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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Report of Inspection

Review of Office of Foreign Missions Custodial Property Program

Report Number ISP-I-10-03, January 2010

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PURPOSE, SCOPE AND METHODOLOGY OF THE INSPECTION

This inspection was conducted in accordance with the Quality Standards for Inspections, as issued by the President's Council on Integrity and Efficiency, and the Inspector's Handbook, as issued by the Office of Inspector General for the U.S. Department of State (Department) and the Broadcasting Board of Governors (BBG).

PURPOSE

The Office of Inspections provides the Secretary of State, the Chairman of the BBG, and Congress with systematic and independent evaluations of the operations of the Department and the BBG. Inspections cover three broad areas, consistent with Section 209 of the Foreign Service Act of 1980:

- Policy Implementation: whether policy goals and objectives are being effectively achieved; whether U.S. interests are being accurately and effectively represented; and whether all elements of an office or mission are being adequately coordinated.
- Resource Management: whether resources are being used and managed with maximum efficiency, effectiveness, and economy and whether financial transactions and accounts are properly conducted, maintained, and reported.
- Management Controls: whether the administration of activities and operations meets the requirements of applicable laws and regulations; whether internal management controls have been instituted to ensure quality of performance and reduce the likelihood of mismanagement; whether instances of fraud, waste, or abuse exist; and whether adequate steps for detection, correction, and prevention have been taken.

METHODOLOGY

In conducting this review, the OIG team reviewed pertinent records, conducted on-site interviews, and reviewed the substance of the report and its findings and recommendations with offices, individuals, organizations, and activities affected by this review.



**United States Department of State
and the Broadcasting Board of Governors**

Office of Inspector General

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. W. Geisel".

Harold W. Geisel
Deputy Inspector General

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KEY JUDGMENTS

- The Office of Foreign Missions (OFM) has a continuing duty to respect and protect Iran's diplomatic and consular properties from the date that the Department of State (Department) took custody of them in April 1980. In order to fulfill the U.S. obligation under the Vienna Convention to respect and protect Iran's diplomatic and consular real property, OFM determined that the real properties could best be maintained if occupied and if rental of the properties could provide a source of funds for essential maintenance and repairs. This program has been successful in many respects.
- Although the Iranian custodial properties are generally in reasonable physical condition, the properties are aging and will need closer oversight and more frequent visits by OFM than has been necessary in the past. The properties need regular inspections by qualified experts in building systems.
- Iranian custodial properties are in need of capital improvements if they are to remain rentable. Should the properties become less attractive to potential renters, OFM's funding to maintain them will decrease or stop completely.
- OFM is not adequately staffed to oversee the day-to-day management of the custodial property program, let alone the oversight of capital improvements.
- OFM does not have up-to-date, well-detailed standard operating procedures for the management of custodial properties, the assumption of new custodial properties, the inventorying of contents of properties, or the resolution/return of custodial properties to foreign missions.
- The inventories of tangible items removed from Iranian custodial properties and placed in commercial storage have not been reviewed since 1997. OFM pays annual commercial storage costs for items in storage for the Government of Somalia and should conduct a periodic inventory.
- OFM financial records and vouchering procedures for income and expenditures related to custodial properties are thorough and accountable.

The review took place in Washington, DC, between April 13 and June 3, 2009.

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OFFICE OF INSPECTOR GENERAL REVIEW OF CUSTODIAL PROPERTY PROGRAM

At the request of the deputy assistant secretary for OFM, the Office of Inspector General (OIG) conducted a review of OFM's custodial property program to ensure that OFM was fulfilling its mandate effectively. In general, OFM asked the OIG team to take an objective look at the program and to validate the current procedures. The OIG team reviewed available OFM custodial property files and met with persons familiar with the program in the Department of the Treasury's Office of Foreign Assets Control (OFAC), and in the Department of State's Office of the Legal Adviser.

At its inception in 1982, OFM assumed responsibility for 16 properties owned by foreign governments with which the United States did not have diplomatic relations. Over time, OFM has managed custodial properties for Iran, Iraq, Vietnam, Yugoslavia, Afghanistan, Somalia, and Kampuchea/Cambodia. As far as could be determined by the OIG team from the information available in the OFM files, the procedures and steps taken by OFM varied according to the situation and circumstances associated with the termination of relations with each country. To a certain extent, individualized approaches to each event are necessary; however, the team also looked for patterns and standard operating procedures. The results are presented in this report.

