 million to acquire nearly 300 properties from fiscal year 2008 through 2013 (see fig.1).<sup>11</sup> State uses two sources of funding to acquire real property. It acquires land for building new embassy compounds (NEC) with funding from the CSCS program. It acquires residences, offices, and other functional facilities with proceeds from the disposal of unneeded property. In fiscal years 2008 through 2013, State reported spending approximately \$400 million of these disposal proceeds to acquire approximately 230 properties.

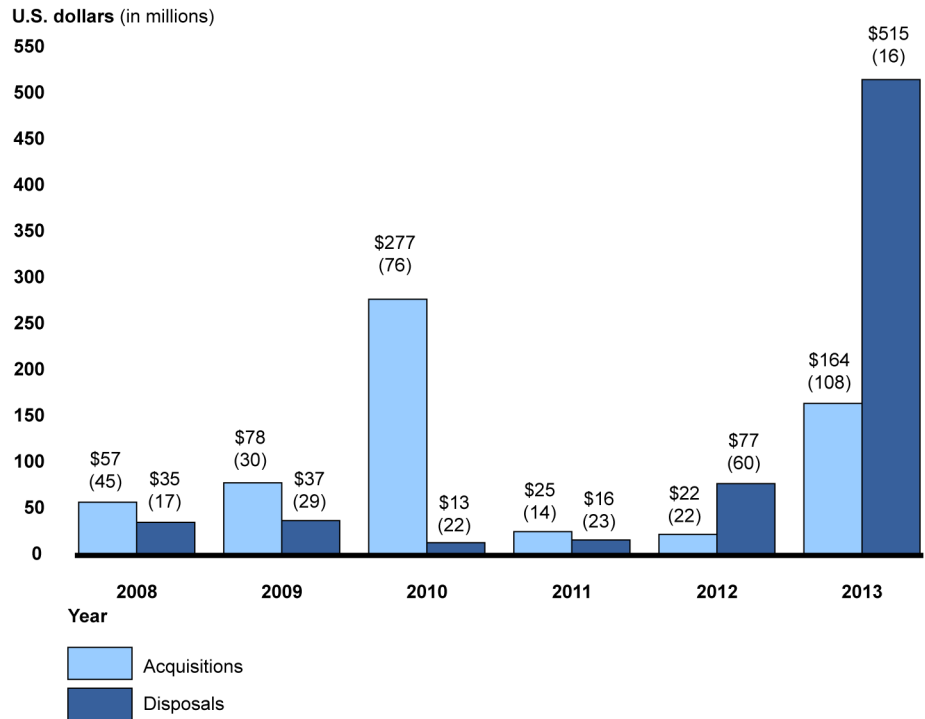
*Disposals:* From fiscal years 2008 through 2013, State reported selling approximately 170 properties. In doing so, it received approximately \$695 million in proceeds (see fig.1). According to State, property vacated when personnel move into newly constructed facilities is the largest source of property that can be disposed of. When State completes construction of a NEC, personnel previously working in different facilities at multiple locations are then colocated into the same NEC, a move that provides State an opportunity to dispose of its former facilities. Further information on State's acquisitions and disposals from fiscal year 2008 through 2013, can be found in figures 1 and 2 below.

*Leases:* The majority of State's leased properties are residences. State reported spending approximately \$500 million on leases in 2013 and projects a potential increase to approximately \$550 million by 2016 as growing populations in urban centers around the world push rental costs higher and the U.S. government's overseas presence increases.

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<sup>11</sup> As directed by the conference report accompanying the Consolidated Appropriations Act, 1997, State reports its real property acquisitions and sales to Congress quarterly. H.R. Conf. Rep. No. 104-863 (1996). We used these reports to determine acquisitions and sales between fiscal year 2008 to 2013.

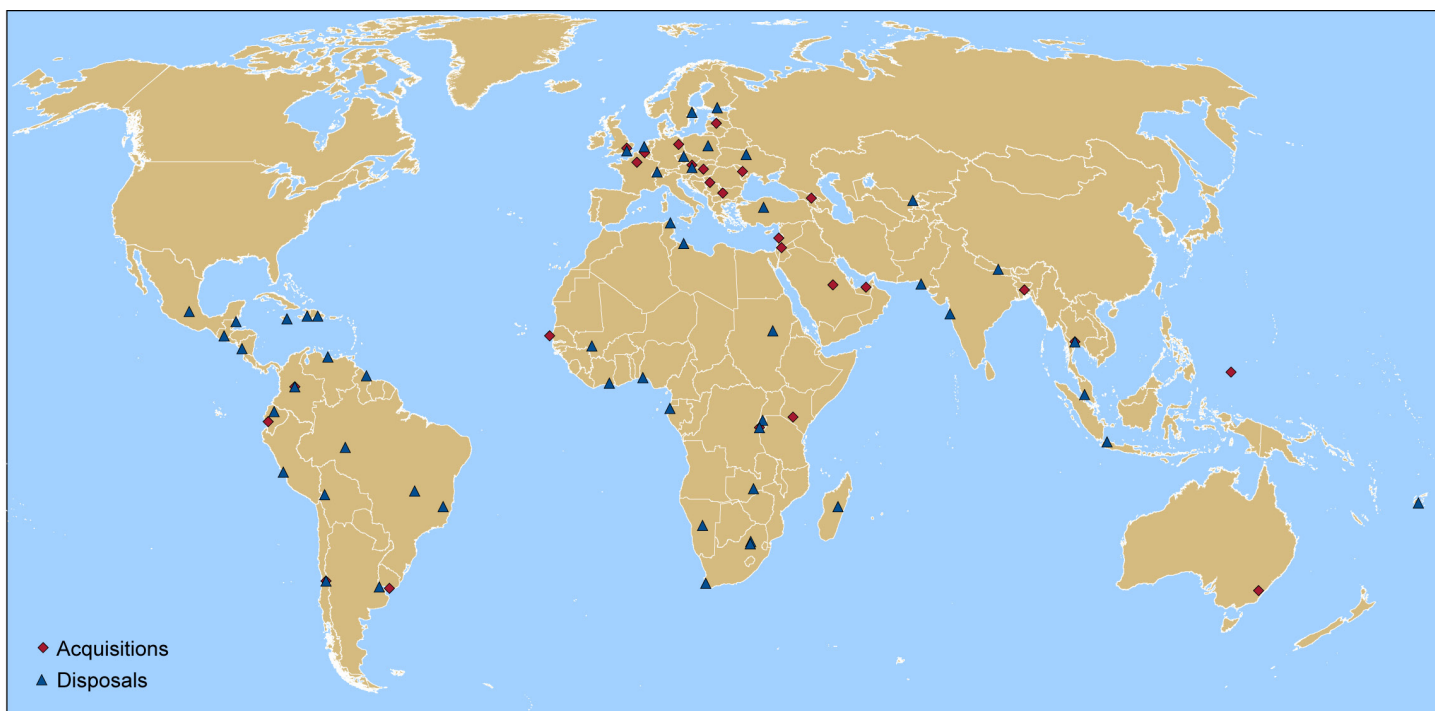
**Figure 1: Department of State Overseas Real Property Acquisitions and Disposals, Fiscal Years 2008 through 2013**



