



July 2017

HOMELESS VETERANS

VA Should Improve Reporting on the Benefits Provided by Leases of Unneeded Property

GAO Highlights

Highlights of [GAO-17-636](#), a report to congressional committees

Why GAO Did This Study

Federal real property is on GAO's high risk list partly because some agencies, like VA, have large amounts of underutilized or vacant space. In an effort to develop some of these unneeded properties, VA has worked with private partners to convert its unneeded space into supportive housing for veterans and other purposes using EULs.

Congress included a provision in statute for GAO to review VA's EUL program. This report examines: 1) VA's authorities for managing unneeded property and providing homeless veteran housing; 2) VA's internal control design for monitoring EULs and collecting accurate data; and 3) VA's estimates of the financial effect of EULs.

To conduct this work, GAO reviewed federal laws and VA guidance, and analyzed VA models for determining an EUL's financial effect for two lease types: supportive housing and improved VA operations, since these two lease types had the greatest number of EULs. GAO reviewed two EULs from each lease type, selected based on the dollar amount of net benefits. GAO compared VA's design of the EUL program's internal control activities to federal standards and interviewed VA officials. Testing the effectiveness of VA's internal controls was not within GAO's scope.

What GAO Recommends

VA should amend its guidance to specify how to consistently report its EUL enhanced services benefits and to explain the limitations of this estimate. VA concurred.

View [GAO-17-636](#). For more information, contact Rebecca Shea at (202) 512-2834 or SheaR@gao.gov.

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VA Should Improve Reporting on the Benefits Provided by Leases of Unneeded Property

What GAO Found

The Department of Veterans Affairs (VA) can manage unneeded property under its various real property authorities, but only one of these—enhanced use leases (EUL)—is used to provide homeless veteran housing. VA's EUL program leases unneeded properties to public or private sector entities if they agree to develop the property into supportive housing for homeless veterans and their families. Because homeless veterans are a Department priority, VA prefers EULs for disposing of unneeded property.

According to GAO's assessment, VA has designed internal control activities and policies for monitoring the operations of EUL projects and collecting data on their financial effects that are consistent with relevant principles in the *Standards for Internal Control in the Federal Government*. For example, VA has established internal control activities for assuring the reliability and accuracy of its data, such as by requiring that multiple parties analyze data for errors and unusual trends.

In 2015, VA reported the EUL program had a \$48 million financial effect on VA's budget, resulting from items such as revenue payment and cost avoidance (see fig.). VA also reported \$49 million in broader societal benefits from the enhanced services it is able to provide to veterans as a result of these EULs, such as homeless veteran housing. However, this latter estimate is not fully transparent because these broader benefits, which are important to veterans and society in general, do not affect VA's budget and VA does not explain that enhanced services costs are not accounted for, such as costs incurred by other agencies to provide services. In VA's 2017 *Consideration Report*, VA reported its financial benefits for its EULs two different ways. First, VA separately reported the \$48 million of budget effects and the \$49.1 million in enhanced services in an overall summary. Second, in summaries of each EUL project, VA combined the budget effect along with the the broader societal benefits from enhanced services. VA guidance does not explain how to transparently and consistently report enhanced services. The standards for internal control require agencies to ensure their data faithfully represents what they purport to represent and communicate quality information. While enhanced services are important to veterans and society in general, VA's reporting of the benefits can be misleading to congressional decision makers and the public as it does not transparently and consistently describe the financial effect of VA's EUL program.

VA's Reported Direct Financial Benefits for its 59 Enhanced Use Leases, Fiscal Year 2015

Revenue	Cost Avoidance	Cost Savings	Project and Program Expenses	Total Budget Effect
\$1.5 million	\$55.9 million	\$10 million	\$19.4 million	\$48 million
Revenue payments to VA such as rental income.	Amount VA would have to pay to maintain a facility and/or deliver services in the absence of an EUL.	Savings on VA purchases, such as office space or parking space.	New expenses associated with the EUL such as maintenance incurred by VA during the operation of an EUL.	

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Abbreviations

AOCC	annual oversight-compliance certificate
EUL	enhanced-use leases
EULIS	enhanced-use leasing information system
GPD	Grant and Per Diem
HUD	Department of Housing and Urban Development
HUD-VASH	HUD VA Supportive-Housing HUD-VASH
LSM	local site monitor
OAEM	Office of Asset Enterprise Management
SSVF	Supportive Services for Veteran Families
USICH	U.S. Interagency Council on Homelessness
VA	Department of Veterans Affairs
VHA	Veterans Health Administration

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July 20, 2017

Congressional Committees

The Department of Veterans Affairs (VA) is one of the largest non-defense federal property-holding agencies, managing about 155 million square feet in building assets in 2016. Federal real property is on GAO's high risk list partly because large real property holding agencies like VA continue to maintain vacant or underutilized space. For example, VA has about 11.5 million square feet, or 6.4 percent of its total space, that is vacant or underutilized.¹ In an effort to develop some of its unneeded properties, VA has worked with public and private sector lessees to convert a portion of its unneeded space and acreage to benefit veterans. For example, such space has been converted to supportive housing for veterans using enhanced-use leases (EUL).² Supportive housing provides housing and support services such as rehabilitation to veterans or their families who are homeless or at risk of homelessness and is the only method VA has for providing homeless veteran housing. VA's Office of Asset Enterprise Management (OAEM) administers the EUL program, with support from local VA facility staff. However, the VA Office of Inspector General reports found problems with VA's oversight, and monitoring of EULs.³

The West Los Angeles Leasing Act of 2016 includes a provision for us to review VA's management of its EUL program.⁴ This report examines: 1) VA's authorities for managing unneeded property and providing homeless veterans with housing; 2) how VA has designed internal controls for monitoring the operations of EUL lessees and collecting accurate data on EUL financial effects; and 3) VA's estimates of the financial effect of its EULs and whether its methods for developing these estimates are sound.

