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REPORT TO THE CONGRESS

Some Progress In Improving Management Of Government Owned And Leased Real Property Overseas

B-146782

Department of State

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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MARCH 28, 1974



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-146782

To the President of the Senate and the
Speaker of the House of Representatives

This is our followup report on the progress in improving the management of Government owned and leased real property overseas by the Department of State.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of State.

A handwritten signature in cursive script, reading "James B. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

FBO	Office of Foreign Buildings Operations
GAO	General Accounting Office
S&E	salary and expense

D I G E S T

WHY THE REVIEW WAS MADE

In a 1969 report GAO made recommendations to the State Department for improving its management of real property.

The Department at that time generally agreed with GAO's findings and recommendations and set forth a five-point improvement plan focusing on a property management information system rather than a centralization of property management.

GAO made this followup to see whether the Department took the actions it had promised and whether management had improved.

The Department holds about 1,600 real properties, worth from \$600 million to \$700 million, in 238 overseas cities to support U.S. foreign operations. Operating and maintenance expenses on these properties are about \$20 million yearly. In addition, about 3,100 properties are leased at \$17 million annually.

FINDINGS AND CONCLUSIONS

The Department has made encouraging progress in carrying out some improvements proposed in 1969, but it has not accomplished all that was anticipated.

The Department has increased its sales program in order to finance new

acquisitions. Sale of excess properties amounted to \$14.5 million for the 3 years following the 1969 report, compared with \$7.1 million for the preceding 3 years. (See p. 8.)

GAO's 1969 report identified 26 properties costing \$2.7 million as excess. Of these 26 properties:

- 9 had been sold for \$1.7 million;
- 3 were to continue in their present use;
- 5 were in the design or construction phase;
- 2 were authorized for sale;
- 3 were being held for future use; and
- 4 were being held for changes in political, zoning, or market conditions. (See p. 8.)

Property which GAO reported as uneconomical to operate and maintain was sold for \$1.1 million. (See p. 9.)

GAO's followup confirms the need for additional improvement in property management.

- The Department had not decided what to do with several properties valued at \$5 million. The reasons for not taking or for delaying

actions on these properties included delays in pursuing alternative courses of action and a merger of two posts to allow sale of property. (See p. 12.)

--The Department's failure to clearly understand its property rights complicated delays in some property actions. GAO believes property rights should be clearly established and disseminated to avoid similar problems. The Department has reduced the number of properties with titles pending from 193 on July 1, 1971, to 92 on July 1, 1973. (See pp. 24 to 29.)

The Department has been slow in issuing more definite guidelines and criteria for assisting managers of overseas properties, developing and installing a property management information system, and modifying the property accounting system.

--Late in 1973, operating manual sections on real property management overseas had not been distributed. They need final clearance before printing and release. (See p. 35 and 36.)

--The Department had not implemented an accrual accounting system. A system was developed, but it was deemed to place an unacceptable burden on overseas posts and was rejected. The Department is trying to develop a system. (See pp. 38 to 40.)

--Little progress has been made in implementing a property management information system. The Department recognizes the need for a system but believes it first must await development of an accrual accounting system. (See pp. 36 and 37.)

GAO is encouraged by the Department's September 1973 agreement with its prior recommendation for centralizing real property management. Centralization will permit greater coordination and better control of the worldwide buildings program, and management will still be responsive to needs of regional bureaus and posts. (See pp. 40 and 41.)

Coordination of design and construction remains a major problem in the buildings program, as evidenced by abandoned or deferred design projects. The Department was trying to improve coordination by taking such steps as obtaining maximum occupancy data before initiating design. It was also planning to review the design program annually to insure the best possible use of existing plans before initiating new ones. (See pp. 42 and 43.)

Guidelines should be developed on when to inform appropriate congressional committees of requests for authorization or approval and of cost overruns. To implement GAO's recommendation, the Department will invite comments from the appropriate committee chairmen concerning criteria and procedures to be followed. (See p. 44.)

Although GAO is concerned by the Department's lack of audit and inspection effort in the real property area, recent staff increases and planned audit actions are encouraging. GAO still believes that the Department needs to emphasize the review and use of audit report findings. (See pp. 46 and 47.)

RECOMMENDATIONS

GAO reported in 1969 that the Department's real property program

needed improvement and made recommendations for strengthening administration and management of the program. Based on its followup review, GAO believes that more improvement is possible in a number of areas reported on previously and, therefore, recommends that the Secretary of State:

- Assign to one organization or committee the responsibility for overall guidance, policies, plans, and assessment of the Department's overseas office and housing needs. The organization or management committee should set target dates and assign a higher priority and adequate resources to implement the Department's plans for improving property management. (See p. 40.)
- Increase efforts to develop an accrual property accounting system and a property management information system. (See p. 41.)
- Reassess unused and underused properties and, where feasible, dispose of uneconomical properties by sale or exchange. (See p. 29.)
- Take more affirmative action to establish property rights when title is pending. (See p. 29.)
- Establish a system for coordinating building designs with construction. (See p. 43.)

--Establish, in conjunction with the appropriate congressional committee, criteria and procedures for reporting projects undertaken and cost overruns. (See p. 45.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department has agreed with GAO's recommendations and either has taken or plans to take actions to improve conditions noted.

As reasons for the disappointing progress, the Department cited unusual complexities in the uniform transmission and control of data, a large reduction in real property management personnel, and the preoccupation of senior management officials with foreign affairs crises in several countries.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

Although the Department has made encouraging progress in carrying out some improvements proposed in 1969, it has not accomplished all that was anticipated.

This report provides information to the Congress showing the progress that has been made and the improvements that are still needed in managing the Department's overseas real property program.

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CHAPTER 1

INTRODUCTION

The Department of State holds approximately 1,600 real properties, worth \$600 million to \$700 million, in 238 overseas cities. These holdings, necessary for our foreign affairs operations, include unimproved land, office buildings, warehouses, residences for Ambassadors and other ranking officials, and staff apartments. It costs about \$20 million annually to operate and maintain these properties. In addition short-term (less than 10 years) leases for about 3,100 properties for housing and office space cost about \$17 million annually.

Our report, "Improvements Needed in the Management of Government Owned and Leased Real Property Overseas" (B-146782, Sept. 30, 1969), concluded that improvements could be made by (1) disposing of uneconomical and unused property, (2) coordinating building design and construction, (3) establishing better controls over and criteria for property alterations and improvements, (4) establishing accurate and informative real property records and reports, (5) increasing internal audit surveillance, (6) centralizing management of the real property program, and (7) requiring congressional authorization for property acquisitions.

Appendix IV lists our 1969 recommendations and indicates where they are discussed in this report.

The Department generally agreed with our findings and outlined a five-point plan which proposed:

1. Improving guidelines and criteria.
2. Modifying the accounting system.
3. Developing more comprehensive and reliable management information.
4. Improving coverage and coordination of evaluation and planning activities by
 - increasing checks on compliance through inspection, audit, and Office of Foreign Buildings Operations (FBO) field visits;

--periodically assessing property use and post needs;
and

--developing, for each country, real property plans,
after considering property inventory, post program
and staffing, alternative ways of meeting needs,
comparative costs, and priorities.

5. Acquiring, constructing, improving, using, or disposing of property in accordance with approved plans and congressional authorizations and appropriations.

The Department felt that this plan would aid central policy direction and control while keeping management at overseas posts responsive to local needs.

In our followup on the Department's management practices for administering the foreign buildings program, we reviewed the applicable laws, policies, and regulations; examined available property records maintained by FBO, Department regional bureaus, and selected foreign posts; and discussed these matters with responsible officials at these locations, as deemed necessary. We also inspected Government owned and leased properties.

We made our followup review in Washington, D. C., and at posts in eight countries (Japan, Thailand, the Philippines, Spain, Italy, Belgium, Liberia, and Morocco) in the Far East, Europe, and Africa.

The matters presented in this report were discussed with the missions and the Department during our review. Agency comments are included as appendix I. Agency comments were evaluated and incorporated into the report as we considered appropriate.

CHAPTER 2

QUESTIONABLE PROPERTY RETENTION

IDENTIFIED IN 1969 REPORT

Within the Department of State, the task of managing Government owned and leased property overseas rests with FBO. It is responsible for

- an improved management control system to safeguard U.S. ownership or use rights on a number of real properties,
- the best use of existing properties, and
- the repair and maintenance costs on overseas properties.

Additional responsibilities of FBO are discussed in chapter 4.

1969 REVIEW

In 1969, we reported that FBO had 26 Government owned and leased real properties (as of Dec. 31, 1967) in its inventory for periods up to 20 years which had cost about \$2.7 million and for which there appeared to be no program need. (As of September 1, 1973, the U.S. investment in these properties was \$3.8 million.) Moreover, four other properties were uneconomical to operate and maintain.

We recommended that, to reduce its holdings of uneconomical and unused properties, the Department reexamine its worldwide real property inventory and dispose of or sublease nonproductive or uneconomical property, establish more definitive criteria for evaluating the effective use of Government-owned properties, establish a property accounting system, and a management system which would furnish management all the significant and reliable information needed for evaluating the operations of the program, including the costs incurred for each Government-owned property.

AGENCY ACTIONS AND STATUS OF IMPLEMENTATION

To reduce its holdings of uneconomical and unused properties, the Department has established a special group of FBO officers to concentrate on and expedite property disposals. However, the Department has not carried out its other plans, such as the development of criteria for evaluating property use and the property management information and accrual accounting systems.

The systems' status is discussed in detail on pages 36 to 40.

Timely disposal of uneconomical and unused properties has become particularly important in recent years because the proceeds have been needed for other acquisitions and construction projects. Although FBO is not primarily a profitmaking business, it must consider present and expected property market conditions and the funds available (primarily from appropriations) for new and replacement property needs.

The increased emphasis on disposal of excess properties is apparent in the total sales for fiscal years 1967-72. The sales (\$14.5 million) for the 3 years after our report (1970-72) were much higher than those (\$7.1 million) for the preceding 3 years (1967-69).