Source: GAO analysis of Department of State information. | GAO-14-769

Notes: The numbers of properties are in parentheses. Dollars are not adjusted for inflation. The relatively large increases in acquisitions in fiscal years 2010 and 2013 are due to the acquisition of land for a new London embassy (\$183 million) in 2010 and an office building in Paris (\$55 million) in 2013. The increase in fiscal year 2013 disposals is due to the sale of the current London embassy (\$437 million). The new London embassy is currently under construction with completion expected in 2017.

**Figure 2: Map of Department of State Acquisitions and Disposals, Fiscal Years 2008 through 2013**



Source: GAO analysis of Department of State information. | GAO-14-769

Note: This map illustrates acquisitions and disposals reported in the Department of State's asset management account.

OBO provides guidance to posts for disposing of unneeded properties as the post prepares to move into a NEC. In Belgrade, OBO is working with the post to sell an old embassy that is no longer needed following the completion of Belgrade's NEC. Post officials told us that relocating to the NEC in April 2013 allowed them to market their old embassy and terminate multiple leases. In London, State sold its existing embassy building in August 2013 to fund the construction of a NEC. State is leasing the existing building until construction of the NEC is completed, which is expected in 2017.

NEC construction has also provided State the opportunity to sell residential properties that are not located near the new embassies under construction. For example, according to post officials in London, transitioning to the NEC in London allowed State to make cost effective changes in its residential property portfolio by selling valuable older

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properties near the current embassy and purchasing newer lower cost residences near the NEC.

State reports these types of real property transactions to Congress quarterly. Also, as required, State submits annual reports to Congress listing surplus overseas properties that have been identified for sale.<sup>12</sup> For example, our analysis found that State listed 39 properties that it identified for disposal in its fiscal year 2013 annual report to Congress. Some properties identified as unneeded in State's fiscal year 2013 FRPP report were not included in the 2013 annual report to Congress, such as a former embassy in Tashkent, Uzbekistan; land in New Delhi, India, and Manila, Philippines; and various properties in Beijing, China. According to OBO officials, the annual reports to Congress do not include unneeded properties they expect to retain or have determined they cannot sell for various reasons, such as host government restrictions related to diplomatic or political differences. For example, according to a State IG report, after State refused to pay what it considered an illegal tax to support the Brazilian social security system in 1996, the government of Brazil blocked the disposal of all U.S. diplomatic properties in the country.<sup>13</sup> OBO officials told us that they do not report unneeded properties that cannot be sold because the Congressional reporting requirement is to list surplus properties that have been identified for sale.

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<sup>12</sup> 22 U.S.C. § 303.

<sup>13</sup> United States Department of State, Office of Inspector General, *and Report of Inspection: Embassy Brasilia and Constituent Posts, Brazil*, ISP-I-08-15A (Washington D.C.: March 2008).

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## State Officials Said That They Consider Many Factors in Managing Their Overseas Real Property, but Data and Documentation Are Limited

State's officials said that they consider many factors in managing their real property portfolio, specifically in terms of identifying and disposing of unneeded property, as well as in purchasing and leasing property. The officials also described challenges associated with each of those aspects of managing the real property portfolio. State collects data on costs associated with properties identified for disposal to track costs, but we found that posts did not use the required code to track these costs consistently. As a result, this raises questions about the extent to which posts worldwide are using the code as State intends, and the extent to which State is receiving accurate and comprehensive cost information about its properties. We requested to review 202 files from fiscal year 2008 through 2013 on acquisitions, disposals, and leases, but were only provided 90 files since, according to State officials, the files were not centrally located and too time consuming to find and provide within the time frame of our review. State was able to provide most of the "core" documents agreed to, although some of the documentation was missing for the 90 files provided. For example, State provided all 36 of the requested lease files, but some documentation that *FAM* and OMB directs State to retain, and that State agreed to provide, was missing for 30 of the 36 lease files provided.

