OFFICE OF AUDITS
MEMORANDUM REPORT 99-PP-006
AUDIT OF THE REAL PROPERTY ADVISORY BOARD
FEBRUARY 1999

This report presents the results of the Office of Inspector General's (OIG) audit of the Real Property Advisory Board (the Board). The Board was established in April 1997, pursuant to the direction of the Congress under the authority of the Foreign Service Buildings Act of 1926, to help reduce the Department's inventory of surplus real property overseas. The primary objectives of the audit were to determine if the Board's actions on surplus properties met congressional intent, and if the Department adequately followed through on the Board's recommendations. We also evaluated the Department's newly implemented procedures to account for the proceeds of real property sales. We found that (1) the Department established the Board as the Congress intended, (2) properties were appropriately selected for the Board's review, (3) the Board's recommendations were based on sufficient and balanced information, and (4) the Department was generally taking action on the Board's recommendations to dispose of properties. However, we identified two instances where posts either delayed taking final action or had not begun action to sell properties recommended for disposal. In addition, we found that the Department had made improvements in accounting for the proceeds of sale of real property, but deficiencies still existed.

At two posts where the Board recommended and the Assistant Secretary for Administration (A) approved properties for sale, the posts either delayed final action or did not start action to sell property because the posts requested that A and the Office of Foreign Buildings Operations (A/FBO) reconsider the Board's recommendations. One post started to sell one property but delayed the final action until A/FBO reconsidered the recommendation, and the other post will not take action to sell four properties until the Board's recommendations are reconsidered. In both instances, A and A/FBO agreed to honor post requests; however, they did not develop procedures and time limits to ensure consistent and timely treatment of these requests. This created an informal appeals process that was neither proposed by the Congress nor included in the Board's charter, and it further delayed the sale of surplus property.

We also identified deficiencies in the Department's internal controls to ensure that proceeds from the sale of real property are properly accounted for. The Bureau of Finance and Management Policy (FMP) staff did not (1) properly transfer proceeds of sale to the new proceeds account that segregates funds from the sale of real property from other A/FBO

funds, (2) verify and reconcile the proceeds amounts in accordance with internal guidelines, resulting in an understatement of about $70,000 credited to A/FBO's spending authority, and (3) update Department regulations to show the changes in accounting procedures for proceeds of real property sales.

PURPOSE, SCOPE, AND METHODOLOGY

Our audit objectives were to determine whether (1) the Board's charter met congressional intent, (2) properties were appropriately chosen for the Board's review, (3) the Board's decisions were based on sufficient and balanced information, and (4) the Department followed through on the Board's recommendations. The final objective was to determine whether proceeds of sale for real property transactions were accounted for accurately and procedures for those transactions were properly implemented.

To accomplish our objectives related to the Board's operation, we reviewed pertinent Department and congressional records. Specifically, we reviewed (1) the charter of the Real Property Advisory Board; (2) the congressional instructions for the membership and charter of the Board; (3) minutes of the 4 Board meetings held between April and December 1997; (4) information on the 22 properties provided to the Board members for recommendations; (5) applicable Department policies and procedures found in the Foreign Affairs Manual (FAM), Foreign Affairs Handbook (FAH), and written guidelines; (6) pertinent OIG[1] and U.S. General Accounting Office (GAO)[2] reports; and (7) quarterly reports to the Congress on the disposition and acquisition of real property. In addition, we reviewed the applicable statute and regulations. To obtain views of the Board's operations, we also interviewed the members of the Board, A, A/FBO officials, congressional staff, and the executive directors of the Bureaus of African Affairs, East Asian and Pacific Affairs, European and Canadian Affairs, Near Eastern Affairs, and South Asian Affairs.

As part of our audit of the Department's accounting for proceeds of real property sales, we (1) interviewed FMP and A/FBO financial managers, (2) reviewed FMP and A/FBO reports on proceeds of sales, (3) reviewed Department policies and procedures on accounting for proceeds of sales, and (4) traced real property accounting transactions from the point of sale to the reporting of proceeds in the Department's Central Financial Management System (CFMS). We also reviewed Department reports made in accordance with the Federal Managers' Financial Integrity Act (FMFIA).

We conducted the audit in accordance with generally accepted government auditing standards and included such tests of the property and accounting records and other auditing procedures considered necessary under the circumstances. However, we did not review the

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[1] *Acquisition and Disposition of Real Estate Overseas*, March 1992, 2-PP-002, and various Office of Inspections reports issued from January 1994 through December 1996.
[2] *Overseas Real Estate: Millions of Dollars Could Be Generated by Selling Unneeded Real Estate*, April 1996, NSIAD-96-36.

processing and accounting of proceeds at any of the Department's overseas posts or financial service centers. Due to this limitation in scope, we have no opinion on the overall adequacy of internal controls for proceeds of sales except for those weaknesses specifically identified in the "Audit Results" section of this report. If we had performed additional procedures, other matters might have come to our attention that would have led to different results and conclusions.

This audit was performed by the OIG's Office of Audits, Property Management and Procurement Division, between February and September 1998. Audit work was interrupted several times for other higher priority projects. Major contributors to this report were Richard Astor, division director; Howard Goldman, audit manager; Joseph Johnson, senior auditor; and Heather Park, auditor.

We submitted the draft report to A, A/FBO, and FMP for comment. A did not provide comments. A/FBO orally agreed with Recommendations 1, 3, 5, 6, and 7. FMP agreed with Recommendations 4 through 7 and those comments are included in Appendix C.

BACKGROUND

The Department established the Board in April 1997, according to congressional instructions that were designed to help reduce the Department's inventory of surplus real properties overseas. These instructions resulted from OIG and GAO audit work and congressional concerns regarding delays in the sale of some overseas real properties that were identified as exceeding the Department's needs. Such properties were not sold because of disputes among posts, bureaus, and A/FBO on whether the properties should be sold or because the Department disagreed with OIG or outside agencies such as GAO. The Board was established as an independent panel to reduce the number of surplus properties by making recommendations to the Department on their disposition.

Past Weaknesses Reported in the Disposal of Surplus Property

Prior OIG and GAO reports have identified weaknesses in the Department's management and disposal of its real property overseas. OIG's March 1992 report identified numerous deficiencies in the Department's acquisition and disposition practices of overseas real estate. The report recognized that the Department had made significant progress in real property management, but suggested that further improvements were necessary, including an effective system for identifying surplus and underutilized real property. GAO's April 1996 report noted that disputes frequently occur between various parties within the Department that delay or prolong the disposition of properties identified for sale. The GAO report also noted that these disputes occurred most often between A/FBO and posts due to conflicting interests involving economic benefits versus foreign policy or security issues, as well as over the use of proceeds once the properties are sold. The GAO report concluded that "Because of the embassies' strong interests in the sale of their real estate and the use of the sales proceeds,

as well as the difficulties A/FBO and the embassies have in resolving disputes, we believe that the Secretary of State should appoint an independent panel to decide which properties should be sold."

