United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Economic Development, Public Buildings, and Emergency Management, Committee on Transportation and Infrastructure, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Wednesday, July 15, 2009

FEDERAL REAL PROPERTY

An Update on High Risk Issues

Statement of Mark L. Goldstein, Director
Physical Infrastructure Issues

GAO
Accountability * Integrity * Reliability

GAO-09-801T

July 15, 2009

GAO
Accountability • Integrity • Reliability
Highlights

Highlights of GAO-09-801T, a testimony to Subcommittee on Economic Development, Public Buildings, and Emergency Management, Committee on Transportation and Infrastructure, U.S. House of Representatives

FEDERAL REAL PROPERTY

An Update on High-Risk Issues

Why GAO Did This Study

In January 2003, GAO designated federal real property as a high-risk area because of long-standing problems with excess and underutilized property, deteriorating facilities, unreliable real property data, over-reliance on costly leasing, and security challenges. In January 2009, GAO found that agencies have taken some positive steps to address real property issues but that some of the core problems that led to the designation of this area as high risk persist.

This testimony focuses on (1) progress made by major real property-holding agencies to strategically manage real property, (2) ongoing problems GAO has identified in recent work regarding agencies' efforts to address real property issues, and (3) underlying obstacles GAO has identified through prior work as hampering agencies' real property reform efforts governmentwide.

This testimony is largely based on GAO's extensive body of work on real property high-risk issues, including reports on efforts by the Office of Management and Budget (OMB) and executive branch agencies to address real property issues. No new recommendations are being made.

What GAO Found

OMB and real property-holding agencies have made progress in strategically managing real property. In response to an administration reform initiative and related executive order, agencies have, among other things, established asset management plans, standardized data, and adopted performance measures. According to OMB, the federal government disposed of excess real property valued at $1 billion in fiscal year 2008, bringing the total to over $8 billion since fiscal year 2004. OMB also reported success in developing a comprehensive database of federal real property assets and implemented a GAO recommendation to improve the reliability of the data in this database by developing a framework to validate these data. GAO also found that the Veterans Administration has made significant progress in reducing underutilized space. In another report, GAO found that six agencies reviewed have processes in place to prioritize maintenance and repair items.

While these actions represent positive steps, some of the long-standing problems that led GAO to designate this area as high risk persist. Although GAO's work over the years has shown that building ownership often costs less than operating leases, especially for long term space needs, in 2008, the General Services Administration (GSA), which acts as the government's leasing agent, leased more property than it owned for the first time. Given GSA's ongoing reliance on leasing, it is critical that GSA manage its leasing activities effectively. However, in January 2007, GAO identified numerous areas that warranted improvement in GSA's implementation of four contracts for national broker services for its leasing program. GSA has implemented 7 of GAO's 11 recommendations to improve these contracting efforts. Although GAO is encouraged by GSA's actions on these recommendations, GAO has not evaluated their impact. Moreover, in more recent work, GAO has continued to find that the government's real property data are not always reliable and agencies continue to retain excess property and face challenges from repair and maintenance backlogs. Regarding security, GAO testified on July 8, 2009, that preliminary results show that the ability of the Federal Protective Service (FPS), which provides security services for about 9,000 GSA facilities, to protect federal facilities is hampered by weaknesses in its contract security guard program. Among other things, GAO investigators carrying the components for an improvised explosive device successfully passed undetected through security checkpoints monitored by FPS's guards at each of the 10 federal facilities where GAO conducted covert testing.

As GAO has reported in the past, real property management problems have been exacerbated by deep-rooted obstacles that include competing stakeholder interests, various budgetary and legal limitations, and weaknesses in agencies' capital planning. While reforms to date are positive, the new administration and Congress will be challenged to sustain reform momentum and reach consensus on how such obstacles should be addressed.

View GAO-09-801T or key components.
For more information, contact Mark L. Goldstein at (202) 512-2834 or goldsteinm@gao.gov.

Madam Chair and Members of the Subcommittee:

We welcome the opportunity to provide this update on our recent work on issues that led us to designate federal real property as a high-risk area. As you know, in January 2003, we designated federal real property a high-risk area because of long-standing problems with excess and underutilized property, deteriorating facilities, unreliable real property data, over-reliance on costly leasing, and building security challenges.[1] As we have reported as part of the high-risk series, the federal real property portfolio largely reflects a business model and the technological and transportation environment of the 1950s. Many federal real property assets are no longer needed; others are not effectively aligned with, or responsive to, agencies' changing missions. We issued our latest update on this area in January 2009, finding that agencies have taken some positive steps to address real property issues but that some of the core problems that led to our designation of this area as high risk persist.[2] My testimony today is based on our extensive body of work related to these issues.[3] We also spoke with officials at the Office of Management and Budget (OMB) and the General Services Administration (GSA) to update our information on agencies' efforts to address our prior recommendations, and we reviewed recently-introduced initiatives related to agencies' real property disposal authorities.[4] My testimony focuses on (1) progress made by major real

[1]GAO, *High-Risk Series: Federal Real Property*, GAO-03-122 (Washington, D.C.; Jan. 2003); the report on real property is a companion to GAO's 2003 high-risk update, GAO, *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.; Jan. 2003); GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.; Jan. 2005), and GAO, *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.; Jan. 2007.)

[2]GAO *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

[3]See, among others referenced in this testimony, GAO, *Federal Real Property: Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform*, GAO-07-349, (Washington, D.C., Apr. 13, 2007) and GAO, *Federal Real Property: An Update on High-Risk Issues*, GAO-07-895T, (Washington, D.C. May 24, 2007).

[4]Appendix, *The President's Budget Request for Fiscal Year 2010*, General Provisions Government-Wide, p. 14-16, and *The Federal Real Property Disposal Enhancement Act of 2009*, H.R. 2495, 111th Cong. (2009).

property-holding agencies to strategically manage real property,[5] (2) ongoing problems we have identified in recent work regarding agencies' efforts to address real property issues, and (3) underlying obstacles we have identified through prior work as hampering agencies' real property reform efforts governmentwide. We conducted our work in Washington, D.C., in June and July 2009 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.

Under Real Property Initiative, Agencies Have Taken Actions to Strategically Manage Real Property and Address Some Long-standing Problems

Major real property-holding agencies and OMB have made progress toward strategically managing federal real property. In April 2007, we found that in response to the President's Management Agenda (PMA) real property initiative and a related executive order, agencies covered under the executive order had, among other things, designated senior real property officers, established asset management plans, standardized real property data reporting, and adopted various performance measures to track progress.[6] The administration had also established a Federal Real Property Council (FRPC) that guides reform efforts.

Under the real property initiative, OMB has been evaluating the status and progress of agencies' real property management improvement efforts since

[5]Our 2007 report and testimony focusing on federal real property as high risk (GAO-07-349 and GAO-07-895T) from which we drew much of this testimony, focused on eight of the largest real property-holding agencies, including the Departments of Defense (DOD), Energy (DOE), Homeland Security (DHS), the Interior (DOI), State (State); and Veterans Affairs (VA); GSA; and the National Aeronautics and Space Administration (NASA). Also included is the United States Postal Service (USPS), which is an independent establishment in the executive branch and is among the largest property holders in terms of owned and leased space. Other recent work has included different agencies, which are described in the relevant sections of this testimony.