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## State Considers Various Factors in Identifying Unneeded Property, but Faces Challenges in Disposing of Properties

OBO officials told us that they work with posts to identify and dispose of unneeded properties primarily using factors outlined in *FAM*, along with other strategies. *FAM* lists 18 factors that OBO and posts might consider when identifying and disposing of property (see table 2), such as whether (1) the property has excessive operating costs, (2) State used the property only irregularly, or (3) the property is uneconomical to retain. Officials at two of the four posts we visited told us that they were aware of and use the guidelines to identify unneeded property.<sup>14</sup> Officials at a third post that owned property was unaware of the guidelines, but told us they used excessive maintenance costs to identify properties for disposal. Excessive maintenance cost is one of the 18 listed factors in *FAM*. OBO also uses other strategies to help identify unneeded property, such as: (1) reviewing the Department's internal property database to identify properties newly classified by posts as unneeded, (2) monitoring new construction to identify property vacated as personnel move to new

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<sup>14</sup> The Sarajevo post does not own any property other than its embassy compound so the guidance for identifying unneeded property does not directly apply to it.

facilities, (3) reviewing reports of State's (IG) for recommendations on disposals, and (4) evaluating changing political conditions and evolving post conditions to help right-size a post's real estate portfolio.

**Table 2: Guidance in Department of State's Foreign Affairs Manual on 18 Factors Posts Will Consider in Identifying Unneeded Real Property**

1.	Is the property wholly or partly excess to needs? If so, could it be sold, licensed, leased, or exchanged for more useful property?
2.	Is the property uneconomical to retain? If so, could it be sold or exchanged for a more suitable property with lower maintenance and operating costs, at a price roughly equivalent to the value of the present property? Could it be leased or licensed, and other property acquired to meet post needs?
3.	Is the property being put to optimum use?
4.	Is the property used only irregularly for program purposes? Would a portion of the property satisfy program needs?
5.	Have local conditions changed significantly since the property was acquired, thereby affecting the surrounding neighborhood, transportation facilities, convenience to users, zoning, and other environmental factors, including local development plans?
6.	Can continued U.S. Government ownership of the property be justified in light of its current use?
7.	Are operating and maintenance costs excessive?
8.	Is the property functionally obsolete or has it physically deteriorated beyond economical repair?
9.	Will program changes alter post property requirements?
10.	If a portion of the property is disposed of, will the remaining portion still comply with zoning requirements?
11.	Considering property prices or rentals, moving costs, preparation of the new space, occupancy costs, and increased operational efficiency: Can the U.S. Government realize net savings by relocating?
12.	Is a portion of any property being retained primarily because the present boundaries are marked by the existence of fences, hedges, roads, or utilities?
13.	Is land being retained only because it is landlocked?
14.	Is there land that can be made available for use by others, within or outside the U.S. Government, on a temporary lease or license basis?
15.	Are there security, political, or public relations considerations that outweigh the foregoing guidelines?
16.	What effect does the availability of alternative facilities, if required, have on the foregoing <i>guidelines</i> ?
17.	Are there any restrictions on the use or expatriation of proceeds of sale under local law?
18.	Does the building meet fire and life safety codes and standards?

Source: Department of State, Foreign Affairs Manual (FAM), 15 FAM Exhibit 512.1. | GAO-14-769

Once posts identify and OBO approves a property as unneeded, OBO takes the lead in disposing of the property. For example, OBO sold residences in London in fiscal year 2012 and an embassy in fiscal year 2013 (see fig.3), and the Department received approximately \$497 million in proceeds that State is using to design and build the new London



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embassy and to obtain replacement residences closer to the new embassy (see fig.4).<sup>15</sup> OBO also sold a residence in Helsinki in fiscal year 2011 and received approximately \$657,000 that was deposited back into its asset management account for other real property needs worldwide.

**Figure 3: Current London Embassy**



Source: Elizabeth Gill Lui. | GAO-14-769

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<sup>15</sup> These proceeds were reinvested within the same post by special arrangement. The Consolidated Appropriations Act, 2012 provided a limitation on the use of funds, other than funds from real property sales located in London, for the site acquisition and mitigation, planning, design, or construction of the new London embassy. Pub. L. No. 112-74, Div. I, tit. VII, § 7004(f)(1), 125 Stat. 786, 1194 (2011). The Consolidated Appropriations Act, 2014 stated that this limitation would remain in effect during fiscal year 2014. Pub. L. No. 113-76, Div. K, tit. VII, § 7004(e)(1), 128 Stat. 5, 492 (2014).

**Figure 4: Construction Site and Artist Rendering of Future London Embassy**



Source: State Department (Photo). © KieranTimberlake (Artist rendering). | GAO-14-769

OBO officials acknowledged challenges with disposing of unneeded properties. These challenges included: the condition and location of facilities, changing missions in countries, and diplomatic reasons or political situations that require State to retain property previously marked as unneeded. For example, unneeded residential units can be in poor condition, which makes selling them challenging. Also, officials told us that the State's primary mission of diplomacy overrides property disposal. In countries such as Mexico, Brazil, and India, policy changes with the diplomatic mission have led to retaining property previously marked as unneeded. For example, in Ciudad Juarez, Mexico, a new consulate was built; however, State retained property to accommodate and expand their mission.