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OFFICE OF FOREIGN MISSIONS AND THE CUSTODIAL PROPERTY PROGRAM

The 1982 Foreign Missions Act (FMA) declared that:¹

It is the policy of the United States to support the secure and efficient operation of United States missions abroad, to facilitate the secure and efficient operation in the United States of foreign missions and public international organizations and the official missions to such organizations, and to assist in obtaining appropriate benefits, privileges, and immunities for those missions and organizations and to require their observance of corresponding obligations in accordance with international law.

The FMA went on to note² that the treatment to be accorded to a foreign mission in the United States shall be determined by the Secretary of State (Secretary) after due consideration of the benefits, privileges, and immunities provided to missions of the United States in the country or territory represented by that foreign mission, as well as matters relating to the protection of the interests of the United States.

The FMA noted that, the Secretary shall, as determined by the Secretary, designate an office within the Department to carry out the purposes of the act.³ This authority led to the creation of OFM.

The mission of OFM has evolved into four major areas:

1. Employment of reciprocity to ensure equitable treatment for United States diplomatic and consular missions abroad and their personnel;
2. Regulation of the activities of foreign missions in the United States in a manner that will protect the foreign policy and national security interests of the United States;
3. Protection of the United States public by ensuring compliance of diplomatic privileges and immunities for foreign diplomats and officials residing in the United States; and

¹ 22 U. S. C. § 4301 (b)

² 22 U. S. C. § 4301 (c)

³ 22 U. S. C. § 4303 (4)

4. Provision of service and assistance to the foreign mission community in the United States to assure appropriate privileges, benefits, and services on a reciprocal basis.

The FMA specifically addressed the cessation of diplomatic, consular, and other governmental activities in the United States, noting that⁴:

If a foreign mission has ceased conducting diplomatic, consular, and other governmental activities in the United States and has not designated a protecting power or other agent approved by the Secretary to be responsible for the property of that foreign mission, the Secretary:

1. Until the designation of a protecting power or other agent approved by the Secretary, may protect and preserve any property of that foreign mission; and
2. May dispose of such property at such time as the Secretary may determine after the expiration of the one-year period beginning on the date that the foreign mission ceased those activities, and may remit to the sending State the net proceeds from such disposition.

The management of any such “custodial properties” since the date of the FMA has been the responsibility of OFM.

Article 45 of the Vienna Convention on Diplomatic Relations (1961) notes that, if diplomatic relations are broken off between two states or if a mission is permanently or temporarily recalled, the receiving state must, even in case of armed conflict, respect and protect the premises of the mission, together with its property and archives. Article 45 of the Vienna Convention also allows the sending state to entrust the custody of the premises of the mission, together with its property and archives, to a third state acceptable to the receiving state. Similarly, Article 27 of the Vienna Convention on Consular Relations provides that in the event of severance of consular relations between the two States, “the receiving State shall, even in the case of armed conflict, respect and protect the Consular premises, together with the property of the consular post and the consular archives.”

Thus, OFM and the Department operate under both the Vienna Convention and the FMA when managing custodial property. However, there is a third aspect that may affect custodial property, and that concerns the Department of the Treasury.

⁴ 22 U. S. C. § 4305 (c)

OFAC regulates commercial and financial transactions with designated countries hostile to the United States that are under economic sanctions, which can include restricting trade and freezing their assets that are under the jurisdiction of the United States. OFAC is responsible for monitoring frozen assets and is empowered to license transactions granting exceptions to the sanctions when it determines this is in accordance with national policy.

STAFFING OF THE OFFICE OF FOREIGN MISSIONS

OFM is organized into five programmatic processes, including the Office of Property, Taxes, Services and Benefits (PTSB); the Office of Diplomatic Motor Vehicles, Enforcement, Outreach and Customer Service; the regional offices; information management; and administration. The custodial property is managed by PTSB. OFM has some 49 direct-hire employees, of which six are in PTSB. (There are 10 positions in PTSB, but only six were filled at the time of the OIG review due to lack of funding.)

CUSTODIAL PROPERTY RECORDS

The OIG team found that available OFM custodial property records were stored in an unorganized manner.⁵ OIG gathered the annual OFAC reports from various paper files, but was unable to locate a historic file of annual reports. The OIG team found copies of some licenses issued by OFAC, but did not find a historic file of these licenses, which usually include reportable actions that the receiving office must perform. Currently, it appears that OFM emails regarding custodial property may be preserved in individual email files but are not being collected in a central, ongoing file that will be available after the current employees have left.