[6]Executive Order 13327 was signed by the President in February 2004 and established new federal property guidelines for 24 executive branch departments and agencies, not including USPS. The PMA is an administration program that has raised the visibility of key governmentwide management challenges, among other things. The real property PMA initiative, formally called the Federal Asset Management Initiative, is a program initiative applicable to the 15 largest landholding agencies.

the third quarter of fiscal year 2004 using a quarterly scorecard[7] that color codes agencies' progress—green for success, yellow for mixed results, and red for unsatisfactory. As Figure 1 shows, according to OMB's analysis, many of these agencies have made progress in accurately accounting for, maintaining, and managing their real property assets so as to efficiently meet their goals and objectives. As of the first quarter of 2009, 10 of the 15 agencies evaluated had achieved green status. According to OMB, the agencies achieving green status have established 3-year timelines for meeting the goals identified in their asset management plans; provided evidence that they are implementing their asset management plans; used real property inventory information and performance measures in decision making; and managed their real property in accordance with their strategic plan, asset management plan, and performance measures. (For more information on the criteria OMB uses to evaluate agencies' efforts, see app. I.)

[7]The agencies included on OMB's quarterly scorecard include GSA, State, VA, NASA, DOE, the Department of Labor (Labor), the Department of Health and Human Services (DHHS), the Department of Justice (DOJ), the Department of Transportation (DOT), the United States Agency for International Development (USAID), DOD, Army Corps of Engineers (Army Corps), DHS, and the United States Department of Agriculture (USDA).

Figure 1: PMA Executive Branch Management Scorecard Results for the Real Property Initiative

	4th quarter FY 2004	1st quarter FY 2005	1st quarter FY 2006	1st quarter FY 2007	1st quarter FY 2008	1st quarter FY 2009
GSA	Yellow	Yellow	Green	Green	Green	Green
State	Red	Red	Yellow	Green	Green	Green
VA	Red	Yellow	Yellow	Green	Green	Green
NASA	Red	Red	Yellow	Green	Yellow	Green
DOE	Red	Red	Yellow	Green	Yellow	Green
Labor	Red	Red	Yellow	Yellow	Yellow	Green
DHHS	Red	Red	Yellow	Yellow	Yellow	Yellow
DOI	Red	Red	Yellow	Yellow	Red	Yellow
DOJ	Red	Red	Yellow	Yellow	Green	Green
DOT	Red	Red	Yellow	Yellow	Yellow	Green
USAID[a]	NA	NA	Yellow	Yellow	Yellow	Green
DOD	Red	Red	Yellow	Yellow	Yellow	Yellow
Army Corps	Red	Red	Red	Yellow	Yellow	Yellow
DHS	Red	Red	Red	Yellow	Yellow	Yellow
USDA	Red	Red	Red	Yellow	Yellow	Yellow

Red for unsatisfactory
Yellow for mixed results
Green for success

Source: OMB scorecards.

Note: USAID was not evaluated until fourth quarter fiscal year 2005.

OMB has also taken some additional steps to improve real property management governmentwide. According to OMB, the federal government disposed of excess real property valued at $1 billion in fiscal year 2008, bringing the total to over $8 billion since fiscal year 2004.[8] OMB also reported success in developing a comprehensive database of federal real property assets, the Federal Real Property Profile (FRPP). OMB recently took further action to improve the reliability of FRPP data by

[8]The source for real property disposal valuation is the FRPP. The FRPP calculates total disposals by using the market price for those properties disposed through sale and the replacement value for those properties disposed through demolition or other conveyance. The replacement value represents the cost necessary to replace a facility and is often a higher than market value.

implementing a recommendation we made in April 2007 to develop a framework that agencies can use to better ensure the validity and usefulness of key real property data in the FRPP. According to OMB officials, OMB now requires agency-specific validation and verification plans and has developed a FRPP validation protocol to certify agency data. These actions are positive steps towards eventually developing a database that can be used to improve real property management governmentwide. However, it may take some time for these actions to result in consistently reliable data, and, as described later in this testimony, in recent work we have continued to find problems with the reliability and usefulness of FRPP data.

Furthermore, our work over the past year has found some other positive steps that some agencies have taken to address ongoing challenges. Specifically:

- In September 2008, we found that from fiscal year 2005 through 2007, VA made significant progress in reducing underutilized space (space not used to full capacity) in its buildings from 15.4 million square feet to 5.6 million square feet.[9] We also found that VA's use of various legal authorities, such as its enhanced use lease authority (EUL), which allows it to enter into long-term agreements with public and private entities for the use of VA property in exchange for cash or in-kind consideration, likely contributed to its overall reduction of underutilized space since fiscal year 2005. However, our work also shows that VA does not track the overall effect of its use of these authorities or of the space reductions.

- In October 2008, we found that in dealing with repair and maintenance backlogs, six agencies we reviewed focus on maintaining and repairing real property assets that are critical to their missions, and have processes in place to prioritize maintenance and repair items based on the effects those items may have on their missions.[10]

[9]GAO, *Federal Real Property: Progress Made in Reducing Unneeded Property, but VA Needs Better Information to Make Further Reductions*, GAO-08-939 (Washington, D.C.: Sept. 10, 2008).

[10]GAO, *Federal Real Property: Government's Fiscal Exposure from Repair and Maintenance Backlogs Is Unclear*, GAO-09-10 (Washington, D.C.: Oct. 16, 2008). For this report, we reviewed the six agencies that had told us in 2007 they had over $1 billion in repair and maintenance backlogs associated with their held assets: DOD, DOE, DOI, VA, GSA, and NASA.

Longstanding Problems in Real Property Management Persist

In spite of some progress made by OMB and agencies in managing their real property portfolios, our recent work has found that agencies continue to struggle with the long-standing problems that led us to identify federal real property as high-risk: an over-reliance on costly leasing—and challenges GSA faces in its leasing contracting; unreliable data; underutilized and excess property and repair and maintenance backlogs; and ongoing security challenges faced by agencies and, in particular, by the Federal Protective Service (FPS), which is charged with protecting GSA buildings.

Over-Reliance on Costly Leasing Continues, and GSA's Initial Implementation of Leasing Contracting Faced Problems

Over-Reliance on Costly Leasing Continues

One of the major reasons for our designation of federal real property as a high-risk area in January 2003 was the government's overreliance on costly leasing. Under certain conditions, such as fulfilling short-term space needs, leasing may be a lower-cost option than ownership. However, our work over the years has shown that building ownership often costs less than operating leases, especially for long-term space needs.

In January 2008, we reported that federal agencies' extensive reliance on leasing has continued, and that federal agencies occupied about 398 million square feet of leased building space domestically in fiscal year 2006, according to FRPP data.[11] GSA, USPS, and USDA leased about 71 percent of this space, mostly for offices, and the military services leased another 17 percent. For fiscal year 2008, GSA reported that for the first time, it leased more space than it owned.