Officials at the posts we visited also described some past and recurring challenges to disposing of unneeded real property:

Officials at the Helsinki and Sarajevo posts told us that differing opinions between OBO and posts about whether to dispose or retain unneeded property presented challenges. For example, officials in Helsinki told us they wanted to dispose of two unneeded residential properties in 2014 because of excessive maintenance costs and a longer commuting time due to the need to take mass transit because parking space was eliminated at the renovated embassy (see fig. 5). However, OBO officials told the post to retain and assign staff to the two properties for an additional 3 years. OBO believed that marketing the two properties, located next to two additional unneeded properties they had been attempting to sell since 2011, would possibly depress the disposal price if

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all the properties were marketed at the same time. However, post officials believe it will cost the post and State more in maintenance costs to bring the properties to a state of good repair, and believe selling the properties now would be more financially beneficial than retaining the properties for an additional 3 years as the costs to maintain the property would outweigh the potential for increased proceeds.

**Figure 5: Unneeded Residential Properties in Helsinki**



Source: GAO. | GAO-14-769

OBO officials told us that they conduct an internal review to determine the financial benefit of whether to retain or sell properties in these situations as the agency attempts to maximize the disposal value of property. Officials at the Sarajevo post told us that they have had ongoing discussions with OBO about retaining their old embassy and converting it to a new Ambassador's residence. Post officials told us that OBO originally wanted the post to dispose of its interest in the embassy—which State has been leasing for only \$1 per year since 1994 with the option to continue the lease at this rate for 150 years. OBO officials told us that, at this below-market lease rate of \$1 per year, they anticipated that the disposal of this leasehold interest could generate proceeds for State. However, OBO and post officials told us that the host government denied the Department's request to transfer the lease to a third party. Given the Department's inability to transfer or sell its interest in the property, OBO and the post reached an agreement to retain the embassy and convert it into an Ambassador's residence. When the conversion is complete the post will terminate the lease for its current Ambassador's residence, which has an annual lease cost of \$144,000.

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- Officials at the Helsinki and Belgrade posts told us that OBO's process for appraising and marketing properties for sale was a challenge in disposing properties in a timely manner. Specifically, the post officials thought OBO's real estate firm's appraisals were too high and made the properties unsellable. OBO acknowledged that ensuring an accurate appraisal price presents challenges and therefore, it also reviews appraisals internally. Also, post officials in Helsinki and Belgrade told us that the global real estate firms OBO hired to market their properties did not have local offices, and thus may have not fully understood the local real estate market. For example, Belgrade post officials told us that an affiliate office in Hungary was marketing their old embassy, and that a Hungarian phone number was the primary number used to market the property, which they believe made selling the property more challenging (see fig. 6).<sup>16</sup> OBO officials told us that they believe the global firms they contract with are more experienced than many local firms.
  - Officials at the Belgrade post told us about zoning challenges with the host government that have delayed the disposal of their old embassy. They told us OBO notified the post that it would sell the old embassy once the new embassy had been built. However, post officials told us they have had to resolve zoning issues with the host government before the embassy could be sold. OBO officials told us that the old embassy was zoned for diplomatic use and that the process to change the zoning to mixed-use is under way. OBO and post officials have worked with the host government, and post officials believe the decision to zone the property for commercial and residential use will increase the disposal price of the property.

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<sup>16</sup> Since the time of our visit, OBO officials told us that the firm marketing the Belgrade embassy was terminated, and they are in the process of selecting a new firm.



**Figure 6: Former Belgrade Embassy**



Source: GAO. | GAO-14-769

## State Uses Data on Property Disposal Costs in Managing Real Property, but Data May Be Incomplete

OBO collects data on costs associated with unneeded properties identified for disposal to track costs associated with properties before their disposal, but the data do not specify costs associated with individual properties.<sup>17</sup> Once OBO approves a property as unneeded, each post should charge a specific internal accounting code designated for property acquisition and disposal costs. OBO officials told us that each post is required to charge costs for property to this code so OBO can track the costs to maintain the property before the property is disposed by State. For example, these types of costs would include utilities, legal fees, and security services. Posts charged approximately \$11.1 million to this code from fiscal year 2008 through 2013, according to the data provided by OBO.

<sup>17</sup> GAO has found that agencies have difficulty in reporting annual operating costs at the building level. GAO, *Federal Real Property: National Strategy and Better Data Needed to Improve Management of Excess and Underutilized Property* [GAO-12-645](#) (Washington D.C.: June 20, 2012).

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We found that the four posts we visited did not use this code consistently. State's *Foreign Affairs Handbook* instructs posts to use the code to record costs related to the disposal of unneeded real property, but does not describe in detail the types of costs that can be charged to this account.<sup>18</sup> Specifically, the *Foreign Affairs Handbook* includes the following information on this accounting code: "7541 Real Estate-Program Costs: Costs in support of the acquisition and disposal of State real property." OBO officials told us costs for unneeded properties that should be charged to this code include disposal costs for government-owned buildings, such as guard, maintenance, utility, and other building operating costs of vacant/unneeded property until sold. Although State relies on this account to monitor costs associated with disposal of unneeded properties, on our site visits we found that officials at one post did not know they could use this account for costs related to properties identified for disposal, such as utility bills and condominium fees while marketing the property. This post charged these costs to its routine maintenance account not intended for unneeded properties. Post officials thought the code for unneeded properties was used to process the disposal, and not for ongoing costs related to the property while the property was being marketed for disposal. Officials at the other two posts we visited that had unneeded property for disposal used the code to charge all of their related costs while they marketed the property for disposal.<sup>19</sup> We found posts in other countries with unneeded properties identified for disposal in fiscal year 2013 had not charged expenses to this account during that fiscal year such as posts in Jamaica, Ukraine, Tunisia, and Namibia.