¹ GAO, *High Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, [GAO-17-317](#), (Washington, D.C.: Feb. 15, 2017).

² As discussed later in this report, VA's current EUL authority is limited to supportive housing, but previously, VA was authorized to execute EUL's for any activity that contributed to VA's mission.

³ *Department of Veterans Affairs: Audit of the Enhanced-Use Lease Program*, (11-00002-74, Feb. 29, 2012). According to the VA Office of Inspector General, VA has implemented all recommendations made in this report.

⁴ Pub. L. No. 114-226, § 3(e)(2016).

To determine VA's authorities for managing unneeded property and providing homeless veterans with housing, we reviewed and analyzed applicable federal laws, VA regulations, and guidance related to these authorities. We also interviewed VA headquarters officials about their use of the EUL authority as compared to VA's other authorities.

To address the other two objectives, we selected a non-probability sample of four EULs for review. To select these EULs, we first reviewed the 59 operational EULs that had internal controls in place for monitoring the operations of these leases and reporting their financial effect such as cost avoidance or cost savings.⁵ These 59 operational EULs were reported in VA's 2017 budget submission to Congress, which contained fiscal year 2015 data, the most recent data available. VA categorizes these 59 EULs into nine different financial models for calculating the benefits and costs of each EUL. To select specific EULs for review, we identified the financial models with the highest number of EULs—supportive housing for homeless veterans, which represents 25 of the operational EULs, and improved VA operations, which represent 19 of the operational EULs.⁶ From each of these two models, we selected a non-probability sample of two operational EULs to review the application of VA's monitoring and information-collection procedures as well as the costs and benefits for the four selected EULs specifically. EULs were selected to represent (1) lease purposes (e.g., leasing vacant land for development and leasing back office space for VA use), and (2) estimated financial effects to VA (e.g., such as the dollar amount of avoided costs that effect VA's budget). Our four selected EULs were (1) Barbers Point, HI – supportive housing, (2) Tuscaloosa, AL – supportive housing, (3) Chicago, IL (Jesse Brown) – improved VA operations, leaseback, and (4) Albany, NY – improved VA operations. The results of our reviews of the selected EULs are not generalizable to all EULs.

In addition, to determine the extent to which VA has designed internal control activities for monitoring the operations of lessees and collecting data on the status of its EUL projects consistent with selected internal control principles, we used the 2014 *Standards for Internal Control in the*

⁵ According to our previous work on VA supportive housing, VA had 21 more supportive housing EULs either under construction or under development as of December 2016.

⁶ The other 16 operational EULs are for senior services, childcare, special services, energy, and other EULs.

*Federal Government.*⁷ Based on this audit objective, we selected the principles related to the control activities component because they were critical for VA being able to design procedures for ensuring EUL projects meet the terms of their leases and accurately report project status, costs, and benefits. We reviewed VA guidance and methods for collecting and compiling documentation about EUL financial effects in fiscal year 2015 and VA's recent comparison of its internal control procedures with GAO's updated *Standards for Internal Control in the Federal Government* (GAO-14-704G).⁸ We interviewed VA officials, including personnel involved in overseeing the four EUL projects, about the design of internal control activities for determining how well EUL lessees were meeting the terms of their leases and VA's monitoring and information-collection procedures. However, we did not evaluate whether control activities related to VA's program for monitoring operational EULs were implemented or operating as designed, nor did we evaluate the design of other internal control components, such as control environment, risk assessment, monitoring, or information and communication. Deficiencies, if any, in the internal control components that were not evaluated could impair the overall effectiveness of VA's control activities over monitoring the status of and reporting of EUL projects.

Finally, to determine VA's estimates of the financial effect of its EUL authority and assess whether its methods for developing these estimates are sound, we analyzed the two selected financial models as described above to identify the reported costs and benefits, such as revenue received or maintenance costs avoided. We reviewed how VA calculated these costs and benefits for all of its supportive housing and improved operations EULs generally. To assess data reliability, we interviewed VA officials about their data collection and validation efforts. We determined that VA's EUL financial effect data were sufficiently reliable for the purposes of our reporting objectives. We also reviewed the four selected EULs from these models to identify how VA specifically applied the model to calculate the net financial effect to VA, including any costs or savings. Finally, we interviewed VA officials about their EUL financial benefits data analysis methodology.

⁷ GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#), (Washington D.C.: September, 2014).

⁸ As a result of VA's comparative review, VA officials agreed that we may reference the internal control components in the updated *Standards* even though these internal control components would not normally apply until fiscal year 2016.

We conducted this performance audit from November 2016 to July 2017 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.

Background

Prior to December 31, 2011,⁹ VA had authority to enter into EULs of its vacant or underutilized owned land or buildings with public or private sector companies for any use that contributed to VA's mission.¹⁰ All 59 of VA's currently operational EULs were executed under this authority and are considered legacy EULs. In 2012, VA's EUL authority was limited to supportive housing for veterans or their families who are homeless or at risk of homelessness.¹¹ This authority expires in December 2023.¹² These supportive housing EULs provide for the development of on-site housing and community-based support services for residents.¹³ VA is currently executing more supportive housing EULs under its current authority, but, due to the complexities of these projects, none of them were operational at the time of our review, according to VA officials.

According to VA guidance, the EUL process consists of four phases: development, execution, operation, and if applicable, disposal (see fig. 1).¹⁴ Our report, however, only focuses on the operational phase because only the 59 operational EULs have internal controls in place for monitoring the operations of these leases and reporting their financial effect, such as cost avoidance or cost savings, as described above.

⁹ Pub. L. No. 106-117, § 208(e)(1999).