Of the 26 properties identified as excess in our 1969 report

- 9 had been sold for \$1.7 million;
- 3 were to continue in their present use;
- 5 were in the design or construction phase;
- 2 were authorized for sale;
- 3 were being held for future use; and
- 4 were being held for changes in political, zoning, or market conditions.

Appendix II gives the status of each project.

Status of properties
uneconomical to operate and maintain

Office building (Madrid)

This property was sold in fiscal year 1970 for approximately \$1.1 million. At the time of the sale, the U.S. investment was about \$300,000.

Deputy chief of mission residence (Madrid)

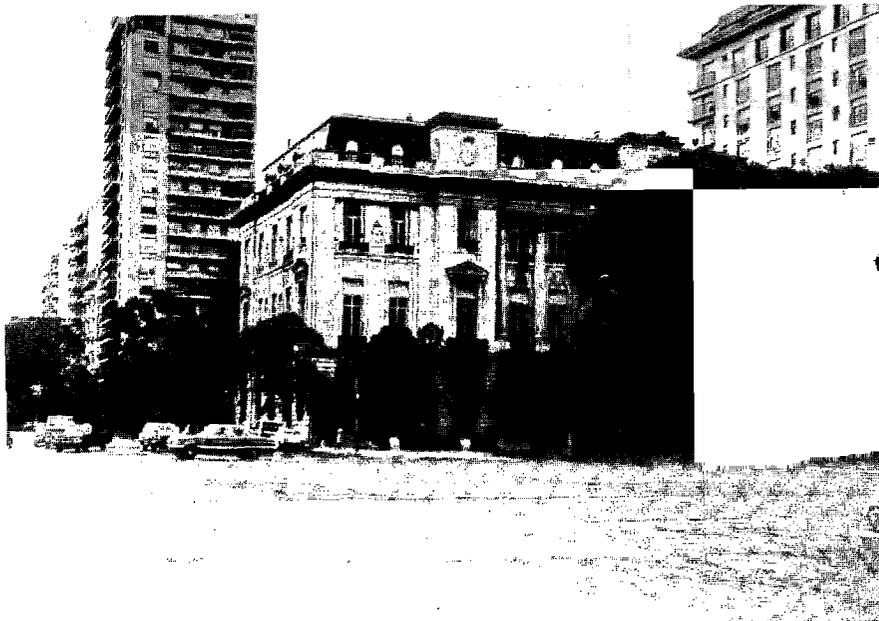
In 1969 we reported that this 37-room residence was worth between \$750,000 and \$815,000. In 1972 the U.S. investment was approximately \$72,000, and operating expenses were estimated at \$12,600. Embassy officials indicated that another residence costing between \$65,000 and \$80,000 could be found but, because property values were appreciating very rapidly, they were reluctant to dispose of the property.

In January 1972, when the property was reportedly worth \$525,000 on the basis of an October 1970 appraisal, the Department decided to postpone its plans to sell the property because (1) the tour of the deputy chief of mission would have been disrupted and (2) the Embassy had proposed an alternative use for the site.

The property value dropped significantly because an expected rezoning of the property, considered in the original appraisal, was not made.

Embassy residence (Buenos Aires)

In our 1969 review we reported that the Ambassador's residence (see picture, p. 10), which had been acquired in 1929 for \$1,360,000, was being retained even though (1) in our opinion, the maintenance, repair, and operation costs were excessive and (2) the Congress wanted to replace buildings which were expensive to maintain. The U.S. investment in the property had increased to \$1,450,000 as of June 30, 1972, and annual operating and maintenance costs were about \$43,000. We were told that further attempts to dispose of this property must await a decision by a higher authority in the Department.



**AMBASSADOR'S RESIDENCE BUENOS AIRES, ARGENTINA
(OVER 40 ROOMS TOTALING 39,500 SQUARE FEET)**

Embassy complex and residence (Rome)

In 1969 we reported that these buildings should be either sold or exchanged, essentially because of excessive maintenance costs. We estimated the annual operating, maintenance, and repair expenses for the Embassy buildings to be about \$350,000 and for the Ambassador's residence to be about \$60,000.

Because the Italian Government considers the Ambassador's residence, like the Embassy complex, to be a national monument, it cannot be altered without approval of that Government. According to a 1965 property survey, the Ambassador's residence and the surrounding grounds were estimated to have a value up to \$50 million if available for commercial purposes. The property files failed to reveal any serious attempts by FBO or Embassy officials to persuade Italian Government officials to remove the residence from the national monument list and allow the property to be sold for commercial purposes.

The Department informed us in September 1973 that it considered our suggestion to sell the properties to be

impracticable. The Department explained that the title documents governing the Embassy complex's properties provided for their return to the Italian Government when they were no longer required for U.S. diplomatic purposes.

We believe, as we did in 1969, that, if the Italian Government will not permit the sale of the properties, we should propose trading the properties for others more economical to operate and maintain.

CONCLUSION

Some uneconomical and excess properties are still being retained and, in some cases, plans for or alternatives to their disposal have not been developed. The Department, however, has reduced its holdings of uneconomical and under-used properties--it has sold one-third of the properties--and has placed others in productive use. Also, it has increased the sales of properties, as reflected by the two-fold increase in total sales since our 1969 report.

We are encouraged by the Department's additional emphasis on disposal of properties, but, as shown in the next chapter, substantially more improvement is possible in a number of areas.

CHAPTER 3

FOLLOWUP CONFIRMS FURTHER

IMPROVEMENT NEEDED

Several properties, costing about \$5 million, are of questionable status as to their need, development, or future usefulness to the U.S. Government. Further improvements are needed to minimize the United States overall cost to preserve its ownership rights to these properties. Delays in pursuing alternative courses of action have prevented timely disposal of some properties. Significant parts of others are underused. In one instance, a merger of two posts was undertaken; in another, some property could be disposed of. One property was unused because of title problems even though the U.S. Government had a planned use for it. These properties are listed in more detail in the schedule below.

<u>Location</u>	<u>Number</u>	<u>Type of property</u>	<u>U.S. investment as of 6-30-73</u>	<u>Year acquired</u>	<u>Status as of 6-30-73</u>	<u>Years in status</u>
Kobe, Japan	41308a	^a Office building	\$ 443,826	1956	Underused	7
	41308b	^a Staff apartments	137,714	1956	Underused	2
	41308c	^a Servants' quarters	36,277	1956	Underused	-
	42308	^a Senior officer's residence	6,599	1954	Underused	-
Osaka, Japan	S-198-FBO 31	^b Office building	138,233	1966	Underused	7
Tokyo, Japan	03308	^{a, c} Office building annex	1,056,046	1952	Inefficiently used	11
	04308	^{a, c} Motor pool	55,377	1928	Inefficiently used	11
Bangkok, Thailand: Rajadamri compound	02316	15.65 acres with six buildings, including senior officer's residence	540,435	1949	Underdeveloped	24
	03316					
	04316					
	05316					
	06316					
07316						
Chancery compound	01316a	11.45 acres with four buildings, including office building	2,117,494	1951	Underdeveloped	22
	01316b					
	01316d					
	01316e					
Peurifoy compound	08316	8.91 acres with six buildings including staff apartments	492,879	1948	Underdeveloped	24
	09316					
	10316					
	11316					
	12316					
13316						
Sathorn Tai compound	14316a to	3.04 acres with 12 buildings, including an office building	100,708	1920	Underdeveloped	53
	14316k					
Camp John Hay, Baguio City, Philippines	06314a	^d 77.41 acres with Embassy summer residence, guest house, and cottage	183,592	1946	Underdeveloped	27
	06314b					
	06314c					
Philippines, Manila	09314	^e Fort William McKinley 24.98 acres	-	-	Unused	17
Total			<u>\$5,309,180</u>			

^aIn 1970 an internal management team recommended that these properties be sold.

^bShort-term leased property.

^cProgramed for sale in fiscal year 1976, depending on completion of the new office building.

^dFBO pointed out that Camp John Hay was kept after independence for recreation. If the surrounding areas were sold, it stated, the camp would be useless for recreation.

^eAction by the Philippine Legislature to deed the property to the U.S. Government has been pending since 1956.

POSSIBLE PROPERTY MANAGEMENT IMPROVEMENT
IN JAPAN

An internal management team visiting Japan in 1970 recommended that six properties in Tokyo and Kobe, worth about \$21.7 million, be sold. Funds generated from the sales could be used to more effectively manage properties not only in Japan but in other parts of the world.

Delays in constructing proposed
Embassy office building, Tokyo

In 1969 we reported that since 1962 the Tokyo Embassy had been concerned about its inefficiently used and costly office space. Because of overcrowding and building deterioration of the Embassy Annex--where most of the Embassy's office space was located--and the division of the Embassy's office space among several buildings, the Embassy repeatedly encouraged the Department to construct a new Embassy office building (chancery) on the existing chancery site. (See picture, p. 14.) This would eliminate the need for the Embassy Annex, which could then be sold to pay for constructing the new chancery. Retaining the annex was becoming more uneconomical each year. Its operating cost during fiscal years 1964-69 was about \$491,000, and this cost was increasing from \$4,000 to \$5,000 each year.

In response to the Embassy's 1968 proposal, Department officials planned a new office building and obtained congressional authorization for design plans. However, several problems had to be solved before construction could begin, the major one being to get a fee simple title to the chancery from the Japanese Government.

All but two small corners of the chancery site, which are of minor concern, was acquired in 1896 as a lease in perpetuity. Department officials delayed construction because they believed the lease could be converted to a fee simple title in accordance with Imperial Order 272 of March 27, 1942, which stated that persons possessing a lease in perpetuity would acquire ownership of the land as of April 1, 1942. Efforts to settle this matter had been underway since 1963, and because it was not resolved, the Department



**TOKYO CHANCERY WHICH THE DEPARTMENT HAS
WANTED TO REPLACE FOR OVER 10 YEARS**

believed something in the title prevented it from constructing a new office building.