OFM has scanned some files for custodial property and saved them in electronic format on the OFM shared drive. These are not labeled or organized. The documents are grouped into subfolders identified with headings such as deposits, Iranian rental deposits, payments, rent records, custodial property policies and procedures, invoices, ledgers, and parking invoices. (Some of these may not apply to custodial property activities.) Information in these subfolders is not easily retrievable, and it appears OFM placed a variety of unrelated documents together in one subfolder. OIG supports the efforts of OFM to place the custodial property documents in electronic files.

⁵ The OIG team also cursorily reviewed archival custodial property records permanently stored with the Department's Office of Information Services at off-site locations.

The resources required to organize or to attempt to recreate or retrieve old records might be prohibitive,⁶ and OIG is not recommending that OFM undertake these tasks. However the OIG team believes that OFM should begin now to implement thorough, systematic, retrievable record keeping procedures covering present and future activities with respect to custodial properties. OFM has maintained electronic voucher records of the custodial properties for the last year.

Recommendation 1: The Office of Foreign Missions should implement thorough, centralized, easily retrievable electronic or paper record keeping procedures for custodial property, including individual property files (with leases, itemized income and expenses, correspondence, etc.), OFAC reports and licenses, inventory records, operating procedures, and other important documentation. (Action: OFM)

EARLY DEPARTMENT OVERSIGHT OF IRANIAN CUSTODIAL PROPERTIES

When the Iranian custodial property was first taken over by the Department, the Office of Operations in the Bureau of Administration was the overseeing office. It was not until sometime in 1982 or 1983 that OFM took charge of the Iranian custodial properties. Before this date, however, the Department had taken a number of steps, including the initial packing and storage of tangible items in the various Iranian properties. There were, perhaps, 30 months between the time the Department took over the properties in April 1980 and the time OFM assumed active control of them, in what appears to be October 1982. At this time, the real properties were in need of significant repairs, and by early 1984, OFM had expended some \$178,000 of blocked funds to renovate, repair, and “winterize” the properties. OFM documents from 1993 show that by that date, some \$2.9 million had been transferred from U.S. Department of the Treasury accounts to OFM for the restoration and renovation of the Iranian custodial properties. This amount was repaid to the Department of the Treasury from rental income for the properties.

⁶ The one exception would be to gather and maintain historic files of OFAC reports and licenses.

MANAGEMENT OF CUSTODIAL PROPERTIES

OFFICE OF FOREIGN ASSETS CONTROL

OFAC administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy or economy of the United States. OFAC acts under Presidential national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction.

ACTIVITIES, REPORTS, AND LICENSES

OFAC has issued various licenses to OFM regarding the management of Iranian custodial property. One of these, Iranian Assets Control License Number IR-1586-a, and its revisions and subsequent versions, concern funding to pay for the preservation, renovation, and operation of diplomatic and consular properties of Iran located in the United States. License IR-1586-a (2) noted that “Complete records shall be kept of all expenditures of the funds, and a report summarizing the expenditures shall be made to the Office of Foreign Assets Control” no later than June 30 of each year, beginning June 30, 1984, and, at the discretion of OFM, whenever license applications are made to request transfers of funds. OFM submits annual reports to OFAC on a calendar year basis.

LEASING IRANIAN CUSTODIAL PROPERTIES

In a September 15, 2003, declaration, the deputy assistant secretary for OFM noted that in order to fulfill the U.S. obligation under the Vienna Conventions to respect and protect Iran’s diplomatic and consular real property, OFM began to look

at ways to maintain the property, examining both short-term and long-term alternatives. OFM determined that the real properties could be best maintained if occupied. OFM concluded that if the properties were left vacant they would be susceptible to break-in, damage, and deterioration. OFM also determined that rental of the properties would provide a source of funds for essential maintenance and repairs, necessary to supplement the scarce appropriated funds available for these activities. All of OFM's actions in connection with the maintenance and rental of Iran's diplomatic and consular property have been and continue to be taken exclusively for diplomatic and consular purposes. The proceeds from the rental of these properties that are not necessary for maintenance and repair of the properties are deposited in a blocked Iranian diplomatic and consular account.

Traditionally, OFM has used money from some of the Iranian custodial properties to provide maintenance and repair for other Iranian custodial properties. Individually, three of the custodial properties are currently being maintained from rental income from the other properties, including the former chancery at 3005 Massachusetts Avenue and the former ambassadorial residence at 3003 Massachusetts Avenue. All other custodial properties, with the exception of the vacant lot on Upton Street in Washington, DC, are generating income to meet their current expenses. OFM is mothballing the former chancery, which has been vacant for many years, and which is located in an area with restricted zoning. OFM is renovating the former ambassadorial residence, currently contracting for repairs that total over \$100,000, and planning for additional needed restorations before placing the property on the rental market. Additional information on the custodial properties is included in an attachment.