¹⁰ Pub. L. No. 102-86, § 401 (1991); Pub. L. No. 106-117, § 208.

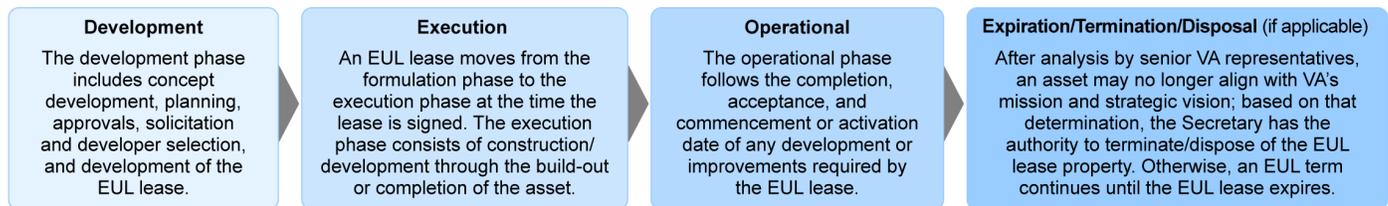
¹¹ 38 U.S.C §§ 8161-8169.

¹² 38 U.S.C. § 8169.

¹³ 38 U.S.C. § 8162(b).

¹⁴ VA uses the terms "formulation" to describe the development phase, and "steady state" to describe the operational phase. The execution phase includes lease signing and recording. For the purposes of our review, we focused on the operational or steady-state phase of active EULs that provide supportive housing or VA operations.

Figure 1: Phases of VA's Enhanced Use Lease Program



Source: GAO analysis of U.S. Department of Veterans Affairs guidance. | GAO-17-636

The operational phase of an EUL project continues throughout the length of the EUL lease term, unless a determination is made that VA no longer needs the property and disposes of it. Oversight monitoring begins at the close of the execution phase and continues until the end of the EUL lease term, spanning the operational phase and the disposal phase (when applicable). OAEM is responsible for post transaction monitoring, which consists of collecting, analyzing, monitoring, and reporting EUL project information such as financial cost avoidance and cost savings data.¹⁵ VA collects documents and certain data from the lessee such as the number of veterans in housing, lease payments, bank statements, proof of insurance, and annual financial statements. To accomplish this task, OAEM assigns a VA employee as local site monitor (LSM) to each EUL project who is responsible for monitoring the EUL project, collecting documentation related to the terms of the lease, maintaining that documentation in VA's management information system, and conducting an annual site visit, among other oversight activities. The LSM enters data collected into VA's web-based system, called the enhanced-use leasing information system (EULIS). For each EUL, the cognizant LSM and other VA personnel are to conduct an annual oversight compliance certificate (AOCC) review of lease requirements and collect the required documentation that demonstrates compliance with the terms of the lease for the preceding fiscal year. OAEM staff review this documentation.

VA's EUL oversight activities are a part of its internal control activities for the EUL program. As discussed in the *Standards for Internal Control in the Federal Government*,¹⁶ internal control principles comprise the plans, methods, and procedures used by entities to meet their missions, goals,

¹⁵ Department of Veterans Affairs, *Enhanced-Use Leasing Post Transaction Handbook 7454*, (Washington, D.C.: June 29, 2012).

¹⁶ GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#), (Washington D.C.: Sept., 2014).

and objectives. The phrase “internal control” does not refer to a single event, but rather a series of actions and activities that occur throughout an entity’s operations on an ongoing basis; and serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Moreover, internal controls should be designed to provide reasonable assurance that unauthorized acquisition, use, or disposition of an entity’s assets will be promptly detected. Lastly, internal control systems help government program managers achieve desired results through effective stewardship of public resources.

OAEM also collects data to calculate and report on the financial effect of each EUL project on VA’s budget. EULs can have a direct financial effect on VA’s budget by providing rental income from lessees, cost avoidance (e.g., the value of goods or services related to the EUL property—such as maintenance—that VA does not incur because the lessees takes over these responsibilities) and cost savings (e.g., the provision of goods or services by the lessee to VA at lower than market prices). If VA incurs costs related to the EULs such as maintenance costs, those are captured as well. Finally, VA reports on enhanced services associated with EULs that do not have a direct effect on VA’s budget. Such services can include newly-created housing that benefits 1) veterans, 2) VA employees who assist veterans, and possibly 3) the broader society. VA has developed a method for tracking and calculating EUL financial effects to estimate program outcomes across projects. VA reports on these calculations in its annual *EUL Consideration Report*, (*Consideration Report*) which VA includes in its annual budget submission to Congress.¹⁷

¹⁷ VA, *Volume 4 of the Department of Veteran Affairs 2017 Budget Submission* (Washington, D.C.: February 2016). The VA “*EUL Consideration Report*” is a part of the VA budget submission.

VA Has Various Authorities for Addressing Unneeded Property, but Only EULs Are Used to Provide Housing for Homeless Veterans

VA Has Authorities for Managing Unneeded Property

VA has various authorities to manage its real property portfolio of underutilized or vacant properties, and VA guidance states how VA should select which authority to use for a specific property. VA guidance states that VA should prioritize reusing an underutilized or vacant property if feasible to do so.¹⁸ When VA determines that a building or property is no longer needed, it conducts a reuse study under the Capital Asset Management Service that examines the various options for reuse or disposal based on local need. The result of the study is a profile of the property with an assessment of its strengths and challenges. These factors help officials decide proper reuse authority. The reuse studies involve an asset review, so they may affect a facility's overall master planning effort. If a master plan exists for a specific facility, that plan could be used as an input into a specific reuse study as well. While this study recommends a reuse or disposal authority for a particular property, a direct comparison of the financial effects of each authority for a particular property may not be feasible.