In 10 GSA and USPS leases that we examined in the January 2008 report, decisions to lease space that would be more cost-effective to own were driven by the limited availability of capital for building ownership and other considerations, such as operational efficiency and security. For

[11]GAO, *Federal Real Property: Strategy Needed to Address Agencies' Long-standing Reliance on Costly Leasing*, GAO-08-197, (Washington, D.C.: Jan 24, 2008).

example, for four of seven GSA leases we analyzed, leasing was more costly over time than construction—by an estimated $83.3 million over 30 years. Although ownership through construction is often the least expensive option, federal budget scorekeeping rules require the full cost of this option to be recorded up front in the budget, whereas only the annual lease payment and cancellation costs need to be recorded for operating leases, reducing the up-front commitment even though the leases are generally more costly over time. USPS is not subject to the scorekeeping rules and cited operational efficiency and limited capital as its main reasons for leasing.

While OMB made progress in addressing long-standing real property problems, efforts to address the leasing challenge have been limited. We have raised this issue for almost 20 years. Several alternative approaches have been discussed by various stakeholders, including scoring operating leases the same as ownership, but none have been implemented. In our 2008 report, we recommended that OMB, in consultation with the Federal Real Property Council and key stakeholders, develop a strategy to reduce agencies' reliance on leased space for long-term needs when ownership would be less costly. OMB agreed with our recommendation. According to OMB officials, in response to this recommendation, an OMB working group conducted an analysis of lease performance. OMB is currently using this analysis as it works with officials of the new administration to assess overall real property priorities in order to establish a roadmap for further action.

GSA's Initial Implementation of the National Brokers Services Contracts Demonstrated Need for Numerous Improvements

With GSA's ongoing reliance on leasing, it is critical that GSA manage its in-house and contracted leasing activities effectively. However, in January 2007, we identified numerous areas in GSA's implementation of four contracts for national broker services that warranted improvement.[12] Our findings were particularly significant since, over time, GSA expects to outsource the vast majority of its expiring lease workload.

At one time, GSA performed lease acquisition, management, and administration functions entirely in-house. In 1997, however, GSA started entering into contracts for real estate services to carry out a portion of its leasing program, and in October 2004, GSA awarded four contracts to perform broker services nationwide (national broker services), with

[12]GAO, *GSA Leasing: Initial Implementation of the National Broker Services Contracts Demonstrates Need for Improvements*, GAO-07-17, (Washington, D.C.: Jan. 31, 2007).

contract performance beginning on April 1, 2005. GSA awarded two of the four contracts to dual-agency brokerage firms—firms that represent both building owners and tenants (in this case, GSA acting on behalf of a tenant agency). The other two awardees were tenant-only brokerage firms—firms that represent only the tenant in real estate transactions. Because using a dual-agency brokerage firm creates an increased potential for conflicts of interest, federal contracting requirements ordinarily would prohibit federal agencies from using dual-agency brokers, but GSA waived the requirements, as allowed, to increase competition for the leasing contracts.[13] When the contracts were awarded, GSA planned to shift at least 50 percent of its expiring lease workload to the four awardees in the first year of the contracts and to increase their share of GSA's expiring leases to approximately 90 percent by 2010—the fifth and final year of the contracts. As of May 30, 2009, GSA estimated that the total value of the four contracts was $485.6 million.

We reviewed GSA's administration of the four national broker services contracts (i.e., the national broker services program) for the first year of the contracts which ended March 31, 2006. In our January 2007 report, we identified a wide variety of issues related to GSA's early implementation of these contracts. Problems included inadequate controls to (1) prevent conflicts of interest and (2) ensure compliance with federal requirements for safeguarding federal information and information systems used on behalf of GSA by the four national brokers. We also reported, among other matters, that GSA had not developed a method for quantifying what, if any, savings had resulted from the contracts or for distributing work to the brokers on the basis of their performance, as it had planned. We made 11 recommendations designed to improve GSA's overall management of the national broker services program. As figure 2 shows, GSA has implemented 7 of these 11 recommendations; has taken action to implement another recommendation; and, after consideration, has decided not to implement the remaining 3. (For more details on the issues we reported in January 2007 and GSA's actions to address our recommendations, see app. II). We are encouraged by GSA's actions on our recommendations but have not evaluated their impact.

[13]While GSA waived the contracting requirements, it developed controls to help detect and mitigate conflicts of interest, including a control requiring the two dual-agency brokers to develop and maintain "conflict walls" to isolate GSA's procurement-sensitive information.

Figure 2: GSA's Progress in Implementing Our Recommendations on the National Broker Services Program

Category	Recommendation	Status
Conflicts of interest	Assess the adequacy of the two dual-agency brokers' conflict wall controls	●
	Modify the two dual-agency brokers' contracts to ensure that GSA can enforce recommendations resulting from its conflict wall inspections	⊘
	Establish consistent dual-agency and tenant-only conflict-of-interest contract requirements	●
	Establish additional controls to mitigate the inherent conflict of interest created by allowing the brokers to represent the government while negotiating commissions with building owners	⊘
Compliance with Federal Information Security Management Act requirements	Assess the risk from unauthorized access to GSA information collected or maintained by the four brokers	●
	Modify the four brokers' contracts to include controls appropriate to the assessed risk to ensure that the brokers safeguard information in accordance with the Federal Information Security Management Act	⊘
	Test the effectiveness of federal information security policies, procedures, and practices related to the national broker services program	●
Program implementation and evaluation	Develop processes for quantifying expected savings from the national broker services program	●
	To prepare for performance-based distribution, clarify the number and types of completed task orders needed to establish a record of the brokers' performance	◐
	Collect data on GSA's distributions of task orders for rural and urban areas	●
	Clarify and revise terminology in the national broker services program contracts and administrative guide to ensure applicability of evaluation measures and conformance to the National Institutes of Health's performance-related terminology	●

● Recommendation has been implemented

◐ GSA's actions to implement the recommendation are ongoing

⊘ GSA considered but did not implement the recommendation

Source: GAO.

Problems with Unreliable Data Persist

Quality governmentwide and agency-specific data are critical for addressing the wide range of problems facing the government in the real property area, including excess and unneeded property, deterioration, and security concerns. In April 2007, we reported that although some agencies have made progress in collecting and reporting standardized real property data for FRPP, data reliability is still a challenge at some of the agencies,

and agencies lacked a standard framework for data validation.[14] We are pleased that OMB has implemented our recommendation to develop a framework that agencies can use to better ensure the validity and usefulness of key real property data in the FRPP, as noted earlier. However, in the past 2 years, we have found the following problems with FRPP data:

- In our January 2008 report on agencies' leasing, we found that, while FRPP data were generally reliable for describing the leased inventory, data quality concerns, such as missing data, would limit the usefulness of FRPP for other purposes, such as strategic decision making.[15]

- In our October 2008 report on federal agencies' repair and maintenance backlogs, we found that the way six agencies define and estimate their repair needs or backlogs varies.[16] We also found that, according to OMB officials, FRPP's definition of repair needs was purposefully vague so agencies could use their existing data collection and reporting process. Moreover, we found that condition indexes, which agencies report to FRPP, cannot be compared across agencies because their repair estimates are not comparable. As a result, these condition indexes cannot be used to understand the relative condition or management of agencies' assets. Thus, they should not be used to inform or prioritize funding decisions between agencies. In this report, we recommended that OMB, in consultation with the Federal Accounting Standards Advisory Board, explore the potential for adding a uniform reporting requirement to FRPP to capture the government's fiscal exposure related to real property repair and maintenance. OMB agreed with our recommendation.