Overall, the OFM decision to lease the properties has proven to be an excellent one. The original idea of leasing the Iranian custodial properties was innovative. At the time that OFM received the properties, the prospect of leasing them was proposed as a solution to the problem of possible deterioration. Leasing the properties has meant that OFM has been able to respect and protect them at a level that has benefitted the neighborhoods and cities in which the properties are located.

CAPITAL IMPROVEMENTS TO IRANIAN CUSTODIAL PROPERTIES

The physical condition of the 11 Iranian custodial properties covers a wide spectrum, but, in general, the properties are aging and require more work on the part of the U.S. Government to maintain. The OIG team performed only visual inspections of the properties and cannot comment on most structural, engineering, or other aspects. If they are to remain rentable, the properties either need capital improvements now or will need them in the near future.

One of the questions posed by OFM at the beginning of the OIG study was whether the Department should undertake capital improvements to the custodial properties. The Department has overseen the properties since 1980 and, in the intervening 29 years, has replaced appliances and roofs and undertaken a number of other improvements and refurbishments. However, there is no standard policy for how and when to make capital improvements, what might be an appropriate level of expenditure, and which improvements (e.g., kitchens, bathrooms, etc.) might be considered. The determination of a capital improvement policy is complicated by such unknowns as how long the Department might continue overseeing the custodial properties. Capital improvements would increase the value of the properties and would keep them in a desirable condition for leasing.

Any capital improvements to the Iranian custodial properties would, of course, involve a great deal of OFM staff time. The OIG team does not think that the OFM custodial property program is adequately staffed for its current responsibilities and activities, nor does it have the staffing to undertake oversight of capital improvements.

Recommendation 2: The Office of Foreign Missions should determine the actual labor and associated costs of managing the Iranian custodial properties. (Action: OFM)

Recommendation 3: The Office of Foreign Missions should request funding through Department of State channels to increase its staff and to cover the cost of operating the custodial property program. (Action OFM)

Recommendation 4: The Office of Foreign Missions should review the current physical condition of each of the Iranian custodial properties and develop, in order of priority, a list of which capital improvements would be beneficial. (Action: OFM)

ROUTINE MAINTENANCE AND VISITS TO CUSTODIAL PROPERTIES

The concept of leasing the custodial properties was based on the rationale that doing so would help keep the properties in good repair. The OIG team, along with the OFM staff who visited the custodial properties with the team, found that tenants do not always report needed work. In addition, the OFM personnel have not visited all properties recently. Visits to the properties located outside of the Washington,

DC, area might be conducted by the regional office staff, or include these employees, particularly if the regional offices are to help oversee any contractor activity in the properties.

Recommendation 5: The Office of Foreign Missions should establish a program of communication with tenants of custodial properties that includes regular telephone or email contacts with tenants and their household staffs, with at least annual site visits to all of the properties. (Action: OFM)

The OIG team, accompanied by OFM and regional office staff, visited all of the custodial properties. Many of them appeared to have electrical, heating and air conditioning, or other issues. Although OFM does inspections of each property between tenants and has recently completed inspections of the two Massachusetts Avenue properties, its approach has not been regularized, and other properties are in need of attention. OFM should contract with qualified local architectural, construction, or engineering experts who can identify such issues, recommend solutions, and provide cost estimates. These inspections should be scheduled on a regular basis, perhaps annually or every second year, or as recommended by the qualified expert.

Recommendation 6: The Office of Foreign Missions should establish a program of regular inspections of custodial property by qualified experts to identify problems or deficiencies with various systems, including plumbing, air conditioning, roofing, electrical, structural, and other building and property systems. (Action: OFM)

OPERATING PROCEDURES FOR CUSTODIAL PROPERTIES

Whenever the Department assumes responsibility for custodial property, there are a number of steps that OFM may be required to take, depending on the situation. The OIG team found several lists of potential steps, including the following:

- Survey properties owned by subject
- Take security measures
- Obtain property insurance
- Contract with locksmith to change all locks and secure buildings
- Contract with building maintenance company to survey, secure, safeguard, and monitor all operating equipment in the building

- Change all utility services to the name of OFM
- Determine source of funding for maintenance and upkeep expenses
- Obtain any necessary OFAC licenses
- Store archives at local storage company
- Obtain necessary appraisals
- Take photographs of property and furnishings
- Perform inventories
- Review need for extermination, landscaping, lawn maintenance, etc.