The OIG and GAO reports also identified deficiencies in the Department's accounting for proceeds from the sale of real property. The OIG report stated that proceeds of sale were not accurately accounted for and credited to A/FBO accounts due to inadequate accounting systems and procedures, vague regulations, and noncompliance with existing requirements. OIG recommended that FMP, in conjunction with A/FBO, develop a system to accurately account for proceeds of sale and other real property collections and to ensure the accuracy of the funds credited to A/FBO's spending authority. The GAO report also identified similar deficiencies in the Department's accounting for sales proceeds. GAO recommended that the Department create a separate account for proceeds of sale to better track receipts and expenditures. In a December 19, 1997, letter to the GAO, the Under Secretary for Management (M) stated that the Department was now segregating the receipts from the Department's real property disposal program.

Congressional Concern Over the Disposal of Surplus Real Property

The Congress also expressed concerns regarding the Department's management of the sale of surplus real property. At a congressional hearing in June 1996 on the operations of A/FBO, the chairman of the House Committee on International Relations stated that the Department's "real estate management tops the list of areas that must be improved." The chairman also questioned the wisdom of holding excess properties when other facilities were inadequate to sustain and protect U.S. officials overseas. At the June 1996 hearing, the Inspector General (IG) testified that "Property management has been a long-standing problem for the Department....the process needs to be changed to ensure rational decision-making, particularly where post personnel are reluctant to dispose of even marginally useful properties unless they can be assured that at least a portion of the proceeds will be retained at post." The IG stated that the work of OIG on the Department's real property management practices supported GAO's recommendation that the Department establish an independent panel to make recommendations regarding the sale of excess real property to reduce the current inventory and generate funds to offset the cost of new acquisitions. The IG also testified that it is important for the proposed panel, when making its recommendations, to consider cost factors as well as policy issues such as bilateral relations and representational and local security concerns.

Real Property Responsibilities

The Foreign Service Buildings Act of 1926, as amended (22 U.S.C. 292 et seq.), allows the Secretary of State to (1) acquire sites and buildings in foreign countries through purchase, lease, construction, or exchange, (2) maintain and improve these properties, and (3) dispose of the properties when appropriate. This authority was delegated to A/FBO,

which acts as the single real property manager for nonmilitary property overseas. Proposals for the acquisition and disposition of real property may be initiated by the posts or by A/FBO. Posts are not permitted to take independent action on real property transactions. The Department's procedures for acquiring and disposing of real property are detailed in 6 FAM. Information necessary for identifying real property for disposal include the property's optimum use, its economic viability, and any security and political considerations. The Real Estate Division at A/FBO provides the technical real property management expertise to assess proposals and determine compliance with A/FBO policies and procedures, as well as to perform economic analyses, including present value analyses and internal rate of return.

The act, as amended, also authorizes the Department to sell, exchange, lease, or license any property or property interest. In addition, the Department is authorized to apply the proceeds from the sale of real property toward the acquisition or construction of other property for use by foreign affairs agencies.

AUDIT RESULTS

Our audit found that the Board was established as intended by the Congress, properties were appropriately chosen for the Board's review, and the Board's recommendations were based on sufficient and balanced information. We also found that, with the exception of one instance, the Department was taking action on the Board's recommendations to dispose of properties. As of May 1998, two posts had requested A and A/FBO to reconsider the Board's recommendations to sell their five properties. A agreed to both posts' requests and asked A/FBO to again review the information on the properties. This created an informal appeals process that was neither proposed by the Congress nor included in the Board's charter. As a result, the sale of these properties was further delayed. One of these properties was sold in June 1998 after A/FBO again determined that the property should be sold.

The Department has made improvements in the procedures to account for proceeds from the sale of real property. However, we found that FMP did not segregate, and posts did not properly account for, about $69 million (nearly 50 percent of the real property proceeds reported in CFMS as of May 4, 1998) in proceeds to the new proceeds account under A/FBO's appropriation when FMP identified that the funds were not in the correct account. The new account was created to segregate proceeds from the sale of real property from other A/FBO funds. However, this did not affect A/FBO's spending authority. We also found that FMP had not consistently used source documents or followed existing procedures to verify and reconcile post-entered proceeds of sale in CFMS. As a result, individual proceeds credited to A/FBO's spending authority on June 1, 1998, contained errors and were understated by about $70,000. In addition, FMP had not updated Department regulations concerning procedures on accounting for proceeds from the sale of real property.

Congressional Intent and the Board's Charter

The Department has substantially complied with the intent of the Congress in drafting the Board's charter and reporting the Board's actions to the Congress. Although the establishment of the Board was never enacted into law, the intent of the Congress was evidenced by the Senate and House conferees in the appropriations bill's conference report. In September 1996, the committee of conference for the Fiscal Year 1997 Omnibus Consolidated Appropriations Act directed the Secretary of State to establish an advisory board on real property management under the authority of the Foreign Service Buildings Act of 1926, as amended (22 U.S.C. 292-302),[3] to (1) review information on Department of State properties proposed for sale by the Department, OIG, GAO, or any other agency of the Federal Government, and (2) compile a list of properties recommended for sale to M for approval. The conferees also directed the Department to immediately sell those properties on the approved list when appropriate market conditions exist. The Board's charter, as approved by A on April 17, 1997, was almost entirely established in accordance with the direction of the appropriations conference committee.

We found that one difference exists between the Board's charter and congressional instructions. The Board charter states that the Board is to submit its recommendations for sale to A for approval, not M as the Congress instructed. This change has been communicated to selected congressional staff.

The Board was appointed by A and is composed of seven members, three real estate professionals from outside the Department and four high-ranking officials from within the Department (see Appendix A for a list of members and their affiliations). The members were selected by A based on their senior positions within their respective agencies, independence from post and regional bureau interests, and their collective knowledge of foreign policy issues and management of real property. Three members were selected from other Government agencies for their real estate expertise; the four Department members were selected based on their experience and foreign policy expertise. A also decided that the deputy assistant secretary of the Office of Foreign Buildings Operations would serve as the executive secretary of the Board.

The Board is required by its charter to hold meetings at least once each fiscal year, to review information on properties proposed for sale, to reach decisions by consensus as far as possible, and to compile a list of properties recommended for sale. As of September 1998, the Board had met four times with the most recent meeting held in December 1997. Our interviews with Board members and reviews of Board minutes, as well as reports and documents provided to the Board by A/FBO staff established that these requirements had been met. After each meeting, the Board is to report in writing the issues considered and its recommendations regarding properties it reviewed. The Board is to direct the executive

[3] House Conference Report 104-863, 104th Congress, 2nd session. (September 28, 1996).

secretary, at least once each fiscal year, to submit the list of properties recommended for sale to A for approval. All these requirements have been met.