If internal reuse is not feasible per the local master plan and reuse study, VA's next priority is to lease the space through an EUL project for supportive housing for homeless veterans. If an EUL project is not feasible because the building is not suitable for housing or there is no demand for veteran housing in that particular area, then VA can consider

¹⁸ Department of Veterans Affairs, *VA Handbook 7633: Managing Underutilized Real Property, Including Disposal*, (Washington, D.C.: Apr. 18, 2006).

using another disposal authority.¹⁹ These authorities include sharing agreements, transfers, and General Services Administration (GSA) disposal (see table 1).

Table 1: Selected Property Disposal Authorities Available to The Department of Veterans Affairs (VA)

Authority	Description
Enhanced-use leasing (EUL) 38 U.S.C. §§ 8161-8169	VA is authorized to enter into leases with a public or private entity for up to 75 years for the purpose of providing supportive housing if the lease is not inconsistent with and will not adversely affect VA's mission. VA may only receive cash at fair value; however, VA may enter into a lease without receiving payments. Lease proceeds are deposited into the Department of Veterans Affairs Medical Care Collections Fund. The authority to enter into EUL's terminates on December 31, 2023.
Sharing agreements 38 U.S.C. §§ 8151-8153	When it is the best interest of prevailing standards, VA may enter into sharing agreements to provide for the use of health-care resources with another provider if VA's resources would not be used to their maximum effective capacity. Proceeds from sharing agreements are credited to the applicable VA account.
Outlease ^a 38 U.S.C. § 8122	VA may lease real property to public or private entities for up to 3 years. The lease may provide for the maintenance, protection, or restoration of the property as part of or all of the consideration for the lease.
VA Transfer Authority—Capital Asset Fund 38 U.S.C. § 8118	The Secretary of VA is authorized to transfer real property under VA's control or custody to a public or private entity if the Secretary receives fair market value for the property. This authority to transfer real property expires on December 31, 2018. Funds received by VA from a transfer shall be deposited into the VA Capital Asset Fund and may be used for certain costs, including costs associated with demolition, maintenance and repair, improvements to facilitate the transfer, and administrative expenses.

Source: GAO analysis | GAO-17-636

^a Additionally, VA's National Cemetery Administration may outlease real property for up to 10 years. 38 U.S.C. § 2412.

According to GSA officials, if VA decides that none of these reuse options are feasible and there is no demand for leasing or transfers, VA may decide to declare the real property excess and notify the GSA that the property is no longer needed. VA is prohibited from declaring property excess unless the Secretary determines the property is no longer required to meet VA's needs and is not suitable for use for homeless veterans' service under an EUL.²⁰

¹⁹ Additionally, federal agencies, such as VA, are required to establish and implement alternatives (including adaptive use) for historic property that is not needed, and may lease historic property if the agency head determines that the lease will adequately ensure the preservation of the historic property. 54 U.S.C. § 306121. VA has implemented this program for historic properties as a new pilot program.

²⁰ 38 USCS § 8122(d)(1).

VA Primarily Uses EULs for Repurposing Unneeded Properties because they Can Be Used to Provide Supportive Housing for Veterans

VA officials told us that they prefer EULs over other authorities because, among other reasons, EULs have the capability to create housing for homeless veterans where it did not exist before, which is one of VA's priorities. Even if it may be more expensive than using another authority for managing unneeded property, VA believes the benefits an EUL project can provide to veterans outweigh any associated cost. Therefore, VA prefers the benefits of an EUL project instead of other disposal authorities if there is demand for homeless veteran housing in the area where an unneeded property is located. Moreover, VA officials said another advantage that makes them prefer using an EUL is that VA retains any proceeds from the disposal, which can be directed to veterans' services. For some disposal authorities, such as when GSA disposes of a property, any proceeds are directed to another fund in the U. S. Treasury, which is a disincentive for VA to use GSA to dispose of the property, according to VA officials.

According to VA officials, because VA does not have authority to develop homeless veteran housing and does not build and operate housing facilities itself, it uses EULs and grant funding programs to fund third party providers of supportive housing for veterans. Third party housing providers that enter into an EUL agreement with VA can also apply for operational funding through VA's Grant and Per Diem (GPD) program, which is a separate program under the Veterans Health Administration (VHA) and not a requirement of the EUL program. The GPD program provides temporary housing by awarding grants to community agencies, including non-profit organizations and state and local government agencies.²¹ We previously found that the grants fund up to 65 percent of the cost for acquiring, renovating, or constructing supportive-housing facilities or service centers. Further, EUL housing providers can also receive funds from the U.S. Department of Housing and Urban Development (HUD) and VA Supportive-Housing (HUD-VASH). HUD-VASH allocates subsidized housing vouchers to eligible homeless veterans and their families to provide rental assistance for an EUL

²¹ GAO, *Homeless Veterans: Management Improvements Could Help VA Better Identify Supportive-Housing Projects*, [GAO-17-101](#), (Washington, D.C.: December 21, 2016).

lessee's supportive housing.²² In our prior report on supportive housing for veterans, we discussed EUL authority as an important component in VA's mission to end veterans' homelessness. We found that the collaboration among the various agencies including HUD and VA to end veteran homelessness has resulted in a significant reduction in the number of homeless veterans.²³ In August 2016, HUD, VA, and the U.S. Interagency Council on Homelessness (USICH) announced that the number of veterans experiencing homelessness in the United States had been cut nearly in half since 2010.²⁴

VA Has Designed Internal Control Activities to Help Monitor the Status of EUL Projects

According to our assessment, VA has designed activities and policies for monitoring the operations of EUL projects and collecting data on the financial effects of EUL projects that are consistent with internal control principles, specifically those related to the control activities component of internal control. Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. VA's EUL program includes activities and policies that correspond to the principles of the control activities component, specifically that management should (1) design control activities to achieve objectives and respond to risks, (2) design the entity's information system and related control activities to achieve objectives and respond to risks, and (3) implement control activities through policies. We selected these principles because, according to our audit objective, they were significant to VA's objective of ensuring that EUL projects are operating according to their lease agreements and that VA is collecting accurate information about their status. However, we did not evaluate whether the internal control activities and policies were implemented or operating as designed, and, as a result, certain weaknesses could exist as we did not independently determine that the activities and policies mitigate all possible risks.