The OIG team believes that the list of steps to be taken and procedures for assuming control of custodial property should be updated and combined into one comprehensive document, along with explanatory notes and historic information on how OFM has handled past situations, and kept in an easily locatable place in the OFM files.

Recommendation 7: The Office of Foreign Missions should prepare and ensure the retention and speedy availability of written procedures and instructions covering steps to be taken when it assumes responsibility for custodial property. (Action: OFM)

INTERNAL HANDLING OF CUSTODIAL PROPERTY FUNDS

The OIG team found the OFM management of leased property income and expenses to be thorough and accountable. From a sample of two annual reports (2007 and 2008), OIG focused on the operating procedures for handling income and expenses, and reconciled these figures for the two years. OIG selected some 12 transactions from 2007 and 2008 for testing and confirmed their accuracy.

In 2009, OFM is using a combination of manual and electronic files, while before 2008, OFM used only a manual record keeping system. Both the current and prior procedures appear to be adequate for processing the day-to-day financial activities involved with the custodial properties. The electronic system provides timelier processing of transactions and record retrieval than the procedures that were followed prior to June 2, 2008. The current procedures include electronic payment approval requests and bank deposits, as well as electronic records of rents received, management fees, and canceled checks.

The OIG team also verified the balances of the Iranian property account held

by OFM, which amounted to just under \$1.5 million at the time of the OIG review. At the end of the accounting period, any monies from these funds that OFM determines need not be carried over for repairs and renovations will be transferred to an OFAC blocked account.

INVENTORIES OF TANGIBLE CONTENTS OF CUSTODIAL PROPERTIES

On June 3, 1997, OFM conducted a physical inventory of the Iranian items held in a commercial storage facility. This information is now 12 years old and should be periodically verified to ensure that proper care is being taken of the tangible items in storage. A current appraisal of the value of the items might be helpful for insurance purposes.

Recommendation 8: The Office of Foreign Missions should perform an inventory of all the furnishings of the Iranian diplomatic and consular real properties currently in commercial storage, to include photographs, condition, and a description of each item. (Action: OFM)

OIG did not find standard operating procedures or written guidance on how OFM personnel should handle tangible property items when assuming custodial responsibility for diplomatic and consular properties of foreign nations. Such procedures or instructions on the need for identifying, inventorying, documenting, caring for, protecting and possibly disposing of or storing such property would assist OFM in the event it assumes custodial responsibility for other properties in the future.

Recommendation 9: The Office of Foreign Missions should prepare and ensure the availability and retention of written procedures and instructions on steps to be taken in inventorying, documenting, caring for, protecting, disposing, and storing tangible items in properties for which it takes custodial responsibility. (Action: OFM)

PAST MANAGEMENT OF SOME CUSTODIAL PROPERTIES

SOMALI CUSTODIAL PROPERTIES

The history of OFM involvement with Somali custodial property is a good example of another type of custodial oversight—this one much shorter in duration than that of the Iranian properties. OFM’s management involved the sale of the property to preserve the value for the Somali Government. The custodial period lasted from about 1991 to 1996.

According to a May 5, 1995, internal OFM memo, after the closure of the Somali diplomatic mission in 1991, OFM took custody of a Somali Government-owned property on Wyoming Avenue, N.W., that had been used as the residence of the Somali Ambassador. OFM moved Somali embassy tangible items from leased office space to the residence, where they remained stored in 1995.

There was no government in Somalia recognized by the United States, and no Somali financial assets were available to maintain the custodial property. By May 1995, the Department had used some \$13,000 in special Department funds to maintain and protect the property, including fire insurance, minimal roof repair, and periodic lawn maintenance. The building was continuing to deteriorate and needed an estimated \$1 million in repairs and renovation. OFM, supported by other Department bureaus, decided that the Department’s obligation to “respect and protect” would best be met by selling the property and holding the proceeds for remittance to a future Somali Government. OFM noted at the time that a sale would also enable the Department to stop expending Department funds on the property and would benefit the neighborhood by allowing the property to be restored by another owner. The proposed sale included the furniture and the automobiles that remained on the property. The Somali vehicles were sold in 1996, and OFM donated to the Salvation Army other Somali items not deemed appropriate for sale, such as used clothing. The archives and any irreplaceable or unique items were to be placed in commercial storage. OFM does not have a current inventory of these items.