The lease in perpetuity provided that, if the Japanese Government discontinued the lease, the United States would be paid for the building and improvements, just as if the United States held a fee simple title and the Japanese Government exercised eminent domain. Either way, the United States would have had the same property rights except that under a fee simple title the United States could sell the land but under a lease it could not.

The Japanese Government refused to convert the lease to a fee simple title, and the State Department proceeded with construction plans on the basis of the lease rights which

existed in 1962 when the project was first recommended. The appropriation request for 1973 included \$8.5 million for constructing the office building. Invitations to bid were issued in April 1973.

Delays in sale of chancery annex

When the proposal was made to construct a new office building on the present chancery site in 1962, it was also proposed that the chancery annex be sold to pay for the new construction. These plans were also interrupted because of the title issue and the need for office space during construction.

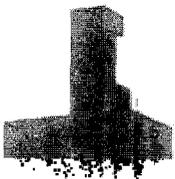
The original plans for the new chancery called for a nine-story building but did not include space for some functions--the Trade and Cultural Centers, Travel Services, and Embassy translation units--then in leased office space costing about \$275,000 annually. During our followup we expressed concern about this. Embassy officials said the functions were not included because FBO was planning to construct the chancery within previously authorized cost estimates.

We were informed in September 1973 that a construction contract for a new 11-story chancery had been signed. The annex was sold in August 1973 for over \$55 million plus rent-free occupancy until the new chancery was ready. The proceeds from the annex sale will be more than enough to cover the costs of the new building.

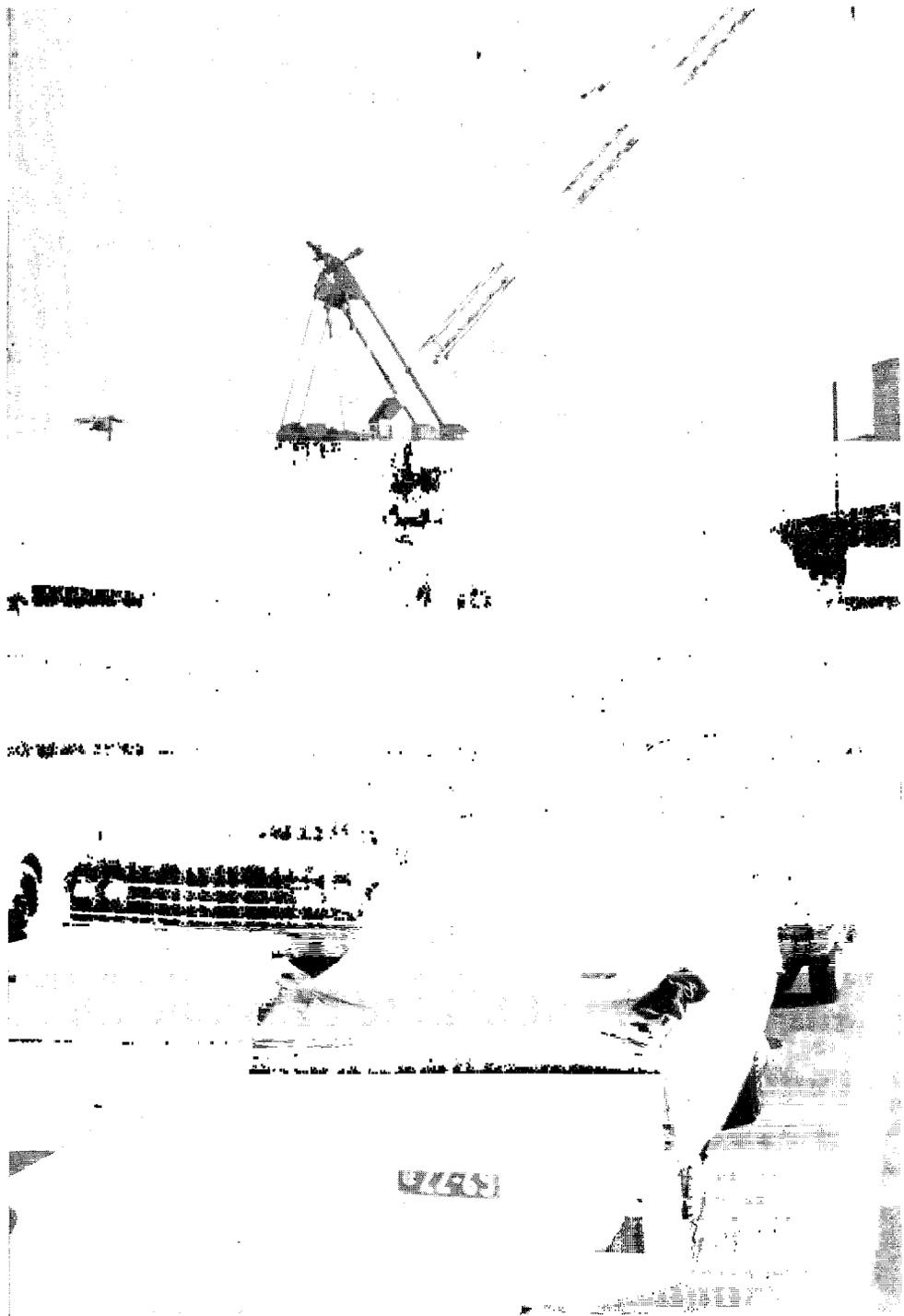
Because the Embassy needs temporary office space during construction, a contract was signed for construction of an interim chancery on a motor pool site. (See photographs on pp. 16 and 17.) In November 1973 we were informed that the dollar amounts of the construction contracts for both the new chancery and the interim chancery were about \$11.4 million and \$0.9 million, respectively.

Agency comments and GAO evaluation

The Department said in September 1973 that the chancery annex had been sold for over \$55 million plus rent-free occupancy until the new chancery can be occupied. The



CHANCERY ANNEX IN TOKYO SOLD FOR OVER \$55 MILLION



**MOTOR POOL, TOKYO, SITE FOR TEMPORARY OFFICE SPACE;
SCHEDULED FOR SALE AFTER OCCUPANCY OF NEW CHANCERY**

internal management team estimated the value of this annex to be \$16 million in 1970.

Although we acknowledge the favorable results of the arrangement surrounding the chancery annex sale, we believe a 10-year delay was not warranted because the Department's title rights--the reason given for the delay--were the same in 1973 as in 1962.

Need for consolidating Osaka-Kobe functions

The U.S. Government property requirements for the Osaka-Kobe area have been in a state of flux for at least 10 years. Because of the rapid growth and development in the area, the Department has been considering consolidating U.S. functions in one of the two cities, which would reduce the need for properties in both cities. However, no consolidation plans have been developed.

Osaka has recently overtaken Kobe in importance to the U.S. Mission. Since about 1970, the political, economic, and commercial activities and most of the administrative work has been performed in Osaka and the consular operations and some other administrative work has been performed in Kobe. Consulates of other countries have moved their entire operations from Kobe to Osaka and have completely phased out operations at Kobe.

The Department has known of the Osaka-Kobe situation since at least 1970, but officials have not resolved it. Embassy officials doubted that a decision to consolidate would be made in less than 3 years. The low use rate for both owned and leased office space is, we believe, due in part to the lack of consolidation and to a lack of emphasis on reducing property costs.

Although our review was not aimed at deciding in which city U.S. operations should be consolidated, the following situations require action to reduce property costs.

Office building--Kobe

The Embassy's consular and administration sections and certain other agencies use the consulate office building in

Kobe. Although several large, unused offices there could house all consulate functions, the Embassy is leasing office space in Osaka. Less than 50 percent of this leased space, costing approximately \$54,000 annually, is used.

Kobe staff apartment building underused

Several apartments in the Government-owned staff apartment building were vacant, and single persons were occupying one four-bedroom and one three-bedroom apartment. At the same time the Embassy was leasing four residences (three in Kobe and one in Osaka) at about \$30,000 annually for two U.S. Information Service and two Department employees. Most of these leasing costs could be eliminated by better use of the staff apartment house. Embassy officials stated that, although they must sign leases for other agencies they cannot dictate how the employees will be housed.

Sale of senior officer's residence in Kobe

An internal report recommended selling the senior officer's 60-year-old residence because maintenance costs had been increasing.

We believe this property should be sold and the proceeds used to buy a new residence, possibly in the more desirable area between Kobe and Osaka where the consul general's residence is located. Embassy officials also believe this residence should be sold but question whether the proceeds from the sale would cover the cost of buying another residence. The estimated selling price for this property was about \$300,000. They stated they would follow up on this matter with the Osaka-Kobe consulate and the Department.

Conclusion

According to an FBO official, although the post had been officially moved from Kobe to Osaka some time ago and some properties in Kobe could be sold, FBO had no plans to do so. This project, he felt, did not have as high a priority as others. We believe this situation should be restudied with a view to consolidating and eliminating any unused or uneconomical properties.

In our opinion, the foregoing situations in Japan emphasize why management should adopt more useful measures for evaluating its needs and insuring maximum use of properties. Instituting a management information system (as discussed on p. 36) will not solve the problems but will assist local Embassy officials, FBO officials, and other responsible Department officials in determining what properties are needed and how to meet these needs.

POSSIBLE PROPERTY MANAGEMENT IMPROVEMENT
IN THAILAND

Several opportunities exist for improving real property management in Thailand. The Department owns approximately 39 acres of land currently valued between \$14 million and \$16 million and used as follows:

<u>Property</u>	<u>Gross</u>	Gross used (note a)	Unused (note b)	Under water	Remaining unused
	----- (acres) -----				
Rajadamri com- pound	15.65	1.38	14.27	5.01	9.26
Chancery com- pound	11.45	2.51	8.94	3.36	5.58
Peurifoy com- pound (note c)	8.91	1.33	7.58	3.16	4.42
Sathorn Tai compound	<u>3.04</u>	<u>1.94</u>	<u>1.10</u>	<u>.06</u>	<u>1.04</u>
Total	<u>39.05</u>	<u>7.16</u>	<u>31.89</u>	<u>11.59</u>	<u>20.30</u>

^a Includes all access roads, parking lots, and streets within the property.