- In our February 2009 report on agencies' authorities to retain proceeds from the sale of real property, we found that, because of inconsistent and unreliable reporting, governmentwide data reported to FRPP were not sufficiently reliable to analyze the extent to which the six agencies with authority to sell real property and retain the proceeds from such sales

[14] GAO-07-349.

[15] GAO-08-197

[16] GAO-09-10. The six agencies reviewed in this study each had told us in 2007 that they had over $1 billion in repair and maintenance backlogs and included DOD, DOE, DOI, VA, GSA, State, and NASA.

actually sold real property.[17] Such data weaknesses reduce the effectiveness of the FRPP as a tool to enable governmentwide comparisons of real property efforts, such as the effort to reduce the government's portfolio of unneeded property.

Furthermore, although USPS is not required to submit data to FRPP, in December 2007, we found reliability issues with USPS data that also compromised the usefulness of the data for examining USPS's real property performance.[18] Specifically, we found that USPS's Facility Database—developed in 2003 to capture and maintain facility data—has numerous reliability problems and is not used as a centralized source for facility data, in part because of its reliability problems. Moreover, even if the data in the Facility Database were reliable, the database would not help USPS measure facility management performance because it does not track performance indicators nor does it archive data for tracking trends.

Agencies Face Ongoing Challenges with Underutilized Property and Repair and Maintenance Backlogs

In April 2007, we reported that among the problems with real property management that agencies continued to face were excess and underutilized property, deteriorating facilities, and maintenance and repair backlogs. We reported some federal agencies maintain a significant amount of excess and underutilized property. For example, we found that Energy, DHS, and NASA reported that over 10 percent of their facilities were excess or underutilized.[19] Agencies may also underestimate their underutilized property if their data are not reliable. For example, in 2007, we found during limited site visits to USPS facilities that six of the facilities we visited had vacant space that local employees said could be leased, but these facilities were not listed as having vacant, leasable space in USPS's Facilities Database (see fig. 3).[20] At that time, USPS officials acknowledged the vacancies we cited and noted that local officials have few incentives to report facilities' vacant, leasable space in the database.

[17]GAO, *Federal Real Property: Authorities and Actions Regarding Enhanced Use Leases and Sale of Unneeded Real Property*, GAO-09-283R (Washington, D.C.: Feb. 17, 2009). The six agencies with authority to sell real property and retain the proceeds from such sales are DOD, GSA, The United States Department of Agriculture's (USDA) Forest Service, USPS, and VA.

[18]GAO, *U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services*, GAO-08-41, (Washington, D.C.: Dec. 10, 2007).

[19]GAO-07-349.

[20]GAO-08-41

Figure 3: Vacant, Possibly Leasable Space in USPS Facilities Not Listed in the Facilities Database (FDB)

Circle City Station, Indianapolis, Indiana	Denton Main Post Office, Texas	Downtown Finance Station, Gary, Indiana
• **Vacant area:** A large portion of the second floor. • **Status:** Postal officials said the Postal Service never built out the second floor because the space was not needed and could be subleased or returned to building owner. • **Status listed in FDB:** No vacant leasable space.	• **Vacant area:** Entire second floor of the large post office. • **Status:** Postal officials said half of the building was occupied by other federal agencies that moved out about 10 years ago and that the space could be leased. • **Status listed in FDB:** No vacant leasable space.	• **Vacant area:** The basement (pictured) is completely vacant, and the second floor is used once per month or less for training. • **Status:** Postal officials said the Postal Service never used more than just the main floor and could lease the excess space. • **Status listed in FDB:** No vacant leasable space.
Fort Worth Downtown Station, Texas	**Richland Station, Dallas, Texas**	**East Chicago Main Post Office, Indiana**
• **Vacant area:** Second floor (pictured) and basement are vacant. Third floor used periodically for storage and training. • **Status:** Postal officials said most of the building has been vacant since the mail processing function was removed years ago. • **Status listed in FDB:** No vacant leasable space.	• **Vacant area:** Much of the second floor of this 53,000-square-foot post office. • **Status:** Postal officials said the office space has been vacant for years, and another portion (pictured above) has not been occupied since the Postal Service purchased the building in 1989. • **Status listed in FDB:** No vacant leasable space.	• **Vacant area:** The entire second floor, which consists of several offices. • **Status:** Postal officials said it has been vacant for years and could be leased. • **Status listed in FDB:** No vacant leasable space.

Source: GAO.

Underutilized properties present significant potential risks to federal agencies because they are costly to maintain and could be put to more cost-beneficial uses or sold to generate revenue for the government. In

2007, we also reported that addressing the needs of aging and deteriorating federal facilities remains a problem for major real property-holding agencies, and that according to recent estimates, tens of billions of dollars will be needed to repair or restore these assets so that they are fully functional.[21] In October 2008, we reported that agency repair backlog estimates are not comparable and do not accurately capture the government's fiscal exposure.[22] We found that the six agencies we reviewed had different processes in place to periodically assess the condition of their assets and that they also generally used these processes to identify repair and maintenance backlogs for their assets. Five agencies identified repair needs of between $2.3 billion (NASA) and $12 billion (DOI). GSA reported $7 billion in repair needs. The sixth agency, DOD, did not report on its repair needs. Table 1 provides a summary of each agency's estimate of repair needs.

Table 1: Selected Agencies' Processes for Conducting Condition Assessments and Estimating Repair Needs to Calculate FRPP Condition Index for Fiscal Year 2007

Dollars in billions

Agency	Assets assessed	Frequency of assessments	What is included in the estimate of repair needs (backlog)	Identified repair needs
DOE	All assets	At least every 5 years	Work not done in time frame identified	$3.3
NASA	All assets	Annually	Work required to bring the asset up to current standards	2.3
DOI	Assets valued at $5,000 or more	Every 5 years	Work not done in time frame identified	12.0[a]
VA	All assets	At least every 3 years	Work required to correct identified deficiencies in systems determined to be in poor or critical condition	5.9
GSA	All assets	Every 2 years	Work identified to be done now or within the next 10 years	7.0
DOD	All assets	Varies by military service	No backlog estimated	[b]

Source: GAO analysis.

[a]According to DOI officials, DOI recognizes that due to the scope, nature and variety of DOI assets, exact estimates of backlogs are very difficult to determine. As a result, DOI prefers to think of its estimate as a range.

[b]DOD did not compute a dollar amount for repair needs in 2007.

[21]GAO-07-349.

[22]GAO-09-10. The six agencies reviewed in this study—DOD, DOE, DOI, VA, GSA, and NASA—each had told us in 2007 that they had over $1 billion in repair and maintenance backlogs.

