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

Office of Audits

Audit of Maintenance and Improvements of Overseas Real Property

Report Number AUD/FM-10-30, September 2010

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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.

Harold W. Geisel
Deputy Inspector General

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EXECUTIVE SUMMARY

The Foreign Service Buildings Act of 1926, as amended, authorizes the Secretary of State to acquire buildings in foreign countries. As of September 30, 2009, the Department of State (Department) owned or had long-term leases on more than 4,500 properties, with an estimated replacement value of $47 billion, at more than 260 overseas locations. Ownership of facilities by the Federal Government carries with it an obligation to ensure that resources are allocated effectively to sustain those facilities.

The purpose of this audit was to assist the Department in its efforts to maintain its legacy facilities, to manage its maintenance and improvement (M&I) backlogs (including routine maintenance and repair [M&R] and repair and improvement [R&I]), and to have accurate and complete information on its deferred maintenance (DM). The primary objective of this audit was to determine whether posts' M&I needs were being met, whether the Department reported DM accurately, and whether M&I expenses were allowable. The Office of Inspector General (OIG) conducted fieldwork for this audit at the Bureau of Overseas Buildings Operations (OBO) in Washington, D.C., and at six selected overseas sites: Bangkok, Thailand; Cairo, Egypt; New Delhi, India; Ottawa, Canada; Pretoria, South Africa; and Stockholm, Sweden.

OIG found that posts' FY 2009 M&I needs were not met, primarily because the funding that the Department received was not sufficient to enable OBO to fund all needed M&I. Although OBO had taken actions to improve the process for determining and supporting M&I needs, OIG identified areas for improvement in OBO's long-range plan.

OBO has established processes to use its limited funds to address the most critical needs worldwide. These processes provided routine M&R funds to posts in a more equitable manner than had been done in past years and funding for the highest priority R&I requirements. However, inconsistencies in the priority scores assigned to some R&I requirements bring into question the reliability of the prioritization process. Inconsistencies in scores may result from decisions made when R&I requests are processed or if posts do not provide all of the information necessary to score the requirements. As a result, some higher priority requirements may not be funded.

OIG found that the Department has not accurately reported DM in its financial statements. The amount that the Department reported in FY 2009 did not include deferred routine M&R estimated at about $46.4 million. However, the amount reported as DM in the financial statements included R&I improvements with estimated costs of about $51 million, as well as R&I repairs of about $2.1 million that were no longer valid. These inaccuracies occurred primarily because the process that OBO used to identify and report DM did not capture routine M&R and did not ensure that all R&I requirements reported were maintenance related or were still valid. Inaccurate DM reporting may affect the ability of OBO to justify its budget requests for M&R funding. The Department is changing its process to identify DM to address these issues.

In addition, OIG found that the Department had controls in place to ensure that M&I funds are spent for their intended purpose. OIG tested the controls at the six posts selected. These tests indicated that the six posts generally complied with Department policies and guidance pertaining to the use of M&I funds. OIG sampled 580 M&R transactions, with costs of about $2.3 million, and found 22 transactions, with costs of approximately $19,000, that were not allowable. OIG also randomly sampled 328 R&I transactions. All R&I transactions were spent for allowable purposes. Although the transactions were allowable, posts did not always comply with OBO's reporting requirements for R&I projects.

Additionally, OIG tested building operating expenses (BOE) to determine whether BOE-related funds were being used improperly for M&I transactions. Of the 61 BOE transactions tested, with costs of about $280,000, OIG found that 10 transactions, with costs of about $42,000, were inappropriately identified as BOE and charged against posts' funds rather than OBO funds. OIG identified Embassy Cairo's allocation of bulk purchases between routine M&R and BOE as a best practice.

OIG made recommendations for OBO to revise its Long Range Overseas Maintenance Plan to provide additional support for the Department's annual budget request. OIG also recommended that RM continue to work with the Office of Management and Budget (OMB) to obtain additional funds for M&I. In addition, OIG recommended that OBO require posts to provide additional information related to R&I requests to improve the reliability of OBO's prioritization process. OIG further recommended that OBO make improvements to the process for identifying and reporting DM, R&I project reporting requirements, internal audits, and guidance related to the allocation of bulk purchases costs.

OIG provided the draft report to RM and OBO for comments on August 19, 2010. RM informally responded, agreeing with the recommendation to work to obtain additional funds for M&I and indicating that it will continue to actively engage with OMB on this subject. Based on RM's response, OIG considers this recommendation closed.

In OBO's response (see Appendix B) to the draft report, OBO agreed with three of the recommendations assigned to it and stated that it plans to take action to address them. OIG considers these recommendations resolved, pending further action. OBO agreed in substance with three other recommendations, but stated that the processes in place were adequate and did not indicate that it would take actions to address the issues identified by OIG. In addition, OBO disagreed with two recommendations related to accounting for DM and providing information on best practices for allocating costs to posts. OIG considers these five recommendations unresolved.

Responses to the recommendations from OBO and RM and OIG's respective replies are presented after each recommendation. OBO also made additional comments on the report, which OIG has presented, responded to, and incorporated into the report as appropriate.

BACKGROUND

The Foreign Service Buildings Act of 1926, as amended,[1] authorizes the Secretary of State to acquire, by purchase, lease, construction, or exchange, buildings in foreign countries. As of September 30, 2009, the Department owned or had long-term leases on 4,544 properties, with an estimated replacement value of about $47 billion, at more than 260 overseas locations. Specifically, the Department owned 2,850 properties, had restricted ownership of 1,448 properties, and had long-term leases on 246 properties.[2]

Ownership of facilities by the Federal Government carries with it an obligation to ensure that resources are allocated effectively to sustain the investment in those facilities.[3] Federal assets must be well maintained to operate adequately and cost effectively; protect their functionality and quality; and provide a safe, healthy, and productive environment for the American public, federal employees, and foreign visitors who use them every day. The useful lives of facilities can be extended through adequate and timely repairs and routine maintenance. Conversely, delaying or deferring repairs and maintenance can, in the short term, diminish the quality of building services and, in the long term, shorten building lives and reduce asset values. Deferring needed maintenance indefinitely may ultimately result in significantly higher costs.[4] Aging facilities require more, not less, maintenance to keep them operating effectively. The Department's property was purchased or leased between 1821 and 2009, with more than half of the property acquired prior to 1990.

The Government Accountability Office (GAO) has designated the Government's management of real property as a high-risk area since 2003, citing deteriorating facilities as one of the reasons for the designation. In October 2008, GAO reported that the Government's fiscal exposure from maintenance backlogs is unclear and that agencies generally expect their backlogs to increase as buildings age and construction

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[1] 22 U.S.C. 292–303.

[2] Restricted government-owned property is subject to host-country restrictions on ownership; for example, the U.S. Government may or may not have the right to sell the property. Long-term leases have an initial term that equals or exceeds 10 years, and the Department is responsible for maintaining and repairing the property.

[3] Federal Facilities Council Standing Committee on Operations and Maintenance, Technical Report #141, *Deferred Maintenance Reporting for Federal Facilities – Meeting the Requirements of Federal Accounting Standards Advisory Board Standard Number 6, as amended* (2001).

[4] *Federal Real Property – Government's Fiscal Exposure From Repair and Maintenance Backlogs Is Unclear* (GAO-09-10, Oct. 2008).

costs increase. GAO also stated that real property management problems have been exacerbated by deep-rooted obstacles that include competing stakeholder interests and various budget-related limitations.[5]

The Department has reported that, from a budgetary perspective, funding for routine M&R has been insufficient. It reported a DM backlog of $84.3 million in FY 2009. According to a report from the Federal Facilities Council,[6] inadequate funding for the routine maintenance of buildings at all levels of government is a long-standing and well-documented problem. The report also states that underfunding is "a widespread and persistent problem that undermines maintenance" of the buildings. In recent testimony,[7] GAO indicated that an investment in federal buildings could "provide an opportunity to address some of the long-standing problems associated with the Federal Government's aging real estate portfolio and to protect the government's long term investments."

Process To Fund M&I Needs

The Department is authorized to maintain, repair, improve, and preserve U.S. Government-owned and long-term leased (GO/LTL) properties overseas. This authority has been delegated to OBO. OBO acts as the single real property manager for nonmilitary U.S. Government property abroad. OBO is responsible for establishing, implementing, and overseeing all policies and procedures governing the Department's real property program. It is also responsible for the routine M&R and R&I of facilities located overseas. OBO's Office of Resource Management (OBO/RM) provides accounting, budgeting, and financial management services for all OBO programs, including M&I-related activities.

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[5] *High-Risk Series – An Update* (GAO-09-271, Jan. 2009).
[6] Federal Facilities Council Standing Committee on Operations and Maintenance, Technical Report #141.
[7] *Real Property – Infrastructure Investment Presents Opportunities to Address Long-standing Real Property Backlogs and Reduce Energy* (GAO-09-324T, Jan. 22, 2009).

Routine Maintenance and Repair

Routine M&R (function code [FC][8] 7901) is defined as the work to preserve and maintain GO/LTL real property in such condition that it may be effectively used for its designated purpose. Routine M&R includes the following types of activities:

- Purchasing services or materials used for items of a recurring nature to prevent damage that would be more costly to restore than prevent, such as painting, weather stripping, and termite repairs.
- Repairs of a minor nature, such as fixing broken pipes; replacing broken bathroom fixtures; and repairing windows and doors, heating and air conditioning systems, and electrical systems.
- Purchasing bulk supplies such as paints, nails, plumbing supplies, and electrical wire for use in GO/LTL properties.

OBO's Construction, Facility and Security Management, Office of Facility Management (OBO/CFSM/FAC), provides global support in operating and maintaining Department facilities and related equipment at overseas posts. OBO/CFSM/FAC comprises four divisions, which provide comprehensive services ranging from facility maintenance to project management and execution. OBO/CFSM/FAC assists posts in managing routine M&R allotments, including reviewing posts' budgets and identifying posts' backlog of routine M&R work.

OBO/CFSM/FAC determines the amount of routine M&R funds that it will provide annually to each post. It allots these funds to posts on a quarterly basis.[9] Once the post receives its funds, it is responsible for managing these funds effectively.

[8] FCs are used to identify and report the type of expenses related to the Department's programs and activities.

[9] RM allots funds to OBO. Once OBO receives its share, it divides the resources even further among posts and activities/programs through the use of "advices of allotments." The advices of allotments are documents that give the posts or activities/programs the ability to obligate and obtain goods and services.

Repair and Improvements

R&I projects constitute the largest category of M&I spending. R&I projects normally restore deteriorated or damaged property to its original condition or increase a property's value or change its use. For example, OBO would generally use R&I funds to replace a roof; install a new heating, ventilation, and air-conditioning or electrical system; enlarge a kitchen or bathroom; or convert two residential units to one. R&I projects are captured in one of the nine following separate programs:

- Special R&I (FC 7902) – includes all R&I requirements that are not covered by the eight other programs listed.
- Fire (FC 7344) – plans for and executes projects for the systematic replacement of fire alarm detection systems.
- Energy Conservation and Sustainability (FC 7552) – monitors and improves energy performance in overseas facilities.
- Utility Management (FC 7561) – addresses the need to improve the reliability, availability, stability, and quality of electrical power sources.
- Elevator Program (FC 7563) – coordinates all aspects of vertical transportation safety and performance.
- Natural Hazards (FC 7574) – identifies and reduces the risks to personnel and property from destructive natural events.
- Roof Program (FC 7667) – manages all roof and exterior waterproofing components.
- Hazmat Containment (FC 7671) – addresses, among other things, issues related to asbestos, lead in paint, air and water quality, and leaking underground storage tanks.
- Barrier Free Accessibility (FC 7687) – ensures the Department's compliance with federally mandated accessibility guidelines for sites and buildings.

OBO's Office of Operations (OBO/OPS) oversees primarily R&I activities. Its mission is to serve as posts' point of contact within OBO. The two offices within OBO/OPS that provide specific assistance to posts on R&I projects are as follows:

- The Office of Area Management's mission is to meet post facility needs. For example, this division provides customer service support, manages repair accounts, and oversees repair projects in support of office and residential facilities for posts.

- The Office of Fire Protection provides fire and life safety analysis of real property; installation, maintenance, and acceptance testing of automatic fire suppression and fire detection systems; training; and fire investigation services for posts.

In addition, the Program Support Division in OBO/CFSM/FAC provides technical assistance to posts in the development and execution of funded, post-managed R&I projects. R&I programs within the Program Support Division include the elevator maintenance program, the hazardous material (Hazmat) environmental program, the roof management program, and the utility management program.

OBO/RM allots posts funds for specific R&I projects, most of which are funded at less than $2 million. In general, posts manage the projects.

Deferred Maintenance

Federal accounting standards require that agencies disclose DM in their financial statements.[10] DM is maintenance that was not performed when it should have been or when it was scheduled to be performed. Therefore, the maintenance has been delayed for a future period. The DM amounts the Department reported in its financial statements for FYs 2005 to 2009 are shown in Table 1.

Table 1. DM From FYs 2005 to 2009 (in millions)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Amount Reported	$521.4	$325.8	$151.8	$137.0	$84.3

Source: Department's FY 2005 to 2009 Performance Accountability Reports/Agency Financial Reports.

Although the amount of DM has decreased approximately 84 percent from FY 2005 to FY 2009, the Department attributed the largest decreases, from FY 2005 through FY 2007, to changes in how it reported DM. Specifically, in FY 2006, the Department decided to no longer include Major Rehabilitation construction in its DM report, stating that the maintenance was no longer deferred but was scheduled for construction. Additionally, in FY 2007, the Department chose to no longer report five additional programs in its DM report: Fire Systems Projects; Acquisition, Maintenance and Renovation; Elevator Program; Controlled Access Area Renovation Projects; and Roof Management Program.