^b Includes space between buildings and klongs (canals).

^c Planned construction of Marine Guard quarters in fiscal year 1977.

The Embassy agreed that the present properties could be used more economically. However, it justified some of the unused acreage by stating that a lawn and prominent entrance

area added grace to an Embassy and other U.S. properties and also provided a recreation area for employees and families, an area where employees can relax during lunch breaks, and pleasant surroundings.

The Embassy believes the purpose of the klongs cannot be overemphasized, and only competent topographical engineers can determine the feasibility of filling in the klongs. Because of the high water level in Bangkok (only 1.5 meters above sea level) and the lack of a sewage system, the klongs play a special part in providing drainage for residential and office buildings.

An FBO official said that the klongs could be filled and used. In fact, some already have been filled. (See pictures of the Rajadamri and Chancery compounds, pp. 22 and 24.) We were told, nevertheless, that any unused portions of the compounds, although not needed for the Embassy's immediate needs, could not be sold. Any attempt to subdivide and sell the reclaimed or other land would create security problems. The FBO official also felt that subdividing and selling unused land was impossible because of the lack of access roads.

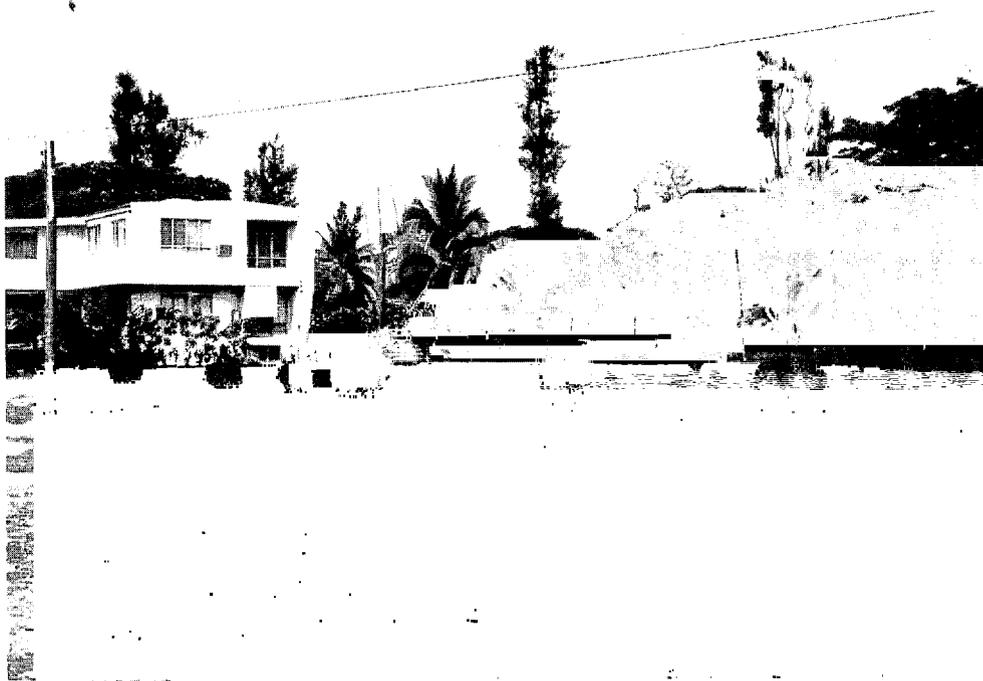
These conditions do not exist for all properties. For instance, the back and side of the Rajadamri compound has access to a road and, with the addition of a fence to divide it from the Embassy, could be sold. We learned in September 1973 that construction of a warehouse had begun on the unused section.

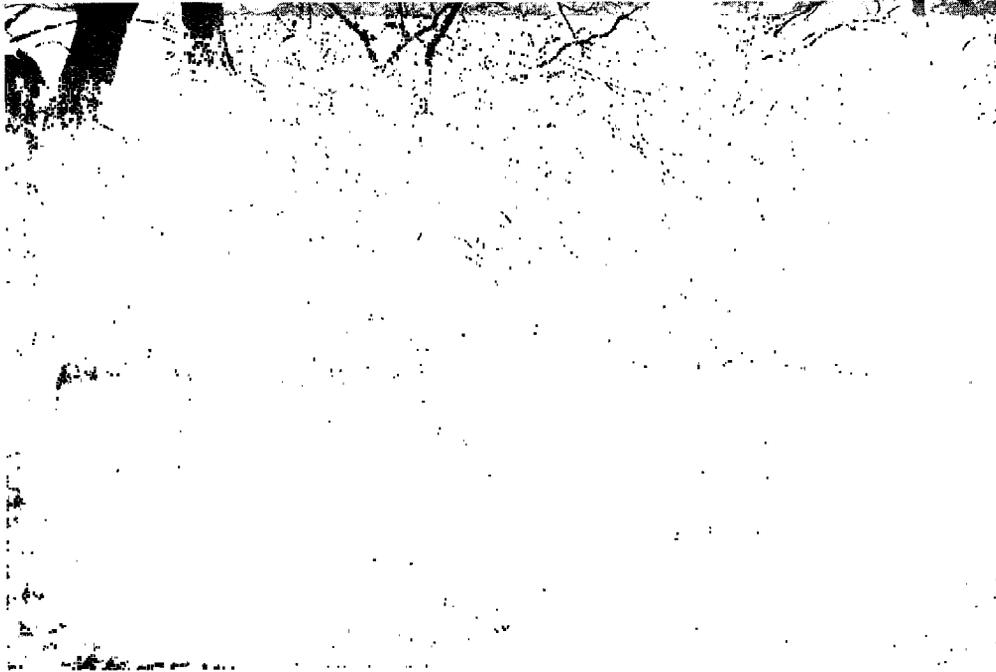
In February 1972 FBO completed a comprehensive study on properties in Thailand. This study included plans for the major uses and needed improvements, all of which involved building on existing property, trading owned property, or selling one property and buying another.

We were told, however, that no consideration had been given to selling unused portions of the property, nor had the properties been carefully appraised. According to the Department, the disposal or fuller use of most improved properties is dependent upon the availability of funds for new or replacement facilities. Selling portions of unused

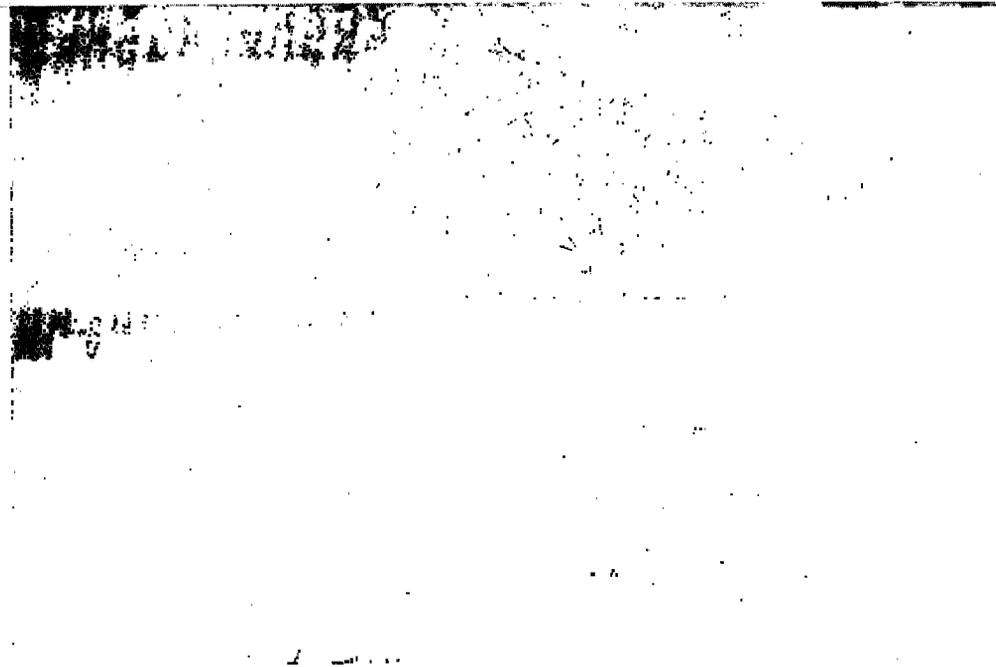


RAJADAMRI COMPOUND, BANGKOK, USED AREAS.
ABOVE WITH KLONG, BELOW WITHOUT





**CHANCERY COMPOUND, BANGKOK, USED AREAS.
ABOVE WITH KLONGS, BELOW WITHOUT**



property is often undesirable for reasons of privacy or security. We believe that, because the amounts of unused property are large, subdividing certain properties and selling portions to obtain proceeds for general FBO needs should be considered.

POSSIBLE ADVERSE EFFECTS FROM UNCLEAR
TITLE UNDERSTANDING IN THE PHILIPPINES

The United States has been denied the use of one property in the Philippines for about 16 years because the Philippine Government has failed to fulfill its commitment to convey fee simple title to the United States. In addition, officials of the American Embassy in Manila were unaware of the title status of two other properties. In our opinion, the absence of clear title and the lack of clear understanding of title status can contribute to inefficiencies in real property management at the overseas posts.

Fort William McKinley lot

The United States acquired about 6,000 acres in 1902 and 1906 from private owners for about \$70,000 in gold. The land was used as a military reservation and named after President William McKinley.

In 1956, by an exchange of notes, the United States agreed to turn over title of all of its military bases (including Fort McKinley) to the Philippine Government, which, in turn, agreed to return 25 acres in Fort McKinley for diplomatic and consular purposes. However, the Philippine Government failed to issue a certificate of title for the 25 acres. Lengthy discussions have been held over the years. The Government of the Philippines claims its law prohibits transfer of government-owned real estate except with concurrence of its Congress. A bill was submitted, but the Philippine Congress declined to approve it.