²² Another housing grant program is VA's Supportive Services for Veteran Families (SSVF) program that focuses on short-term, crisis intervention by providing grant awards to service providers, which are required to provide outreach, case management, VA benefit assistance, and temporary financial assistance such as rent, utility payments, childcare, and transportation. Funding for SSVF has been about \$300 million annually since fiscal year 2013.

²³ GAO, *Homeless Veterans: Management Improvements Could Help VA Better Identify Supportive-Housing Projects*, [GAO-17-101](#), (Washington, D.C.: December 21, 2016).

²⁴ *Ibid.*

Design control activities to achieve objectives and respond to risks: As noted above, control activities should help management fulfill responsibilities and address identified risks. The following describe VA's EUL program's control activities:

- According to VA, in 2012 VA established a new process for overseeing the status of operational EUL projects that included activities designed to be compatible with internal control components. VA documented its oversight policies and procedures in the *Enhanced-Use Leasing Post Transaction Handbook 7454* (Handbook 7454). The *Handbook 7454* established new guidance for monitoring EUL projects and developed a methodology standardizing the calculation of project benefits and expenses.
- According to VA, it created a compliance review team composed of personnel from multiple organizational levels and administrations (e.g., VHA, National Cemetery Administration, etc.) to monitor the collection of information from EUL lessees. This review team, including local and regional personnel from the VA administrations most closely associated with the EUL project, review EUL lessee data and documents collected by the LSMs. According to the LSMs from three of the four projects we selected who answered the question, their regional managers reviewed the documentation they collected for the AOCC to ensure it was complete. At the next level, financial and operational contractors and the oversight monitor within the Office of Asset Enterprise Management review the documentation and data collected by the LSMs, consolidate it, and develop EUL financial models. Finally, the designated VA representative reviews the financial effect data of EULs before the information is submitted for publication in VA's *Consideration Report*.
- According to VA guidance, VA established policies that limited the authority of personnel to amend or modify lease agreements and the EUL project documentation. VA's procedures provided that only certain members of its compliance review team have the authority to modify lease agreements, approve project expenditures, and modify documentation.
- According to VA guidance, it has established a variety of procedures to be completed annually by the compliance team to review EUL lessees' compliance with their lease agreements. These activities include the AOCC process, which directs LSMs and other personnel to complete predetermined audit steps, such as collecting information and documents from lessees and conducting site visits to EUL facilities. The procedures assign responsibility to personnel from all levels of the compliance team, from the LSM to the oversight monitor.

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- According to VA guidance, it has set up procedures for assessing the collection of information from EUL lessees and the extent it is complete. According to VA, the oversight monitor reviews the EUL lessee information LSMs enter into EULIS and assigns each project a status rating indicating the extent to which the project documentation is complete and the project is in compliance with the lease. This review is logged in EULIS. The rating indicates where additional effort and follow up is needed to ensure compliance with the terms of the lease. According to VA, the Office of Asset Enterprise Management tracks the number of projects that get higher and lower ratings from year to year.
 - According to officials, it has developed training for personnel that monitor EUL projects. VA requires that LSMs complete mandatory training once a year, generally immediately prior to the beginning of the AOCC. According to VA, the training is generally offered in multiple sessions across multiple weeks to ensure maximum LSM attendance. The LSMs from all four of the selected EUL projects stated they received this training for the 2016 AOCC review. According to internal control principles, management should assess the necessary skills and abilities of its workforce and provide training to help employees meet changing organizational needs.

Design information systems and related control activities to achieve objectives and respond to risks: As noted above, control activities should help management design the entity's information systems to respond to its objectives and risks. The following describe VA's EUL program's information system and related control activities:

- According to VA guidance, in 2012 it established EULIS to collect information from the lessees and be a repository for documentation of lessees' compliance with the terms of their EUL lease agreements. VA described the purpose of EULIS as a way to facilitate both document retention and oversight by responsible VA personnel.
- VA's *Handbook 7454* has guidance for identifying each EUL project's lease requirements from the lease agreement (for example, lease payments, maintenance cost, average number of veteran residents, etc.) and documenting them in EULIS. In general, lease agreements indicate the documentation that VA requires lessees to provide about their operations, such as lease payments, bank statements, proof of insurance, annual financial reports, and units of service (e.g., housing units rented, parking spaces provided to VA, etc.). These requirements would then be the basis for the documents the LSM would be required to collect from the lessee. According to VA, having this data in EULIS

facilitates the ability of VA personnel to oversee each lease and determine if it is meeting expected outcomes during the length of its term.

- According to VA guidance, VA established control activities for assuring the reliability and accuracy of data entered into EULIS, such as requiring the LSMs to follow checklists that identify the documentation they need to collect from lessees and the data they need to enter into EULIS. VA's guidance directs reviewers to identify data that seems unusual for additional follow up and resolution. For example, in the financial effect spreadsheets for the four selected EUL projects that VA provided to us, VA had color-coded entries for follow up because, according to VA, the data seemed unusual and required discussion with the LSMs to resolve. EULIS also provides a way to track the resolution of issues, because it has data fields where reviewers can record notes. VA's procedures for ensuring quality data are important, as they are the basis for calculating EUL projects' cost and benefits and are part of VA's annual budget submission's *Consideration Report*—the agency's primary means for communicating the financial effects of EUL projects. Procedures such as these are essential for ensuring data reliability, a component for quality information.