A is required to report quarterly to the appropriate congressional committee chairperson on the disposal and acquisition of Department-owned real property overseas. Since the Board was established, the reports have included annotations indicating properties that were considered by the Board and the Board's decision.

Properties Appropriately Chosen for Review

We found no omission of properties provided to the Board based on our review of A/FBO documentation and OIG and GAO reports. The 22 properties at 19 posts identified by A/FBO for the Board's review met the criteria in the Board's charter to "review real properties controlled by the Department of State and proposed for disposal by the Department, OIG, GAO, or any other agency of the Federal government...." A/FBO identified additional surplus properties but these were not brought before the Board because the Department had initiated action to sell them.

To identify the properties for the Board's review, A/FBO staff reviewed OIG recommendations for disposal from 1994 through 1996, GAO recommendations from the 1996 report, and A/FBO's own identifications for disposal. Based on these recommendations, A/FBO identified 22 properties at 19 posts that had not been sold because a dispute existed concerning whether or not the properties should be sold. These disputes occurred most often between A/FBO and the regional bureaus and posts, but in a few cases disputes also occurred between the Department and OIG or GAO. For example:

- The consul general's residence in Alexandria, Egypt was the subject of a disagreement between OIG, in a 1994 inspection report, and GAO, in the 1996 report, recommending sale although A/FBO and the post recommended retention.

- Twelve residential lots in Brasilia, Brazil were the subject of a disagreement between GAO, in the 1996 report, and A/FBO recommending sale and the post recommending retention.

- A guest house in Zanzibar, Tanzania formerly the consul general's residence for the consulate that closed in 1979, was recommended for sale by GAO in the 1996 report, but OIG in a September 1996 cable, A/FBO, and the post recommended retention.

- The consulate office building and consul general's residence in Naples, Italy was recommended for (1) a real property rationalization study in a 1996 OIG inspection report, (2) retention by the post, and (3) a market evaluation by A/FBO.

Board's Decisions are Impartial

Our review of the Board's decision process showed that the Board members were provided sufficient and balanced information to make impartial decisions. In addition, consideration of cost and economic factors was balanced by such factors as bilateral relations with host Governments, representational concerns, and the historical and intrinsic value of the properties. As a result, the Board's deliberations, as explained by the members, were performed with adequate information on factors needed to make informed and impartial decisions.

A/FBO staff are responsible for identifying properties for the Board's consideration and acting as staff for the Board. When a property is identified for possible disposal, the process is managed by A/FBO's Real Estate Division. To furnish the Board members with sufficient unbiased information, A/FBO staff provide the Board members with a briefing book about 1 week before the scheduled Board meeting. It contains the post, the A/FBO identification number and current use of the property, the acquisition cost and date, and the size of the property. Where possible, the anticipated sale price is provided. A black and white photo of the property is also included, as is a general description. A/FBO provides a summary of the dispute, the post's position, and OIG, GAO, or A/FBO positions. The OIG and GAO positions usually consist of excerpts from the applicable reports. Because of the backlog of disputed properties for review, the Board's four meetings since April 1997 have averaged about five properties per meeting.

In addition, after the first meeting, the Board members decided to give the regional bureaus' executive directors the opportunity to provide bureau and post views. To give the bureaus and posts sufficient information, A/FBO staff also gave the executive directors the relevant pages of the briefing book provided to the Board members. Each executive director's presentation is limited to 5 minutes per property. The executive director may also furnish an unclassified written statement expressing bureau or post views on the property. This opportunity allows the post's real property staff and the executive directors to discuss the available options and possible reasons for retention of the property prior to the Board meetings.

At the meeting, the Board members review and discuss the information in the briefing book; they also listen to the executive directors' presentations. A/FBO staff are available to provide additional details, if needed. The Board members reach decisions by consensus, as provided by the charter. They stated that the information presented was sufficient for their decision process. However, the three members selected for their technical real property expertise stated that they had requested to review any economic analyses performed by A/FBO, including present value and internal rates of return, as well as the assumptions underlying these analyses. A/FBO staff were able to furnish this information. Overall, the Board members stated that the original information provided was sufficient to reach a decision and that the additional information did not change the Board's decisions. However,

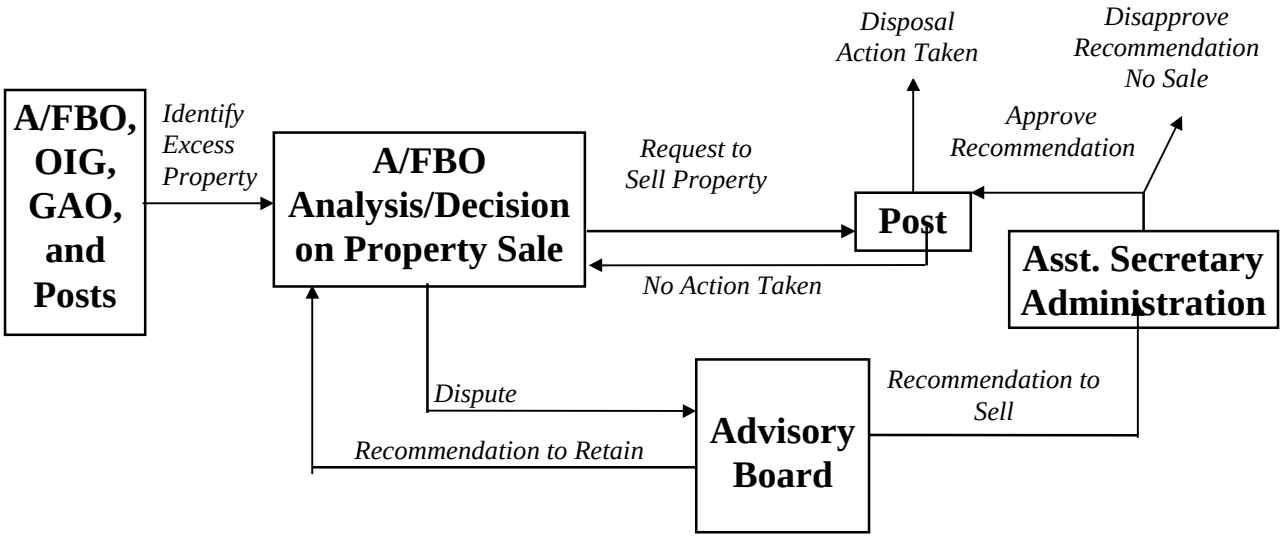
the three Board members expressed their view that economic analyses would be helpful in the decision process when available. After each meeting, the minutes and the decisions reached are distributed to the Board members.

> **Recommendation 1:** We recommend that the Office of Foreign Buildings Operations routinely provide information to the Real Property Advisory Board members on all economic analyses that it performed on properties that are to be reviewed by the Board.