The Philippine Army now occupies the 25-acre Fort McKinley tract, presently named Fort Bonifacio, which borders a fashionable Manila suburb and which has been conservatively appraised at \$1.5 million. The tract is

presently homesteaded by active-duty and retired Philippine military officers.

An Embassy official told us that the matter of a fee simple title to the 25-acre tract should have been aggressively pursued shortly after the 1956 agreement. The United States had not constructed buildings on the site because none had been needed.

An FBO official stated that the property was being held for future development, including staff housing and official residences. This official believes, however, that, by virtue of the 1956 agreement, the United States has rights to a claim to title but not to possession or use. He believes also that the United States is avoiding aggressive action to obtain a fee simple title because of the current sensitive political situation in the Philippines. The official believed that, although military officers may be homesteading on the tract, the United States is taking no risk of losing property rights through adverse possession or otherwise because it can rely on the 1956 claim to title. We believe this issue deserves further Department inquiry.

This tract has been the subject of extensive correspondence with the host government over the past 15 years. The Embassy shortly will propose that the Philippine Government issue a fee simple title as an administrative act which does not require the approval of the Philippine Congress. Since the host government has used the exchange of notes to obtain title to other properties within the tract, a precedent has been established which should enable the United States to obtain title on the same basis.

It appears the United States has significant rights to the property by virtue of the 1956 agreement. However, these rights have not been cleared up in 15 years. The Department advised us in September 1973 that there might soon be a settlement of the title to the Fort William McKinley site.

Ambassador's summer residence at Baguio City

The Baguio City property, which consists of approximately 77 acres, was part of the U.S. military reservation at Camp John Hay and was reserved by the

President of the United States in 1946 for diplomatic and consular functions under the Independence Act. One site within this area serves as the Ambassador's summer residence.

We found no documentation in the Embassy property files concerning the conveyance of a fee simple title to the property from the Philippine Government to the United States. We did find correspondence between FBO and the Embassy between 1959 through 1963, but none after 1963, concerning the land title.

The U.S. Government's right to the Baguio property was reiterated in the same exchange of notes in 1956 as for the Fort McKinley plot.

We were informed that the Baguio City property was retained after independence for recreational use. Moreover, FBO has no plans to sell the site now being used as the Ambassador's summer residence because, if sold, the remaining area surrounding the summer residence would be useless for recreation. However, as country conditions change, the original purpose of an acquisition may no longer be justified and our use or sale rights become more important. The Department advised us in September 1973 that it would continue to seek clarification of the Baguio property title.

Embassy compound

According to Embassy officials this land was donated to the United States Government by Legislative Act 4269 approved by the Philippine Government on November 8, 1935. The site is reclaimed land on the edge of Manila Bay.

We found no documentation in the Embassy files concerning conveyance of fee simple title to the property from the Philippine Government to the United States Government. The Embassy's administrative officer believes that the Embassy does not need fee simple title to this land because it was transferred to the United States with the concurrence of the Philippine Congress.

State Department and Embassy comments

Embassy officials stated that the Embassy compound and the summer residence in Baguio were part of the legislative history of the Philippine Government and that acquiring a fee simple title would serve no useful purpose. Further, they said it would be undiplomatic to ask the host government to issue title merely to complete the official records. FBO officials, however, believe obtaining fee simple title would be beneficial.

We were further informed that no summary information was available to indicate possible restrictions on possession, use, or right to sell and that, if such information was needed, the title documents would need to be analyzed.

The State Department told us in September 1973 that obtaining titles to the Fort William McKinley and the Baguio properties in the Philippines constituted both a political and an administrative problem. The problems of the Fort William McKinley site may soon be settled, and efforts to clarify the Baguio title are continuing.

In our opinion, FBO, Embassy, and other management officials should fully agree on title status and information on rights and limitations should be readily available to assist management in making decisions on use, construction, and disposal.

EXTENT OF TITLES PENDING

As of July 1, 1971, the United States had 193 properties in foreign countries throughout the world which were identified under "title documents pending" in the FBO property list. Many of these titles had been pending for long periods. A number of leases pending for significant times were also noted. We brought this matter to the attention of FBO officials during our followup. As shown in the following schedule, FBO reduced the number of titles pending to 92 as of July 1, 1973.

Schedule of FBO-acquired Properties

With Titles Pending--as of July 1, 1973

Year acquired	Total sites			Total acres (note a)	Total cost to the United States (note b)
	Without buildings	With build- ings	Total		
1950	-	1	1	0.58	\$ 10,502
1951	-	1	1	(c)	39,038
1960	1	1	2	5.85	90,416
1961	1	3	4	11.66	598,495
1962	-	2	2	13.00	238,031
1963	-	8	8	4.67	837,675
1964	2	6	8	6.98	699,934
1965	6	7	13	14.27	892,740
1966	6	8	14	15.48	502,967
1967	-	1	1	(d)	(d)
1969	-	2	2	0.77	249,014
1970	1	7	8	12.93	1,510,082
1971	1	10	11	2.88	661,009
1972	-	9	9	2.60	710,730
1973	-	8	8	3.43	438,864
Total	<u>18</u>	<u>74</u>	<u>92</u>	<u>95.10</u>	<u>\$7,479,497</u>

^aEstimated for a number of sites.

^bBased on obligations rather than expenditures.

^cIncluded above.

^dUnder negotiation for exchange of sites.

Although we did not specifically examine these properties or the status of their titles, we believe the unresolved status and lack of readily available data relating to rights and limitations on possession, use, and marketability may result in situations similar to those we found in Japan and the Philippines. It appears that the unnecessary 10-year delay in beginning construction on a new chancery in Tokyo was caused by the lack of a clear understanding of U.S. property rights. Similarly,

officials of the U.S. Embassy in the Philippines and FBO clearly disagree on title status.

CONCLUSION

Our followup confirms the need for the Department to carry out its plans for a full-scale property management system. The Department has reduced its holdings of uneconomical and excess properties but further improvements are possible for converting excess properties to other uses or, by sale, into funds to be applied to priority needs.

Although we are encouraged by recent progress to resolve the status of U.S. property rights, there is still room for measurable improvement. Once the property rights are established, this information needs to be made readily available for consideration in developing alternative uses and disposing of properties.

RECOMMENDATIONS

We recommend that the Secretary of State reassess unused and underused properties and, where feasible, dispose of uneconomical properties by sale or exchange. Also, the Secretary of State should take more affirmative action to establish property rights when title is pending.

AGENCY COMMENTS

In September 1973, the Department cited a number of actions to change the status of properties identified as uneconomical and underused. Additionally, it pledged continuing efforts to identify and dispose of unused, underused, and uneconomical properties.

CHAPTER 4

CENTRALIZATION OF PROPERTY MANAGEMENT

The Department has been slow in implementing its plans, especially those with long-range aspects. FBO's chief responsibilities are to acquire, develop, furnish, administer, and maintain the Department's long-term real property holdings. FBO also administers the office space requirements and some of the housing needs of other civilian agencies and of military attaches abroad. It does not, however, have responsibility for the administration and control of the building operating expenses and the funds for short-term leases.

Long-term holdings are funded by the capital account of FBO's appropriation. FBO's operating account under this appropriation comprises several categories, including minor improvements and maintenance and repair. Daily operating costs (heat, fuel, and electricity) of Government owned and long-term leased properties are also funded by FBO and are allotted, along with salary and expense funds, to the posts through the regional bureaus. Items charged to the capital account and to minor improvements are capitalized for accounting purposes.

GAO RECOMMENDED GREATER CENTRALIZATION IN 1969

Alternative solutions of management deficiencies are always possible. In 1969 we proposed greater centralization of the Department's management, policy, and control over real property. The Department believed, however, that its plan to improve long-range planning and property information was more practicable.

We believe centralization would not only simplify the budgeting, accounting, and internal control functions relative to the management of overseas property but also lead to more effective, efficient, and economical management of the foreign buildings program. A single organization, namely FBO, having these responsibilities would have the perspective necessary to assess the Department's total overseas requirements and would be in a position to take the necessary actions to achieve worthwhile objectives.

In 1969 we reported that the Department had clarified the responsibility for funding and administering its overseas property. It had restored to the Director of FBO control over a substantial part of the management of the Department's overseas property. Nonetheless, additional improvements could be made if the Director were also responsible for administering and controlling building operating expenses and for funding short-term leases.

However, the Department felt that no further centralization of these activities was necessary. It pointed out that FBO was responsible for approving all short-term leases exceeding \$25,000 a year and that FBO's advice and assistance on short-term leasing was readily available to regional bureaus and posts. (FBO has varying degrees of responsibility for short-term leasing--from almost complete responsibility in Latin America to almost none in Africa.)

The Department claimed that its partially decentralized structure would enable it to maintain the necessary central policy direction and control while keeping management at the overseas posts responsive to local needs. The responsible officer at a post could best judge the day-to-day changes concerning the properties under his jurisdiction. Major changes with long-term implications would continue to require central assessment, coordination, and financing.

The Department felt its system for providing property financial and management information would aid central policy direction and control while keeping local needs in focus.

DEPARTMENT OF STATE ACTIONS IN LIEU OF CENTRALIZATION

In 1969 the Department proposed certain actions in lieu of greater centralization. Part of the Department's planned improvement centered on (1) refining guidelines and criteria for the funding and accounting for alterations and improvements on owned and leased property and for the use of property, (2) developing more comprehensive and reliable management information, (3) modifying the accounting system, and (4) developing property needs for each country through coordinated planning.

Guidelines and criteria

Several of our 1969 findings showed the need for improved guidelines and criteria for property management. Although we noted some improvements during our followup, the existence of similar deficiencies indicated that much work was still needed.