[10] Statement of Federal Financial Accounting Standards (SFFAS) 6, "Accounting for Property, Plant, and Equipment," Jun. 1996.

Building Operating Expenses

M&I funds should not be used for BOE. BOE consists of expenses that are incidental to occupying buildings and grounds; for example, BOE includes maintenance staff salaries, utilities, operating fuel, trash collection, and grounds care but does not include improvements, repair, or maintenance beyond certain limited minor operating system repairs and preventive maintenance. BOE is funded by the post's diplomatic and consular programs (DCP) allotments from regional bureaus, by the occupant agency, or through the International Cooperative Administration Support Services (ICASS) program.[11]

Prior Reports

Between 1989 and 2010, OIG issued inspection and audit reports that included recommendations related to maintenance issues. In an August 2008 OIG inspection report,[12] OIG reported that resource requirements for maintaining properties were vastly understated. Costs to support and maintain the Department's legacy facilities were increasing. There were no effective systems in place to plan, budget, and track operation and maintenance costs. The report stated that the Department must do a better job of identifying the resources necessary to protect its multibillion dollar investment. At the time of this current audit, four recommendations related to maintenance issues at specific posts remained open.

[11] ICASS is the principal means by which the Government provides and shares the cost of common administrative support needed to ensure effective operations at diplomatic and consular posts abroad.
[12] *Bureau of Overseas Building Operations* (ISP-I-08-34, Aug. 2008).

OBJECTIVE

The primary objective of the audit was to determine whether

- posts' M&I needs were being met,
- the Department reported DM accurately, and
- M&I expenses were allowable.

AUDIT RESULTS

Finding A. FY 2009 M&I Needs Were Not Met

OIG found that the Department received insufficient funding in FY 2009 to ensure that posts' M&I needs were adequately met. Although OBO estimated posts' routine M&R needs to be about $97.8 million, the Department was appropriated only $45.2 million to meet those needs. In addition, although posts had requested about $247 million to fund their R&I requirements, the Department was appropriated only $55.8 million to meet those needs.

According to RM officials, this condition occurred, in part, because at the time that OBO submitted its FY 2009 budget request, OBO was unable to provide sufficient details to justify its budget request. Since the time of OBO's FY 2009 budget submission, OBO has developed and implemented processes to more accurately identify the costs of maintaining overseas facilities and support its budget requests. Specifically, in March 2010, OBO published its first Long-Range Overseas Maintenance Plan, which lists planned projects and associated cost estimates. However, the plan does not include specific information and examples that clearly illustrate the extent of unmet maintenance and improvements needs at overseas posts and the impact of deferring the work for a future period.

As a result of insufficient FY 2009 M&I funding, overseas facilities are deteriorating and the Department ultimately incurs higher costs to repair the facilities once deferred M&I is funded.

Routine M&R Needs Not Met

In FY 2009, OBO estimated posts' routine M&R needs to be about $97.8 million, but the Department received only $45.2 million in appropriations. Routine M&R funds are used for small projects, such as replacing or repairing electrical outlets, light fixtures, and residential window glass, as well as for larger projects, such as replacing residential roofs and renovating kitchens and baths. Posts also use routine M&R funds to repair or replace the components of major building systems, such as air conditioners, boilers, and generators.

Facilities staff at posts identify routine M&R needs during annual inspections of their buildings. In addition, the facilities staff and other post personnel identify routine M&R needs on a day-to-day basis throughout the year. For example, one of the six posts selected receives over 300 maintenance requests a day. This post estimated that approximately 50 percent of its routine M&R needs are identified and requested by post employees, with the remaining 50 percent identified by facilities staff.

Because routine M&R needs, in many cases, cannot be planned, OBO must estimate the amount of funds that posts will need to meet those needs. Historically, OBO did not calculate routine M&R needs; rather, it determined how to allocate to posts the routine M&R funds it did receive. This determination resulted in each post's receiving about the same amount of funds each year unless there was a specific reason for an increase or decrease. In FY 2009, OBO developed a methodology to calculate routine M&R needs. The methodology was developed to align with industry standards and to allocate funds to posts based on need, not on prior years' levels. The methodology makes use of four specific factors:

- The total gross square meters of GO/LTL properties at post.
- The routine M&R cost per square meter as defined by independent industry maintenance experts.[13]
- The government index, which adjusts for differences in the cost of purchasing supplies at post or shipping materials that are purchased in the United States.
- The facility condition index, which reflects the age-based condition of all major building subsystems, such as the roof, elevator, and heating and air condition systems.

Using this methodology, OBO estimated routine M&R needs of $97.8 million; however, because of its limited appropriation, OBO could allot only $51.4 million to posts in FY 2009.[14] The gap between posts' needs and the amount allotted to the posts of about $46.4 million, 47 percent of the amount needed, represents routine M&R needs that are unfunded.

[13] OBO used the Whitestone Facility Maintenance and Repair Cost Reference benchmark to calculate the routine M&R cost per gross square meter. This reference is a source of building M&R cost statistics and provides detailed estimates of long-term M&R requirements for selected building models.

[14] The amount of $51.4 million that OBO allotted to posts during FY 2009 is greater than the $45.2 million appropriated because the amount allotted includes carryover funds (unobligated balances brought forward from the prior fiscal year), recoveries (cancellations or downward adjustments of obligations recorded in a prior year), and reimbursements that OBO received from other bureaus or agencies for improvements directly chargeable to those bureaus or agencies.

Because of the lack of funds, facility managers at the six posts selected stated that they had prioritized their routine M&R needs to determine which needs to address. One post and its consulates had 43 routine M&R projects, with costs of $284,193, that could not be addressed in FY 2009. For example, this post did not receive sufficient M&R funds to replace a water filtration tank, install window awnings to protect wooden windows from weather damage, or rewire a defective security light lamp post. Another post had exhausted its FY 2009 routine M&R funds but had not finished all necessary work, such as making necessary plumbing repairs, repairing damaged concrete gate posts, or moving fuse boxes in a residence bedroom that are accessible to small children. This post said that it anticipated a $233,152 backlog of routine M&R in FY 2010.

OIG observed routine M&R needs that had not been funded at the six posts. For example, a garage roof could be moved by hand because of broken rafters, electrical panels and outlets in a community center did not meet building codes, and interior walls and ceilings showed signs of water damage. A deteriorated window that post had not repaired because of the lack of funds is shown in Figure 1.

Figure 1. This window at post shows signs of deterioration. [OIG photo]

R&I Needs Not Met

In FY 2009, posts requested about $247 million to fund their R&I requirements; however, the Department was appropriated only $55.8 million to meet those needs. R&I repairs are typically more complex than routine M&R, requiring OBO's involvement or approval or having higher costs. For example, R&I repair requirements include activities such as rewiring electrical systems, replacing chancery boilers, and resolving structural issues. R&I improvement requirements include activities such as constructing an access ramp, constructing a patio, and converting a storage area into a guest bathroom.

OBO obtains R&I requests from posts and maintains them in the Buildings Management Integrated System (BMIS), an OBO buildings management software application. Although posts may make emergency R&I requests to OBO throughout the year, facilities staff at posts identify the majority of their R&I needs during annual inspections of their buildings and building systems. The facility managers request funding for these needs during OBO's annual budget call process. OBO area management officers (AMO) receive and, along with officials from other OBO offices, review posts' R&I requests to ensure that the requests are a legitimate OBO responsibility, that they do not conflict with and are not redundant with existing requirements or ongoing projects, and that the correct accounting codes have been assigned. Once a request is cleared, the AMO adds it into BMIS as a requirement.

The BMIS FY 2009 Prioritized List of R&I Requirements (Requirements List) included 1,731 requirements, with estimated costs of about $247 million. During FY 2009, OBO provided about $38.4 million to posts to fund 241, or 14 percent, of the 1,731 FY 2009 requirements.[15] As shown in Table 2, the majority of FY 2009 requirements for the R&I programs, except for the Fire and Hazmat Containment programs, were not funded in FY 2009 because of the lack of funds.

Table 2. FY 2009 Special and Other R&I Requirements by Program

R&I Program	Number of Require-ments	Estimated Costs	Number of Unfunded Requirements	Unfunded Estimated Costs
Special R&I (FC 7902)	1,510	$178,967,825	1,328	$158,539,590
Energy Conservation and Sustainability (FC 7552)	33	$21,183,500	22	$15,346,000
Barrier-Free Accessibility (FC 7687)	24	$9,899,411	17	$9,270,411
Roof (FC 7667)	48	$9,829,250	43	$6,409,250
Elevator (FC 7563)	39	$9,082,500	31	$7,123,500
Utility Management (FC 7561)	42	$7,304,300	33	$5,679,300
Fire (FC 7344)	11	$6,902,433	4	$2,992,433
Hazmat Containment (FC 7671)	17	$2,542,000	5	$525,000
Natural Hazards (FC 7574)	7	$1,075,000	7	$1,075,000
Total	**1,731**	**$246,786,219**	**1,490**	**$206,960,484**

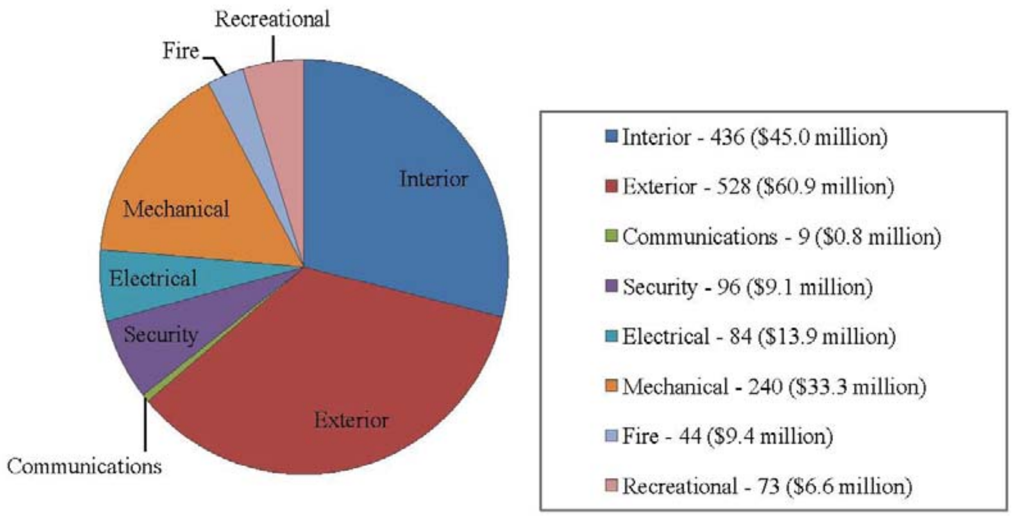
Source: OIG comparison of FY 2009 Prioritized List of R&I Requirements and FY 2009 List of R&I Allotments.

[15] In FY 2009, the Department received approximately $55.8 million for R&I. OBO used about $17.4 million of that amount for projects that were approved before, as well as projects and emergencies that occurred after, the FY 2009 Requirements List was prepared.

Special R&I

Special R&I accounted for about 87 percent of the items on the Requirements List. Specifically, the Requirements List included 1,510 Special R&I requirements, with estimated costs of about $179 million. OIG grouped Special R&I requirements, based on their descriptions, into one of eight categories: Interior, Exterior, Communications, Security, Electrical, Mechanical, Fire, and Recreational. The number and cost estimates for each category are shown in Figure 2.

Figure 2. Special R&I Requirements by Category



Source: Prepared by OIG from the FY 2009 Prioritized List of R&I Requirements.

The largest category of Special R&I requirements was Exterior R&I, which accounted for 35 percent of the 1,510 requirements. Exterior requirements involved primarily the repair or improvement of structural elements (for example, windows and doors; walls, facades, and balconies; and roofs, gutters, and drains) and of the skeletal structure of the building (for example, beams, load-bearing walls, and foundations). Exterior requirements also involved the construction of new facilities or additions to existing structures; work to repair or improve sidewalks, paths, streets, parking areas, patios, and terraces; and site drainage. Of the 528 exterior requirements, 475 were not funded, including requirements to stabilize a foundation, replace roof structural supports, repave deteriorated roads, and renovate building facades. Structural damage to a concrete overhang and its supporting column is shown in Figure 3.

Figure 3. A concrete overhang and its supporting column at post show signs of structural damage. [OIG photo]

Interior and Mechanical requirements also accounted for a significant number, 436 and 240, respectively, of the Special R&I requirements. Interior work involved repairs or improvements to walls, floors, ceilings, lighting, bathrooms, and kitchens, as well as general renovations of interior spaces. Of the 436 interior requirements, 400 were not funded, including requirements to expand consular space, repair residences that had mold and mildew, and rehabilitate spaces to comply with work safety standards. Mechanical work involved primarily repair or replacement of plumbing systems and heating and air conditioning systems. Of the 240 requirements, 180 were not funded, including requirements to repair septic tanks, upgrade water systems, and replace lead plumbing pipes. Obsolete chillers for which parts are no longer available are shown in Figure 4. Post could not replace these chillers because of the lack of funds.

Figure 4. Parts are no longer available for these working, yet obsolete, chillers that cannot be replaced because of a lack of funding. [OIG photo]

Other R&I Programs

Work relating to the other eight R&I programs accounted for the remaining 221 requirements, with total estimated costs of about $68 million. Although smaller in number and estimated costs than Special R&I, Other R&I requirements had a higher average cost per project, ranging from $642,000 for Energy Conservation and Sustainability requirements to $150,000 for Hazmat Containment requirements, as compared with approximately $119,000 for Special R&I projects. The Requirements List contained requirements that included the following:

- Replace obsolete fire alarm systems and sprinkler pumps.
- Replace old heating and air conditioning systems, install solar water heaters and panels, install wind turbines and metering towers, and replace light fixtures to allow usage of compact fluorescent light bulbs.
- Replace generators, renovate and upgrade elevators, and replace or repair roofs.
- Address the need for flood mitigation, seismic bracing, and hurricane protection.
- Remove asbestos and remove and install fuel storage tanks.
- Create building access ramps and renovate building entries and restrooms.