OMB's capital-planning guidance states that reliable data are critical to managing assets effectively.<sup>20</sup> According to this guidance, only valid, complete, relevant, reliable, and timely data can help the agency make informed decisions regarding the allocation of resources. Additionally, government-wide internal control standards state that pertinent financial and operating information should be recorded and communicated to

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<sup>18</sup> U.S. Department of State, *Foreign Affairs Handbook*, 4 FAH-1 H-510 and 4 FAH-1 H-520, 120.

<sup>19</sup> Three of the four posts we visited had properties for disposal. Sarajevo did not have any properties for disposal.

<sup>20</sup> Office of Management and Budget, *Management's Responsibility for Internal Controls*, OMB Circular A-123, (Washington D.C.: September 21, 2004).

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management and others within a time frame that enables them to carry out their internal control and other responsibilities.<sup>21</sup> State will be unable to capture and maintain complete and accurate information on the operating costs for properties identified for disposal if posts do not consistently charge costs related to these properties to the designated account. This raises questions about the extent to which posts worldwide are using the code as State intends and the extent to which State is receiving accurate and comprehensive cost information about its properties. For example, State may not have the information it needs to make a decision to accept or decline an offer for a property when attempting to maximize revenue for a property disposal. In addition, posts may not have sufficient funding for routine property maintenance because they are using their designated routine maintenance funds on unneeded properties, which could reduce the amount of funding they have available for maintenance of other properties. This could impact the upkeep of posts' current real-property portfolio and increase the amount for deferred maintenance. We have previously reported that deferring maintenance and repair can reduce the overall life of federal facilities, lead to higher cost in the long term, and pose risks to safety and agencies' missions.<sup>22</sup>

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### State Is Attempting to Reduce Its Reliance on Leased Space and Related Costs but Faces Challenges

OBO officials said that they would like to reduce the number of leased properties in State's portfolio and increase federally owned property. OBO officials told us that owning more housing will save on aspects of lease costs, such as exchange-rate fluctuations, rapid inflation, and rising property rents. The officials added that currently 15 percent of State's residential properties are federally owned, but officials would like to eventually increase this number to 40 percent. They told us that based on the average cost of a property's acquisition, along with expected reinvestment of disposal proceeds on a yearly basis; it will take about 50 years to reach this ownership target. Officials believe it is not cost effective or feasible to own 100 percent of properties due to the inability to own properties in some countries, high maintenance costs of owning properties in some countries, and the lack of flexibility in dealing with

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<sup>21</sup> GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21](#).3.1 (Washington D.C.: November 1, 1999).

<sup>22</sup> GAO, *Federal Real Property: Improved Transparency Could Help Efforts to Manage Agencies' Repair and Maintenance Backlogs*, [GAO-14-188](#) (Washington D.C.: January 23, 2014).

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staffing changes. OBO officials told us that they consider the unique facts and circumstances of each country when deciding whether to lease or acquire properties. We have previously reported on the federal government's over-reliance on leasing, which could be more expensive in the long term than the cost to acquire property.<sup>23</sup>

State relies on its Opportunity Purchase Program to fund real property acquisitions, and to reduce its need to lease space. The Opportunity Purchase Program reinvests proceeds from property disposals to acquire real properties other than new embassy construction. According to OBO officials, the program allows State to acquire properties in order to avoid costs because State officials conduct a lease-versus-purchase analysis to measure savings from owning rather than leasing over an expected time frame they plan to retain a property. OBO officials told us that over the last several years the program has generated investment returns from its acquisitions that typically range from 7 percent to 10 percent. As funding from disposals becomes available, OBO reviews attractive purchasing markets and security needs at the approximately 275 posts and narrows down purchasing opportunities to 12 to 15 posts. OBO officials told us they notify the post that they have been selected for the program, and the post provides acquisition opportunities for OBO to review. OBO officials told us that disposals are unpredictable to forecast on an annual basis, making planning and funding for these acquisitions difficult. The Belgrade post is an example of where State has employed the Opportunity Purchase Program. State acquired four residential units in Belgrade for approximately \$2.1 million in fiscal year 2013 (see fig. 7). According to OBO, from fiscal year 2006 through 2013, the Opportunity Purchase Program has produced approximately \$16 million annually in lease cost avoidance and will provide another projected \$6 million in lease cost avoidance once all pending acquisitions are completed.

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<sup>23</sup> GAO, *Federal Real Property: Greater Transparency and Strategic Focus Needed for High-Value GSA Leases*, [GAO-13-744](#) (Washington D.C.: Sept. 19, 2013).



**Figure 7: Residential Property Acquired in Belgrade**



Source: GAO. | GAO-14-769

Post and OBO officials we interviewed echoed similar views on the preference of owning versus leasing based on the real estate market in each post's location. Post and OBO officials told us that the conditions of a specific location, such as the local real estate market and the mission of the post influence the decision to own or lease. For example, post officials in Helsinki told us that properties are costly to acquire and expensive to maintain in the area. They said leasing is a better option because it provides flexibility when staffing changes occur, and the property owners in the area are reliable and responsive. Post officials in Sarajevo told us that because of the instability of the real estate market and possible future changes in embassy staffing, it is more practical to lease residential housing. On the other hand, post officials in Belgrade told us that they would like to own more residential units because of the difficulty in finding quality housing to lease. OBO officials told us they prefer a mix of owned and leased housing to provide a stable housing pool, manage rental costs, and provide flexibility as mission requirements change, and officials seek to acquire housing in markets where they can acquire quality housing and where it is cost effective to own rather than lease.