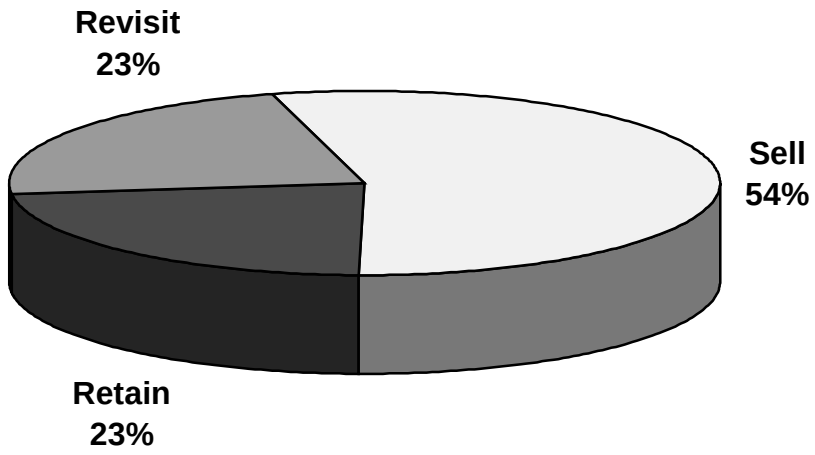
A/FBO orally agreed with this recommendation. Therefore, we consider the recommendation resolved on issuance of this report.

The Board's recommendations for disposal are submitted to A, who then reviews the recommendations, either approves or disapproves them, and informs the posts of the decisions. Posts are required to take action to sell properties recommended by the Board and approved by A for disposal. The following chart diagrams the flow of information and decisions in the Department's process to initiate disposal of real properties identified as excess.

Real Property Disposal Decision Process



Of the 22 properties the Board reviewed, it recommended the sale of 12 properties, the retention of 5 properties, and requested additional information and options to be sought on the remaining 5 properties.



A approved 11 of the Board's 12 recommendations to sell, and deferred 1 decision pending the completion of an A/FBO survey on the property. Ten of the 11 properties approved for sale were listed as properties for disposal in the Department's report to Congress on real property transactions for the first quarter of FY 1998. The report listed a total of 107 properties for possible disposal. One of the 11 properties approved by A was not included in the report because the Department postponed the sale until other real property issues are resolved with the host government. See Appendix B for a list of properties reviewed and actions taken. Several examples of the Board's decisions, and the factors involved in the decision process, follow:

- OIG recommended the sale of the consul general's residence in Hamilton, Bermuda in a 1993 Inspection report. According to the post, the Government of Bermuda did not want the United States to sell this property and stated that it would pass new legislation restricting the property's use by a new owner. Concerns raised by the post against the sale of the property were more political than economic. The Board noted that a similar house was sold for $8 million recently and that current zoning would allow the Department to put an additional 30 units on the property. An appropriately sized consul general's residence could be purchased for about $500,000 to $800,000. The Board recommended that the residence be sold. A approved the sale and A/FBO sent sale guidance to post.

- GAO listed the ambassador's residence in Prague, Czech Republic in its 1996 report on overseas property to be sold. According to the post, the host government had strong feelings that the residence should not be sold because it is a symbol of the United States and its commitment to Czech democracy. The

house is currently very expensive to maintain and needs renovations that A/FBO is planning to undertake. Current estimates of sales proceeds range between $7 and $8 million, with a replacement house estimated to cost between $1 and $1.2 million. The Board recommended that guidance be sought from the Secretary of State before deciding on the ambassador's residence. OIG was advised by A that in a meeting with the President and the former and current Secretary of State the President indicated that the ambassador's residence should not be sold. A, therefore, decided to retain the property.

- GAO listed the former consul general's residence in Zanzibar in its 1996 report on overseas property to be sold. OIG, post, the regional bureau, and A/FBO all agreed that the property should be retained because they believe it is important for foreign policy reasons and employee morale at Dar Es Salaam. During 1994, the house was used for 158 nights on an 80 - 20 percent ratio of recreation to official use. Costs for maintenance and salary vastly exceeded the amounts paid by employees for use of the facility. The Board recommended that the residence be retained.

Informal Appeals Process

The Department has created an informal appeals process that further delays the sale of property recommended by the Board. The Board recommended and A approved 11 properties for sale. Two of these posts requested A and A/FBO to reconsider those recommendations. Although neither the House conference report nor the Board's charter included directions for reconsidering the Board's recommendations, A agreed to honor the requests. Because A did not establish any procedures or time limits to process the requests, the regional bureaus are not aware of the process and surplus property remains unsold.

As discussed, the Congress instructed the Secretary of State to establish the Board to review information on Department properties proposed for sale and to compile a list of those properties recommended for sale. The Congress also directed, "At any time when appropriate market conditions exist, the State Department is to proceed with the immediate sale of items on the approved list." However, A agreed to requests from two posts that the Board's recommendations be reconsidered. A, therefore, created an informal appeals process that (1) was not mentioned in congressional or GAO instructions, or the Board's charter, and (2) will delay the sale of properties that the Board has recommended for disposal. A agreed to the requests for reconsideration because the arguments advanced by the posts introduced new factors. Consequently, the sale of these properties has been delayed. The following is a discussion of what the two posts have done:

- In June 1997, the Board recommended the sale of the former consul general's residence in Alexandria. A approved the recommendation in July 1997. In August 1997, A/FBO advised the post to start the disposal process. The post