Agencies and Federal Protective Service Face Ongoing Security Challenges

In addition to other ongoing real property management challenges, the threat of terrorism has increased the emphasis on physical security for federal real property assets. In 2007, we reported that all nine major real property-holding agencies reported using risk-based approaches to prioritize security needs, as we have suggested, but cited a lack of resources for security enhancements as an ongoing problem. For example, according to GSA officials, obtaining funding for security countermeasures, both security fixtures and equipment, is a challenge not only within GSA but for GSA's tenant agencies as well.[23]

Moreover, last week we testified before the Senate Committee on Homeland Security and Governmental Affairs that preliminary results show that the Federal Protective Service's (FPS) ability to protect federal facilities is hampered by weaknesses in its contract security guard program.[24] We found that FPS does not fully ensure that its contract security guards have the training and certifications required to be deployed to a federal facility and has limited assurance that its guards are complying with post orders. For example, FPS does not have specific national guidance on when and how guard inspections should be performed; and FPS's inspections of guard posts at federal facilities are inconsistent, and the quality varied in the six regions we visited. Moreover, we identified substantial security vulnerabilities related to FPS's guard program. GAO investigators carrying the components for an improvised explosive device successfully passed undetected through security checkpoints monitored by FPS's guards at each of the 10 level IV federal facilities where we conducted covert testing.[25] Once GAO investigators

[23]GAO-07-349.

[24]GAO, Homeland Security: Preliminary Results Show Federal Protective Service's Ability to Protect Federal Facilities Is Hampered By Weaknesses in Its Contract Security Guard Program. GAO-09-859T. (Washington, D.C.: July 8, 2009). FPS, which is part of DHS, provides law enforcement and related security functions to about 9,000 GSA facilities. To accomplish its mission of protecting GSA facilities, in 2009, FPS had a budget of about $1 billion, 1,200 full-time employees, and about 13,000 contract security guards.

[25]Of the 10 level IV facilities we penetrated, 8 were government owned, 2 were leased, and included offices of a U.S. Senator and U.S. Representative, as well as agencies such as the DOH, State, and DOJ. The level of security FPS provides at each of the 9,000 facilities varies depending on the building's security level. Based on DOJ's 1995 Vulnerability Assessment Guidelines, there are five types of security levels, with a level IV facility—which includes high risk law enforcement and intelligence agencies—having over 450 employees and a high volume of public contact. FPS does not have responsibility for a Level V facility, which includes the White House and the Central Intelligence Agency. The Interagency Security Committee has recently promulgated new security level standards that will supersede the 1995 DOJ standards.

passed the control access points, they assembled the explosive device and walked freely around several floors of these level IV facilities with the device in a briefcase. In response to our briefing on these findings, FPS has recently taken some actions including increasing the frequency of intrusion testing and guard inspections. However, implementing these changes may be challenging, according to FPS. We previously testified before this subcommittee in 2008 that FPS faces operational challenges, funding challenges, and limitations with performance measures to assess the effectiveness of its efforts to protect federal facilities. We recommended, among other things, that the Secretary of DHS direct the Director of FPS to develop and implement a strategic approach to better manage its staffing resources, evaluate current and alternative funding mechanisms, and develop appropriate performance measures. DHS agreed with the recommendations. According to FPS officials, FPS is working on implementing these recommendations.[26]

Underlying Obstacles Hamper Agencies' Real Property Reform Efforts Governmentwide

As GAO has reported in the past, real property management problems have been exacerbated by deep-rooted obstacles that include competing stakeholder interests, various legal and budget-related limitations, and weaknesses in agencies' capital planning. While reforms to date are positive, the new administration and Congress will be challenged to sustain reform momentum and reach consensus on how the obstacles should be addressed.

Several Agencies Cited Competing Stakeholder Interests as Impeding Real Property Management Decision Making

In 2007, we found that some major real property-holding agencies reported that competing local, state, and political interests often impede their ability to make real property management decisions, such as decisions about disposing of unneeded property and acquiring real property. For example, we found that USPS was no longer pursuing a 2002 goal of reducing the number of "redundant, low-value" retail facilities, in part, because of legal restrictions on and political pressures against closing them.[27] To close a post office, USPS is required to, among other things, formally announce its intention to close the facility, analyze the impact of

[26]GAO, *Homeland Security: The Federal Protective Service Faces Several Challenges That Hamper Its Ability to Protect Federal Facilities*, GAO-08-683, (Washington, D.C.: June 11, 2008) and GAO, *Homeland Security: The Federal Protective Service Faces Several Challenges That Raise Concerns About Protection of Federal Facilities*, GAO-08-897T, (Washington, D.C.: June 19, 2008.)

[27]GAO-08-41.

the closure on the community, and solicit comments from the community. Similarly, VA officials reported that disposal is often not an option for most properties because of political stakeholders and constituencies, including historic building advocates or local communities that want to maintain their relationship with VA. In addition, Interior officials reported that the department faces significant challenges in balancing the needs and concerns of local and state governments, historical preservation offices, political interests, and others, particularly when coupled with budget constraints.[28] If the interests of competing stakeholders are not appropriately addressed early in the planning stage, they can adversely affect the cost, schedule and scope of a project.

Despite its significance, the obstacle of competing stakeholder interests has gone unaddressed in the real property initiative. It is important to note that there is precedent for lessening the impact of competing stakeholder interests. Base Realignment and Closure Act (BRAC) decisions, by design, are intended to be removed from the political process, and Congress approves all BRAC decisions as a whole. OMB staff said they recognize the significance of the obstacle and told us that FRPC would begin to address the issue after the inventory is established and other reforms are initiated. But until this issue is addressed, less than optimal decisions based on factors other than what is best for the government as a whole may continue.

Legal and Budgetary Limitations Continue to Hamper Agencies' Disposal Efforts

As discussed earlier, budgetary limitations that hinder agencies' ability to fund ownership leads agencies to rely on costly leased space to meet new space needs. Furthermore, the administrative complexity and costs of disposing of federal property continue to hamper efforts by some agencies to address their excess and underutilized real property problems. Federal agencies are required by law to assess and pay for any environmental cleanup that may be needed before disposing of a property—a process that may require years of study and result in significant costs. As valuable as these legal requirements are, their administrative complexity and the associated costs of complying with them create disincentives to the disposal of excess property. For example, we reported that VA, like all federal agencies, must comply with federal laws and regulations governing property disposal that are intended to protect subsequent users of the property from environmental hazards and to preserve historically

[28] GAO-07-349.

significant sites, among other purposes.[29] We have reported that some VA managers have retained excess property because the administrative complexity and costs of complying with these requirements were disincentives to disposal.[30] Additionally, some agencies reported that the costs of cleanup and demolition sometimes exceed the costs of continuing to maintain a property that has been shut down. In such cases, in the short run, it can be more beneficial economically to retain the asset in a shut-down status.

Some federal agencies have been granted authorities to enter into EULs or to retain proceeds from the sale of real property. Recently, in February 2009, we reported that the 10 largest real property-holding agencies have different authorities for entering into EULs and retaining proceeds from the sale of real property, including whether the agency can use any retained proceeds without further congressional action such as an annual appropriation act, as shown in table 2.[31]

[29]GAO, *VA Health Care: Key Challenges to Aligning Capital Assets and Enhancing Veterans' Care*, GAO-05-429 (Washington, D.C.: Aug. 5, 2005).