In addition to acquisitions, OBO and post officials described several steps they have taken to reduce costs associated with leasing:

- OBO reviews its highest cost expiring leases annually to determine if State is obtaining a market rate for these properties and if leases should be renewed or replaced. Officials told us that this review includes 100 of the most costly leases worldwide and is used to assist posts that take the lead in monitoring and securing lease renewals. OBO officials told us that in fiscal year 2014 after this review, they

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determined that 30 percent of leases were prospects for exploring whether rents can be reduced. Under *FAM*, appraisals or other documentation such as a market study or a design review for the acquisition and renewal of major leases are used for each transaction.<sup>24</sup> OBO meets this guidance by providing fair-market rental estimates, market studies, surveys, and legal direction for posts.

- OBO is attempting to maximize the cost effectiveness of its leased portfolio. OBO officials told us they implemented a rental benchmark program in 2007 to help ensure the U.S. government pays the prevailing market rate, and does not overpay for leased housing. Officials told us that 25 posts were involved with the program when it began in 2007 and that it covered 171 posts in 2013.<sup>25</sup> OBO works with posts and contracts with real estate experts to provide rental ceilings for leased residential properties at each post. OBO uses these ceilings to set a cap on the amount a post can spend on leased residential property, and if a post exceeds that cap, OBO must approve a waiver.<sup>26</sup> OBO officials told us that they conduct a quarterly review of the posts to see that they are in compliance and that the program incentivizes posts to stay within their rental ceilings to secure cost-effective leases. Belgrade post officials spoke highly of the program as it has reduced the post's administrative burden in seeking waivers, by providing a more realistic ceiling, which has allowed the post to secure housing in a timelier manner. Also, OBO officials told us that the program has resulted in savings by slowing down the growth of leasing costs.
- Post and OBO officials told us that they proactively renegotiate leases to reduce costs. Officials at all four posts we visited told us that their locally employed staff had established strong working relationships with property owners from years of real estate experience. Post officials told us that the locally employed staff were instrumental in

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<sup>24</sup> 15 FAM 312.

<sup>25</sup> OBO requires all posts, with the exception of posts with fewer than 10 short-term leased residential properties, unaccompanied posts, and posts without an established rental housing market to participate in the rental benchmark program. It is anticipated that 180 posts will come into the rental benchmark program.

<sup>26</sup> According to *FAM* guidance, lease waivers are required for (1) all leased property that exceeds approved rental benchmarks, (2) all housing assignments that exceed the maximum space standards, (3) all residential leases that have an annual rent in excess of \$50,000, (4) non-residential leases, and (5) leases for all designated residences regardless of cost. 15 FAM 321.

negotiating reduced lease costs. For example, one post official told us that the post secured office space for 30 percent below market value, and officials from another post told us that they were in the process of securing a new leased warehouse space that would save \$50,000 to \$80,000 per year due to the expertise of the local staff working at the post. In addition, posts and OBO have successfully renegotiated leases since fiscal year 2011 in St. Petersburg, Russia; Paris, France; La Paz, Bolivia; Budapest, Hungary; and Tokyo, Japan that have produced approximately \$3.5 million in savings. Also, OBO officials told us that in their estimation, the lease waiver program avoided \$43 million in lease costs by working with overseas posts to locate less costly property, renegotiating lease terms, and by rejecting approval of proposed rent increases or higher cost replacement properties.

## State Was Unable to Provide All Documentation on Real Property Transactions

OBO could not provide us all the real property files we requested for acquisitions and disposals between fiscal year 2008 through 2013, except for the files pertaining to leases. Specifically, we requested 202 files which included property disposals, acquisitions, and leases, but OBO stated it was only able to provide 90 of the files because these files were not centrally located and too time consuming to find and provide within the timeframe of our review. OBO agreed to provide us “core” documents for acquisition and disposal files; however some of the documentation was missing in the files we reviewed. In addition, although OBO was able to provide all the lease files requested we found the lease files to be incomplete based on *FAM* and OMB guidance (see Table 3). Without the missing files and documentation, it is unclear how efficiently and effectively State is managing its overseas real property.

**Table 3: Department of State Overseas Real Property Files Requested and Provided Fiscal Years 2008 to 2013**

File type	Number of files requested	Number of files provided
Acquisitions	72	34
Disposals	94	20
Leases	36	36

Source: GAO analysis of Department of State information. | GAO-14-769

*Acquisitions and Disposals:* Under *FAM*, OBO and posts should create and preserve records containing adequate and proper documentation of

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the decisions, procedures, and transactions or operations of the Department and posts.<sup>27</sup> Further, *Standards for Internal Control* in the federal government states that an agency should establish control activities to ensure that the agency completely and accurately records all transactions.<sup>28</sup> These standards explain that control activities include activities such as the creation and maintenance of related records that provide evidence of execution of these activities as well as appropriate documentation. OBO told us that they were unable to provide all of the information for acquisitions and disposals as requested because files were not centrally located, maintained by different groups within State, and too time consuming to find and provide within the time frame of our review.<sup>29</sup> Thus, OBO officials agreed to provide what they considered “core” documents, which were a subset of the documentation we requested based on our analysis of *FAM* and OMB guidance.<sup>30</sup> State was able to provide most of the “core” documents agreed to, although some of the documentation was missing. For example, we found instances of acquisition files missing deeds and disposal files missing deposit slips, which were both core documents State agreed to provide. Furthermore, since we received only core documents, we could not determine whether the work to meet additional *FAM* and OMB guidance was conducted and the records were missing, or if this work was not conducted at all. Without this information, it is unclear whether State is consistently following its internal *FAM* and external OMB guidance, and how State officials made real property decisions. These findings are similar to those of State’s IG which found significant vulnerabilities due to inadequate file

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<sup>27</sup> U.S. Department of State, *Foreign Affairs Manual: Real Property Acquisition Abroad*, 15 FAM 400 (Oct. 31, 2013).