Of the 221 Other R&I requirements, 162 were not funded in FY 2009. For example, posts did not receive funds to replace 49-year-old chancery boilers, provide accessibility to the upper floors of a consulate, overhaul chancery elevators, replace failed electrical breakers, replace an obsolete fire alarm system, replace an underground fuel storage tank, and provide seismic bracing in a consular waiting area.

Magnitude of Unfunded R&I at Six Selected Posts

The six posts selected had a combined total of 194 requirements, with total estimated costs of about $31.9 million, on the Requirements List. However, the posts received only about $4.6 million to fund 39 of those requirements. For example, one post with 41 requirements, amounting to $10.3 million, received $1.6 million to fund four requirements. It did not receive funding to, among other things, replace chillers at four locations. Another post with 14 requirements, amounting to over $4 million, received $175,000 to remove and install new underground fuel tanks. It did not receive funds to, among other things, install fire sprinkler systems in three residences. This post did not submit any requests in FY 2009. A post official stated that it did not submit requests because there was "no point" in submitting new requests when the ones already submitted had not been funded.

An OBO official stated that one of OBO's goals in implementing BMIS was to minimize the posts' efforts to submit requests for funding. That is, once a post submits a request for funding and the request has been accepted as a requirement in BMIS, the request for that funding does not have to be resubmitted in subsequent years. The official further stated that although some R&I requirements may not be funded "for several years," the posts are still encouraged to submit all of their newly identified needs so that these needs can be included in BMIS.

Several Measures Implemented To Support M&I Costs, but Improvements Needed

Posts' M&I needs were not met primarily because the funding received, $45.2 million for routine M&R and $55.8 million for R&I, was not sufficient to enable OBO to fund all needed M&I. GAO and OIG previously reported that the Department did not have a system that identified and monitored the worldwide backlog of M&I deficiencies and did not have a process that allowed for planning and allocating M&I funds to posts worldwide based on need. The 2008 OIG inspection report of OBO operations recommended that OBO develop a system for accurately identifying the costs of operating and maintaining both new and legacy facilities and budget accordingly.

To more accurately identify M&I needs and to better support its budget requests to meet those needs, OBO has taken several noteworthy actions. Specifically, in 2008 OBO developed a maintenance and planning strategy to comprehensively capture global maintenance costs. As part of this strategy, OBO grouped all R&I requirements, which had previously been included under multiple OBO offices and programs, into one R&I Program. In addition, OBO's implementation of BMIS in 2008 enabled the Department to track and prioritize its R&I requirements, and the reports generated from BMIS are now used to support the Department's budget requests.[16] As discussed in the section "Routine M&R Needs Not Met," OBO's new methodology for calculating the costs associated with routine M&R is based on industry standards and provides an equitable distribution of funds, ensuring that all Department assets are maintained at comparable levels.

Further, in March 2010, OBO published its first Long-Range Overseas Maintenance Plan. The plan provides an overview of OBO programs and processes associated with maintaining and repairing overseas facilities. Specifically, the plan describes R&I programs and how R&I needs are identified, reported, processed in BMIS, and prioritized. It also describes routine M&R and the Department's new methodology for calculating annual needs, as well as its method for allocating to posts the funds that it receives. The plan presents a comprehensive overview of each post's real property portfolio and corresponding maintenance requirements.

RM officials stated that they were pleased with OBO's development of the plan and intend to include it with the Department's budget submission. RM hopes that the plan will provide useful information to assist OMB in understanding the Department's M&I needs at existing facilities and will prove useful in making budget decisions. However, both OIG and RM noted areas for improving the plan that would provide additional support for the Department's budget requests. Specifically, although the plan provides the amount of routine M&R funds to be allotted to each post in FYs 2010 and 2011, it does not provide the shortfall between the amounts to be allotted and the amounts needed for each post. In addition, although the plan lists R&I requirements, with their associated costs, for each post, it does not provide a schedule of when each requirement will be completed, nor does it show clearly which requirements cannot be addressed because of the lack of sufficient funds and the impact of deferring those requirements.

[16] During FY 2008, the Department was in the process of preparing its FY 2010 budget. Therefore, the new BMIS process was not available to support the FY 2009 budget.

An OBO official stated that OBO may not be able to integrate the information suggested by OIG and RM into the Long Range Overseas Maintenance Plan because, among other reasons, the plan reflects the most up-to-date information available at a point in time while actual needs continue to change. For example, a natural disaster affecting one overseas post could result in additional, unanticipated needs at that post, which would require OBO to adjust the priorities presented in the plan. However, the official indicated that OBO could provide additional information in the plan to highlight the impact of unmet M&I needs on Department facilities.

Limited Funding Resulting in Deteriorating Facilities and Higher Costs

The lack of sufficient funds to address M&I needs has resulted in deteriorating facilities at posts. OBO reported in its Long Range Overseas Maintenance Plan that 25 percent of its facilities are in poor condition. All of the posts that OIG visited had facilities with multiple needs, as shown in the following examples:[17]

- The Chief of Mission residence at Embassy Ottawa is over 100 years old. Its walls, ceilings, and pipe insulation are made of asbestos materials. Its plumbing is approaching the end of its useful life, leading to reduced water flow and water leaks. Its electrical wiring has had numerous modifications and is undersized. Its roof is nearing the end of its useful life and has been patched multiple times. Most of the cabinet doors in its main kitchen do not close. The glass ceiling in the sunroom leaks, and its windows need to be replaced.

- The original office annex at Embassy Bangkok was built in 1951 and expanded in 1959 and 1969. The chillers in the annex shown in Figure 5 are 28 years old, which is 3 years beyond their life expectancy. The chillers use R-11 Freon, which is now banned within the European Union and North America, and controls for the machines are obsolete. Local preventive maintenance contractors have not been able to find factory spare parts for these units in the past 4 years; instead, the contractors have adapted parts from

Figure 5. This 28-year old chiller at Embassy Bangkok had a 25-year life expectancy and should be replaced. [OIG photo]

[17] Some of these requirements may have been funded after FY 2009, which was outside the scope of this audit.

other makes and models to keep the machines running. The piping connected to the machines is over 40 years old and leaks. Furthermore, steel beams in the basement are corroded. An independent inspection in 2009 noted that the pumps in the basement were not working, resulting in about one foot of water that was contaminated with sewage.

- The American Center at Embassy New Delhi was acquired in 1973. The power supply to the building is erratic, with frequent voltage drops that cause breakdowns of building equipment, including the elevators. The existing chillers, which also use R-11 Freon, must be replaced. The existing generators run at full capacity, with no ability to handle extra load, and they need to be replaced. The aluminum-framed windows are warped, allowing air to escape and increasing the load on the chillers. The plumbing lines are corroded.

- The "Intern House," a residence at Embassy Stockholm, was acquired in 1958. Its foundation needs to be resealed, and the pavers on the garage roof need to be replaced. As shown in Figure 6, the resulting water damage has led to mold and rust in the garage. Windows and exterior doors of the residence need to be replaced. Fuse boxes are exposed, but they cannot be replaced until the problematic electrical wiring is upgraded to meet local codes. The exterior walkway of the residence is deteriorating, and the railing is rusting and unsafe. The perimeter walls have deteriorated and need to be repaired or replaced.

Figure 6. A garage at a residence at Embassy Stockholm has mold and has rusted because of water damage. [OIG photo]

- The American Center in Alexandria, Egypt, a 100-year old building, was acquired in 1962. Post has renovated the interior space of the building in recent years; however, the exterior and building systems need to be renovated or replaced. Specifically, as shown in Figure 7, post has had to place wire mesh netting over the crumbling façade to keep pieces from falling on pedestrians below. The Center's perimeter wall is deteriorating and needs a reinforced concrete foundation, support walls, and columns. The piping within the walls of the Center has been patched numerous times. Post officials stated that the piping should be replaced before a catastrophic failure causes significant damage to the facility. The Center's electrical conduits and risers also need to be replaced.

Figure 7. The facade at the American Center in Alexandria, Egypt, has netting to keep pieces from falling on pedestrians below. [Post photo]

- The Alcade residence at Embassy Pretoria, acquired in 1989, has structural cracks in garage walls and floors, as shown in Figure 8, that need to be repaired. Also, as shown in Figure 9, the house roof substructure is rotting, and electrical wiring is exposed both inside and outside the house. The steel windows and doors need to be replaced, and interior walls and floors are damaged. The kitchen cabinets are water damaged, and countertops are scratched and worn through. The bathrooms have outdated fixtures for which replacement parts are no longer available.

Figure 8. The wall of the garage at a residence at Embassy Pretoria has structural cracks. [OIG photo]

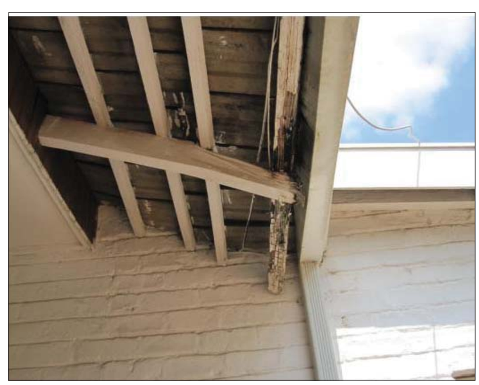


Figure 9. The roof at a residence at Embassy Pretoria is rotting because of water damage. [Post photo]

OIG's analysis of the FY 2009 Requirements List indicated that only 662 of the 1,731 requirements on the list were requested during FY 2009. The remaining 1,069 requirements, almost 62 percent, were carried over from previous years. Some of these requirements date back to 2005 and before. As the backlog of unfunded M&I needs has grown, some properties have deteriorated to the point where they can no longer be considered M&I but must undergo major rehabilitation.

In addition to deteriorating facilities, GAO has reported[18] that deferring needed maintenance may ultimately result in significantly higher costs. OIG's analysis of the Department's DM reports, which list DM at all posts, indicated that the estimated costs of 115 of the requirements that were on the reports from FYs 2005 to 2009 have increased by $1.9 million.[19] Cost increases can occur if the condition of the asset deteriorates further because of the deferral. For example, the pavers at one post OIG visited had been deteriorating. Because the pavers were not repaired, the concrete underlay had deteriorated and had washed into drain pipes, resulting in clogged drain pipes. Instead of repair, the pavers will have to be replaced at a higher cost. Cost increases can also occur when the deferral of needed repairs leads to additional damage. For example, damaged gutters that were not replaced at one post have resulted in damage to the building, for which the post incurred additional costs. The $1.9 million of increased costs calculated by OIG may not reflect the total amount of increased costs because not all posts have updated the estimated costs of their requirements. Only four of the six posts selected had a process in place to update the costs.

Recommendation 1: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) include additional information in future editions of its Long Range Overseas Maintenance Plan to better support the Department of State annual budget request. Specifically, OBO should include specific information and examples that clearly illustrate the extent of unmet maintenance and improvements needs at overseas posts and their effect on Department operations.

Management Response and OIG Reply: OBO agreed with the recommendation and expressed its appreciation for OIG's having incorporated its prior comments. OIG considers this recommendation resolved, pending receipt,

[18] *Federal Real Property – Government's Fiscal Exposure from Repair and Maintenance Backlogs Is Unclear* (GAO-09-10, Oct. 2008).

[19] OIG did not include in this amount cost increases of $6.3 million for 10 requirements because the increase for each requirement was greater than 200 percent. Therefore, the cost increases may have been the result of a change in the scope of the requirement rather than the result of the requirement being deferred.

review, and acceptance of OBO's Long Range Overseas Maintenance Plan that includes the information OIG requested.

Recommendation 2: OIG recommends that the Bureau of Resource Management continue to work with the Office of Management and Budget to obtain additional funds for maintenance and improvements of the Department of State's overseas facilities.

Management Response and OIG Reply: RM agreed to continue to actively engage with OMB to obtain additional funds for M&I. Based on RM's response, OIG will consider this recommendation closed when this report has been issued.

Finding B. Processes To Use Limited Resources Effectively Need Improvement

Because the Department has received limited funding for M&I, OBO developed a methodology to allocate routine M&R funds to posts in a manner that it believes is equitable to all missions worldwide. OBO also established a methodology to prioritize posts' R&I requirements on a worldwide basis and to fund those requirements that it deems the most critical. However, OIG identified instances of priority scores[20] that were inconsistent, which brings into question the reliability of the methodology used to prioritize R&I requirements. Inconsistencies in scores may result from decisions made when R&I requests are processed or if posts do not provide OBO with the specific information needed to determine the appropriate priority score. As a result, some high-priority R&I requirements may receive lower scores than warranted and therefore may not be funded.

Methodology for Routine M&R Allocations Not Fully Implemented

Although OBO developed a methodology to determine posts' routine M&R needs and to allocate funds according to those needs, OBO has not been able to fully implement that methodology because of the lack of budgetary resources. In FY 2009, OBO provided posts approximately 90 percent of the amounts that were provided in FY 2008.[21] Beginning in FY 2010, OBO used a modified version of its new

[20] Priority scores are derived from information in BMIS. (See the section "R&I Requirements Prioritized.")

[21] OBO officials stated that New Embassy Compounds, which were not included in this audit, received additional routine M&R funding because of the higher cost of maintaining the equipment and components in modern buildings.

methodology to allocate to posts the routine M&R funds that it received. Specifically, OBO calculated each post's allotment using three of the four factors of the methodology: the total gross square meters of GO/LTL properties, the routine M&R cost per square meter, and the government index. This calculation aligns the amount allocated to the GO/LTL properties at post adjusted for local prices. However, it does not take into account the condition of the facilities as reflected by the facility condition index.