[30]GAO-05-429.

[31]GAO-09-283R. For this review, we studied the authorities of the 10 largest real property-holding federal agencies (by value of real property). These 10 agencies include USDA, DOD, DOE, DOI, DOJ, State, VA, GSA, NASA, and USPS. For the purposes of this review, the term "real property" does not include real property that DOD has or is planning to dispose of through the Base Realignment and Closure Act (BRAC) process, lands managed by DOI or the Forest Service (except for Forest Service administrative sites), and transfers of individual properties specifically authorized by Congress. Under the BRAC process, the Secretary of Defense is authorized to close certain military bases and dispose of property. In the scope of our review, we included real property disposed of by DOD through its authority to convey or lease existing property and facilities outside of the BRAC process.

Table 2: Agencies' Authorities Regarding EULs and Real Property Sales

Agency	Authority to enter into EULs and retain leasing proceeds	Authority to use proceeds from EULs without further congressional action	Authority to sell real property and retain sales proceeds	Authority to use proceeds from sales without further congressional action
DOD	X	X	X	X[a]
DOE	X[b]			
GSA	X		X	
DOI[c]				
DOJ				
NASA	X	X		
State[d]	X	X	X	X[e]
USDA (except the Agricultural Research Service[f] and the Forest Service)				
USDA (Forest Service)[g]	X[h]	X	X	X
USPS	X	X	X	X
VA	X	X	X	[i]

Source: GAO analysis and information provided by the above agencies.

Note: Authorities through fiscal year 2008.

[a]In certain cases, the use of proceeds from the sale of DOD real property is subject to further congressional action.

[b]According to DOE, the department has determined that it has EUL authority on the basis of the definition set forth in OMB Circular A-11 (June 2008). DOE officials said that the department has not entered into any EULs using this authority.

[c]While DOI has certain authorities to sell real property, we did not include in the scope of our review lands managed by DOI.

[d]State has used its authority under 22 U.S.C. § 300 to exchange, lease, or license real property outside of the country. According to State, in exceptional cases, the department has relied on this authority to enter into long-term leases to conserve historically significant properties, such as the Talleyrand Building in Paris, France. State's authorization to sell and retain proceeds from the sale of real property applies to its properties located outside of the United States and to properties located within the United States acquired for an exchange with a specified foreign government.

[e]According to State, committee reports accompanying State's appropriations acts routinely require the department to notify Congress through the reprogramming process of the specific planned use of the proceeds of the sale of excess property. Furthermore, State indicated that it routinely includes discussion of the use of proceeds from the sale of real property in its budget justifications and financial plans.

[f]Because USDA's Agricultural Research Service received pilot authority to enter into EULs for certain properties effective June 2008, but had not entered into any EULs during our review, we did not include it in the scope of our review.

[g]We are listing the Forest Service separately from USDA because it has authority to sell administrative property and retain the proceeds from the sales, unlike the rest of USDA.

[h]Although the Forest Service has EUL authority, it has not used that authority.

[i]Under certain circumstances, VA can use the proceeds from the sale of former EUL property without further congressional action.

Officials at five of the six agencies with the authority to retain proceeds from the sale of real property, (the Forest Service, GSA, State, USPS, and VA) said this authority is a strong incentive to sell real property.[32] Officials at the five agencies that do not have the authority to retain proceeds from the sale of real property (DOE; DOI; DOJ; NASA; and USDA except for the Forest Service) said they would like to have such expanded authorities to help manage their real property portfolios. However, officials at two of those agencies said that, because of challenges such as the security needs or remote locations of most of their properties, it was unlikely that they would sell many properties.

We have previously found that, for agencies which are required to fund the costs of preparing property for disposal, the inability to retain any of the proceeds acts as an additional disincentive to disposing of real property. As we have testified previously, it seems reasonable to allow agencies to retain enough of the proceeds to recoup the costs of disposal, and it may make sense to permit agencies to retain additional proceeds for reinvestment in real property where a need exists.[33] However, in considering whether to allow federal agencies to retain proceeds from real property transactions, it is important for Congress to ensure that it maintains appropriate control and oversight over these funds, including the ability to redistribute the funds to accommodate changing needs.

Two current initiatives relate to these issues. The administration's 2010 budget includes a real property legislative proposal that, among other things, would permit agencies to retain the net proceeds from the transfer or sale of real property subject to further Congressional action. On May 19, 2009, H.R. 2495, the Federal Real Property Disposal Enhancement Act of 2009, was introduced in the House of Representatives, and this bill, like the administration's legislative proposal, would authorize federal agencies to retain net proceeds from the transfer or sale of real property subject to further congressional action. Additionally, both the administration's legislative proposal and H.R. 2497 would establish a pilot program for the expedited disposal of federal real property.

[32]The sixth agency, DOD, stated that this authority was not a strong incentive to dispose of excess real property.

[33]GAO-07-895T.

Weaknesses in Capital Planning Still Exists

Over the years, we have reported that prudent capital planning can help agencies to make the most of limited resources, and failure to make timely and effective capital acquisitions can result in acquisitions that cost more than anticipated, fall behind schedule, and fail to meet mission needs and goals. In addition, Congress and OMB have acknowledged the need to improve federal decision making in the area of capital investment. A number of laws enacted in the 1990s placed increased emphasis on improving capital decision-making practices and *OMB's Capital Programming Guide* and its revisions to *Circular A-11* have attempted to address the government's shortcomings in this area. However, we have continued to find limitations in OMB's efforts to improve capital planning governmentwide. For example, real property is one of the major types of capital assets that agencies acquire, and therefore shortcomings in the capital planning and decision-making area have clear implications for the administration's real property initiative.[34] However, while OMB staff said that agency asset management plans are supposed to align with their capital plans, OMB does not assess whether the plans are aligned. Moreover, we found that guidance for the asset management plans does not discuss how these plans should be linked with agencies' broader capital planning efforts outlined in the *Capital Programming Guide*. Without a clear linkage or crosswalk between the guidance for the two documents, agencies may not link them. Furthermore, the relationship between real property goals specified in the asset management plans and longer-term capital plans may not be clear. In April 2007, we recommended that OMB, in conjunction with the FRPC, should establish a clearer link between agencies' efforts under the real property initiative and broader capital planning guidance.[35] According to OMB officials, OMB is currently considering options to strengthen agencies' application of the capital planning process as part of *Circular A-11*, with a focus on preventing cost overruns and schedule delays.

Federal Real Property Reform Efforts Continue to Face Challenges

In 2007, we concluded that the executive order on real property management and the addition of real property to PMA provided a good foundation for strategically managing federal real property and addressing long-standing problems. These efforts directly addressed the concerns we had raised in past high-risk reports about the lack of a governmentwide focus on real property management problems and generally constitute

[34]Other capital assets include information technology, major equipment, and intellectual property.