Recommendation 10: The Office of Foreign Missions should perform an inventory of all Somali archives and tangible items currently in commercial storage, including a listing of the archives, along with photographs and a description of the items and their condition. (Action: OFM)

The Somali property was sold in 1996 for \$1,325,000. After deducting the real estate commission, OFM received a check for \$1,285,250. This amount, less expenses, was eventually placed in certificates of deposit, as well as a checking and savings account for operating expenses. The Somali accounts managed by OFM now contain around \$2 million. OFM pays monthly expenses for Somali items in commercial storage using funds from the Somali bank accounts.

YUGOSLAVIAN CUSTODIAL PROPERTIES

The history of OFM involvement with Yugoslavian property begins about 1992 with the former Socialist Federal Republic of Yugoslavia. At that time, the United States took the position that the Socialist Federal Republic of Yugoslavia had ceased to exist and that there was no state representing its continuation. The United States asserted that five successors had arisen: the Federal Republic of Yugoslavia, the Republic of Slovenia, the Republic of Croatia, the Republic of Bosnia-Herzegovina, and the Former Yugoslav Republic of Macedonia.

In early 1999, the United States and the Federal Republic of Yugoslavia severed diplomatic relations, at which time OFM assumed custody of the chancery and ambassadorial residence located on California Avenue, N.W., and R Street, N.W., respectively. Later in the spring of 1999, OFM also took over responsibility for three additional Federal Republic of Yugoslavia properties on Quincy, Edmonds, and Decatur Streets. OFM requested and received an OFAC license to permit expenditure of funds to pay for the protection and preservation of these properties, and to authorize the withdrawal of \$80,000 from frozen assets in a local bank to cover custodial responsibility costs. OFM began sending monthly reports to OFAC regarding expenditures for these properties beginning in July 1999.

The OIG team found information in the files dated November 7, 2000, noting that on November 6, 2000, OFM had turned over the keys to the five properties to a Federal Republic of Yugoslavia representative from Belgrade. In 2001, the two Federal Republic of Yugoslavia checking accounts were closed, and on July 21, 2004, OFM sent a final check to the Embassy of Serbia and Montenegro for the remainder of the Federal Republic of Yugoslavia account.

The OIG team could find no documentation in the OFM files on how the Department determined that the Federal Republic of Yugoslavia properties should be turned over to the Embassy of Serbia and Montenegro. OFM told the OIG team, but did not provide documentation, that the Embassy of Serbia and Montenegro and the other successor states were determining how to distribute the remaining three properties.

Recommendation 11: The Office of Foreign Missions should institute procedures that ensure the maintenance of written documentation on future Department of State decisions regarding custodial properties, including the documentation of instructions and guidance from the Department regarding return of properties to states or successor states and any accompanying provisions. (Action: OFM)

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RECOMMENDATIONS

Recommendation 1: The Office of Foreign Missions should implement thorough, centralized, easily retrievable electronic or paper record keeping procedures for custodial property, including individual property files (with leases, itemized income and expenses, correspondence, etc.), OFAC reports and licenses, inventory records, operating procedures, and other important documentation. (Action: OFM)

Recommendation 2: The Office of Foreign Missions should determine the actual labor and associated costs of managing the Iranian custodial properties. (Action: OFM)

Recommendation 3: The Office of Foreign Missions should request funding through Department of State channels to increase its staff and to cover the cost of operating the custodial property program. (Action: OFM)

Recommendation 4: The Office of Foreign Missions should review the current physical condition of each of the Iranian custodial properties and develop, in order of priority, a list of which capital improvements would be beneficial. (Action: OFM)

Recommendation 5: The Office of Foreign Missions should establish a program of communication with tenants of custodial properties that includes regular telephone or email contacts with tenants and their household staffs, with at least annual site visits to all of the properties. (Action: OFM)

Recommendation 6: The Office of Foreign Missions should establish a program of regular inspections of custodial property by qualified experts to identify problems or deficiencies with various systems, including plumbing, air conditioning, roofing, electrical, structural, and other building and property systems. (Action: OFM)

Recommendation 7: The Office of Foreign Missions should prepare and ensure the retention and speedy availability of written procedures and instructions covering steps to be taken when it assumes responsibility for custodial property. (Action: OFM)

Recommendation 8: The Office of Foreign Missions should perform an inventory of all the furnishings of the Iranian diplomatic and consular real properties currently in commercial storage, to include photographs, condition, and a description of each item. (Action: OFM)

Recommendation 9: The Office of Foreign Missions should prepare and ensure the availability and retention of written procedures and instructions on steps to be taken in inventorying, documenting, caring for, protecting, disposing, and storing tangible items in properties for which it takes custodial responsibility. (Action: OFM)