OBO notified posts of the new allocation formula in March 2009 to allow posts time to adjust to the new funding levels that would be implemented for FY 2010. During OIG site visits, post facility managers expressed concern about their anticipated allocations. Three of the six posts were to receive routine M&R funding that was reduced from the amounts they had received in FY 2009. These posts did not believe their 2010 allocations were reasonable because the amounts did not reflect the specific circumstances at their posts, such as fluctuations in currency exchange rates, high labor and material costs, and the age of their buildings and systems. Of the three posts that would receive an increase in funding, one post official stated that the amount, even with the increase, would not be sufficient to cover the post's backlog of maintenance needs.

OBO officials stated that the new allocation formula is more realistic in relation to the amount of property in a post's inventory. Since the method OBO used to allocate routine M&R funds to posts in 2009 and prior years was not linked to the amount of GO/LTL property at a post, some posts may have received more of the limited funds than were warranted compared with funding for other posts. OBO's comparison of the amounts derived using the new allocation formula and the amounts of funding provided in previous years indicates that the new method distributes the funds to posts in a more equitable manner. Specifically, allotments to posts using the former process ranged from $168.00 per gross square meter to $1.19. Using the new formula, allotments will range from $19.25 per gross square meter to $8.11.

Although posts may not receive the funds necessary to perform all needed routine M&R, all posts will receive a minimum amount of funds to address routine needs and to ensure that their buildings continue to function. In addition, OBO has a process in place to provide posts that have greater needs with additional funds. Specifically, OBO/CFSM/FAC monitors posts' routine M&R allotments to determine how much has been spent and the available balances. If some posts have balances that they will not be able to spend by the end of the fiscal year, OBO/CFSM/FAC withdraws those funds and provides them to posts that have the ability to use the funds.

R&I Requirements Prioritized

Historically, OBO has distributed R&I funds to posts on a regional basis. The amount of funding the regions and their posts received for the year was based on qualitative factors and internal negotiations, as well as on quantitative data and measures. An OBO official stated that this process made it difficult to address the highest priority needs. With the implementation of BMIS in 2008, OBO now has a tool that enables it to prioritize and fund requirements that have a higher priority.

When processing post R&I requests, the AMOs complete the information in BMIS that is used to calculate a priority score for each requirement. Specifically, using the information in post requests and the instructions provided in the BMIS M&I Priority Scoring Guide, AMOs select from a number of descriptive alternatives, each of which has been assigned "points," relating to factors such as the following:

- The type of building system affected, for example, whether the requirement involves exterior, interior, electrical, mechanical, fire, or security work.
- Whether the requirement involves air or water quality, dangerous materials, electrical or fire safety risk, or physical hazards.
- Whether the requirement is in response to a Congressional or Executive mandate or requirements or building codes in the host country.
- Whether the requirement will result in cost savings, for example, the replacement of an air conditioner with an energy-efficient unit.

When processing is complete, BMIS calculates a score for each requirement, which is the primary factor that OBO uses to identify projects that it will fund. OBO sorts the requirements by their scores to create a prioritized list of R&I requirements. Using this list, OBO selects requirements to fund in the order of their scores. Based on the amount of R&I funding it received in FY 2009, OBO initially identified a score of "76" as its cutoff for funding; that is, OBO planned to fund all requirements with a score of "76" or higher. However, as funds that it had reserved for unplanned emergency needs became available during the year, OBO adjusted its FY 2009 cutoff to "52."

High Scores and Funding for High Priority Requirements

Generally, the R&I prioritization and funding processes resulted in higher priority needs being funded in FY 2009. OIG identified the scoring alternatives that would receive the highest number of points. Based on the descriptions in the Requirements List, OIG analyzed the 22 requirements receiving scores of "75" or higher by determining whether the requirements involved one or more of these alternatives. All 22 requirements would, based on OIG's analysis, have earned the highest points. OBO funded 21 of the 22 requirements during FY 2009, including replacing obsolete fire alarm systems, fire water storage tanks, underground fuel storage tanks, a water treatment system, and chiller units. OBO did not fund one of the 22 requirements. OBO indicated that high priority requirements may be "skipped" when the post is unable to commit to the prompt and successful completion of a project during the fiscal year or if the OBO specialists needed to oversee the project are unavailable.

OIG also found that lower priority needs had low scores and were generally not funded. OIG analyzed the 81 requirements that had scores of "15" and below. These requirements involved activities such as repairing perimeter walls, constructing a gym, renovating kitchens and baths, replacing or expanding outdoor terraces and patios, and constructing awnings or other roof covers. OIG concluded that the 81 requirements did not involve any of the highest scoring alternatives and should therefore not have earned high scores. OBO funded only one of the 81 requirements, which involved converting a building to a residential unit.

OBO's procedures allow for requirements with lower scores to be funded where adequate justification exists. OIG identified 32 requirements with scores of less than "52" that were funded. These requirements included replacing an air handling unit, erecting a fence around a swimming pool, replacing windows, constructing a perimeter wall, and renovating bathrooms. The amount of funds provided for these lower-scored requirements, totaling about $5.3 million, represents only 14 percent of the total amount that OBO provided for the funded FY 2009 requirements. OBO officials stated that it funded these requirements to perform needed maintenance in residences that were vacant and, in other cases, because the requirements had become emergencies. In addition, one of the requirements was funded by another agency.

Inconsistent Requirement Scores

Although the scores for the highest and lowest priority requirements appeared to be justified, the efficacy of OBO's prioritization process may be reduced because of inconsistent scoring of requirements. OIG identified instances in which the scores assigned to requirements with similar descriptions varied significantly, as well as other instances where priority scores were changed after the FY 2009 Requirements List was finalized. Because of these anomalies, the reliability of the scoring methodology is questionable.

Specifically, OIG compared the scores received by requirements with similar descriptions and at similar locations and identified a large variance in the scores for the five requirement descriptions listed in Table 3. These five descriptions were selected for review because they appeared to be straightforward requirements in which significant variances in scoring would not be expected.

Table 3. Range of Priority Scores for Selected Requirements

Requirement Description	Location of Work	Number of Requirements	High Score	Low Score	Variance
Replace chiller	Embassy	6	87	34	53
Replace window	Chief of Mission, Deputy Chief of Mission, or Consulate General residences	32	64	21	43
Renovate baths	Chief of Mission, Deputy Chief of Mission, or Consulate General residences	24	55	12	43
Replace obsolete fire alarm system	Embassy or Consulate General	9	92	58	34
Replace roof	Embassy	5	76	49	27

Source: OIG analysis of Requirements List.

Variances among similar requirements may occur because of differences in the condition of the facilities; however, the variances for the requirements in Table 3 were considerable, ranging from 27 to 53 points. To determine the reasons for these variances, OIG requested documentation to support the high, low, and middle score requirements for window replacement. Instead of providing the requested information, OBO presented OIG with altered scores without justification, reducing the high score from 64 to 55 and increasing the low score from 21 to 47. After this adjustment, the variance between the window replacement requirements was reduced from 43 to 14.

Because OBO did not provide the documentation supporting the original window replacement scores or its rationale for the changed scores, OIG could not determine specific reasons for the variances. Some AMOs stated that they used their personal knowledge of the post to complete the BMIS scoring factors and, if necessary, would contact post staff to obtain any additional information needed. However, OBO officials said that between 30 to 40 staff members process post R&I requests and that these individuals have varying levels of experience and knowledge of the posts. Consequently, inconsistent decisions are likely to occur when selecting the alternatives for the scoring factors, which could result in inconsistent scores for similar requirements that are processed by different AMOs.

OIG also identified other instances in which the scores for some requirements had been changed. For example, the original scores in the December 15, 2008, Requirements List for five requirements and the scores for those same requirements in BMIS as of May 2010 are shown in Table 4.

Table 4. Requirement Priority Scores That Changed

Requirement	Score as of 12/15/2008	Score as of 5/2010	Difference
Replace Main Distribution Boards	75	65	(10)
Upgrade/Modernize Elevators	53	69	16
Install Garage Doors	55	39	(16)
Renovate Kitchen	58	22	(36)
Replace Parquet Floors	27	39	12

Source: OIG comparison of requirement scores.

OBO staff acknowledged that the scoring changes occurred but could not explain why. OBO told OIG of a quality control effort designed to improve the consistency of responses. Specifically, OBO staff stated that OBO has a committee of individuals who check the scoring to confirm that the scoring process was done properly by rescoring and validating the scores before the prioritized list is finalized. The staff further stated that differences will be fixed if found. However, these scores appear to have been changed after this validation process had occurred.

In addition to differences in judgment exercised by AMOs, OIG believes that another reason for the apparent unreliability of the scoring methodology is that posts do not always provide a complete description of the work to be performed in their requests. The format that posts used for R&I requests does not require the posts to provide information addressing all of the factors used to calculate priority scores. For example, the request format does not ask for the number of personnel affected by the requirement or the anticipated cost savings from replacing an old, inefficient system with a newer, more efficient unit.

Regardless of the causes, inconsistent responses to the scoring factors may result in requirements receiving scores that are higher or lower than warranted by the facts. If requirements are scored incorrectly, they may be below the cutoff level for funding when they should be funded or they may be above the cutoff level and receive funding when they should not. In some cases, one post could receive funding for requirements when the same requirements at another post are not funded.

OBO continues to refine BMIS to address some of these issues. While OIG was preparing this report, OBO provided OIG with information on recent changes to the R&I process. For example, instead of sending a cable response to the annual budget call, posts can now enter their needs directly into a worldwide automated information system. In addition, depending on the initial alternatives that the AMOs select for some scoring factors, the subsequent options will be limited to factors directly relating to those requirements. OBO also plans to have BMIS auto-fill some data that is specific to each post, such as the facility condition index, to help reduce errors. These changes should improve the process and prevent some scoring errors; however, the changes do not include a requirement that posts should submit all of the information needed to more accurately score post requests.

Recommendation 3: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) take measures to improve the reliability of the methodology used to score repair and improvement requests. Specifically, these measures should include developing and providing to posts a detailed format for repair and improvement requests that ensures that all information required for scoring is provided. OBO should also consider, during future system modifications, revising the request format in the Buildings Management Integrated System to correspond to the new format.

Management Response: OBO stated that it "supports the substance" of this recommendation but "believes a sufficient system exists for scoring requests." OBO further stated that if additional information arrives from post that affects the scoring of requirements, the AMO "may adjust the scores at any time."

OIG Reply: Although OBO has made significant progress in its methodology for scoring requests, OIG believes that improvements are needed. OBO may have difficulty in making informed decisions when scoring similar requirements without detailed information provided by posts on each of their requirements. The development of a detailed format for R&I requests that includes the needed information will assist OBO in scoring requirements more equitably.

Based on the response, OIG considers this recommendation unresolved. The recommendation can be closed when OBO develops and provides to post a detailed format for R&I requests that ensures posts provide all information necessary for scoring the requirements. This format should then be incorporated into BMIS.

Finding C. Deferred Maintenance Was Not Accurately Reported

OIG found that the Department has not accurately reported DM in its financial statements. The amount that the Department reported in FY 2009 did not include deferred routine M&R estimated at about $46.4 million. OIG also found that the Department had reported, as DM, R&I improvements with estimated costs of about $51 million in FY 2009. Further, R&I repairs with costs of about $2.1 million that were identified as DM were no longer valid. These inaccuracies occurred primarily because the process that OBO used to identify and report DM did not capture routine M&R and did not ensure that all R&I requirements reported were maintenance related or were still valid. Inaccurate DM reporting may affect OBO's ability to justify its budget requests for M&R funding.

Routine M&R Not Included in DM

According to Federal accounting standards, DM includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets that are put off or delayed for a future period.[22] However, OIG found that the Department has not included deferred routine M&R in the amounts it reported as DM. As discussed in "Finding A. FY 2009 M&I Needs Were Not Met," OBO calculated routine M&R needs for FY 2009 of $97.8 million. The amount that was not funded during FY 2009, about $46.4 million, represents deferred routine M&R that should have been reported as DM but was not. In fact, the Department has never included deferred routine M&R in the amounts reported as DM in its financial statements.

[22] Statements of Federal Financial Accounting Standards (SFFAS) No. 6.

R&I Improvements and Other Invalid Requirements Included in DM

The accounting standards specifically exclude from DM "activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended."[23] However, OIG found that the Department's DM report for the third quarter of FY 2009[24] included a large number of improvements that should have been excluded from the report.

The third quarter DM report contained 870 deferred R&I requirements, with estimated costs of about $111 million. Based on the description of the requirements, OIG identified 554 requirements, with estimated costs of about $60 million, that were repair-related activities. The remaining 316 requirements, with estimated costs of about $51 million (46 percent of the total dollar amount of DM reported), were improvements aimed at expanding the capacity of or upgrading the property. For example, the DM report included R&I requirements to

- install additional baths in three residences,
- construct a paint workshop,
- expand the chancery parking lot, and
- enclose a loading dock.

At the six posts selected, OIG reviewed 73 R&I requirements, with estimated costs of about $12.9 million, that were on the third quarter DM report. Of the 73 requirements, 29 should not have been on the report, including 16 requirements that were improvements rather than repairs. These requirements included expanding a gym, converting space to meet different needs, upgrading generator capacity, adding a fence, and performing space-planning studies to increase work space.

The remaining 13 R&I requirements were repair-related requirements that generally would be identified as DM. However, these 13 requirements, with total costs of about $2.1 million, should not have been included in the DM report because they had been funded or were not valid requirements as follows:

- Six requirements, amounting to $150,000, had been funded and completed in previous years.

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[23] Ibid.

[24] OIG obtained and analyzed the third quarter DM report because the final year-end report was not available at the time this analysis was performed.

- Three requirements, amounting to $1,677,000, involved installing fire sprinklers at short-term leased properties.
- Three requirements, amounting to $226,000, involved projects that had been funded and were ongoing.
- One requirement, amounting to $33,000, was no longer needed by post.