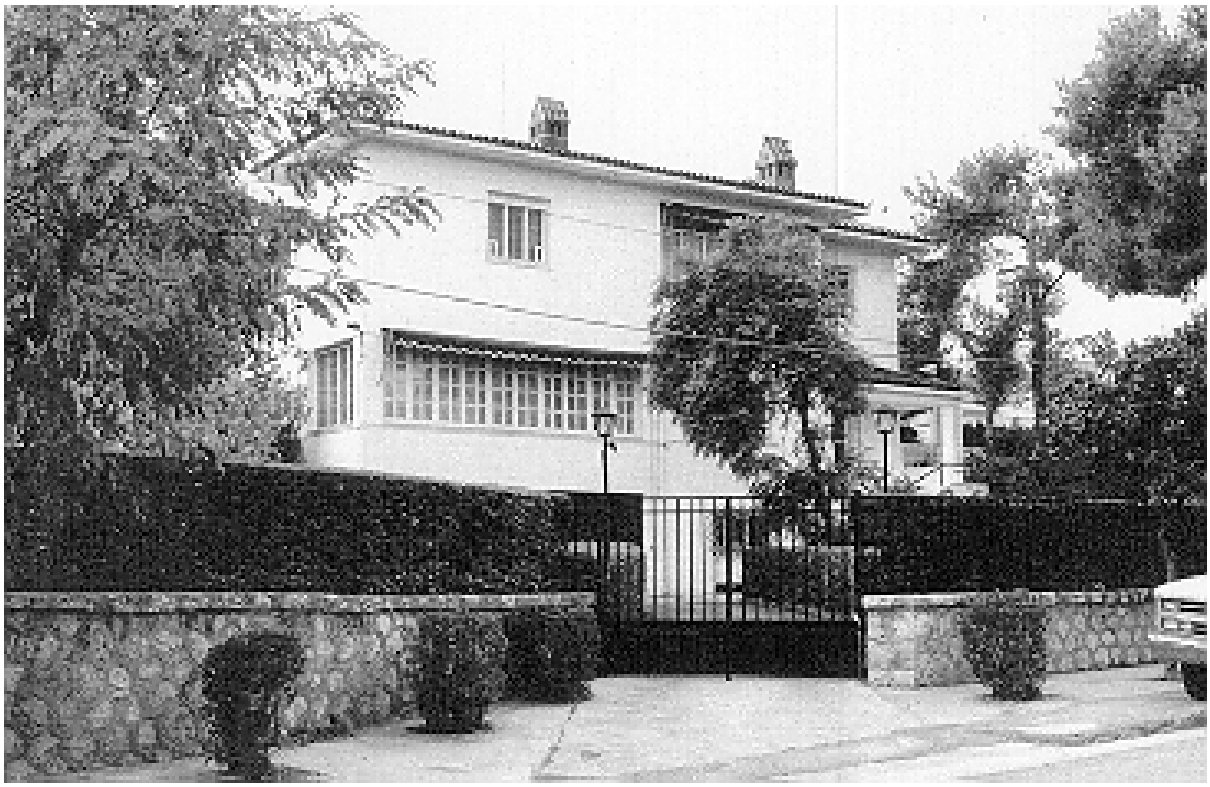
submitted appraisals for the property in December 1997, ran marketing advertisements in February 1998, and received several offers from potential buyers. In April 1998, under the direction of a new ambassador, Embassy Cairo delayed the sale process because it developed additional uses for the residence including use of the upstairs living quarters as a temporary duty residence and the downstairs as a "representational venue and beacon for the U.S. Government's presence in the city." Post then requested A to reconsider the decision to sell the property. After considering the new ambassador's proposal, the deputy assistant secretary for A/FBO decided that the property should be sold. The post sold the property in June 1998 for over $2.1 million.

Former Consul General's Residence - Alexandria

- In September 1997, the Board recommended the sale of four single-family homes (valued at about $6 million) in Athens, Greece. A approved the recommendation in October, and A/FBO advised post in November 1997 of the decision to sell the properties and requested the post's assistance on disposal methods and marketing timelines. Embassy Athens did not respond to repeated A/FBO communications through March 1998. A/FBO requested a status report again in February and March 1998. Embassy Athens responded in May 1998 with a request to A and A/FBO to reconsider the decision to sell one of the four residences and for

additional time, after the summer 1998 transfer cycle, to reconsider Athens housing needs before proceeding to sell the other three properties.

Residence in Athens - Hamilton House



In both instances, A agreed that A/FBO should honor the posts' requests for reconsideration. Neither A nor A/FBO, however, had determined how the requests would be processed. A and A/FBO officials stated that no decision had been made to develop a formal appeals process. A stated that the property issues would probably be resubmitted to the Board. But if an appeals process were established, A added that it would not be used as a "stall tactic."

Two executive directors expressed concern about whether an appeals process existed and said that if it did exist, neither the bureau nor the posts had been informed. One executive director stated that the regional bureaus and posts need to know if an appeals mechanism is in place and what the procedures are so that appropriate reasons for reconsideration can be determined and timely action can be taken. The executive director also said that a formal process would ensure that all requests for reconsideration would be treated fairly and impartially.

Recommendation 2: We recommend that the Assistant Secretary for Administration examine the Real Property Advisory Board's decision process to determine if an

appeals process is needed. If so, the Assistant Secretary for Administration should establish a formal appeals process, including acceptable reasons and time limits, to ensure consistency and timeliness of Department actions and inform the posts and regional bureaus of the formal process.

Although A did not respond to this recommendation, on October 2, 1998, M issued an All Diplomatic and Consular Posts cable clarifying the decisionmaking authority when a post disagrees with the Board's recommendation and A's resulting decision to sell a property. The cable stated that if a post does not accept the decision, it should formally report its objection to M for final resolution. M is the final arbiter in such cases. However, because formal procedures and time limits for appeals were not established, the recommendation remains unresolved.

Although A/FBO had developed a system to track the sale of properties recommended for disposal, it had difficulty obtaining updated information on two posts' actions to sell properties because these posts were not responding to A/FBO's requests for information. For example, in June 1997 the Board recommended the sale of a warehouse, residence, and recreation center in Kaduna, Nigeria. Offers from potential buyers were approved in February 1998 and were subsequently accepted, and the sale was estimated to close in April 1998. However, as of September 1998, A/FBO did not know if the sale was completed because the post has not responded to A/FBO's requests for information. Also, in September 1997, the Board recommended the sale of four residences in Athens, Greece, previously discussed. The post replied only once to A/FBO's repeated requests for an update on actions the post was taking to sell the properties.

Recommendation 3: We recommend that the Office of Foreign Buildings Operations establish a reporting mechanism to inform the Under Secretary for Management of posts' nonresponse on recommendations made by the Real Property Advisory Board.

A/FBO orally agreed with this recommendation. Therefore, we consider the recommendation resolved on issuance of this report.

Improvements Made to Account for Proceeds of Sale

We found that the Department had made improvements to the procedures it uses to track and account for proceeds of sale. Accounting for proceeds of sale of property overseas was identified as a material weakness in the FY 1991 FMFIA report, as identified by OIG and the Department's own internal review. Improvements by FMP and A/FBO resulted in the correction and closing of the material weakness in the FY 1996 report. The Department established a mechanism to better track the receipt of proceeds in CFMS by creating a receivable account for each anticipated sale and revising the requirements for handling foreign currency proceeds transactions. Our review also found that the Department has

subsequently established a new proceeds account under A/FBO's appropriation in order to segregate and account for the receipts and expenditures of proceeds of sale.

In FY 1997, FMP began using a receivable control account for anticipated sales proceeds as a result of congressional concerns, OIG and GAO recommendations, and the FMFIA reports regarding inadequacies in the Department's procedures for tracking the receipt of proceeds from real property sales and accounting for the proceeds. FMP creates a separate receivable control account for each anticipated sale based on monthly reports from A/FBO of pending real property sales and tracks the receivables in the Departmental Accounts Receivable Tracking System (DARTS). DARTS is an accounts receivable subsidiary system that interfaces with CFMS so the receivables data in DARTS is also recorded in CFMS. FMP uses these receivable control accounts to track the collection of proceeds to ensure that it is captured in CFMS. These accounts also serve as a verification and reconciliation tool to ensure the accuracy of post-entered collection data. FMP verifies and reconciles these accounts monthly because they are only estimates of anticipated proceeds; the actual proceeds reported by posts often differ from the receivable amounts. Procedures used to verify and reconcile these accounts are detailed later in this report.