<sup>28</sup> GAO/AIMD-00-21-3-1.

<sup>29</sup> We requested the entire file based on analysis of *FAM* and OMB guidance. State could not provide us with the following requested documentation for all acquisitions and disposals: Acquisitions: (1) need to obtain two independent appraisals and (2) lease versus purchase analysis. Disposals: (1) two independent appraisals, (2) evidence of use of a real estate broker, and (3) evidence on the use of a local legal counsel.

<sup>30</sup> OBO agreed to provide us four types of “core” acquisition documents including: (1) cables authorizing closing, (2) action memo authorizing closing, (3) deed, and (4) a voucher documenting a transfer of funds. OBO agreed to provide five types of “core” disposal documents including: (1) reconciled estimate of value memo, (2) action memo authorizing closing, (3) sales agreement contract, (4) general receipt, and (5) deposit slip.

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documentation that could potentially expose the Department to substantial financial losses.<sup>31</sup>

*Leases:* State was able to provide all 36 of the requested lease files, but some documentation listed in *FAM* and OMB guidance was not in 30 of the 36 of the files we reviewed. For example, State guidance directs OBO to complete documentation for leases such as: a lease agreement and documentation of OBO's approval. Additionally, OMB directs executive branch agencies, such as State, to conduct a lease-versus-purchase analysis when deciding to lease or acquire properties to ensure all leases are justified as preferable to direct U.S. government purchase and ownership.<sup>32</sup> All 36 files contained a lease agreement. However, only 6 of the 36 files contained all of the information that *FAM* directs State to retain and that State agreed to provide. These findings are similar to those of State's IG which found that the Department's process to monitor lease information provided by posts was not always effective. The IG found numerous recorded lease terms that did not agree with supporting documentation.<sup>33</sup> We found that 30 of 36 files lacked either documentation of OBO's approval or a lease-versus-purchase analysis, or both. OBO officials told us they do not conduct a lease versus purchase analysis when purchasing is not an option, such as in cases where there is a lack of sufficient funding or the property is in a country that does not allow non-domestic ownership. According to OBO, 6 of the 36 leases in our review were for space in a country that did not allow non-domestic ownership; however, the files did not include documentation that this was the case. We have previously found that without a lease-versus-purchase analysis, decision makers lack financial information on the long-term decisions to lease rather than own. Also, we have previously found that when this analysis has been conducted in the federal government that such analysis has identified savings from owning versus leasing.<sup>34</sup>

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<sup>31</sup> United States Department of State and Broadcasting Board of Governors, *Office of Inspector General, Management Alert (Contract File Deficiencies)*, MAA-0002, (Washington D.C.: Mar. 20, 2014).

<sup>32</sup> Office of Management and Budget, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, OMB Circular No. A-94 Revised (Oct. 29, 1992).

<sup>33</sup> Kearney and Company, *Independent Auditors Report, AUD-FM-14-10*, (Alexandria, VA: Dec. 12, 2013).

<sup>34</sup> [GAO-13-744](#).

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## Conclusions

State manages a multibillion dollar portfolio of buildings, land, and structures at approximately 275 posts throughout the world and has \$7.5 billion in projects currently under design and construction. The Department has taken a number of measures to improve management of these properties. These measures include actively identifying unneeded properties, providing posts with rental cost parameters, and other cost-saving initiatives. Despite these steps in managing the real property portfolio, State cannot identify the cost associated with properties identified for disposal, which may compromise State's ability to make fully informed decisions because of unclear guidance. Furthermore, State could not provide some key documents we requested for our review pertaining to acquisitions, disposals, and leases of its properties worldwide. As a result, the Department may not be able to ensure that it is making cost-effective decisions about properties. Improvements in these areas will become more important as State constructs additional NECs and disposes properties no longer needed when personnel relocate to new facilities.

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## Recommendations for Executive Action

To improve State's management of real property overseas and enhance State's accountability and ability to track real-property management decisions, the Secretary of State should take the following four actions:

1. Clarify accounting-code guidance to the posts for tracking expenses related to disposal of unneeded properties.
2. Take steps to ensure that documents related to real property acquisitions are prepared and retained in accordance with *FAM* and OMB guidance.
3. Take steps to ensure that documents related to real property disposals are prepared and retained in accordance with *FAM* and OMB guidance.
4. Take steps to ensure that documents related to real property leases are prepared and retained in accordance with *FAM* and OMB guidance.

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## Agency Comments

We provided a draft of this product to the Department of State (State) for review and comment. In written comments, reproduced in appendix II, State concurred with the report's recommendations. State provided technical clarifications that were incorporated as appropriate.

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We are sending copies of this report to the appropriate congressional committees and the Secretary of State. In addition, the report is available at no charge on the GAO website at [www.gao.gov](http://www.gao.gov).

If you or your staff have any questions about this report, please contact either of us at (202) 512-2834 or [wised@gao.gov](mailto:wised@gao.gov) or (202)-512-8980 or [courtsm@gao.gov](mailto:courtsm@gao.gov). Contact points for our Office 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.