Improvements Needed in Process To Identify and Report DM

The inaccuracies in the DM amounts occurred primarily because the process that OBO used to identify and report DM did not capture routine M&R and did not ensure that all R&I requirements that were identified as DM were repair related or were valid. Specifically, OBO identified and reported DM based on information maintained in BMIS. When OBO enters R&I requirements into BMIS, the requirements are assigned a "planned start date," which corresponds to the date entered. BMIS identifies requirements as DM if the requirement has not been funded by the fiscal year following the "planned start date." On a quarterly basis, OBO runs an automated BMIS report that lists all deferred requirements.

This process did not identify deferred routine M&R because these needs were not maintained in BMIS and OBO had not adjusted the amount reported by BMIS to account for routine M&R. OBO officials expressed concern that including routine M&R in DM may result in double counting and additional staff effort to identify and report an accurate deferred amount. OIG suggested that OBO develop a methodology to estimate the deferred amount for routine M&R as the difference between routine M&R needs and routine M&R allotments for the fiscal year. This amount would be added to the amount of R&I repairs identified as DM in BMIS – not the amount of DM reported in the previous year – to arrive at the total DM for the year. This methodology, or another similar methodology, would avoid the potential for double counting and require minimal staff effort.

The process also did not ensure that R&I requirements identified as DM were repair related because, during OIG's fieldwork, BMIS did not have the capability to differentiate between an R&I repair and an R&I improvement. Therefore, BMIS reported all deferred R&I requirements, both repairs and improvements, as DM. To address this issue, OBO informed OIG that it has now modified BMIS to allow for each R&I requirement to be categorized as "maintenance" or "improvement" at the time the requirement is entered into BMIS.

Completed projects or requirements no longer needed were on the third quarter DM report because OBO did not have a formal process to review the DM report for accuracy or to require posts to identify requirements that were no longer needed. Once BMIS identifies a requirement as DM, it stays on the DM report until it has been funded or is no longer needed by post. OBO officials told OIG that, beginning in January 2010, posts would be able to view their BMIS requirements through a worldwide automated information system to ensure that the information in BMIS, which is used to identify and report DM, is accurate. The officials stated that posts should review their requirements in BMIS as part of the posts' annual inspection process. However, as of the end of the fieldwork, OBO did not have a formal requirement and process in place for posts to perform this review and to provide to OBO a list of requirements no longer needed.

DM Reports Not Useful To Support Department's M&R Needs

One objective of federal financial reporting is to assist report users in evaluating service efforts, costs, and accomplishments; the manner in which these efforts and accomplishments have been financed; and the management of assets and liabilities.[25] For example, managers of Government facilities need to know the facilities' condition and an estimate of future outlays made necessary by deferring needed maintenance. OBO management told OIG that although it accumulates DM information for financial reporting, it does not use the information for decision-making purposes. Instead, OBO relies on other "backlog" information that includes all post needs, including those needs that are not scheduled and that are not included on the DM report.

Although reporting accurate DM information may not affect OBO's ability to manage its facilities overseas, it may affect OBO's ability to justify its requests for M&R funding. OBO indicated that it does not use the information included as DM in the financial statements to support its budget requests. It uses other information, such as its new methodology for calculating routine M&R and the information on R&I requirements presented in its Long Range Overseas Maintenance Plan. However, the financial statements are more readily available than budget information. As a result, decision makers may use the incomplete information in the financial statements to make decisions on M&R funding needs. In addition, decision makers may question the reliability of the Department's budget requests for M&R if the information in the requests differs from the information published in the Department's audited financial

[25] Statement of Federal Financial Accounting Concepts 1, "Objectives of Federal Financial Reporting," Sept. 2, 1993.

statements. Although the net overstatement of DM for FY 2009 was only $6.7 million, the difference may be greater in future years if the process to identify and report DM is not improved.

In addition, the financial statements are used by other groups, such as Congress and the general public. For example, the U.S. Department of the Treasury publishes Government-wide financial information, such as the Combined Statement, that is used by the public and private sectors to monitor the Government's financial status and establish fiscal and monetary policies. Without accurate DM information, these users will not have the information they need to evaluate the condition of the Department's assets, determine whether budgetary resources will be sufficient to maintain the Department's real property in a condition that provides acceptable service and achieves its expected life, or evaluate the effectiveness of the Department's asset maintenance practices.

Recommendation 4: OIG recommends that the Bureau of Overseas Buildings Operations develop a methodology for adjusting the deferred maintenance amount obtained from the Buildings Management Integrated System to include deferred routine maintenance and repairs.

Management Response: OBO "disagrees" with the recommendation, stating that the Department has "never included routine maintenance" in its reporting of DM and has decided to continue to exclude it for two reasons: including routine maintenance as DM "may result in these costs being double counted in the subsequent year" and routine maintenance "is best accounted for in the budget process, not in financial statements." OBO further stated that when it develops its budget requests, it uses "the entire catalog of M&R requirements as the basis for requested amounts," as routine maintenance is a portion of the entire universe of M&R requirements.

OIG Reply: Annually estimating deferred M&R and including this information would not create a situation where the items were double counted. Estimates are often developed to ensure that required information is reasonably accurate in the financial statements. These entries are reversed at the beginning of the next fiscal year to ensure that they are not included. A similar process should be used for the routine M&R estimate. In addition, OMB requires that information on deferred maintenance be included in the annual financial statements. The Federal Accounting Standards Advisory Board, which establishes accounting policies for the Federal Government, requires that deferred maintenance include all preventive maintenance, normal repairs, and other activities needed to preserve assets that are put off or delayed for a future period. Deferred routine M&R would be included in this definition. Therefore, to be in compliance with OMB guidance, the Department will need to develop a methodology to estimate deferred routine M&R.

Based on the response, OIG considers this recommendation unresolved. The recommendation can be closed after OIG receives, reviews, and accepts the methodology that OBO develops for adjusting the DM amount to include routine M&R. OIG suggests that OBO coordinate with RM on its efforts.

Recommendation 5: OIG recommends that the Bureau of Overseas Buildings Operations complete its modification of the Buildings Management Integrated System to allow for new repair and improvement requirements to be categorized as "maintenance" or "improvement." Once implemented, all existing BMIS requirements should be properly categorized.

Management Response and OIG Reply: OBO stated that it has "already modified [BMIS]" to allow for "repair" and "improvement" categories. Based on the response, OIG considers this recommendation resolved, pending receipt, review, and acceptance of documentation indicating that modification to BMIS has been implemented.

Recommendation 6: OIG recommends that the Bureau of Overseas Buildings Operations establish a formal process to validate, on a periodic basis, the repair and improvement requirements in the Buildings Management Integrated System and to remove requirements that are no longer valid from the System.

Management Response: OBO stated that it supported "the substance" of the recommendation but that "a formal process is already in place." OBO further stated that the FAM requires tasks to be performed, such as the Annual Condition Survey, which results in the Annual Inspection Summary, and that it sends cables to posts, technical staff, and AMOs for them to review, remove, or identify new requirements. To provide greater oversight, OBO suggested that OIG inspection teams "review requirements posts are implementing in the field."

OIG Reply: During its audit, OIG found completed projects and requirements in BMIS that should not have been included, which indicates that the current process is not completely effective. As of January 2010, posts have the ability to electronically review their BMIS requirements to identify discrepancies, but they are not formally required to do so. A formal process that requires posts to periodically perform this review would improve the accuracy of BMIS and, therefore, the DM list. Inspection teams, whether from OBO or OIG, do not travel to every post annually.

OIG considers this recommendation unresolved. The recommendation can be closed when OIG receives, reviews, and accepts documentation showing that OBO has established a formal process to validate, on a periodic basis, the repair and improvement requirements in BMIS and to take additional actions as needed.

Finding D. Controls Over M&I Expenditures Are Generally Effective

OIG found that the Department had controls in place to ensure that M&I funds are spent for their intended purpose. Specifically, the Department has developed policies expressly addressing the types of allowable M&I expenses, and OBO has developed and provided to posts guidance to implement those policies. In addition, OBO/RM auditors and the AMOs monitor M&I projects and expenditures during periodic site visits to posts. The facilities managers at posts also exercise oversight over the use of M&I funds.

OIG tested the Department's controls over M&I expenditures at the six posts selected. These tests indicated that the six posts generally complied with Department policies and guidance pertaining to the use of M&I funds. Specifically, OIG randomly sampled 580 M&R transactions, totaling about $2.3 million, and found that 22 transactions, totaling about $19,000, were not allowable. OIG also randomly sampled 328 R&I transactions: 237 Special R&I, totaling about $2.6 million, and 91 Other R&I transactions, totaling about $1.7 million. All R&I transactions were spent for allowable purposes. Although the R&I transactions were allowable, posts did not always comply with OBO's reporting requirements for R&I projects.

Additionally, OIG tested BOE to determine whether ICASS or DCP funds were being used improperly for M&I transactions. Of the 61 BOE transactions tested, totaling about $280,000, OIG found that 10 transactions, totaling about $42,000, were inappropriately identified as BOE and charged against ICASS and DCP funds rather than OBO funds. OIG identified Embassy Cairo's allocation of bulk purchases between routine M&R and BOE as a best practice.

Controls Exist for Monitoring M&I Expenditures

OIG found that the Department has developed and implemented controls to ensure that M&I funds are spent appropriately. Specifically, the Department has developed policies, as shown in the Foreign Affairs Manual (FAM),[26] that set forth the type of expenses that can properly be charged to routine M&R and R&I. To implement these policies, OBO developed a Facilities Maintenance Operations Handbook, as found in the Foreign Affairs Handbook (FAH), that provides guidance on maintaining post real property facilities and reference material for routine M&R activities.[27] In addition, OBO developed a supplemental listing and description of the more common routine M&R expenditures, which is available to all posts and located on OBO's website.[28]

OBO also closely monitors posts' use of M&I funds. Specifically, OBO/RM performs an on-site audit of M&I expenditures at about 24 posts each year. The primary purposes of these audits are to determine how effectively posts are administering OBO programs, to assess whether OBO funds are being used for the purposes for which they were allotted, and to determine whether posts maintain adequate documentation to support financial transactions. The OBO auditors include, in their review, an examination of the documentation supporting routine M&R for the current and two previous fiscal years to determine whether BOEs were inappropriately charged to routine M&R, the costs of supplies and materials were consistent with what would be needed for GO/LTL property, the total amount obligated was within the limits authorized by OBO, and each obligation was supported by documentary evidence. The auditors also reviewed all R&I work performed to determine whether it was the work authorized by OBO and whether posts had notified OBO of the project completion date and also to identify excess funds that can be returned to OBO.

In addition to OBO/RM's audits, the AMOs performed site visits to their assigned posts, generally on an annual basis. While at post, the AMOs performed a facility walkthrough of the chancery and other properties to determine the condition of the buildings, discuss with post management the adequacy of routine M&R funds, review R&I projects to determine whether post had sent close-out cables and deobligated unneeded balances, and determine unfunded Special R&I requirements.

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[26] 15 FAM 620, "Definitions," and 15 FAM 640, "Approvals Required for Repairs and Improvements."
[27] 15 FAH-1H-100, "Facilities Maintenance Operations."
[28] http://obo.state.gov/oboweb/obo_downloads/7901expenditures.pdf, date accessed Jun. 21, 2010.

The six posts visited had some controls to ensure that M&I funds were used in compliance with Department policies and OBO guidance. For example, the posts entered routine M&R into a work order system, and generally, the facility managers approved the work before it was performed. Facility managers also provided oversight for post-managed R&I projects and approved the related expenditures. At all six posts, a budget analyst in the Financial Management Office routinely handled all OBO-related financial transactions. This analyst was familiar with the requirements for M&I funds and therefore provided a final check to ensure that M&I funds were used for the purposes allowed.

Routine M&R Expenses

Generally, the six posts that OIG selected for testing had expended routine M&R funds for allowable purposes. OIG randomly sampled expenditures to determine whether the posts complied with Department policies and OBO guidance on the use of M&R funds. Specifically, OIG determined whether the funds were used for maintenance in a GO/LTL building related to one of the following categories:

- Items of a recurring nature to prevent damage that would be more costly to restore than prevent (for instance, exterior painting).
- Items of a minor nature that did not require OBO review and were exempt from permit requirements (for instance, repairing a furnace).
- Bulk supplies for expected routine M&R needs.

Of the 580 routine M&R transactions tested, totaling about $2.3 million, OIG found that only 22 transactions, totaling about $19,000, did not comply with Department guidance. This represents less than one percent of the total dollar amount of the routine M&R transactions tested. The results of OIG's review of routine M&R transactions for each post are shown in Table 5. (OIG's sampling methodology and results are detailed in Appendix A.)

Table 5. Results of Routine M&R Transaction Testing by Post

Post	Number of Transactions Sampled	Dollar Value of Transactions Sampled	Number of Transactions Not Allowable	Dollar Amount of Transactions Not Allowable
Bangkok	110	$742,092	0	$0
Cairo[a]	96	$386,079	3	$2,736
New Delhi	90	$453,712	0	$0
Ottawa	93	$199,058	2	$534
Pretoria	115	$314,092	5	$13,319
Stockholm	76	$186,453	12	$2,443
Total	**580**	**$2,281,485**	**22**	**$19,031**

Source: Prepared by OIG based on the results of its random sample.
Note: Totals may not add because of rounding.
[a] The documentation for 25 of the 96 expenses tested at Embassy Cairo did not specifically indicate where the work was performed. Although the transactions were for allowable services and items, OIG was unable to ensure that the work was performed at a GO/LTL property, as required. For this test, OIG classified these transactions as "allowable." If, however, the transactions were related to a short-term leased property, the number of unallowable items would increase.