In FY 1997, the Department, in coordination with the Department of the Treasury, made changes in the processing of foreign currency proceeds resulting in more timely crediting of real property sales proceeds to A/FBO's spending authority. Under the new procedures, most foreign currency proceeds are immediately credited to A/FBO in U.S. dollars on the condition that the U.S. Disbursing Officer (USDO) will be able to (1) use the funds with minimal risk of devaluation of the currency, or (2) sell the foreign currency immediately for U.S. dollars. A/FBO, in turn, agreed to advise FMP as early as possible of its intent to sell overseas properties so that FMP can coordinate with the USDOs to identify problematic foreign currencies, those that are nonconvertible or far exceed posts' disbursing needs. A/FBO also agreed that it will not sell property for a particular currency if FMP advises A/FBO that the USDO cannot use all of the anticipated foreign currency proceeds in a reasonable period of time or cannot sell the currency.

To improve the accounting for proceeds from real property sales, FMP established a separate proceeds account in A/FBO's appropriation on October 1, 1997, that segregates those proceeds from other types of receipts. FMP credits proceeds from real property sales to A/FBO's spending authority under this new proceeds account. Also, posts are to report proceeds collected directly to the new proceeds account. However, due to the recent establishment of this account, some posts improperly reported FY 1998 proceeds to A/FBO's appropriation account, requiring FMP to manually transfer the funds into the proceeds account. Details of deficiencies in this transfer procedure follow.

Further Improvements Needed to Account for Proceeds of Sale

Although our review showed that FMP and A/FBO had implemented changes to improve the accounting for real property proceeds of sale, we identified three deficiencies requiring corrective action: (1) FMP had not transferred proceeds to the new account when it first learned that the proceeds were recorded in the incorrect account and posts did not properly account for proceeds in the new account when the account was first established, (2) FMP had not consistently used source documents to verify and reconcile post-entered proceeds amounts in CFMS, and (3) the Department had not updated its regulations on accounting for proceeds of sale in the FAM and FAH.

Transfer of Real Property Proceeds to the New Proceeds Account

Although the Department implemented the new proceeds account under A/FBO's appropriation to segregate proceeds of real property sales from other types of A/FBO funds on October 1, 1997, FMP did not immediately complete the journal entries to accomplish the transfer of funds to the new proceeds account, 19X0535.4, from the appropriation account 19X0535. Also, posts were required to report the receipt of funds from the sale of real property to the new proceeds account. However, due to the recent implementation of the account, many posts continued to report the receipt of funds to A/FBO's appropriation account rather than to the new proceeds account. FMP informed OIG that about $69 million was recorded in the appropriation account that should be in the proceeds account. During the course of the audit, OIG emphasized the need to transfer these funds to the new account. On July, 10, 1998, FMP made the required transfer. Although there is no effect on A/FBO's spending authority, without the transfer, proceeds credited to A/FBO under the proceeds account do not equal funds designated as real property proceeds in CFMS.

We are not making a recommendation to correct the proceeds account because during the annual audits of the Department's financial statements, in compliance with the Chief Financial Officers Act and the Government Management and Reform Act, OIG will ensure that the required transfers are made to the proper account and the financial statements do not materially misstate proceeds from the sale of real property.

Establishing and Reconciling Receivables in the New Proceeds Account

FMP staff had not consistently verified and reconciled post-reported proceeds amounts in CFMS with source documents or in accordance with existing FMP procedures. As a result, inaccurate amounts are recorded in CFMS, and A/FBO's spending authority is misstated. We found 2 understatements in proceeds credited to A/FBO, resulting in a net understatement of nearly $70,000 because source documents were not used. We also identified that FMP had reported overstatements of over $3.2 million in proceeds from the sale of property that was corrected by FMP staff at the end of September 1998. This was

caused by inconsistent application and interpretation of FMP's accounting guidelines and staff turnover in the Accounts Receivable Division (ARD).

Current Procedures

FMP's guidelines prescribe that ARD staff establish a receivable control account in CFMS, through the DARTS subsidiary system, for each anticipated sale. When establishing a receivable account, ARD staff are to use the negotiated sales price in the authorization cable that A/FBO sends to post to authorize the sale. After a sale is completed, the post cashier is to deposit the proceeds in a local bank and prepare an Optional Form 158 (OF-158) General Receipt for the proceeds received using appropriate fiscal data that includes the corresponding receivable account number that the FMP staff created in CFMS. A copy of the OF-158 is provided to the buyer, A/FBO, and the USDO. Post retains a copy and enters the transaction and OF-158 fiscal data in the Overseas Financial Management System (OFMS). The fiscal data allows the receivable account in CFMS to be liquidated during the monthly interface between OFMS and CFMS.

Because the receivables are control accounts and not true receivables, FMP has established procedures to reverse the accounts at year end for sales that have been canceled and to adjust the receivables balance for financial statement reporting for any sales that have not been completed.

FMP guidelines also require ARD staff to review the CFMS transactions to verify that the proceeds of real property sales have been properly recorded by posts. These guidelines state that an ARD accountant should perform monthly reconciliations of the proceeds transactions in CFMS using the OF-158 as the source document to verify the accuracy of post-entered proceeds amounts in the accounting system and to reconcile those amounts with other documents provided by A/FBO and the regional Financial Service Centers. After ARD completes the verification and reconciliation process, it notifies FMP's Office of Budget and Planning (FMP/BP) that proceeds have been received and verified as collected, accurately posted in CFMS, and can be credited to A/FBO's spending authority. A copy of ARD's notification memo to FMP/BP is sent to A/FBO and serves as FMP's allotment of the proceeds to A/FBO for its use. This monthly reconciliation is a key procedure because (1) the actual proceeds collected may differ from the receivable accounts created in CFMS based on anticipated proceeds, (2) the post may not have entered the correct fiscal data, or (3) the post may have made an input error.

Review of Source Documents

Our review found that the source document, the OF-158 General Receipt, that identifies the amount of the sale proceeds collected from a buyer, is not readily available to ARD staff to verify and reconcile the post-entered proceeds amounts in CFMS. This occurred because of conflicting guidelines and opinions between various FMP offices on the

significance and need of that document. In addition, because the post does not send the OF-158 to FMP, ARD staff must request them from the posts. However, some posts take weeks to respond and other posts do not respond at all. Consequently, the OF-158s are not always available to ARD staff to perform the verifications and reconciliations. In those instances, verifications and reconciliations are improperly conducted without the OF-158. Also, some errors occurred because a new accountant at FMP did not follow established verification procedures. As a result, FMP staff have inaccurately credited proceeds to A/FBO's spending authority.