Implement control activities through policies: As noted above, management should develop policies to implement control activities. The following describe VA's EUL program's policies related to documenting responsibilities and periodic review of control activities:

- As noted above, in 2012 VA created the *Handbook 7454* that sets forth procedures, roles, and responsibilities for overseeing the EUL program in the operational phase, including policies related to collecting and tracking lease agreement data for EULIS. The *Handbook 7454* specifies in detail the responsibilities of the members of the compliance team. For example, it describes the oversight monitor as the chief compliance officer for the EUL program, who is responsible for overseeing all compliance activities related to the EUL program including (1) creating oversight management tools, (2) overseeing the collection of compliance data and tracking financial and other payments, (3) implementing training on compliance management, and (4) performing the AOCC and identifying EUL projects with major issues and ensuring resolution.
- According to VA, the agency completes activities to determine the effectiveness of its EUL compliance activities. For example, the designated VA representative regularly reviews the extent to which projects are meeting the terms of their leases, identifies projects facing challenges or non-compliance issues, and devises strategies to resolve these issues and mitigate associated risks. In addition, as part of his

compliance monitoring, the oversight monitor surveys the LSMs at the end of the AOCC process to gather their views about issues that impede the LSMs' ability to properly monitor EUL projects. The oversight monitor presents these concerns and VA's solutions during the next year's training session and summarizes them in the AOCC training materials.

VA Reports That EULs Provide \$48 Million in Net Benefits to VA and Also Identifies Societal Benefits, But in a Way That is Not Transparent

In fiscal year 2015, VA reported the EUL program had a \$48 million positive financial effect on its budget, as well as \$49.1 million in enhanced services. Financial effects that affected VA's budget include such benefits as cost savings for discounted office space and parking space as well as any rental income VA may earn. Enhanced services include the value of new services, many of which are provided to veterans such as housing, but which do not directly affect VA's budget. EULs provide broader benefits than those directly affecting VA's budget; however, VA is not reporting them separately or clearly indicating that they do not affect VA's budget.

About Half of VA's Reported EUL Financial Benefits Affect VA's Budget

In its *Consideration Report* within its 2017 budget submission, VA reported a net value of \$48 million in benefits for its 59 EULs in fiscal year 2015—directly affecting VA's budget.²⁵ This included revenue, cost avoidance, and cost savings on the positive side and some offsetting costs incurred by VA (See table 3). According to VA, these elements positively affect VA's budget and its financial status.

²⁵ Department of Veterans Affairs, *Volume 4 of the Department of Veterans Affairs 2017 Budget Submission*, (Washington, D.C.: February 2016). The VA "EUL Consideration Report" is a part of the VA budget submission. Fiscal Year 2015 EUL benefits were the most recent available at the time of this submission.

Table 2: VA's Reported Direct Financial Benefits for its 59 Enhanced Use Leases (EUL), Fiscal Year 2015

Revenue	Cost Avoidance	Cost Savings	Project and Program Expenses	Total Budget Effect
\$1.5 million	\$55.9 million	\$10 million	\$19.4 million	\$48 million
Revenue payments to VA, such as rental income.	Amount VA would have to pay to maintain a facility and/or deliver services in the absence of an EUL (land or buildings that are part of the EUL, not new improvements).	Discount realized on VA purchases, such as office space or parking space.	New expenses associated with the EUL. These expenses may include maintenance and other expenses incurred by VA during the execution or operational phases of an EUL.	

Source: GAO analysis of Department of Veterans Affairs data | GAO-17-636

In our review of four selected EULs, we found that VA reported the following financial benefits that affected its budget for fiscal year 2015:

- For one of the four EULs we reviewed, VA receives ongoing lease payments of 2 percent of the lessee's gross revenue from a transitional housing facility that houses homeless veterans. VA reported that it received \$11,631 in annual rental income from the lessee.
- For two of the four EULs we reviewed, VA reported \$6 million in cost avoidance for building and property maintenance and veterans' medical expenses. For example, for both homeless veteran housing EULs, VA avoided paying maintenance costs on the VA properties involved and received a reduction in the costs for veterans care at VA medical facilities since treatment was done on a less costly outpatient basis.
- For three of the four EULs we reviewed, VA reported \$4 million in cost savings related to parking facilities and office space constructed through the EUL project. These savings occur when the EUL provides reduced rates for parking or office space for VA compared to what it would have had to pay if purchasing those services at market rates.

VA's Reporting of EUL Enhanced Services Benefits Reflect Benefits that do not Affect VA's Budget and are not Described in a Fully Transparent Manner

In addition to the \$48 million in financial benefits and costs that affect VA's budget, VA also reported \$49.1 million accruing from its EULs related to enhanced services that do not affect its budget. VA defines enhanced services as those providing value to veterans, VA employees, and possibly the broader society that arise from services created by the EUL project. VA officials further described enhanced services as providing benefits that, without the EUL, would not be available. For example, when an EUL project employs previously vacant or underutilized VA property to provide supportive housing, value is created related to the provision of this service to the homeless veterans (and sometimes nonveteran tenants), as well as other support services such

as drug counseling provided to EUL housing tenants. Similarly, new value may be created by developing an EUL lessee that will provide parking services for veterans and the community or office space using vacant or underutilized VA facilities. We found examples of enhanced services VA reports in our review of 4 EULs. For example:

- For the housing EULs, VA's reported enhanced services related to the value of providing over 280 new housing units occupied by veterans—units that would not be provided without the EULs. In its *Consideration Report*, VA set the dollar value of newly-available housing for homeless veterans based on VA's GPD program housing vouchers that VA can provide to homeless veterans seeking temporary housing.
- For one EUL, VA's reported value of enhanced services related to the creation of a new parking structure near VA and Albany, NY Medical facilities. VA set the value of the new parking facilities based on the going rate for parking in the vicinity.