Recommendation 10: The Office of Foreign Missions should perform an inventory of all Somali archives and tangible items currently in commercial storage, including a listing of the archives, along with photographs and a description of the items and their condition. (Action: OFM)

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ABBREVIATIONS

Department	Department of State
FMA	Foreign Missions Act
OFAC	Office of Foreign Assets Control, Department of the Treasury
OFM	Office of Foreign Missions
OIG	Office of Inspector General
PTSB	Office of Property, Taxes, Services and Benefits
Secretary	Secretary of State

APPENDIX 1 - IRANIAN CUSTODIAL PROPERTIES

The Iranian custodial properties include the following:⁷

3003 Massachusetts Avenue, Washington, DC

This property, the former ambassadorial residence for the Embassy of Iran, was vacant at the time of the OIG review. In a 1984 booklet prepared by OFM, the OIG team found a description of the residence as a Georgian style, brick masonry and wood frame building that was built in 1934. The structure has over 18,000 square feet, four floors, and over 43 rooms, including reception parlors, a formal dining room, library, and ballroom. A terrace at the rear of the mansion leads to gardens and a swimming pool. The Iranian Government purchased the property in 1959.

This property is one of the three Iranian custodial properties that are being maintained from rental income from the other properties. OIG calculated that the expenses for this property exceed its income since 1990 by about \$600,000.

In 2008, OFM requested that the Department's Bureau of Administration survey the property to examine the building's existing conditions. The report issued as a result of that survey estimated the total cost of needed renovations to be over \$1.17 million. OFM is currently renovating the property before placing it on the rental market.

3005 Massachusetts Avenue, Washington, DC

Built circa 1959, the former Iranian chancery has over 37,000 square feet and is constructed of reinforced concrete. In 2008, OFM requested that the Department's Bureau of Administration survey the property to examine the building's existing conditions. The report issued as a result of that survey estimated the total cost of needed renovations to be \$10 million to \$14 million. As a result of this survey, OFM requested and received \$700,000 from OFAC to mothball the former chancery.

⁷ Except for vacant properties and unoccupied buildings, OIG has not included the street numbers of the properties.

Based on available OFM annual reports to OFAC from 1990 to 2008, OIG calculated that the net expenses for this property exceeded its income by about \$300,000.

Garfield Street, N.W., Washington, DC

This sizable residence is a single family home located in an upper northwest DC residential neighborhood. The house, which was purchased by the Government of Iran in 1972, sits on a corner off a busy street. The exterior of the house is brick that appears to be in good condition. The grounds of the property are well-maintained. The house is a four or five story walk-up (depending on how the floors are counted), with a gently sloping roof.

The interior of the house consists of an open floor plan with hardwood floors, carpet, and painted drywall. The main floor of the house has several rooms, including living and dining rooms, a den and another room being used as a bedroom, bathrooms, and an updated kitchen. More bedrooms and baths are located on the upper floors. The house has zoned heating and cooling systems.

The OIG team found two different square footage estimates in the files, one for 9,015 square feet and one for 7,680. The residence records list 12 bedrooms, along with three garage spaces. Old OFM files noted independent staff quarters and office space, although the OIG team did not see these areas. The property appears to be in generally good condition, with the exception of some water drainage issues. It is currently leased for 1 year at a rate of \$5,000 per month.

Although this property lost money in 2008, since 1990 the net income has been almost \$400,000. The property was being prepared for new tenants in 2008 and was not leased for the entire year.

30th Street, N.W., Washington, DC

This house, built circa 1930, is a French provincial design constructed of stone masonry with a wood frame. The OFM records show that it has 10,012 square feet. There are four bedrooms and three baths on the second floor. The house includes two separate areas of servants' quarters on two different floors, each with two bedrooms and one sitting room. The house is currently rented to a foreign mission for \$13,450 per month. The 30th Street property is just behind the former Iranian chancery and ambassadorial residence. OFM records show a net income of over \$1.3 million since 1990.

The OIG team found that the residence appeared to be in generally good repair. The balcony railings were rusted and there appeared to be a drainage problem with the balcony. The tenant's representative told OIG that one of the lower level rooms flooded when the ground outside (that particular room is below ground level on one side) became saturated. A broken pipe in a bathroom in recent months led to a complete renovation of the bathroom. The windows and doors in the house appeared to be original. The wood is splitting and rotting on some windows. The garage door does not close completely, and the electrical system is old.