We reviewed an FMP memorandum dated June 1, 1998, that reported 11 proceeds transactions recorded in CFMS during the period March 31 through May 11, 1998, and 5 adjustments (subtractions) made to correct errors in previous memorandums. This memorandum was one of four prepared during this fiscal year. We found that 2 of the 16 transactions caused an understatement of almost $70,000 to A/FBO's spending authority. For example:

- Land in Tokyo, Japan was sold for $8,949,352. The post, however, reported proceeds of $8,888,614 in OFMS, a difference of about $61,000 from the actual proceeds collected. During the reconciliation process, the ARD accountant requested an OF-158 from post in March 1998, but the post did not respond. The accountant completed the reconciliation without the OF-158, crediting A/FBO the post-reported amount of $8,888,614. This caused an understatement to A/FBO's spending authority of about $61,000.

- A residence in Kinshasa, Democratic Republic of the Congo was sold for $175,000 and payment was made in 2 installments--a deposit of $8,750 in August 1997, and a final payment of $166,250 in October 1997. FMP credited the total amount of $175,000 to A/FBO in a memo dated December 19, 1997. However, believing that $166,250 was the actual total sale price for the property, FMP subtracted $8,750 from A/FBO's spending authority in the June 1, 1998, memorandum without verifying the amounts with the OF-158.

We found that FMP had the OF-158 source document for 6 of 11, or 55 percent, of the transactions in the June 1 memo. The lack of OF-158s for reconciliations of overseas proceed transactions was also noted as an issue in the Corrective Action Review (CAR) performed by FMP in FY 1997, as required by FMFIA procedures. The review examined reconciliations for FY 1996-97 to determine if ARD was complying with the requirements to record, reconcile, and report proceeds of sale accurately and timely. Among other findings, the availability of source documents was cited as one of the key elements for timely reconciliations.

We reviewed the working papers of the CAR to determine whether the proceeds credited to A/FBO in FY 1996-97 reflected misstatements such as those we found in

FY 1998. Our review did not identify any material misstatements to A/FBO's spending authority with regard to FY 1996-97 transactions. We found that ARD had 88 percent of the OF-158s for FY 1996-97 proceed transactions (97 percent for FY 1996 transactions and 75 percent for FY 1997 transactions). In contrast, our review of the proceed transactions reported in CFMS during the period March 31 through May 11, 1998, revealed that ARD had OF-158s for 55 percent of the transactions.

Both the CAR and FMP guidelines in ARD state that the OF-158 is necessary to the verification and reconciliation process and that ARD should routinely receive copies of the OF-158s for all proceeds collected and reported by posts. In addition, correspondence received from FMP to close recommendations in OIG's 1992 report also stated that OF-158s would be provided to ARD staff for all proceeds of sale transactions. However, the same guidelines provided by FMP's Office of Domestic Financial Services (DFS), the office that drafted both sets of guidelines, does not mention the OF-158 as it pertains to the ARD; it only states that they are to be prepared by the post cashier and that a copy is to be sent to A/FBO. The official in DFS who wrote the guidelines stated that the OF-158 is not necessary. Rather, ARD staff want the OF-158s because they are used to working with them and feel comfortable having them, but they are not always necessary, especially when A/FBO informs FMP of the proceeds collections, and those amounts match the post-reported amounts in the financial system. The official stated that waiting to obtain an OF-158 in those circumstances would unnecessarily delay the reporting of proceeds to A/FBO. Also, FMP is trying to reduce the number of unnecessary hard-copy documents, according to the official.

We agree that proceeds of sales should be credited to A/FBO in a timely manner and FMP should reduce unnecessary hard-copy documentation. However, given the errors we found in reporting proceeds, we believe that the OF-158 is a necessary document for FMP to properly verify the accuracy of proceeds transactions reported in CFMS. Even if A/FBO routinely provides proceeds collections reports to FMP and those amounts match post-reported amounts in CFMS, the responsibility to ensure the accuracy of transactions data in CFMS rests ultimately with FMP.

We also identified that FMP had erroneously reported sales proceeds twice to A/FBO because a new accountant used FMP's informal procedures to review, report, and credit proceeds. These procedures include a spreadsheet listing new proceeds transactions and supervisory reviews of the spreadsheet. We identified 2 examples in which these procedures did not prevent total overcredits of proceeds of $3.2 million. Although FMP initially informed A/FBO that the additional $3.2 million was available for its use, FMP subsequently removed these transactions from the accounting records in late September 1998 to ensure that A/FBO's spending authority was not overstated. The two examples follow:

- A residence in Tokyo was sold for about $3.1 million. The proceeds were collected in two payments. FMP credited the second payment of about $2.8

million to A/FBO on two separate occasions, thereby reporting an overstatement of proceeds to A/FBO of about $2.8 million.

- A residence in Colombo, Sri Lanka was sold for $440,316. FMP again credited the proceeds to A/FBO twice, reporting an overstatement of proceeds to A/FBO of $440,316.

Independent of reconciliations with source documents such as the OF-158, FMP's reliance on A/FBO-provided collections information alone is, in effect, transferring the verification responsibility to A/FBO. We brought these issues to the attention of a DFS official, and the official agreed to take corrective action to ensure that ARD staff performs the reconciliations properly.

Recommendation 4: We recommend that the Bureau of Finance and Management Policy formalize procedures for reporting proceeds to prevent errors in accounting for the proceeds from the sale of real property.

FMP agreed with the intent of this recommendation. Therefore, we consider this recommendation to be resolved on issuance of this report.

Recommendation 5: We recommend that the Bureau of Finance and Management Policy revise and redistribute the guidelines to ensure (1) that the guidelines provided to each of the various Bureau of Finance and Management Policy offices are consistent and (2) in conjunction with the Office of Foreign Buildings Operations, that posts provide the Bureau of Finance and Management Policy's Accounts Receivable Division the Optional Form-158 General Receipt for all proceeds collected.

Recommendation 6: We recommend that the Bureau of Finance and Management Policy properly document the verification and reconciliation process and, in conjunction with the Office of Foreign Buildings Operations, review FY 1998 transactions and make adjustments to correct any errors.

Both A/FBO and FMP agreed with the intent of Recommendations 5 and 6. Therefore, we consider the recommendation resolved on issuance of this report.

Outdated or Incomplete Regulations

Several sections concerning accounting for proceeds of sale in 6 FAM and 4 FAH are outdated and incomplete and should be updated. Current regulations do not contain specific procedures to account for real property proceeds of sales. These regulations only require posts to (1) deposit proceeds of sale to A/FBO's appropriations and (2) prepare the OF-158 General Receipt upon collection of the proceeds. Changes to the procedures to account for

real property proceeds were distributed in the All Diplomatic and Consular Posts Cable 218786 dated October 19, 1996. The cable also stated that relevant sections of the Department's financial regulations would be revised accordingly.