In VA's 2017 *Consideration Report*, VA reported its fiscal year 2015 financial benefits for its EULs two different ways:

- First, VA provided an overall summary of the benefits of EULs in which they separately reported the \$48 million of budget effects discussed above and the value of \$49.1 million in enhanced services that do not affect VA's operating budget for all 59 EULs discussed above.
- Second, VA provided 1-page summaries of each of the 59 operational EULs. In each EUL project summary, VA provided only one total financial benefit number. VA combined the budget effect items (revenue, cost avoidance, cost savings, and VA project level expenses) with the monetary value it assigns to enhanced services. For example, VA reported about \$7,600,000 in financial benefits for Barbers Point, HI supportive housing EUL, but only about half of this benefit had a budget effect, and the other half was enhanced services.

Combining enhanced service benefits and net benefits that effect VA's budget as one number in the tables summarizing each EUL project lacks transparency because enhanced services benefits accrue beyond the effect of the EUL on VA's budget and are, therefore, not benefits that affect VA's budget. Further, VA's calculation of the monetary value of enhanced services also has limitations. For example, supportive housing EULs provide shelter and care that might not otherwise have been available to veterans. The monetary value that VA assigns to that enhanced benefit is a rough estimation that may not account for all benefits accrued through housing previously homeless veterans. At the

same time, the provision of enhanced services also entails costs not accounted for in the *Consideration Report*, such as costs incurred by other government agencies, such as HUD, and costs incurred by the private sector lessee of the EUL.

Moreover, combining these benefits for the results of individual EULs may not provide congressional decision-makers and the American public a clear understanding of the effect of this program. For example, as shown below, for the four EUL's we reviewed, if VA reported only its revenue, cost avoidance, cost savings, and VA expenses—all of which are items that affect VA's budget—separately from enhanced services, the total financial effect reported for three of the four EULs effects on VA's budget would be substantially reduced. There would be no change in the fourth EUL because it did not have enhanced services (See table 4).

Table 3: VA's Reported Financial Effect for 4 Enhanced Use Leases, Fiscal Year 2015

EUL	Total Financial Effect (Revenue, Cost Avoidance, Cost Savings, Enhanced Services, Minus Expenses)	Enhanced Services	Financial Effect Without Enhanced Services
Barbers Point, HI	\$7,600,569	\$3,897,444	\$3,703,125
Tuscaloosa, AL	-\$2,400,006^a	\$790,590	-\$3,190,596
Chicago, IL (Jesse Brown)	\$3,251,654	\$0	\$3,251,654
Albany, NY	\$2,359,137	\$1,805,404	\$553,733

Source: GAO analysis of Department of Veterans Affairs data | GAO-17-636

^aThe Tuscaloosa EUL became operational in FY 2015. The negative amount includes a one-time capital contribution for construction by VA that the agency expects to be minimal compared to the benefits expected over the term of the lease.

VA's EUL guidance does not address how VA should report enhanced services in a transparent manner. *Handbook 7454* does not contain any specific guidance on whether VA should report enhanced services as part of the total financial effects or separately for each of the EULs.²⁶ Rather, the handbook simply states that VA shall track its financial benefits and describes financial benefits as revenue, cost avoidance, cost savings, and enhanced services, minus VA program expenses. In its presentation of the entire EUL portfolio, VA reported enhanced services separately from the other elements that effect VA's budget, but in the presentation of each individual EUL, VA did not make this separation. However, VA officials said that OMB had stated that enhanced services should be reported separately from the items that affect VA's budget for the summary page of its *Consideration Report*, which VA does.

To promote transparency, federal internal control standards require management to ensure the agency's data faithfully represent the program's outcomes and to externally communicate the necessary quality information to achieve the entity's objectives.²⁷ Consistently reporting benefits from enhanced services separately from those that affect VA's budget and noting limitations with the data supports transparency.

Conclusions

VA's EULs have produced \$48 million in net financial benefits that affect VA's budget. Although VA's reported \$49.1 million in enhanced services associated with EULs also represent value for VA, veterans, and the broader society, these broader benefits do not affect VA's budget. VA's practice of reporting both of these benefits together for each of the EUL projects lacks transparency. While EULs provide broader benefits than those affecting VA's budget, these benefits should consistently be reported separately from the items that have a budget effect. Further, the valuation of enhanced service benefits is a rough estimation that may not account for all such broader benefits and also does not account for any costs associated with providing those benefits that are borne by entities outside of VA. Noting these caveats regarding the valuation of enhanced services would further the clarity of VA's *Consideration Report*. Without consistently reporting and transparently acknowledging the limitations of

²⁶ Department of Veterans Affairs, *VA Handbook 7454 Enhanced-Use Leasing Post Transaction*, (Washington, D.C.: June 29, 2012).

²⁷ GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#), (Washington D.C.: Sept., 2014).

its reporting of the financial benefits of EUL enhanced services, VA's budget submission may not provide to congressional decision makers and the American public a thorough understanding of the effect of this program.

Recommendation

To ensure that the financial benefits of EULs that the Department of Veterans' Affairs reports in its annual *Consideration Report* on the EUL program are transparent and reliable, the Secretary should:

- Revise its *Enhanced-Use Leasing Post Transaction Handbook (Handbook 7454)* and specify that VA will: (1) Report consistently the enhanced services benefits from its EULs separately from other financial benefits that directly affect VA's budget, and (2) Include an explanation in its reporting on estimated EUL enhanced services that its estimates may not adequately capture all benefits of the EUL project and that certain costs associated with providing such benefits that are incurred by parties outside VA are not included in the analysis.