Capital improvements

In 1969 funds used to finance capital improvements, repairs, and alterations of Government owned and long-term leased properties for some overseas posts came from the Department's salary and expense (S&E) appropriation, which was not legally available to pay such costs. FBO's appropriation should have been charged. Since our review, the Department has expanded its examples of capital improvements, alterations, and major repairs in the Foreign Affairs Manual. It reemphasized, in a directive to all posts, that S&E funds were unavailable for financing expenditures of Government owned or long-term leased buildings except operating expenses. During our followup, however, we noted other charges to the wrong appropriation, such as:

Painting and repair of long-term- leased Embassy recreation hall	\$ 700
Repair of air-conditioner in Ambassador's residence	1,200

An Embassy official told us that this happened because FBO money was scarce and the post must continue to operate. The Department could not recover from other agencies, through the shared administrative support program, any funds it spent under FBO allotments as it could under the S&E appropriation. Therefore, since more S&E funds can be prorated under the shared administrative support program, he tended to use S&E funds for some FBO work. We brought this to the attention of the Department, and it agreed to take appropriate action.

We had previously found that certain improvements to Government-owned properties at three overseas posts had been charged to the current period as maintenance and repair,

contrary to Department regulations, instead of being capitalized. Although the Foreign Affairs Manual has been expanded to include examples of capital improvements, alterations, and major repairs, it does not indicate when these transactions should be capitalized in the property accounts. An FBO official told us that transactions would be capitalized if they increased a property's value or improved its use. Repairs would not be capitalized because they restored to original condition a property, or portions of it, which had deteriorated through normal wear or tear or which had been damaged.

Some transactions, such as replacing a central air-conditioning system for \$94,000 and replacing and updating electrical facilities at a chancery for \$10,400, had been classified as repairs. Each would have been more properly handled as a replacement with a portion of the transaction's being capitalized to reflect the net change in the value of the property because the system was replaced.

The GAO Policies and Procedures Manual for Guidance of Federal Agencies states the accounting principles for fixed assets changed by additions, alterations, rehabilitation, or replacement. The principle in such cases is to (1) capitalize the costs incurred in making such changes when they significantly extend the property's useful life or its capacity to render service and (2) remove from the property accounts the cost of features superseded or destroyed in the process. The Department's Statement of Accounting Principles and Standards follows this principle and establishes a minimum amount to be capitalized of the lesser of \$1,000 or changes in the value of the asset which are greater than 25 percent of the building cost.

Short-term leases

We previously reported that the Department spent \$14,297 from October 1964 to September 1967 for alterations, improvements, and repairs on short-term-leased property because the posts were not requiring the lessors to carry out their maintenance responsibilities. This amount also included costs for some major structural changes in these properties, which were contrary to Department regulations.

In 1969 the Department sent our recommendations on short-term leasing to the posts and requested that they "operate in accordance with them." The posts were reminded that Department regulations require the lessor to assume maintenance and repair costs unless local custom dictates otherwise. If the lessor fails to perform his obligation for maintenance and the post does the work, such cost should be deducted from the next rent payment, assuming the lease provided for this. The posts were also reminded that capital improvements, alterations, and repairs require prior approval of the Washington, D.C., office of the user agency.

The Department planned that its revised regulations would clarify the authority and basis for improvements to short-term-leased property and would insure that the lessor's responsibilities were clearly stated in new and renewal leases. This would give the post a sound basis for negotiating rental offsets if the lessor did not provide services or maintain standards required by the lease. However, the only change so far in the regulations on the subject of short-term leasing concerns delegating leasing authority.

In our followup at posts in Europe and Africa, we found no instances where the Department spent funds for alterations, improvements, and repairs to short-term-leased property. For the most part these posts took the initiative to insure that the lessor fulfilled its contract responsibilities. The Embassies occasionally made minor improvements to short-term-leased properties but subsequently deducted the costs from rental payments.

In contrast, we found that several improvements and alterations had been made at Far East Embassies. The Embassy in Thailand used about \$10,500 from its maintenance and repair funds to pay for several minor alterations, improvements, and repairs to short-term-leased properties--the Ambassador's residence in Bangkok and the consulate in Chiang Mai--rather than have the lessor, the Thai Government, do the work. FBO did not approve these expenditures, nor did the post offset the cost of repairs against the rental payments. The Embassy believed that, if the lessor were required to repair these properties, which rent for about \$5,500 a year under yearly agreements, the rent

would be raised and that comparable residences would be difficult to find and more expensive.

Records at the Embassy in the Philippines showed that costs incurred by the Embassy for repairs which were the responsibility of the landlord were not always offset against the rental payments. Some of these repairs were made on properties for which the rents were paid a year in advance. Embassy officials attributed the problem to (1) the continued devaluation of the Philippine peso, and (2) the landlords' lack of adequate maintenance staffs. Advance annual rental payments, which were contrary to Department policy, also contributed to the landlords' reluctance to make repairs. In the Philippines advance payments were made in hopes that landlords would agree to leases of 3 or 4 years.

Use of property

As noted in chapter 3, one of the actions expected to improve property use was the developing of criteria to be published in the Foreign Affairs Manual. A revised manual draft provides for annually evaluating each property acquired under the Foreign Service Buildings Act. The evaluation would be based on the post's assessments of the following questions.

- Is the property surplus to foreseeable needs?
- Is it partly used?
- Could it be exchanged for better property at little or no increase in cost?
- Is it uneconomical to maintain?

Political factors, location, and physical obsolescence might also be considered in the evaluation.

Overall status of guidelines and criteria

Although revisions to the Foreign Affairs Manual have met our prior recommendations, late in 1973 they had not been distributed to the field. The sections pertaining to

real property management abroad are awaiting final approval before publication. The Department has informed us that it will incorporate our report suggestions in its manual.

Property information system

As with the improvements of property guidelines and criteria, the Department sees the development of a property information system as a method for meeting many of our recommendations.

Little progress has been made in carrying out the information system plans approved in July 1970. On the basis of discussions with responsible officials, we believe implementation has been delayed because (1) the project had been given lower priority than other work assigned to the responsible office, (2) the property accounting system had not been implemented, and (3) a firm implementation date had not been established.

The plan outlined the Department's objective of providing adequate office and housing accommodations for employees at posts abroad. All activities contributing to this objective were considered as parts of a unified system. Thus the total program would cover Government owned and leased properties and would allow for leasing of private housing. Although the plan did not deal with the organizational aspects, it recognized that the system should be centrally coordinated and should have a means for central evaluation, analysis, and short- and long-range planning.

Because of the large number of properties abroad, the plan proposes a computerized information system providing the kinds of data needed at various decision levels: post, bureau, and department.

The plan gives cost as a prime consideration in property management. Although such factors as security and location are also considered important, those who oversee and direct property management must be able to make cost comparisons of alternatives. The plan recognizes that the system should provide summary cost and other data when a property situation is analyzed so decisionmakers know which alternative is the least costly and what the factual basis

is for assessing and comparing the noncost advantage or disadvantage of alternatives.

The system would furnish information designed to help answer these questions.

--Does a post have adequate space or is the total excess to its needs?

--Is the space too costly?

--Is the property obsolete?

By providing such data as the amount of office and housing square footage per person and the cost per square foot and per person, the system would give comparative averages to bureau and departmental levels showing where the amount of space or costs are unusually high to signal that alternatives should be considered.

Although the Department recognizes the need for developing the management information system, as of late 1973 it had been deferred pending completion of the property accounting system. Although costs are an integral part of the information system, we think that refinement envisioned in the property accounting system should not necessarily preclude development of the information system. We believe that, if the information system were implemented, it would be a valuable tool at all levels to improve property management and that it should not continue to be deferred because of modifications to the accounting system.

Also in our 1969 report, we recommended that the Secretary have the Director of FBO comply with the Federal property management regulations by reporting the actual real property inventory investment as of June 30 to the General Services Administration instead of reporting investments which existed 6 months before June 30. On April 22, 1969, the Department indicated it would comply.

In November 1973 an FBO official verified that the proposed revision was implemented as of June 30, 1972, to comply with our 1969 recommendation.

Accounting system

The modification of the accounting system touches various findings in our 1969 report. Although we reported that several very uneconomical properties had been retained, the absence of property accounting records and current appraised market values of properties precluded our knowing the full extent of this adverse situation.

Records and reports pertaining to Government owned and long-term leased property managed by the Department were not always prepared or were often incomplete and inaccurate. Records for accumulating costs of maintenance, repairs, improvements, alterations, and operations for individual properties were not required and maintained.

One major step the Department planned was improving the accounting system. The new system was to include both accrued expenditures and obligation data and would facilitate summarizing all costs for each building.

During our followup, the official in charge of this project said that, although much work had gone into designing a system, no action was being taken to implement the plan because the design was considered unacceptable. The system developed was deemed to place an undesirable burden on the overseas posts and was rejected.

One of the problems to be considered in redesigning the property accounting system is the fact that the Department's existing system was designed primarily to account for its appropriations and funds through a system of allotments, in terms of obligations and cash transactions, rather than to develop reliable data on the agency's assets and liabilities or on the value of resources consumed in its operation.

Although the Comptroller General approved the Department's Statement of Accounting Principles and Standards on September 20, 1968, guidelines for developing an integrated accounting system have not been developed. The current property system does not provide appropriate accounting control, because information is recorded in the general ledger property accounts only at the end of the fiscal year from FBO estimates of increases in the cost of

property based on obligations during the year. Property transactions, however, should be recorded in formal control accounts as an integral part of the accounting system.

In its September 1972 annual management report, the Department said that it planned in fiscal year 1973 to develop a complete outline of the accounting system design and to resolve any outstanding issues of compliance with GAO Accounting Principles and Standards. The Department will submit its accounting system design based on the current estimates to the Comptroller General for approval in December 1975. It also intends to draft, with existing manpower to the extent possible, an outline of the design for the real property management and accounting subsystem to meet GAO's Accounting Principles and Standards. The Department thinks 10 to 20 man-years will be required to design and implement the property system, with the earliest possible completion in December 1975. In our opinion, this delay occurred because of the Department's low priority for the system's development.