[35]GAO-07-349.

what we envisioned as a transformation strategy for this area. However, we found that these efforts were in the early stages of implementation, and the problems that led to our high-risk designation—excess property, repair backlogs, data issues, reliance on costly leasing, and security challenges—still existed. As a result, this area remains high risk until agencies show significant results in eliminating the problems by, for example, reducing inventories of excess facilities and making headway in addressing the repair backlog. While the prior administration took several steps to overcome some obstacles in the real property area, the obstacles posed by competing local, state, and political interests went largely unaddressed, and the linkage between the real property initiative and broader agency capital planning efforts is not clear. In 2007, we recommended that OMB, in conjunction with the FRPC, develop an action plan for how the FRPC will address these key problems.[36] According to OMB officials, these key problems are among those being considered as OMB works with administration officials to assess overall real property priorities in order to establish a roadmap for further action. While reforms to date are positive, the new administration and Congress will be challenged to sustain reform momentum and reach consensus on how the ongoing obstacles should be addressed.

Madam Chair, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the Subcommittee may have at this time.

Contact and Acknowledgments

For further information on this testimony, please contact Mark Goldstein on (202) 512-2834 or by email at goldsteinm@gao.gov. Key contributions to this testimony were also made by Keith Cunningham, Dwayne Curry, Susan Michal-Smith, Steven Rabinowitz, Kathleen Turner, and Alwynne Wilbur.

[36] GAO-07-349.

Appendix I: Executive Branch Management Scorecard Standards for the Real Property Initiative

In April 2007, we found that adding real property asset management to the President's Management Agenda (PMA) had increased its visibility as a key management challenge and focused greater attention on real property issues across the government. As part of this effort, the Office of Management and Budget (OMB) identified goals for agencies to achieve in right-sizing their real property portfolios. To achieve these goals and gauge an agency's success in accurately accounting for, maintaining, and managing its real property assets so as to efficiently meet its goals and objectives, the administration established the real property scorecard in the third quarter of fiscal year 2004. The scorecard consists of 13 standards that agencies must meet to achieve the highest status—green—as shown in figure 1. These 13 standards include 8 standards needed to achieve yellow status, plus 5 additional standards. An agency reaches green or yellow status if it meets all of the standards for success listed in the corresponding column in figure 1 and red status if it has any of the shortcomings listed in the column for red standards.

Figure 1: PMA Executive Branch Management Scorecard Standards for the Real Property Initiative

Green standards	Yellow standards	Red standards

Agency:
• Meets all yellow standards for success;
• Established an OMB-approved 3-year rolling timeline with date certain deadlines by which agency will address opportunities and determine its priorities as identified in the asset management plan;
• Demonstrated steps taken toward implementation of asset management plan as stated in yellow standards (including meeting established deadlines in 3-year timeline, meeting prioritized management improvement actions, maintaining appropriate amount of holdings, and estimating and optimizing cost levels);
• Accurate and current asset inventory information and asset maximization performance measures are used routinely in management decision making (such as reducing the amount of unneeded and underused properties); and
• The management of agency property assets is consistent with the agency's overall strategic plan, the agency asset management plan, and the performance measures established by the FRPC as stated in the Federal Real Property Asset Management Executive Order.
	Agency:
	• Has a Senior Real Property Officer (SRPO) who actively serves on the FRPC;
	• Established asset management performance measures, consistent with the published requirements of the FRPC;
	• Completed and maintained a comprehensive inventory and profile of agency real property, consistent with the published requirements of the FRPC;
	• Provided timely and accurate information for inclusion into the governmentwide real property inventory database; and
	• Developed an OMB-approved comprehensive asset management plan that:
	  • Complies with guidance established by the FRPC
	  • Includes policies and methodologies for maintaining property holdings in an amount and type according to agency budget and mission
	  • Seeks to optimize level of real property operating, maintenance, and security costs.
		Agency:
		• Does not actively participate on the FRPC;
		• Has not established asset management performance measures or has asset management performance measures that are inconsistent with the published requirements of the FRPC;
		• Has not completed or does not maintain a comprehensive inventory and profile of agency real property consistent with the published requirements of the FRPC;
		• Does not provide timely and accurate information for inclusion into the governmentwide real property inventory database; or
		• Has not developed an OMB-approved comprehensive asset management plan.

Source: OMB.

Appendix II: Status GAO Recommendations Related to GSA's National Broker Services Program

Table 1: Explanation and Implementation Status of Recommendations Related to GSA's National Broker Services Program

Reported issue	Recommendation	Status/Actions taken
1. While the General Services Administration (GSA) had confirmed that the two dual agency firms (firms that represent both building owners and tenants) had established "conflict walls" to help prevent the electronic and physical sharing of information between the brokers' employees, it had not assessed whether the conflict walls were adequate to prevent unauthorized information sharing between employees within the same firm who represent GSA, and other employees within the same firm who represent building owners.	Assess the adequacy of the two dual-agencies' conflict wall controls and recommend actions, if applicable, to correct any identified weaknesses.	**Implemented** GSA assessed the adequacy of the dual agencies' conflict walls and, on May 22, 2007, concluded that the conflict walls were satisfactory.
2. GSA conducted a preliminary inspection of the conflict walls maintained by the two dual-agency brokers, but had not ensured that the brokers implemented its inspection recommendations. GSA's inaction was attributable, in part, to uncertainty about whether GSA's contracts with the brokers permitted it to require brokers to implement its inspection recommendations.	Modify the two dual-agency contracts to ensure that GSA can enforce recommendations resulting from its conflict wall inspections.	**Not implemented** GSA reviewed its contracts with the two dual-agency brokers and determined that the language in the contracts was already sufficient to ensure that it could enforce compliance with its inspection recommendations. Therefore, according to GSA, there was no need to modify the contracts.
3. GSA had not established consistent conflict-of-interest contract requirements for all of its contractors. Specifically, while GSA required its dual-agency brokers (firms that represent both building owners and tenants) to (1) execute additional agreements to safeguard proprietary information; (2) notify GSA of any conflicts of interest discovered during the performance of work; and (3) include a conflict-of-interest clause in all of their subcontracts, its contracts with the two tenant-only contractors (firms that represent only tenants) did not contain similar requirements.	Establish consistent dual-agency and tenant-only conflict-of-interest contract requirements, including, at a minimum, the three conflict-of-interest requirements that address situations also faced by the two tenant-only firms.	**Implemented** GSA included the three conflict of interest requirements in its contracts with the two tenant-only brokers in May 2007. In addition, GSA included other conflict-of-interest requirements in the tenant-only broker contracts in response to other questions we posed during our review. Previously these requirements had been only explicitly applicable to the dual-agency brokers. Ensuring consistency in contractor requirements will help ensure that tenant-only firms are aware of all of the requirements applicable to their disclosure of potential or actual conflicts of interest. GSA also revised its administrative guide to reflect this point.