Agency Comments

We provided a draft of this product to VA for comment prior to finalizing this report. We received written comments from VA, which are reproduced in appendix II. VA concurred with our recommendation to consistently report the enhanced services benefits separately and include an explanation that its estimates of EUL enhances services may not adequately capture all benefits and costs. VA noted that it has efforts under way to address our recommendation. For example, in the fiscal year 2018 annual *Consideration Report* on the EUL program, VA included a statement on its estimated EUL enhanced services that the estimates may not adequately capture all benefits and that certain costs that are incurred by parties outside VA are not included in the analysis. Further, VA stated that it plans to revise its *Enhanced-Use Leasing Post Transaction Handbook* to require that benefits without budget effects be reported separately from benefits that do affect VA's budget. VA also provided technical comments which we incorporated as appropriate.

We will send copies of this report to appropriate congressional committees. In addition, we will make copies available to others upon request, and the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff has any questions about this report, please contact me at (202) 512-2834 or SheaR@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 I.

A handwritten signature in black ink that reads "Rebecca Shea". The signature is written in a cursive, flowing style.

Rebecca Shea
Director,
Physical Infrastructure

List of Addressees

The Honorable Johnny Isakson
Chairman
The Honorable Jon Tester
Ranking Member
Committee on Veterans' Affairs
United States Senate

The Honorable Jerry Moran
Chairman
The Honorable Brian Schatz
Ranking Member
Subcommittee on Military Construction, Veterans' Affairs, and Related
Agencies
Committee on Appropriations
United States Senate

The Honorable Mike Enzi
Chairman
The Honorable Bernie Sanders
Ranking Member
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United States Senate

The Honorable Phil Roe
Chairman
The Honorable Tim Walz
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House of Representatives

The Honorable Charlie Dent
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The Honorable Debbie Wasserman Schultz
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Subcommittee on Military Construction, Veterans' Affairs, and Related
Agencies
Committee on Appropriations
House of Representatives

The Honorable Diane Black
Chairwoman
The Honorable John Yarmuth

Ranking Member
Committee on Budget
House of Representatives

Appendix I: Comments from the Veterans Affairs



DEPARTMENT OF VETERANS AFFAIRS
WASHINGTON DC 20420

July 5, 2017

Ms. Rebecca Shea
Director, Physical Infrastructure
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Shea:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, "**HOMELESS VETERANS: VA Should Improve Reporting on the Benefits Provided by Leases of Unneeded Property**" (GAO-17-636).

The enclosure provides technical comments and information on actions taken to address the GAO draft report recommendations.

VA appreciates the opportunity to comment on your draft report.

Sincerely,

A handwritten signature in black ink that reads "Gina S. Farrissee".

Gina S. Farrissee
Deputy Chief of Staff

Enclosure

Attachment

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report
**“HOMELESS VETERANS: VA Should Improve Reporting on
the Benefits Provided by Leases of Unneeded Property”**
(GAO-17-636)

GAO Recommendation: To ensure that the financial benefits of EULs that the Department of Veterans Affairs reports in its annual *Consideration Report* on the EUL program are transparent and reliable, the Secretary should revise its Enhanced-Use Leasing Post Transaction Handbook (Handbook 7454) and specify that VA will: (1) Report consistently the enhanced services benefits from its EULs separately from other financial benefits that directly impact VA’s budget, and (2) Include an explanation in its reporting on estimated EUL enhanced services that its estimates may not adequately capture all benefits of the EUL project and that certain costs associated with providing such benefits that are incurred by parties outside VA are not included in the analysis.

VA Comment: Concur. The Department of Veterans Affairs (VA) is committed to developing standards of internal controls to ensure the data reported is transparent and reliable.

Part 1 of the Recommendation: To ensure that the financial benefits of Enhanced Use Leases (EUL) the VA reports in its annual Consideration Report on the EUL program are transparent and reliable, VA’s Office of Asset Enterprise Management will revise the EUL Post Transaction Handbook 7454 (and associated Directive if appropriate). The handbook will be revised to require that consideration with budget impacts be reported separately from enhanced services consideration, which has no direct VA budget impact. Estimated Completion: December 31, 2017.

Part 2 of the Recommendation: Additionally, VA has already taken steps to include a statement in its latest Consideration Report (fiscal year (FY) 2016), included in VA’s FY 2018 budget submission, noting that the estimated EUL enhanced services benefits may not adequately capture all benefits and costs for any given EUL project, as noted by GAO in their recommendation. This statement is included in Volume IV, page 9.1-9 of VA’s 2018 Congressional Budget Submission. Estimated Completion: Complete.

Attachment

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report
**"HOMELESS VETERANS: VA Should Improve Reporting on
the Benefits Provided by Leases of Unneeded Property"**
(GAO-17-636)

Technical Comments:

Page 2, Lines 8-9: Lines read:

"...supportive housing for homeless veterans, which represents 24 of the operational EULs, and improved VA operations, which represent 19 of the operational EULs,"

VA Comment: The 2017 Consideration Report states 25 supportive housing projects. The housing consideration model reviewed by GAO only contains 24 active projects; however there is a 25th project (Minneapolis) that should be counted to be consistent with the Consideration Report.

VA Recommended Edit: For accuracy, revise lines 8-9 to read:

"...supportive housing for homeless veterans, which represents 25 of the operational EULs, and improved VA operations, which represent 19 of the operational EULs,"

Appendix II: Contact and Staff Acknowledgments

GAO Contact

Rebecca Shea, (202) 512-2834, SheaR@gao.gov

Staff Acknowledgments

In addition to the individual named above, other key contributors to this report were Ed Laughlin, Assistant Director; Sarah Jones, Analyst in Charge; Amy Abramowitz, Gail Marnik, Sara Ann Moessbauer, Josh Ormond, Lisa Shibata, Carolyn Voltz, Michelle Weathers, and Crystal Wesco.

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