Overall coordination and control

As noted above, the plan for the management information system recognizes that, to achieve a unified real property program, there should be a centrally coordinated information system and a means of central evaluation, analysis, and short- and long-term planning. The Department assumes that, in developing an information system, steps would be taken to insure the necessary organizational coordination to carry out the proposed central functions. This is especially important because of the decentralized management and funding of the Department's programs to provide office and housing accommodations. This point was brought home in a Department official's comments that roughly 35 percent of the Department's funds goes for permanent property holdings, but that 65 percent covers temporary items, such as short-term leases and living allowances. Thus he felt there was a need to look at property management from the broader perspective.

This concept was tested in three country surveys several years ago. Teams of three individuals with backgrounds in architectural engineering, market valuations,

and program analysis made surveys to determine future staff requirements. Although the necessary information was available, considerable time was required for pulling the sources together. If the data had been readily available, as the computerized management system envisioned, significant time would have been saved and the country survey staffs could have spent more time on planning.

The Department has not made this coordinated approach to overall planning operational. Officials said that no formal mechanism had been set up for coordinating the various organizations and management levels that help manage the Department's property and related programs. For such an arrangement to be effective, a cooperative spirit not normally found in traditionally structured organizations would be required.

CONCLUSION

The Department has made limited progress on some of the planned improvements in property management. We are particularly concerned with the apparent need for greater centralization and with progress in preparation of guidelines and criteria and of the accrual property accounting system and the management information system.

We recommended greater centralization of property function in our 1969 report, because it would provide the perspective necessary to appraise the Department's total overseas property requirements. Our assessment is that the Department's actions in lieu of centralization, although encouraging in some respects, do not provide the desired perspective for property management.

RECOMMENDATIONS

We again recommend that the Secretary of State assign to one organization or committee the responsibility for overall guidance, policies, plans, and assessment of the Department's overseas office and housing needs. The organization or management committee should set target dates and assign a higher priority and adequate resources to implement the Department's plans for improving property management.

Also we recommend that the Secretary of State increase efforts to develop an accrual property accounting system and a property management information system.

AGENCY COMMENTS

The Department agrees that improvements instituted since 1969 have not accomplished all that was anticipated, citing as causes

- the unusual complexities in the uniform and timely transmission and control of data,
- the large reduction in real property management personnel, and
- the preoccupation of senior management officials with foreign affairs crises in several countries.

It points to the progress made in revising operating manual sections on real property management overseas, which need only final clearance before printing and release.

The Department recognizes the need for a property management information system but believes its development is contingent upon the adoption of a satisfactory accrual property accounting system. New efforts are underway to develop an effective system and to incorporate adequate controls to insure correlation between the accounting and information systems.

It agreed with our recommendation that responsibility for overall guidance, policies, plans, and assessment of its overseas property management should be vested in one organization and stated that several means of achieving this goal were under consideration, including the enhancement of the Director of FBO's organizational role and staff and the establishment of a real property management committee.

CHAPTER 5

COORDINATING DESIGN AND CONSTRUCTION OF BUILDINGS

Coordinating design and construction is a major problem in the building program.

1969 REPORT AND DEPARTMENT-PROPOSED ACTIONS

In 1969 we reported that FBO had acquired designs costing about (1) \$278,000 for 10 projects which were later abandoned and (2) \$435,000 for 36 other projects which had been deferred. Building designs seem to have been acquired prematurely, and, because construction priorities for these properties were not sufficiently high, reduced funding did not permit the expected construction. We stressed the need for better coordination between designing and constructing proposed projects.

The Department acknowledged the problem and attributed it to unexpected or unavoidable changes in functions and staffing of missions, substantial curtailment of funds for the capital program, and uncertainty of amounts and timing of receipts of sale proceeds.

The Department planned to improve its coordination by having FBO continue to work with other offices to develop more complete, reliable, and timely management information for architectural use.

FOLLOWUP STATUS

During our followup an official said that FBO had considered many plans to improve coordination of building design and construction. However, all that was done was informal. For example, FBO usually consulted with regional bureaus at the start of any proposed contract to spot any serious problems that might affect its scheduling.

We reviewed the status of the architectural and engineering contracts issued from April 1969 through December 1971. Since contracts for major construction projects generally require 2 years from completion of design to start of construction, it was too early to determine the outcome

of many of them. Some projects, however, were deferred or abandoned. Of the 39 contracts issued in the period, 18 costing \$88,000 were for projects that were completed. One project costing \$19,795 was deferred, and two projects costing \$6,860 were abandoned. Since the remaining projects, with contracts valued at \$1.7 million, are in various stages, it is too early to tell if any may ultimately be deferred or abandoned.

RECOMMENDATION

FBO should continue to strive for closer coordination of building design functions with construction phases of proposed projects. We recommend that the Secretary of State establish a system for coordinating building designs with construction.

AGENCY COMMENTS AND GAO EVALUATION

According to the Department, the coordination of design and construction remains a major problem in the buildings program. The Department was trying to improve coordination by taking such steps as obtaining maximum occupancy data before initiating design. It was also planning to review the design program annually to insure the best possible use of existing plans before initiating new ones. The Department added, however, that certain other factors, such as fund reductions imposed by the Congress or the Office of Management and Budget and delays in receiving of proceeds from sales, were matters out of the Department's control.

We agree that certain factors are out of the Department's direct control and that the proposed annual reviews and other steps have merit; however, the Department does control such actions as premature building designing. Effective management should foresee and overcome some of these unexpected or unavoidable changes in functions and staffing at posts.

CHAPTER 6

DISCLOSURE OF CAPITAL PROJECTS

Guidelines should be developed on when to inform the appropriate congressional committees of requests for authorization or approval and of cost overruns.

FBO's system called for authorization legislation about every 2 years. Capital projects were generally justified individually, and since fiscal year 1964 appropriation legislation has specifically limited the amount for each geographic area. Before 1972 unused authorization could be carried forward until used, but Public Law 92-226 abolished all authorizations unused by June 30, 1972.

1969 REVIEW

During fiscal years 1963-66, FBO acquired or constructed 30 real properties costing about \$4.8 million, which were not (nor were they required to be) submitted for the approval by congressional committees. During the same period, the cost of 19 projects exceeded by \$2.8 million the estimates originally in the authorization request.

The Deputy Assistant Secretary for Budget informed us in April 1969 that after 1966 FBO acquired only those properties approved by congressional committees and was making a special effort to keep the committees informed on project cost overruns.

FOLLOWUP STATUS

In testing capital projects authorized in fiscal year 1972, we found eight, totaling about \$482,000, which had not been reported. FBO said no further action was required on six ranging from \$11,000 to \$41,000 because of their minimal cost. These six included some originally classified as minor improvements (less than \$40,000, or 20 percent of book value) and were subsequently transferred to the capital account when their costs exceeded the limit on minor improvements. One project was to purchase property when rental property was unavailable, and another project

resulted from exercising an option to buy a short-term-leased property.

Two other projects involved replacing properties. In one, the proceeds from expropriated Marine quarters were used to renovate other U.S.-owned facilities for similar use; in the other, a warehouse was sold and the proceeds were used to purchase a smaller one. FBO felt its legislative authority to sell, exchange, or lease any of its property was appropriate and thus made no disclosure.

RECOMMENDATION

In order to keep congressional committees informed, especially of transactions not foreseen at the time of hearings, we recommend that the Secretary of State establish, in conjunction with the appropriate committee, criteria and procedures for reporting projects undertaken and cost overruns.

AGENCY COMMENTS AND GAO EVALUATION

The Department pointed out in September 1973, that it had recently obtained authorization for a buildings program for fiscal years 1974 and 1975. Also, when necessary or desirable to approve projects not yet justified to the committees, the Director of FBO will ask for comments from the appropriate committee or subcommittee chairman. In addition, the Department will discuss with the committees whatever further information or procedures are desired.

Some flexibility may be warranted in reporting all capital projects undertaken. This, we agree, is a matter for the congressional committees and FBO to work out. However, examples found in our followup should be considered in determining appropriate criteria and procedures.

CHAPTER 7

AUDIT AND INSPECTION IMPROVEMENTS

1969 REPORT AND PROPOSED AGENCY ACTIONS

In 1969 GAO reported that the Department had not been making timely internal audits of the foreign buildings program. We suggested that the Foreign Service inspector's reviews were narrow because they covered only policy and personnel matters.

As a result the Department decided to expand the coverage and quality of its real property surveillance. Planned improvements included increasing the audit staff, updating audit guidelines, broadening the scope of FBO field visits, coordinating inspections with audit staff visits, and increasing FBO's review of inspections and audits and its own reports.

FOLLOWUP STATUS

On July 1, 1972, the Department's Internal Audit Staff had only 10 auditors. It intended to fill six vacant positions soon and had requested authorization for four more positions. The inspection staff also decreased from eight two-man teams in September 1969 to five on July 1, 1972. It has since increased to six teams. In the last 6 months of 1972, 13 temporary inspectors supplemented the regular teams.

The following statistics give a general picture of the present situation and the changes in the total surveillance of real property since our 1969 report.

- During the last 6 months of calendar year 1967, FBO officials spent 126 days in the field, and, during a similar period in 1970, they spent 617 days in the field.
- In calendar years 1968 and 1969, the internal auditors issued 16 reports with 33 findings on property management, and in 1970 and 1971, they issued 23 reports with 25 findings.

--In calendar years 1968 and 1969, the inspection staff reported 11 findings at 10 posts, and in 1970 and 1971 they reported 7 findings at 7 posts.

--As of September 1973, all audit positions were filled, the inspection staff had been increased to eight two-man teams, and all posts were scheduled for evaluation on a 2-year cycle.

Changes in scope and procedure

In 1970 the audit staff, after consulting with FBO, revised its internal audit program and an Embassy self-audit questionnaire to increase the emphasis on property management. Although this was appropriate, the questionnaire could lose much of its value if it were not supplemented by independent audit checks.

The scope of FBO field visits has been broadened by a policy requiring the FBO Director to give FBO representatives guidelines before departure. Auditors and Foreign Service inspectors frequently meet with FBO personnel before FBO trips abroad to inform them of problems identified or encountered during inspections and audits. Each FBO representative is told the reasons for the trip and is expected to look for problems outside his occupational specialty. Identified problems are to be reported to FBO, Washington, D.C.