The unallowable transactions were for a number of different items. For example, three posts used routine M&R funds to purchase tools, purchases that Department policy explicitly excludes from routine M&R[29] and that should be charged to ICASS funds. Two posts used routine M&R funds to repair personal property (exercise equipment and furniture). These repairs should be charged to ICASS or DCP.[30]

Of the 22 unallowable transactions, 12 (55 percent) were part of large purchases that included allowable items. For instance, one post purchased about $1,100 in supplies, including light bulbs and cotton gloves with a total cost of $5. The light bulbs and cotton gloves are considered BOE; therefore, these purchases should have been charged to ICASS or DCP. The budget analyst at this post stated that it is difficult to break out the charges between routine M&R and BOE because the amounts can be so small.

R&I Expenses

The six posts selected had expended R&I funds received from OBO for allowable transactions. OIG randomly sampled 328 R&I transactions–237 Special R&I transactions, totaling about $2.6 million, and 91 Other R&I transactions, totaling about

[29] 15 FAM 621(3), "Routine Maintenance and Repair (M&R)."
[30] 15 FAM 621(1), "Routine Maintenance and Repair (M&R)," and 15 FAM 722, "Funding."

$1.7 million–to determine whether the transactions complied with Department policies and OBO guidance on the use of R&I funds. Specifically, OIG tested Special R&I transactions to determine whether the funds were used at GO/LTL properties and to determine the following:

- Funds were expended for allowable activities and items.
- Post's project description was comparable to the project information on OBO's advices of allotment.
- Work performed was comparable to that contained in the post project description.

As indicated in Table 6, OIG found that the 237 Special R&I transactions tested were in compliance with Department guidance on the use of R&I funds. OIG did not identify any transactions for activities or items that were unallowable. The 237 sampled transactions were related to 45 Special R&I projects. OIG found that the work performed by posts on these projects was comparable to the project information on OBO's advices of allotment and the project descriptions. (OIG's sampling methodology and results are detailed in Appendix A.)

Table 6. Results of Special R&I Transaction Testing by Post

Post	Number of Transactions Sampled	Dollar Value of Transactions Sampled	Number of Transactions Not Allowable
Bangkok	55	$858,892	0
Cairo	50	$460,021	0
New Delhi	59	$525,625	0
Ottawa	17	$136,295	0
Pretoria	45	$195,016	0
Stockholm	11	$421,720	0
Total	**237**	**$2,597,569**	**0**

Source: Prepared by OIG based on the results of its random sample.
Note: Totals may not add because of rounding.

OIG also tested 91 Other R&I transactions to determine whether the work performed was allowable for the FC used to fund the transaction. OIG found that all of the expenses were allowable. The number of transactions tested by FC is shown in Table 7.

Table 7. Other R&I Expenditures Tested by Function Code

Function Code	Program	Number of Transactions Sampled	Dollar Value of Transactions Sampled
7552	Energy Conservation and Sustainability	6	$83,618
7561	Utility Management	32	$1,345,373
7667	Roof	11	$32,938
7671	Hazmat Containment	30	$55,777
7687	Barrier Free Accessibility	12	$200,413
Total		**91**	**$1,718,118**

Source: Prepared by OIG based on sampling plan.
Note: Totals may not add because of rounding.

Posts Not Complying With R&I Reporting Requirements

OIG found that posts were often not in compliance with reporting requirements for R&I projects. To ensure that OBO is aware of the status of projects at post, OBO requires posts to provide a monthly status report on all post-managed R&I projects. In addition, upon completion of projects, posts must notify OBO of the completion date and the total amount of funds obligated and liquidated for the project.[31] For R&I projects that require OBO approval and a building permit, posts must submit as-built drawings to OBO when the project is completed.[32]

During testing of the 237 Special R&I expenses for allowable transactions, OIG also tested for compliance with project reporting requirements as applicable. The 237 transactions encompassed 45 Special R&I projects, and a review of these projects disclosed that posts frequently did not adhere to reporting requirements, as shown in Table 8.

[31] These requirements are contained in the advices of allotment that OBO sends to post to fund each R&I project.
[32] 15 FAM 645.1-4, "As-Built Drawings."

Table 8. Testing of Compliance With Reporting Requirements

Requirement	Applicable Projects	Exceptions Noted	Exceptions as a Percentage of Applicable Projects
Post provides monthly status reports	43	28	65%
Post provides close-out cable at the completion of the project	37	5	14%
Post provides as-built designs	10	10	100%

Source: Prepared by OIG based on the results of its sample.
Note: Reporting requirements were not applicable to all 45 projects tested.

Five of the six posts were unable to provide evidence that they had informed OBO about R&I project status monthly, as required. One of these posts indicated that it had provided oral updates to OBO whenever it was appropriate. Another post said that it provided project status reports only when something important happened. When OIG discussed this requirement with OBO officials, they indicated that monthly status reports were helpful. However, some OBO officials said that the reports are not necessary for smaller projects that are completed quickly or for which there is nothing of significance to report. Status reports for larger projects, however, are necessary, particularly when different OBO offices have to coordinate work on a project.

Three of the six posts did not always send a close-out cable to OBO at the completion of their R&I projects. Information on project completion is necessary for the orderly maintenance of OBO's worldwide project files and the effective management of maintenance funding. The OBO officials indicated that posts must submit project completion cables so that OBO can change the status of the project in BMIS to "completed" and recapture any funds that were allotted to the project but that were not used.

Five of the six posts did not always submit as-built drawings to OBO at the completion of their R&I projects when required. As-built drawings are architectural drawings that reflect changes made during the construction process, which record differences between the original design and the completed structure. OBO uses as-built drawings as a resource to assist posts with technical support on building forensics and troubleshooting efforts and acts as the off-site repository for the records if the post's records become irretrievable. Furthermore, OBO shares as-built drawings with other U.S. Government entities responsible for preparing emergency evacuation/contingency planning and for tenant-initiated projects.

Not All M&I Funded Using OBO Funds

OIG found that not all M&I expenditures were funded using OBO funds, which was contrary to the FAM.[33] The FAM provides guidance on funding responsibilities for maintenance, repair, and custodial responsibilities and states that OBO funds maintenance and improvement projects for GO/LTL property and that DCP funds "may not be used to augment the OBO allotment." The FAH[34] also indicates that ICASS or DCP funds BOE but does not fund routine M&R, as routine M&R is funded by OBO.

To determine whether other funds were used to perform M&I that should have been funded by OBO, OIG tested BOE at the six posts selected. Of the 61 BOE transactions tested, totaling about $280,000, OIG found that 10 transactions, totaling about $42,000, should have been funded with OBO funds. The $42,000 represents approximately 15 percent of the total dollar value of the transactions tested. The results of OIG's review of the BOE transactions for each post are shown in Table 9. (OIG's sampling methodology and results are detailed in Appendix A.)

Table 9. Results of BOE Transaction Testing by Post

Post	Number of Transactions Sampled	Dollar Value of Transactions Sampled	Number of Transactions Not Allowable	Dollar Amount of Transactions Not Allowable
Bangkok	10	$63,280	3	$29,609
Cairo	10	$52,874	0	$0
New Delhi	10	$6,996	0	$0
Ottawa	10	$45,018	0	$0
Pretoria	10	$89,599	2	$9,939
Stockholm	11	$21,312	5	$2,000
Total	**61**	**$279,079**	**10**	**$41,549**

Source: Prepared by OIG based on the results of its sample.
Note: Totals may not add because of rounding.

[33] 15 FAM 633(a) and (b), "Funding Responsibilities."
[34] 6 FAH-5H-341.12(d), "Building Operations, Maintenance and Repair Versus Building Operating Expenses."

OIG found that OBO funds should have been used to fund the following transactions:

- Purchase of a power meter.
- Labor and material for renovating a veranda.
- Labor and material for installing sliding windows and doors.
- Purchase of light fixtures and plumbing items.

During its audits of OBO funds, OBO/RM did not perform work to determine whether funds from other appropriations were being used for expenses that should have been funded by OBO because this work was not within the auditors' purview. OIG believes that some of the exceptions identified during its testing were simply errors. However, one post indicated that ICASS or DCP funds had been used for projects that post deemed to be needed but for which OBO funds were not available. Although OBO is not responsible for non-OBO-related appropriations, OBO should maintain awareness of all M&I performed at posts.

Embassy Cairo's Allocation of Bulk Purchases—a Best Practice

In many cases, the facilities maintenance staff at post perform the necessary maintenance and repairs. To accomplish these projects, posts may make bulk purchases of items such as electrical and plumbing supplies, component parts for major systems, roofing materials, and construction materials such as lumber. If these items are used in GO/LTL buildings, they should be purchased with routine M&R funds; if the items are used in short-term leased buildings, they should be designated as BOE and purchased with ICASS or DCP funds. However, posts often do not know where the supplies will be used until the maintenance is performed.

OIG found that some of the posts selected were accounting for bulk purchases in different ways. For example, one post charged the cost of bulk building supplies to ICASS regardless of where the materials were ultimately used. Although this practice simplified the purchases, it is contrary to Department policy. Moreover, arbitrarily assigning purchases to BOE results in a distorted depiction of the actual expenses incurred under ICASS as well as routine M&R, thereby hampering future budget forecasting for both types of expenses. Another post initially charged all bulk building supplies to ICASS and then made accounting adjustments to transfer the charges to routine M&R when the items were used in GO/LTL property. Although this method is correct, it is labor- and time-intensive and makes it more difficult to ensure that all items are charged to the correct fund.

Embassy Cairo used a methodology in which it allocated the costs of all bulk purchases to routine M&R and ICASS at the time of purchase. The post effected this methodology by allocating each purchase to routine M&R and ICASS based on the proportion of GO/LTL and short-term leased properties in its building inventory. This method enabled purchases to be split between funds in a relatively equitable manner; yet it was much less labor intensive than charging all bulk purchases to ICASS and then later transferring via adjustments some charges to routine M&R—the method practiced by one of the posts selected as described.

OIG considers the allocation methodology used by Embassy Cairo as a best practice. OBO officials agreed and stated that OBO/RM encouraged posts to use a similar methodology. OIG therefore believes that OBO should adopt this methodology or possibly refine it as applicable for worldwide use. OBO could then provide this methodology in its final form as a standard operating procedure to all posts, thereby promoting consistency and efficiency.

Recommendation 7: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) reassess the reporting requirements for repair and improvement projects to ensure that all requirements are needed. Once this assessment is completed, OBO should communicate the new requirements to posts and stress the importance of providing timely and complete reporting for all projects.

Management Response: OBO stated it "supports the substance" of the recommendation but that it already has "an efficient and reliable system for evaluating post reports" and that OBO officials "work with posts" to ensure that post requirements "are reported in a timely and competent manner."

OIG Reply: During its audit, OIG noted that under OBO's current system, posts did not always submit to OBO all the required reporting documents, such as the monthly status reports and as-built drawings. OBO needs to take additional action so that posts will change their current practices and submit all required reporting documents.

Based on the response, OIG considers this recommendation unresolved. The recommendation can be closed after OIG receives, reviews, and accepts documentation showing that OBO has reassessed the R&I reporting requirements to ensure that they are all needed and has then emphasized the importance of the reporting requirements to posts.

Recommendation 8: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) include a step in its internal audit guide to inquire of the post facility manager whether the post has performed maintenance, repairs, and improvements using funds other than those provided by OBO. If post has performed such work, follow-up actions should be taken as appropriate.

Management Response: OBO agreed to add a step to its internal audit guide to inquire of the post facility manager whether work was performed using funds not provided by OBO. However, OBO stated that it is not within its purview to take follow-up actions, as OIG recommended, except to mention the issue of the use of non-OBO funds in the OBO audit report or refer the issue to the regional bureau or OIG.

OIG Reply: OBO has the option to add to the internal audit guide instructions for notifying the proper officials for appropriate action. OIG considers this recommendation resolved. The recommendation can be closed after OIG receives, reviews, and accepts documentation showing that OBO has added the step in its internal audit guide to ask the post facility manager if a post has used non-OBO funds to pay for a project. The audit guide should also include actions to take if OBO auditors discover that non-OBO funds were used for M&I projects.

Recommendation 9: OIG recommends that the Bureau of Overseas Buildings Operations notify posts of a best practice methodology for allocating the cost of bulk purchases between allotments.

Management Response: OBO disagreed with the recommendation, stating that "such decisions fall within Chief of Mission authority." OBO further stated that posts "have access to rules concerning the use of 7901 funds" and that the allocation of bulk purchases made in advance of actual use "is a difficult process."

OIG Reply: Based on the response, OIG considers this recommendation unresolved. This recommendation can be closed when OIG receives, reviews, and accepts documentation showing that OBO has provided guidance to posts on real property-related issues. Because OBO audits a number of posts annually, OBO is in a uniquely well-suited position to identify best practices and to share that information with other posts to encourage consistency and assist the staff at post.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) include additional information in future editions of its Long Range Overseas Maintenance Plan to better support the Department of State annual budget request. Specifically, OBO should include specific information and examples that clearly illustrate the extent of unmet maintenance and improvements needs at overseas posts and their effect on Department operations.

Recommendation 2: OIG recommends that the Bureau of Resource Management continue to work with the Office of Management and Budget to obtain additional funds for maintenance and improvements of the Department of State's overseas facilities.

Recommendation 3: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) take measures to improve the reliability of the methodology used to score repair and improvement requests. Specifically, these measures should include developing and providing to posts a detailed format for repair and improvement requests that ensures that all information required for scoring is provided. OBO should also consider, during future system modifications, revising the request format in the Buildings Management Integrated System to correspond to the new format.

Recommendation 4: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) develop a methodology for adjusting the deferred maintenance amount obtained from the Buildings Management Integrated System to include deferred routine maintenance and repairs.