Upton Street, N.W., Washington, DC

This property is currently a vacant lot beside an alley way. The property, originally a three-story single family house was purchased by the Iranian Government in 1959. The house that occupied the property was demolished in 1984. Over the years, recorded expenses for the property have amounted to almost \$60,000, with no income. That number does not appear to include the price of the demolition.

Kenhill Road, Bethesda, Maryland

The OIG team did not tour the interior of this residence. From the street, this property appears to be in reasonable condition. There is a swimming pool, but no garage. The house is brick masonry with a wood frame. OFM records show that it was built circa 1958 and purchased by the Iranian Government in November 1973. The OFM documents note that the house has 4,222 square feet.

This property rents for \$3,700 per month. In 2008, the property was not rented for the entire year. Since 1990, OFM reports to OFAC show the net income from this property to be over \$200,000.

Selkirk Drive, Bethesda, Maryland

OFM records note that this residence was built circa 1965 and includes 9,445 square feet along with a swimming pool. It is a single-family ranch-style home located in what appears to be an upscale, quiet residential neighborhood. The exterior of the house appears to be in good condition; the grounds of the property are well maintained. However, the OIG team did notice several areas of concern. Around the pool area the roots of the trees had started to dislodge the paving. The house has a flat roof that allows water to stand on it, and the gutters appear too small. As a result, water overflows from the roof, running down the side of the house and damaging the windows and carpet in the living room. Leaves from the trees had clogged

some of the drains. The gazebo and garage have leaks, and the OIG team saw water damage on the basement wall. The lawn sprinkler system was not working. The roof on the corner of the garage had been damaged by a large truck, according to an employee of the residence.

The interior of the house consists of an open floor plan, with hardwood floors, carpet, painted drywall, and paneling. The house has several bedrooms, a bathroom, family room, formal room, kitchen, and dining room on the first level. The basement area includes additional living space with bedrooms and room for entertaining, and a laundry area. The counters around the sink in the kitchen of the residence appear to be rotting. Although the ovens in the kitchen look new, there is an old range.

OFM currently leases this property for \$7,400 per month. The annual OFM reports show that the property normally remains leased, and the combined net income since 1990 is over \$500,000.

East 69th Street, New York, New York

OFM records show that this property was built in 1880. It is a five-story, neo-French classic limestone and brick residence with over 10,000 square feet. The residence includes eight fireplaces, an elevator, a marble entry, and a circular staircase. The property has been leased to the same individual since 2002. The current lease price is \$42,000 a month. The net income from this property since June 1989 has been almost \$4 million.

The interior of the house has a beautiful circular staircase with a wrought iron railing. The floors are both hardwood and stone (on the lower levels). Some walls are paneled. The rooms are large with high ceilings. Several very large, old mirrors are still in place, notably in what were formerly the master bedroom and a bedroom on the third floor. Other old mirrors and fireplaces have been boarded over, with the space being used for display of paintings or shelving. Several fireplaces appeared to be in good shape externally, although the tenant's representative told the OIG team that the occupants never had fires in the fireplaces. There is some water damage around one of the skylights.

North Harbor Drive, Chicago, Illinois

This property includes two condominium units that were combined in 2005 to 2006. The two former units were purchased by the Iranian consulate in 1975 and have a combined square footage of over 2,700 square feet. The condominium now

rents for \$7,000 per month. The renovated condominium is beautifully situated on the shore of Lake Michigan and appears to be in outstanding condition. Based on available OFM annual reports to OFAC from 1990 to 2008, OIG calculated that the net income from this property amounted to almost \$300,000.

Williamsburg, Houston, Texas

This 6,200 square foot residence has a colonial brick veneer and includes a swimming pool. The OIG team found information in OFM files that the property was restored and renovated in 1984 for \$99,000; however this expenditure is not included in the totals from annual OFM reports to OFAC, as these reports did not begin until 1990. Not including expenditures before 1990, the net income on the property has been almost \$400,000. For calendar year 2008, the expenses and income were roughly equal. The current lease price is \$5,500 per month.

The OIG team found this property to have several potentially dangerous issues, including problems with electrical wiring, and a balcony railing that was unsafe. In addition, the drainage for water from the air conditioning system in the attic did not appear to be appropriate. Other portions of the property, such as counter tops and bathrooms, were aging and out of date.

Washington Street, San Francisco, California

The OIG team was unable to enter this property. The house is on a corner in a very attractive section of the city. The grounds appear to be fairly well maintained. The monthly rent for this property is about \$5,405. Since 1990, OFM reports to OFAC show a net income on the property of almost \$750,000. The Department is currently involved in litigation concerning the lease for this property.

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