David J. Wise  
Director  
Physical Infrastructure Issues



Michael J. Courts  
Director  
International Affairs and Trade

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# Appendix I: Scope and Methodology

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To determine what is known about the Department of State's (State) real property inventory, we reviewed State's Federal Real Property Profile (FRPP) data for fiscal years 2008 through 2013—the time period of our review. Additionally, we reviewed State's real property reports to Congress and compared these with State's annual FRPP reports to the General Services Administration. We determined that FRPP data were sufficiently reliable for the purpose of reporting approximate numbers of properties in State's portfolio by interviewing knowledgeable Bureau of Overseas Buildings Operations (OBO) and post officials about data quality assurance procedures and reviewing related documentation, including previous GAO and State Inspector General (IG) reports, data dictionaries and user manuals, and data verification practices. We also reviewed State's internal report on costs associated with properties identified for disposal to determine costs for unneeded properties that State is selling. To evaluate the reliability of State's real property database we interviewed OBO and post officials and locally employed staff responsible for entering real property data at the four posts we visited. We also examined OBO's policies and processes for entering information into its real property database and issues affecting quality control over this information. Although we identified data reliability issues for some facilities in State's real property database, as those issues generally involved the classification or description of facilities, we determined that the data were sufficiently reliable to describe the approximate number of U.S. properties overseas.<sup>1</sup>

To determine what factors State considers in managing its real property portfolio and the extent to which it documents its decision-making process, we reviewed sections of the *Foreign Affairs Manual (FAM)* applicable to property management overseas and documents prepared by State officials in response to our questions. We reviewed State's data on costs associated with unneeded properties identified for disposal for fiscal years 2008 through 2013. We found the data had limitations, which we discuss in the report. We reviewed documentation that State provided for its real property disposals, acquisitions, and leases from fiscal years 2008 through 2013. We requested files on all 94 property disposals and 72 property acquisitions reported during this period. State provided 20 of the 94 disposal files we requested and 34 of the 72 acquisition files, which

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<sup>1</sup> See GAO, *Diplomatic Security: Overseas Facilities May Face Greater Risks Due to Gaps in Security-Related Activities, Standards, and Policies*, [GAO-14-655](#) (Washington D.C.: June 25, 2014).



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included all of the 2013 files.<sup>2</sup> We also requested, and were provided with, all 36 major leases with \$500,000 or more in annual rent, as defined in the *FAM*, that were active from fiscal years 2008 through 2013 and still were listed as active in FRPP at the end of fiscal year 2013. To evaluate the completeness of these files we compared State's documentation of real property disposals, acquisitions, and leases to the documentation directives listed in *FAM* and relevant Office of Management and Budget (OMB) Circulars. We also obtained information on how State reinvested revenue generated from property disposals between fiscal years 2008 through 2013. While our review of these disposals, acquisitions, and leases provides key insights and illustrates recent products of State's real property policies and guidance, the results of our review should not be used to make generalizations about all State disposals, acquisitions, and leases.

We interviewed State Department officials at OBO and at four selected posts (Belgrade, Serbia; Helsinki, Finland; London, United Kingdom; and Sarajevo, Bosnia, and Herzegovina) to gather information on unneeded properties, disposals, acquisitions, and leases. We selected these posts because they had (1) ongoing or recently completed embassy construction or renovation projects without disposing of properties, (2) properties reported as identified for disposal for multiple years without being disposed of, and (3) a mix of owned and leased properties. We based our site visit selection on these factors in order to observe posts with (1) higher numbers of property disposals than other posts due to recently completed or ongoing construction of new embassies, (2) persistent challenges in selling unneeded properties, and (3) experience managing both owned and leased properties. The results of the case studies provide insight into State's management and decision-making practices but cannot be generalized for the purposes of this review.

We conducted this performance audit from June 2013 to September 2014 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.

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<sup>2</sup> An acquisition or disposal reported to Congress may include multiple properties. For example, State, in fiscal year 2010, acquired a housing compound of 60 units in Nairobi that was reported to Congress as one property acquisition.

# Appendix II: Comments from the Department of State



United States Department of State  
Comptroller  
P.O. Box 150008  
Charleston, SC 29415-5008

SEP 16 2014

Dr. Loren Yager  
Managing Director  
International Affairs and Trade  
Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548-0001

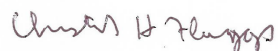
Dear Dr. Yager:

We appreciate the opportunity to review your draft report, "OVERSEAS REAL PROPERTY: State Department Needs to Improve Guidance and Records Management" GAO Job Code 542221.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Season Burris, Division Director, Bureau of Overseas Buildings Operations, Office of Policy and Program Analysis at (703) 875-5752.

Sincerely,

  
Christopher H. Flaggs, Acting

Enclosure:  
As stated.

cc: GAO – Dave Wise  
OBO – Lydia Muniz  
State/OIG – Norman Brown

**Department of State Comments on GAO Draft Report**

**OVERSEAS REAL PROPERTY: State Department Needs to Improve  
Guidance and Records Management  
(GAO -14-769, GAO Code 542221)**

Thank you for the opportunity to comment on your draft report entitled *OVERSEAS REAL PROPERTY: State Department Needs to Improve Guidance and Records Management*. The report includes four recommendations for State.

The Department of State appreciates the work done by GAO during the course of this review to better understand State's overseas real property acquisition and disposal processes. The Department concurs with the recommendations.

We are submitting technical comments under separate cover.

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# Appendix III: Contacts and Staff Acknowledgments

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## GAO Contacts

David J. Wise, (202) 512-2834 or [wised@gao.gov](mailto:wised@gao.gov)

Michael J. Courts, (202) 512-8980 or [courtsm@gao.gov](mailto:courtsm@gao.gov)

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## Staff Acknowledgments

In addition to the contacts named above, Amelia Shachoy and Hynek Kalkus, Assistant Directors; Joshua Akery, George Depaoli, Colin Fallon, Hannah Laufe, Grace Lui, Josh Ormond, Nitin Rao, Kelly Rubin, Ozzy Trevino, and Crystal Wesco made key contributions to this report.

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## Public Affairs

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