Recommendation 5: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) complete its modification of the Buildings Management Integrated System to allow for new repair and improvement requirements to be categorized as "maintenance" or "improvement." Once implemented, all existing BMIS requirements should be properly categorized.

Recommendation 6: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) establish a formal process to validate, on a periodic basis, the repair and improvement requirements in the Buildings Management Integrated System and to remove requirements that are no longer valid from the System.

Recommendation 7: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) reassess the reporting requirements for repair and improvement projects to ensure that all requirements are needed. Once this assessment is completed, OBO should communicate the new requirements to posts and stress the importance of providing timely and complete reporting for all projects.

Recommendation 8: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) include a step in its internal audit guide to inquire of the post facility manager whether the post has performed maintenance, repairs, and improvements using funds other than those provided by OBO. If post has performed such work, follow-up actions should be taken as appropriate.

Recommendation 9: OIG recommends that the Bureau of Overseas Buildings Operations (OBO) notify posts of a best practice methodology for allocating the cost of bulk purchases between allotments.

ABBREVIATIONS

AF	Bureau of African Affairs
AMO	Area Management Officer
BMIS	Buildings Management Integrated System
BOC	Budget Object Code
BOE	Building Operating Expenses
DCP	Diplomatic and Consular Programs
DM	Deferred Maintenance
EAP	Bureau of East Asian and Pacific Affairs
EUR	Bureau of European and Eurasian Affairs
FAH	Foreign Affairs Handbook
FAM	Foreign Affairs Manual
FC	Function Code
GAO	Government Accountability Office
GO/LTL	Government-owned or long-term leased
Hazmat	Hazardous material
ICASS	International Cooperative Administrative Support Services
M&I	Maintenance and Improvement
M&R	Maintenance and Repair
NEA	Bureau of Near Eastern Affairs
OBO	Bureau of Overseas Buildings Operations
OBO/CFSM/FAC	Construction, Facility and Security Management, Office of Facility Management
OBO/OPS	Office of Operations
OBO/RM	Office of Resources and Management

OIG	Office of Inspector General
R&I	Repair and Improvement
RM	Bureau of Resource Management
SCA	Bureau of South and Central Asian Affairs
WHA	Bureau of Western Hemisphere Affairs

APPENDIX A

Scope and Methodology

The purpose of this audit was to assist the Department of State in its efforts to maintain its legacy facilities, to manage its maintenance and improvement (M&I) backlogs (including routine maintenance and repair [M&R] and repair and improvement [R&I]), and to provide accurate and complete information on its deferred maintenance (DM) to Department executives and managers, Congress, and the general public.

To obtain background for the audit, the Office of Inspector General (OIG) researched and reviewed requirements contained in Federal appropriations law, Office of Management and Budget circulars, Government Accountability Office guidance, Federal accounting standards, and the Department's Foreign Affairs Manual and Foreign Affairs Handbook. OIG also obtained Bureau of Overseas Buildings Operations (OBO) guidance related to maintenance, including guidance provided via cables. In addition, OIG reviewed and analyzed internal OIG and external audit and inspection reports to identify information relating to M&I issues that had been reported previously.

OIG conducted fieldwork for this audit from July 2009 to April 2010 at OBO and six overseas sites: Bangkok, Thailand; Cairo, Egypt; New Delhi, India; Ottawa, Canada; Pretoria, South Africa; and Stockholm, Sweden.

OIG performed work to determine whether posts' M&I needs were being met and whether expenditures were allowable. OIG focused its work on certain maintenance, repair, and improvement programs as follows:

- Routine M&R (function code [FC] 7901)
- R&I
    - o Special R&I (FC 7902)
    - o Fire (FC 7344)
    - o Energy Conservation and Sustainability (FC 7552)
    - o Utility Management (FC 7561)

- o Elevator Program (FC 7563)
- o Natural Hazards (FC 7574)
- o Roof Program (FC 7667)
- o Hazmat Containment (FC 7671)
- o Barrier Free Accessibility (FC 7687)

OIG interviewed OBO officials to obtain information on how OBO determines posts' needs, prioritizes the needs, and funds projects. OIG interviewed officials at the six posts selected to determine how the posts identified maintenance needs and requested funds for the needs identified. OIG obtained and analyzed a list of FY 2009 post R&I requirements. OIG did not assess the validity of each requirement on the list. However, during audit work at the six posts, OIG did not observe any M&I requirements that were unreasonable. For the six posts included in the audit, OIG compared posts' R&I requests with information on the projects funded by OBO.

OIG obtained a database of all Department expenses for the first three quarters of FY 2009 and the fourth quarter of FY 2008. OIG developed a sampling methodology to test M&I expenditures related to the FCs included in the audit. (See the section "Detailed Sampling Methodology and Results at Selected Posts" in this appendix for more details.)

OIG also performed work to determine whether the Department's DM report was accurate. OIG interviewed OBO officials to obtain information on how OBO identifies and captures the information for financial statement reporting. OIG obtained and analyzed the DM reports covering FYs 2005 to 2008 and the interim report dated July 6, 2009. For the six posts selected, OIG obtained details on M&I included in the July 6, 2009, interim report and identified maintenance that had been deferred but was not included in the report.

The audit team used computer-generated data from the Department's accounting system and OBO's Buildings Management Integrated System. Other than the work described, OIG did not audit the data from these systems.

During the audit, OIG did not have ready access to meet with OBO staff individually or to review all documentation related to M&I. If OIG had had better access to staff and documentation, additional information may have been identified that would have been included in the audit report.

OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on its audit objectives. OIG believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives. OIG met with officials from OBO in July 2010 to discuss its findings and proposed recommendations. OBO provided formal comments to the draft report, which are incorporated as appropriate. OIG included the response in its entirety as Appendix B to this report. RM officials indicated that a meeting would not be necessary to discuss the findings and proposed recommendations. RM informally responded to the draft report on August 27, 2010, and its response was incorporated into this report.

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited. For example, OIG gained an understanding of and tested the controls over M&I expenses at six overseas posts and considered the completeness of the DM report and whether items included in the report should be included. Significant deficiencies identified during the audit are reported in the "Audits Results" section of the audit report.

Detailed Sampling Methodology and Results at Selected Posts

OIG's sampling objective was to determine whether posts' M&I expenditures were allowable.

Selection of Posts

For its audit, OIG selected overseas posts in Bangkok, Thailand; Cairo, Egypt; New Delhi, India; Ottawa, Canada; Pretoria, South Africa; and Stockholm, Sweden. OIG used a nonstatistical sampling method known as judgment sampling. Because this method uses discretionary criteria to effect sample selection, the audit team was able to use information garnered during its preliminary work to aid in making informed selections.

A prime consideration in selecting the six sites, which are highlighted in Table 1, was the total amount of M&I funds expended. All the posts selected were among the top 14 posts in terms of funds expended for routine M&R (FC 7901) and Special R&I (FC 7902), the primary programs for M&I expenditures. The geographical distribution of the posts was another factor; a post from each of the six overseas bureaus was selected. The criteria for selection of posts also included logistical considerations and the recency of site visits by OIG. For example, Rome and Tokyo, which top the listing of posts with respect to total M&I funds expended, were not selected because OIG audit teams had visited these posts recently.

Table 1. M&I Funds Expended During Fourth Quarter of FY 2008 and First Three Quarters of FY 2009

Post	Region	Total M&I Funds Expended	Total Number of Records
Rome, Italy	EUR	$3,410,213	396
Tokyo, Japan	EAP	$2,857,502	484
Bangkok, Thailand	EAP	$2,017,990	733
Seoul, Korea	EAP	$1,875,055	283
Rangoon, Burma	EAP	$1,574,039	307
Cairo, Egypt	NEA	$1,413,269	846
New Delhi, India	SCA	$1,315,712	1,100
Islamabad, Pakistan	SCA	$1,043,601	695
Paris, France	EUR	$1,034,580	500
Pretoria, South Africa	AF	$978,993	1,623
Copenhagen, Denmark	EUR	$715,913	270
Stockholm, Sweden	EUR	$685,510	298
San Salvador, El Salvador	WHA	$543,265	268
Ottawa, Canada	WHA	$427,488	737

Source: OIG analysis of expense databases.

Identification of M&I Transaction Universes

OIG modified the databases of M&I expenses for the fourth quarter of FY 2008 and the first three quarters of FY 2009 in an attempt to arrive at the overall target universe or population (that is, the universe intended to be covered). Specifically, OIG extracted the overseas transactions pertaining to only the six overseas sites selected, excluding all value-added tax transactions and all negative transactions. OIG then grouped these data by post and FCs, as detailed in Table 2.

Table 2. M&I Transaction Universes by Post and Function Code

Post	Function Code	Number of Transactions	Dollar Value of Transactions
Bangkok, Thailand	7901	638	$1,189,435
	7902	61	$876,858
	All Other R&I	12	$43,915
	Subtotal	**711**	**$2,110,208**
Cairo, Egypt	7901	669	$1,004,725
	7902	92	$557,292
	All Other R&I	19	$108,787
	Subtotal	**780**	**$1,670,805**
New Delhi, India	7901	747	$1,028,355
	7902	84	$535,078
	All Other R&I	30	$208,391
	Subtotal	**861**	**$1,771,864**
Ottawa, Canada	7901	301	$461,184
	7902	17	$136,295
	All Other R&I	18	$281,559
	Subtotal	**336**	**$879,038**
Pretoria, South Africa	7901	720	$924,464
	7902	53	$224,235
	All Other R&I	7	$1,252,232
	Subtotal	**780**	**$2,400,930**
Stockholm, Sweden	7901	181	$329,936
	7902	13	$436,537
	All Other R&I	6	$42,508
	Subtotal	**200**	**$808,982**
	Total	**3,668**	**$9,641,788**

Source: OIG analysis of expense databases.
Note: Totals may not add because of rounding.

Selection of M&I Transaction Samples and Testing Results

OIG selected M&I transactions for testing via stratified random sampling.[1] After initially grouping the transactions by each of the six overseas posts and FCs, OIG further stratified the transactions by categories that included fiscal year. The number of strata for each post ranged from 9 to 12. OIG used these strata to ensure an adequate number of transactions to review for the fourth quarter of FY 2008 and the first three quarters of FY 2009, per OBO's request, as well as to more efficiently perform the sampling process. As a result, OIG sampled 25 percent of the transactions at the six posts, which encompassed 68 percent of total funds expended at these six posts, according to the information contained in the databases provided.

However, OIG learned that the databases did not contain only the transactions of interest for its audit. Specifically, cancelled transactions were often randomly selected during sampling, and OIG could not determine the extent of this condition throughout the universe without intensive review of every transaction in the databases. Consequently, OIG was not able to employ a strict statistical sampling design, namely stratified random sampling, as originally planned. This is the case because a statistical sample requires that each element in the universe have a known, non-zero chance of selection, which is not possible if the size of the universe cannot be determined.

Details of sample selection and the testing results are shown in Table 3. The strata for each post were collapsed into just six groups to provide clarity and uniformity.

[1] A stratified random sample is a statistical sample obtained by separating the population elements into nonoverlapping groups, called "strata," and then selecting a simple random sample from each stratum. A simple random sample is a statistical sample in which each member of the population has an equal chance of being drawn to the sample.

Table 3. Results of M&I Transaction Review by Post, Year, and Function Code

Post	Fiscal Year – Function Code	Number of Records	Amount of Funds	Number of Records Sampled	Amount of Funds Sampled	Unallowable Transactions	Amount Unallowable
Bangkok, Thailand	2008 – 7901	223	$314,845	44	$180,839	0	$0
	2009 – 7901	415	$874,591	66	$561,253	0	$0
	2008 – 7902	8	$65,822	7	$62,870	0	$0
	2009 – 7902	53	$811,036	48	$796,022	0	$0
	2008 – Others	9	$30,504	9	$30,504	0	$0
	2009 – Others	3	$13,411	3	$13,411	0	$0
	Subtotal (%)	**711**	**$2,110,208**	**177 (25%)**	**$1,644,898 (78%)**	**0**	**$0**
Cairo, Egypt	2008 – 7901	216	$403,751	47	$207,949	3	$2,736
	2009 – 7901	453	$600,974	49	$178,130	0	$0
	2008 – 7902	14	$147,736	10	$138,313	0	$0
	2009 – 7902	78	$409,556	40	$321,708	0	$0
	2008 – Others	4	$28,496	4	$28,496	0	$0
	2009 – Others	15	$80,291	15	$80,291	0	$0
	Subtotal (%)	**780**	**$1,670,805**	**165 (21%)**	**$954,887 (57%)**	**3**	**$2,736**
New Delhi, India	2008 – 7901	212	$262,984	38	$138,633	0	$0
	2009 – 7901	535	$765,372	52	$315,078	0	$0
	2008 – 7902	22	$53,959	7	$47,049	0	$0
	2009 – 7902	62	$481,119	52	$478,576	0	$0
	2008 – Others	3	$108,895	3	$108,895	0	$0
	2009 – Others	27	$99,496	27	$99,496	0	$0
	Subtotal (%)	**861**	**$1,771,824**	**179 (21%)**	**$1,187,727 (67%)**	**0**	**$0**

Table continued on the next page

Table continued

Post	Fiscal Year – Function Code	Number of Records	Amount of Funds	Number of Records Sampled	Amount of Funds Sampled	Unallowable Transactions	Amount Unallowable
Ottawa, Canada	2008 – 7901	105	$139,645	42	$69,425	0	$0
	2009 – 7901	196	$321,539	51	$129,633	2	$534
	2008 – 7902	8	$74,537	8	$74,537	0	$0
	2009 – 7902	9	$61,758	9	$61,758	0	$0
	2008 – Others	0	$0	0	$0	0	$0
	2009 – Others	18	$281,559	18	$281,559	0	$0
	Subtotal (%)	**336**	**$879,038**	**128 (38%)**	**$616,911 (70%)**	**2**	**$534**
Pretoria, South Africa	2008 – 7901	261	$517,872	55	$181,333	3	$13,007
	2009 – 7901	459	$406,592	60	$132,759	2	$312
	2008 – 7902	36	$196,775	31	$171,809	0	$0
	2009 – 7902	17	$27,460	14	$23,207	0	$0
	2008 – Others	0	$0	0	$0	0	$0
	2009 – Others	7	$1,252,232	6	$1,032,958	0	$0
	Subtotal (%)	**780**	**$2,400,930**	**166 (21%)**	**$1,542,066 (64%)**	**5**	**$13,319**
Stockholm, Sweden	2008 – 7901	53	$99,600	30	$65,859	5	$209
	2009 – 7901	128	$230,337	46	$120,594	7	$2,234
	2008 – 7902	2	$16,471	2	$16,471	0	$0
	2009 – 7902	11	$420,066	9	$405,249	0	$0
	2008 – Others	0	$0	0	$0	0	$0
	2009 – Others	6	$42,508	6	$42,508	0	$0
	Subtotal (%)	**200**	**$808,982**	**93 (47%)**	**$650,681 (80%)**	**12**	**$2,443**
	Total (%)	**3,668**	**$9,641,788**	**908 (25%)**	**$6,597,171 (68%)**	**22**	**$19,031**

Source: Prepared by OIG based on the results of its random sample.
Note: Totals may not add because of rounding.