Reported issue	Recommendation	Status/Actions taken
4. Despite federal requirements, GSA had not fully assessed the risk and magnitude of harm that could result from the misuse of information and information systems used on behalf of GSA by the four national brokers. Such an assessment is required by the Federal Information Security Management Act to help ensure that contractors and others are protecting an agency's information and information systems in a manner commensurate with the risk level assigned to the information and information systems by the agency.	Assess the risk and magnitude of harm that could result from unauthorized access to, or use, disclosure, disruption, modification, or destruction of, GSA information collected or maintained by the four brokers (and their subcontractors) and the information systems used by the brokers on behalf of GSA.	**Implemented** GSA performed the recommended risk assessment on August 30, 2007, and concluded that the risk level was "moderate."
5. While requirements of the Federal Information Security Management Act are applicable to the national broker services brokers, GSA's contracts with them did not require the brokers to comply with the act's requirements.	Modify the four national broker services' contracts to include controls appropriate to the assessed risk to ensure that the brokers and their subcontractors safeguard information and information systems in accordance with the Federal Information Security Management Act.	**Not implemented** GSA informed us in August 2007 that it had developed a plan to complete the assessment and accreditation required to bring each of the four brokers into compliance with the Federal Information Security Management Act. As part of that process, GSA determined that it was in the best interest of the government to identify and analyze the brokers' existing controls and use them, where possible, to meet the requirements of the act. GSA expected this process would take several months to complete. In the interim, GSA stated that it would be inappropriate to modify the contracts. However, GSA further stated that, if warranted by its assessments of the brokers, it may modify its individual contracts with the brokers in the future.
6. Despite federal requirements, GSA had not tested the information security controls associated with its national brokers program, including the controls used by its four national brokers. The Federal Information Security Management Act requires such testing to ensure that controls are adequate for protecting agency information, including information maintained by contractors (and subcontractors). Testing must be conducted at least once per year.	Test the effectiveness of federal information security policies, procedures, and practices related to the national broker services program, including, as appropriate, broker controls for safeguarding GSA's information.	**Implemented** GSA developed a process to test the effectiveness of controls used for safeguarding its program information and, as of March 15, 2008, had completed testing at one of the four brokers. According to GSA, "The continuous monitoring required by its process means that it is never complete but must be done repeatedly..." throughout the life of the contracts.

Reported issue	Recommendation	Status/Actions taken
7. Conflict of interest controls were not adequate to ensure that brokers would not increase the government's rental costs by favoring building owners who offer them higher commissions. Specifically, we concluded that, until such time as GSA establishes effective controls to mitigate the brokers' inherent conflict of interest by, among other possible actions, precluding them from accepting commissions in excess of the rate approved by the contracting officer's technical representatives and included in GSA's solicitation for offers, there will remain at least the perception that the brokers might favor–at the government's expense—building owners who pay higher commissions.	Establish additional controls to mitigate the inherent conflict of interest created by allowing the brokers to represent the government, while also negotiating their commissions with building owners.	**Not implemented** GSA initiated a "multi-faceted approach" to address this recommendation, including an assessment of (1) peer review findings and (2) the results of prior protests on leasing actions. According to GSA, its assessment did not identify any instances of abuse or inappropriate actions by the brokers. Consequently, GSA determined that there was no need to establish additional controls.
8. While GSA anticipated that using national brokers would results in (1) reduce rental costs to the government, and (2) agency savings from reduced fees, administrative expenses, and personnel by shifting costs to the national broker services contracts, it had not developed a process for quantifying the expected savings.	Develop processes for quantifying expected savings from (1) rent reductions attributable to the brokers' greater knowledge of the commercial real estate market and (2) agency savings associated with reduced fees, administration expenses, personnel costs, and operational efficiencies associated with using the national broker services contracts.	**Implemented** GSA developed a process for quantifying savings from the national broker services program. Specifically, GSA extracted "as much relevant and reliable historical data as available" on its prior (regional/zonal) contracts and compared the data to available data on the national broker services contracts through the end of the first quarter of fiscal year 2008. GSA's analysis identified numerous cost savings attributable to its use of the national broker services contracts, including $25 million in commission credits earned by the brokers and/or credited to customer agencies.

Reported issue	Recommendation	Status/Actions taken
9. While GSA initially expected to start performance-based task order distributions after the first year of the contract, it delayed doing so because too few task orders had been completed to establish a record of their performance on a variety of commission-eligible task orders. When we completed our review in January 2007, GSA expected to begin performance-based distributions on April 1, 2007—the start of the third contract year. Before GSA can move to performance-based distributions, we reported that GSA must (1) ensure that it has sufficient data on each broker's performance and (2) develop clearly defined guidance and processes for allocating additional future work to those brokers who excel relative to the others.	As part of GSA's effort to prepare for performance-based distribution decisions, clarify the number and types of completed task orders needed to establish a record of the brokers' performance.	**Open**[a] According to a GSA official, GSA developed and tentatively approved a plan for implementing performance-based work distributions. However, it was forced to suspend implementation of the plan when testing revealed unspecified flaws that would have negatively impacted the national broker services program. According to this official, GSA is now focusing its efforts on developing a methodology for implementing performance-based work distributions for the follow-on national broker services contracts that are expected to begin on April 1, 2010.
10. Although GSA collected data on the number and size of the task orders distributed to the four national broker services brokers, it did not collect data on the geographic area (e.g., rural or urban) covered by the task orders. Such data was needed because GSA's contracts with the brokers specify that each broker will be provided projects on a nationwide basis in both rural and urban areas during the initial period of contract performance, as long as their performance is acceptable.	Begin collecting data on GSA's distributions of task orders for rural and urban areas (i.e., similar geographic areas) during the initial period of the contracts.	**Implemented** GSA developed a methodology and subsequently collected and analyzed data to better inform its distribution of task orders between the brokers during the initial period of the contracts.
11. The national contracts and administrative guidance had numerous inaccuracies, inconsistencies, and omissions that raised questions about how GSA could ensure consistency in its regions' evaluations of the brokers' performance. Problems included inapplicable evaluation criteria; variations in the criteria identified for use at different evaluation stages by the contracts, and inconsistencies between GSA's and National Institutes of Health's (NIH) performance-related terminology.	To improve overall management of the national broker services program, (1) clarify the national broker services contracts and the administrative guide to ensure that the evaluation measures used are applicable to the brokers' performance at each stage of evaluation. (2) Regarding the brokers' required annual performance evaluations, revise the terminology in GSA's contracts and administrative guide, as appropriate, to conform to NIH's required evaluation factors. (3) In addition, ensure that the various evaluation stages and processes are properly and adequately described in GSA's administrative guide.	**Open, but implemented**[b] GSA revised its administrative guide to clarify when each evaluation factor is to be used in assessing contractor performance at each stage of evaluation. The revised guidance also (1) clarifies how the National Institutes of Health's required annual evaluation fits within GSA's evaluation processes and (2) describes GSA's various evaluation stages and processes. (GAO intends to initiate action to close this recommendation.)

Source: GAO.

[a]In describing the status of recommendation 9 as “open”, we are referring to the formal status of this recommendation in our recommendation tracking system. The description of GSA’s ongoing actions demonstrates that GSA’s actions to implement the recommendation are ongoing, as summarized in Figure 2 of the testimony.

[b]In describing the status of recommendation 11 as “open, but implemented” we are referring to the fact that in our recommendation tracking system, the recommendation is currently listed as open. However, as the description of GSA’s actions to implement the recommendation demonstrate, we believe GSA has adequately implemented this recommendation and we plan to close this recommendation as implemented in our tracking system.

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's Web site, http://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Please Print on Recycled Paper