FBO also receives sections of inspectors' and internal auditors' reports dealing with real property matters. However, we believe FBO's emphasis has not increased significantly on the review of these reports or on its field visits for policy and procedural implications, as was proposed to meet our prior recommendations.

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DEPUTY UNDER SECRETARY OF STATE
FOR MANAGEMENT
WASHINGTON

September 28, 1973

Dear Mr. Conahan:

The Department appreciates the opportunity to review and comment on the proposed report to the Congress "Limited Progress Made to Improve Management of Government-Owned and Leased Real Property Overseas", which was forwarded to us by Mr. James A. Duff on July 23, 1973. The Department agrees in principle with the recommendation that responsibility for overall guidance, policies, plans and assessment of its overseas property management should be vested in one organization. Several alternative means of achieving this goal are under consideration, including the enhancement of the Director of Foreign Buildings Operations organizational role and staff or the establishment of a Real Property Management Committee.

The draft report takes cognizance of the additional emphasis the Department successfully placed on disposal of excess properties during the period of Fiscal Year 1970 through 1972. We note with satisfaction that this progress has continued to be shown by our Office of Foreign Buildings Operations (FBO). During Fiscal Year 1973, ten properties were sold for total revenue of over \$3 million. Thus far in Fiscal Year 1974, five properties have been disposed of by sale for \$56 million, including the extraordinary \$55.3 million proceeds from the sale of the Chancery Annex building in Tokyo.

Though the Department's expectations in realizing several managerial improvements have not been entirely met, we nevertheless feel substantial progress has been made in significant areas. The operating manual sections pertaining to real property management abroad await only the incorporation of your useful comments and final approval prior to publication. We have gained valuable insight into the complexities of devising a satisfactory accrual accounting system for real property from our earlier efforts and now have two analysts at work developing a system to more closely conform to the needs of overseas posts. Also, we have taken all necessary steps to correct the low staffing level of the audit staff and to fill all vacant positions.

APPENDIX I

September 28, 1973

The Department's specific comments on the conclusions of the draft report are contained in the enclosed attachment. Statements in the draft report pertaining to the construction of the Tokyo Chancery have been overtaken by events. The contract for the new chancery and for the interim chancery on the motor pool site has been let and consideration of alternatives no longer is appropriate. Additional changes have occurred in the status of several other properties, which are summarized in the Appendix to the Attachment. The draft report should be revised to reflect these changes.

In one or two instances the Department may disagree with your interpretations of why certain deficiencies continue to exist. We hope, however, these differences will not be taken to mean we do not recognize the need for corrective action. We welcome and acknowledge the thorough examination of Real Property Management undertaken by your auditors and believe their findings will assist us in further improving our managerial procedures.

Sincerely,



Curtis W. Tarr
Acting

(See GAO note.)

Mr. Frank C. Conahan
Associate Director
International Division
Security and International Relations
U. S. General Accounting Office
Washington, D. C. 20548

GAO note: The attachment is not included, but we considered the Department's positions where appropriate in the report.

STATUS OF PROPERTIES FOR WHICH

GAO QUESTIONED RETENTION IN 1969

As of September 1, 1973

BEST DOCUMENT AVAILABLE

Property number	Location	U.S. Government investment (note a)	Status
ON HAND:			
01136-a	Lima, Peru	\$ 89,468	Retained for security of the office building; continued use for commissary, warehouse, and parking space.
07319	Kuala Lumpur, Malaysia	150,812	Retained for future office building; design programed for fiscal year 1974.
06302(note b)	Taipei, Taiwan	175,642	Exchanged in 1969 for a new office building site; design underway.
02446	Beirut, Lebanon	733,236	Retained for office building; architect and engineer contract completed; award of construction contract pending.
03476	Damascus, Syria	220,617	Awaiting resumption of diplomatic relations.
03210(note c)	Nassau, Bahamas	37,635	Uncertain sale value and use of property; plan to review possible sale in fiscal year 1975.
31256	Rotterdam, Netherlands	89,303	Disposition under reconsideration; possible use as site of new office building.
02258(note d)	Curacao, Netherlands Antilles	11,666	Used for consulate parking lot.
01505	Algiers, Algeria	161,733	Taken by Algerian Government; settlement awaits resumption of diplomatic relations.
01506	Luanda, Angola	24,546	Post authorized to work out sale of this site and acquisition of a principal officer's residence.
04523(note e)	Libreville, Gabon	46,054	Disposal authorized.
03542(note f)	Nairobi, Kenya	253,572	Office building under design; construction planned for fiscal year 1974.
01556	Casablanca, Morocco	654,794	Office building completed and occupied in fiscal year 1973.
08550	Tripoli, Libya	279,376	Office building, architect and engineer contract let in fiscal year 1972.
12560(note f)	Lagos, Nigeria	53,576	Retained for Deputy Chief of Mission's residence; construction scheduled for fiscal year 1974.
14560	Lagos, Nigeria	25,830	Retained for construction of office building; design programed for fiscal year 1974.
01102-a	Buenos Aires, Argentina	<u>47,102</u>	Retained for projected sale with Embassy residence when appropriate.
Total		<u>3,054,962</u>	
SOLD:			
73236	Marseille, France	6,331	Sold in fiscal year 1968 for \$24,874.
01238	Martinique, French West Indies	11,982	Sold in fiscal year 1970 for \$46,519.
01270	Madrid, Spain	297,562	Sold in fiscal year 1970 for \$1,093,269.
41250	Palermo, Italy	163,328	Sold in fiscal year 1971 for \$346,463.
03523	Libreville, Gabon	20,703	Sold in fiscal year 1974 for \$85,356.
21560(note f)	Kaduna, Nigeria	17,188	Sold in fiscal year 1973 for \$13,279.
22560(note f)	Kaduna, Nigeria	20,214	Sold in fiscal year 1972 for \$20,662.
02522	Dakar, Senegal	104,331	Sold in fiscal year 1971 for \$51,739.
05522	Dakar, Senegal	<u>75,956</u>	Sold in fiscal year 1970 for \$64,516.
Total		<u>717,595</u>	
Total		<u>\$3,772,557</u>	

^aIf property has been sold or exchanged, U.S. Government investment at time of sale or exchange is given.

^bPresent property number-07302.

^cPresent property number-03103.

^dPresent property number-02129.

^ePresent property number-07523.

^fLong-term-leased properties.

APPENDIX III

RECOMMENDATIONS FROM 1969 REPORT

CROSS-REFERENCED TO DISCUSSIONS IN THIS REPORT

	<u>Chapters</u>
1. Examine real properties with emphasis on disposing of nonproductive and uneconomical properties.	2, 3, 4
2. Establish more definitive criteria for evaluating the effectiveness of the use of Government-owned property at each of its foreign posts.	2, 3, 4
3. Establish systematic reviews to ascertain whether the system and criteria are being effectively implemented and whether all uneconomical property is being disposed of promptly.	2, 3, 4
4. Where uneconomical or unutilized property is held under long-term agreements, undertake negotiations to sublease or license these properties.	2
5. Consider placing the responsibility for the administration and control of the building operating expenses and the funds for short-term leases under the control of the Director, FBO.	4
6. Provide procedures and reporting requirements in accounting and management systems development work that will furnish proper management levels with all the significant and reliable information needed for evaluating periodically the operations of the foreign buildings program.	4
7. Establish a property accounting system which will reveal for each Government-owned property	

	<u>Chapters</u>
the actual costs for acquisition, improvement, alteration, operation, and maintenance.	4
8. Establish and issue to each foreign post definitive guidelines relating to the types and magnitude of costs that are to be capitalized when improvements, alterations, and major repairs are made to Government owned and long-term leased property.	4
9. Take the necessary actions to insure that capital improvements, repairs, and alterations of Government owned and long-term leased properties are paid for with funds from the Foreign Service Building Fund.	4
10. Emphasize to the foreign posts that improvements and alterations to short-term-leased property should be undertaken only when very compelling reasons exist and other, more suitable property is not available.	4
11. Increase efforts to have the lessors effect repairs, giving consideration to offsetting against rental payments any amounts expended by the Government for repairs necessary to keep the premises in a tenantable condition.	4
12. Reemphasize to the posts the requirement for obtaining approval before undertaking capital improvements, alterations, and repairs on Government owned and long-term leased property.	4
13. Comply with the Federal property management regulations and report to General Services Administration the actual real property inventory investment as of June 30 instead of reporting investments which existed 6 months before June 30.	4
14. Require FBO to take the necessary steps to provide closer coordination of the building design functions with the construction phases of proposed projects.	5

APPENDIX III

Chapters

- | | |
|--|---|
| 15. Take the necessary steps to insure that detailed and timely audits are made of all aspects of the foreign service buildings program. | 7 |
| 16. Have the inspectors and internal auditors make a review of appropriate guidelines during real property audits at foreign posts. | 7 |

PRINCIPAL OFFICIALS RESPONSIBLE FOR
THE ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF STATE:		
Dean Rusk	Jan. 1961	Jan. 1969
William P. Rogers	Jan. 1969	Sept. 1973
Henry A. Kissinger	Sept. 1973	Present
DEPUTY UNDER SECRETARY OF STATE FOR MANAGEMENT (note a):		
William J. Crockett	June 1963	Jan. 1967
Idar Rimestad	Feb. 1967	Sept. 1969
William B. Macomber, Jr.	Sept. 1969	Apr. 1973
Curtis W. Tarr (acting)	Apr. 1973	Nov. 1973
Nathaniel Davis (acting)	Dec. 1973	Present
DIRECTOR, OFFICE OF FOREIGN BUILDINGS:		
James R. Johnstone	Jan. 1961	Aug. 1965
Ralph Scarritt	Oct. 1965	Jan. 1967
Earnest J. Warlow	Jan. 1967	Aug. 1973
Orlan C. Ralston (acting)	Aug. 1973	Present

^a Before July 1971 title was Deputy Under Secretary of State for Administration.

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