As indicated in Table 4, FC 7901, routine M&R, was the only code with unallowable transactions. This code had 22 unallowable transactions out of 580, or 3.8 percent of the 7901 sample of transactions, for a total of $19,031 of unallowable expenses. Overall, since no other FCs in our sample had unallowable transactions, OIG found 22 unallowable transactions out of the total sample of 908 for all FCs, or 2.4 percent.

Table 4. Results of Testing M&I Transactions by Function Code

Function Code	Number Sampled	Amount of Funds Sampled	Number of Unallowable Transactions	Percentage of Unallowable Transactions	Amount of Unallowable Transactions
7901	580	$2,281,485	22	3.8%	$19,031
7902	237	$2,597,569	0	0.0%	$0
All Other R&I	91	$1,718,118	0	0.0%	$0
Totals	**908**	**$6,597,171**	**22**	**2.4%**	**$19,031**

Source: Prepared by OIG based on the results of its random sample.
Note: Totals may not add because of rounding.

Identification of BOE Universes

To test whether other funds were being used to perform M&I that should have been funded by OBO, OIG tested Building Operating Expenses (BOE). OIG first determined the number of transactions or universes per post and fiscal year for each of the six posts selected, as indicated in Table 5. OIG obtained these universes by extracting from the database of Department expenses for the fourth quarter of FY 2008 and the first three quarters of FY 2009 all expenses with the budget object code (BOC) of 2513 (M&R Government-Owned/Long-Term Leased Building) and BOC of 2652 (M&R Supplies and Materials). These codes were selected because they would be the most likely to have misplaced expenses that should have been categorized as FC 7901 or FC 7902 expenses.

Table 5. BOE Universes by Post and Fiscal Year for Object Codes 2513 and 2652

Post	Fiscal Year	Number of Transactions	Dollar Value of Transactions
Bangkok, Thailand	2008	126	$69,125
	2009	186	$86,229
	Subtotal	**312**	**$155,354**
Cairo, Egypt	2008	115	$66,623
	2009	281	$120,908
	Subtotal	**396**	**$187,531**
New Delhi, India	2008	29	$4,171
	2009	46	$6,874
	Subtotal	**75**	**$11,045**
Ottawa, Canada	2008	46	$22,549
	2009	176	$103,771
	Subtotal	**222**	**$126,320**
Pretoria, South Africa	2008	47	$88,411
	2009	137	$87,251
	Subtotal	**184**	**$175,662**
Stockholm, Sweden	2008	16	$10,736
	2009	50	$32,356
	Subtotal	**66**	**$43,092**
Total		**1,255**	**$699,004**

Source: OIG analysis of expense databases.
Note: Totals may not add because of rounding.

Selection of BOE Samples and Testing Results

OIG selected a judgment sample from the universes of BOCs 2513 and 2652, which totaled 1,255 transactions, to determine whether other funds were being used erroneously for M&I. For each of the six posts, OIG selected five expenses each with the highest dollar values from FYs 2008 and 2009. In addition, a sixth selection was made at Stockholm for FY 2009 because this post had the only BOC 2513 transaction out of the total universe of 1,255. OIG reviewed this overall sample of 61 transactions, totaling about $280,000, and found that 10 BOE transactions, totaling about $42,000, should have been funded with OBO funds, as indicated in Table 6.

Table 6. Results of BOE Testing by Post and Fiscal Year for Codes 2513 and 2652

Post	Fiscal Year	Number Transactions Sampled	Dollar Value of Transactions Sampled	Number of Improperly Funded Transactions	Dollar Value of Improperly Funded Transactions
Bangkok, Thailand	2008	5	$28,503	1	$2,256
	2009	5	$34,776	2	27,354
	Subtotal	**10**	**$63,280**	**3**	**$29,609**
Cairo, Egypt	2008	5	$23,609	0	$0
	2009	5	$29,265	0	$0
	Subtotal	**10**	**$52,874**	**0**	**$0**
New Delhi, India	2008	5	$3,087	0	$0
	2009	5	$3,909	0	$0
	Subtotal	**10**	**$6,996**	**0**	**$0**
Ottawa, Canada	2008	5	$12,941	0	$0
	2009	5	$32,076	0	$0
	Subtotal	**10**	**$45,018**	**0**	**$0**
Pretoria, South Africa	2008	5	$52,515	1	$7,105
	2009	5	$37,084	1	$2,834
	Subtotal	**10**	**$89,599**	**2**	**$9,939**
Stockholm, Sweden	2008	5	$8,224	2	$148
	2009	6	$13,088	3	$1,852
	Subtotal	**11**	**$21,312**	**5**	**$2,000**
Total		**61**	**$279,079**	**10**	**$41,549**

Source: Prepared by OIG based on the results of its sample.
Note: Totals may not add because of rounding.

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APPENDIX B

Bureau of Overseas Buildings Operations Response

United States Department of State

Washington, D.C. 20520

SEP 2 2010

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MEMORANDUM

TO: OIG/AUD – Ms. Evelyn R. Klemstine

FROM: OBO/RM – Jürg Hochuli

SUBJECT: Response to the OIG Final Draft Report: Audit of Maintenance and Improvements of Overseas Real Property

Per your request, OBO has reviewed the subject draft report. Thank you for the opportunity to provide comments for consideration.

Attachment:

OBO Response, September 2010.

Comments from OBO on the Audit of Maintenance and Improvement of Overseas Real Property

The Final Draft Report was received from the OIG on August 19 with comments requested by September 3. Previously, the OIG provided a Discussion Draft, for which OBO provided comments. The Final Draft Report establishes OBO as the action authority for recommendations 1 and 3-9. OBO makes the following comments regarding the OIG's recommendations:

OIG Recommendation 1 (page 17). OIG recommends that the Bureau of Overseas Buildings Operations (OBO) include additional information in future editions of its Long Range Overseas Maintenance Plan to better support the Department of State annual budget request. Specifically, OBO should include specific information and examples that clearly illustrate the extent of unmet maintenance and improvements needs at overseas posts and their effect on Department operations.

> **OBO Response:** OBO appreciates the OIG's incorporation of our prior comments regarding this recommendation. OBO agrees with Recommendation 1.

OIG Recommendation 2 (page 18). OIG recommends that the Bureau of Resource Management work with the Office of Management and Budget to obtain additional funds for maintenance and improvements of the Department of State's overseas facilities.

> **OBO Response:** Although not an action authority for this recommendation, OBO notes this is an open-ended recommendation that will probably remain open for an extended period of time. The implementation of this recommendation would create a scenario where the OIG and OBO send memoranda back and forth for years. Instead of a formal recommendation, consider including this suggestion as an informal recommendation, or include text as follows: "We encourage the continued dialog between OBO, OMB, and the Congress to garner adequate funding for maintenance."

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OIG Recommendation 3 (page 23). OIG recommends that the Bureau of Overseas Buildings Operations (OBO) take measures to improve the reliability of the methodology used to score repair and improvement requests. Specifically, these measures should include developing and providing to posts a detailed format for repair and improvement requests that ensures that all information required for scoring is provided. OBO should also consider, during future system modifications, revising the request format in the Buildings Management Integrated System to correspond to the new format.

> **OBO Response:** OBO supports the substance of Recommendation 3, but believes a sufficient system exists for scoring requests. A committee in OBO's Office of Area Management (AM) reviews requirements in the funding range just prior to making the prioritized list, as well as spot-checks throughout the year. However, if additional information arrives from post that affects scoring, the Area Management Officer (AMO) may adjust the score at any time.

OIG Recommendation 4 (page 26). OIG recommends that the Bureau of Overseas Buildings Operations develop a methodology for adjusting the deferred maintenance amount obtained from the Buildings Management Integrated System to include deferred routine maintenance and repairs.

> **OBO Response:** OBO disagrees with Recommendation 4. OBO understands that Federal accounting standards refer to deferred maintenance (DM) as preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets that are put off or delayed for a future period. However, the Department has never included routine maintenance in the amounts reported as DM in financial statements.
>
> The Department has decided not to include routine maintenance in its reporting of DM for the following two reasons:

- Operational considerations. Including routine maintenance as DM will result in those costs being double-counted in the subsequent year. For example, if an oil filter is to be changed annually, that requirement is captured in the plan for each year and the costs are included in the budget base. If the filter is not changed one year, it will be changed as planned the next. Carrying it as DM would then reflect two filter changes for that year – the one deferred and the one regularly scheduled. Implementing additional systems to prevent double-counting would require extensive resources for nominal benefits.

- Routine maintenance accounted for in OBO budget requests. Routine maintenance is best accounted for in the budget request process, not in financial statements. When developing budget requests, OBO uses the entire catalog of maintenance and repair (M&R) requirements as the basis for requested amounts. This includes any amounts required for routine maintenance, as routine maintenance is a subset of the total universe of M&R requirements.

Comments on report text relevant to Recommendation 4:
Much of the report's text in support of Recommendation 4 (pages 23-26), is loosely based on the assumption that the Department would benefit from reporting deferred routine maintenance on financial statements. The OIG indicates the exclusion of routine maintenance data "may affect OBO's ability to justify its budget request for M&R funding." (See page 23, "Finding C.") The report, however, offers no persuasive evidence for this assertion. Accordingly, as part of its disagreement with Recommendation 4, OBO suggests the OIG delete or change text related to the recommendation.

OIG Recommendation 5 (page 26). OIG recommends that the Bureau of Overseas Buildings Operations complete its modification of the Buildings Management Integrated System to allow for new repair and improvement requirements to be categorized as "maintenance" or "improvement." Once implemented, all existing BMIS requirements should be properly categorized.

OBO Response: OBO supports the substance of Recommendation 5; however, OBO has already modified the Buildings Management Integrated System to require users to choose between "repair" and "improvement" before allowing other requirement data to be entered into the system.

OIG Recommendation 6 (page 27). OIG recommends that the Bureau of Overseas Buildings Operations establish a formal process to validate, on a periodic basis, the repair and improvement requirements in the Buildings Management Integrated System and to remove requirements that are no longer valid from the System.

OBO Response: OBO supports the substance of Recommendation 6; however, a formal process is already in place. The FAM requires an Annual Condition Survey, resulting in an Annual Inspection Summary sent to OBO. OMB requires all agencies to produce an Annual Facility Condition Index. In addition, we have post cables, OIG inspection teams, AMOs, and technical staff who go to post and identify new requirements. In addition, AMOs routinely review existing requirements, in consultation with posts, and remove requirements that are no longer valid. To provide even greater oversight, OBO believes it would be beneficial for OIG post inspection teams to review requirements posts are implementing in the field.

OIG Recommendation 7 (page 34). OIG recommends that the Bureau of Overseas Buildings Operations (OBO) reassess the reporting requirements for repair and improvements projects to ensure that all requirements are needed. Once this assessment is completed, OBO should communicate the new requirements to posts and stress the importance of providing timely and complete reporting for all projects.

OBO Response: OBO supports the substance of Recommendation 7; however, an efficient and reliable system for evaluating post reports is already in place. AMOs work with posts and technical experts within OBO to ensure post requirements are reported in a timely and competent manner. AMOs and OBO audit teams make regular visits to posts to double-check the integrity of the reporting process in the field.

OIG Recommendation 8 (Part 1 for purposes of OBO's response) (page 34). OIG recommends that the Bureau of Overseas Buildings Operations (OBO) include a step in its internal audit guide to inquire of the post facility manager whether the post has performed maintenance, repairs, and improvements using funds other than those provided by OBO.
(Part 2 for purposes of OBO's response): If post has performed such work, follow-up actions should be taken as appropriate.

OBO Response: OBO agrees with Part 1, but lacks the authority to unilaterally implement Part 2. OBO agrees to include the referenced step in its internal audit guide. However, even if post admits to using funds other than those provided by OBO, we could only mention it in an OBO audit report, or refer it to the regional bureau or the OIG for corrective action.

OIG Recommendation 9 (page 34). OIG recommends that the Bureau of Overseas Buildings Operations develop and provide to posts a standard methodology for allocating the cost of bulk purchases between allotments.

OBO Response: OBO disagrees with Recommendation 9, as such decisions fall within Chief of Mission authority. Posts have access to rules concerning the use of 7901 funds. The allocation of bulk purchases made in advance of actual use is a difficult process. Embassy Cairo is cited as a best practice because post allocates the costs of bulk purchases based on their percentage of GO/LTL and STL space; however, the embassy's methodology may not work well for other posts. OBO does not have the authority to dictate how posts should perform this function.

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