The following sections of the FAM and FAH came to our attention during this audit as requiring revision.

- 4 FAH - 01H - 0224, "Account Symbols," lists all existing accounts that segregate specific funds under A/FBO's appropriation, but does not list the new proceeds account for proceeds from the sale of real property.

- 4 FAH - 03H - 0323, "Proceeds of Sale of Property," contains outdated procedures on processing foreign currency proceeds of sale. This section of the regulation requires overseas cashiers to record proceeds received in foreign currencies in the Department of the Treasury's Foreign Transaction account, 20FT210. The updated guidelines require the cashiers to use A/FBO's appropriation account, 19X0535.4, to account for the proceeds from the sale of real property.

- 6 FAM 754, "Distribution of Proceeds and Income," contains outdated procedures on foreign currency proceeds as well as a nonoperating A/FBO allotment code, REIM. This section of the regulation requires overseas cashiers to record proceeds received in foreign currencies in the Department of the Treasury's Foreign Transaction account, 20FT210. The updated procedures require the cashiers to use A/FBO's appropriation account, 19X0535.4, to account for the proceeds from the sale of real property. The section also specifies that the cashiers should use allotment code, REIM, for proceeds from sale. The updated guidelines require the cashiers to use allotment code 1030.

- 6 FAM 755, "Required Procedures for Disposal of Real Property," also contains outdated procedures for processing foreign currency proceeds. This section of the regulation requires cashiers to prepare an OF-158 General Receipt using the exchange rate as of the date of the deposit. The updated guidelines, however, require the cashiers to use the exchange rate as of the date the USDO sells the foreign currency.

A/FBO has drafted a revision of 6 FAM 754, "Distribution of Proceeds and Income" in accordance with the new procedures for handling foreign currency proceeds, but it had not been incorporated in the latest version of the Department's regulations. A financial manager at FMP's International Financial Services directorate stated that FMP is in the process of incorporating additional changes for processing foreign currencies and using Foreign Transaction accounts, and was planning to revise the Department regulations, in conjunction with A/FBO, once all the changes have been implemented. The DFS financial manager who

drafted the accounting guidelines for real property proceeds, stated that there were no sections in the FAM or FAH concerning proceeds of sales that were affected by the changes in procedures. The manager added that the guidelines were specific to the accounting issues and properly addressed the changes. We believe that the appropriate sections of the FAM and FAH should be revised to reflect the current procedures.

> **Recommendation 7:** We recommend that the Bureau of Finance and Management Policy, in conjunction with the Office of Foreign Buildings Operations, review the relevant sections of the Foreign Affairs Manual and the Foreign Affairs Handbook and revise the regulations, where appropriate, to reflect current procedures and guidelines regarding the accounting for real property proceeds of sale.

Both A/FBO and FMP agreed with the intent of this recommendations. Therefore, we consider the recommendation resolved on issuance of this report.

Real Estate Advisory Board Members*

Name	Title	Agency
David Bibb	Deputy Commissioner Public Buildings Service	General Services Administration
Eric Boswell**	Assistant Secretary Diplomatic Security	Department of State
William Davies	Real Estate Specialist	U.S. Postal Service
Richard Greene**	Chief Financial Officer	Department of State
Alan Larson	Assistant Secretary Economic and Business Affairs	Department of State
Name withheld	Director of Facilities	Central Intelligence Agency
Mary Ryan	Assistant Secretary Consular Affairs	Department of State

*Board members as of December 1997.
**No longer on the Board.

Executive Secretary – Advisory Board

Patsy Thomasson	Deputy Assistant Secretary Office of Foreign Buildings Operations	Department of State

APPENDIX B

Disputed Properties Reviewed by the Board

Post	Property Description	Board's Recommendation	A's Decision	Property Status As of September 1998
Alexandria	CGR[1]	Sell	Approve	Action taken but delayed-completed in June 1998*
Athens	Residence	Sell	Approve	No action taken**
Athens	Residence	Sell	Approve	No action taken**
Athens	Residence	Sell	Approve	No action taken**
Athens	Residence	Sell	Approve	No action taken**
Brasilia	12 residential lots	Sell	Approve	Action taken - host country issues
Budapest	MSGR[2]	Explore options	N/A	Exchange option being explored
Curacao	Vacant Lot	Sell	Approve	Action taken
Dakar	EMR[3] site	Retain for 1 year	N/A	Post reviewing alternatives
Damascus	NOB[4] site	Bureau needs to provide political implications	Pending	Additional consideration being given to political issues
Doha	EMR and Chancery site	Sell	Pending	Approval pending the results of A/FBO review
Hamilton	CGR and land	Sell	Approve	Action taken
Islamabad	Vacant land	Retain as security buffer	N/A	No action needed
Kaduna	House and Warehouse	Sell	Approve	Deal almost closed for sale
Kathmandu	Cottage	Sell	Approve	Action taken, some host country issues
Manila	Ambassador's summer residence	Revisit in 6 months	N/A	A/FBO trying to get title to property
Naples	CGR and COB[5]	Explore options	N/A	Other options being explored
Port of Spain	Parking lot	Retain	N/A	No action needed
Prague	EMR and land	Seek guidance from A	President does not want EMR sold	No action needed
Praia	EMR site	Retain	N/A	No action needed
Rabat	NOB site	Sell	Approve	Action postponed to work on other property issues
Zanzibar	Former CGR	Retain	N/A	No action needed

*Post requested that A reconsider the decision to sell the property. After reviewing post's information, A/FBO requested post to continue with the sale.
**Post requested that A reconsider the decision to sell the property.

[1] Consul General's Residence
[2] Marine Security Guard Residence
[3] Ambassador's Residence - Embassy Residence
[4] Chancery - New Office Building
[5] Consulate Office Building

United States Department of State

Deputy Chief Financial Officer

Washington, D.C. 20520

OCT 20 1998

MEMORANDUM

TO: OIG/AUD - Mr. M. M. MacDonald

THROUGH: FMP/EX - Mr. Ruben Torres

FROM: FMP/F - Larry Eisenhart

SUBJECT: Draft Audit Report on "Audit of the Real Property Advisory Board"

We have reviewed the draft report titled "Audit of the Real Property Advisory Board." Recommendations 4 through 7 are addressed to FMP. Please be aware that we received a revised version of the draft on October 13, 1998, as a result of our exit conference with the audit team. This response pertains to the revised draft.

We agree with the intent of the recommendations made to FMP in the revised draft. We appreciate the recognition that you have given to the progress made in accounting for proceeds and acknowledge that there is opportunity for some additional improvements in the process. We have a few recommended clarifications to the text of the draft that are being provided directly to the audit team. If you have any questions concerning our response, please contact Eileen Angle, FMP/F/DFS, at (703) 812-2211.