



January 2017

# FEDERAL REAL PROPERTY

## GSA Should Inform Tenant Agencies When Leasing High- Security Space from Foreign Owners

# GAO Highlights

Highlights of [GAO-17-195](#), a report to congressional requesters

## Why GAO Did This Study

GAO has previously reported that federal facilities are vulnerable to threats from foreign sources that may target their information systems and affect the physical security of the occupants. GAO was asked to examine GSA's lease of high-security space from foreign owners.

This report addresses (1) what is known about foreign ownership of high-security space leased by GSA, (2) potential risks posed by such foreign ownership, and (3) policies and procedures regarding GSA's leasing of space from foreign-owned entities. GAO reviewed GSA's leasing documents; identified and checked ownership information regarding high-security leased space to the extent possible using data, as of March 2016, from a firm that specializes in analyzing the commercial real estate market; interviewed GSA and federal foreign investment officials, tenant agencies that were occupying space owned by foreign entities, and five real estate companies that lease space to GSA or provide related services; and visited three foreign-owned high-security leased facilities selected to represent a variety of owners and tenants.

## What GAO Recommends

GAO recommends that GSA determine whether the beneficial owner of high-security leased space is a foreign entity and, if so, share that information with the tenant agencies for any needed security mitigation. GSA agreed with the recommendation.

View [GAO-17-195](#). For more information, contact David Wise at (202) 512-2834 or [wised@gao.gov](mailto:wised@gao.gov).

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## FEDERAL REAL PROPERTY

# GSA Should Inform Tenant Agencies When Leasing High-Security Space from Foreign Owners

## What GAO Found

GAO reviewed available information on the ownership of General Services Administration (GSA) leased space that requires higher levels of security protection based on factors such as mission criticality and facility size (high-security space) as of March 2016 and found that GSA is leasing high-security space from foreign owners in 20 buildings. The 26 tenant agencies occupy about 3.3 million square feet at an annual cost of about \$97 million and use the space, in some cases, for classified operations and to store law enforcement evidence and sensitive data. The foreign-owned leased space included six Federal Bureau of Investigation field offices and three Drug Enforcement Administration field offices. GAO determined that the high-security space is owned by companies based in countries such as Canada, China, Israel, Japan, and South Korea. GAO was unable to identify ownership information for about one-third of GSA's 1,406 high-security leases as of March 2016 because ownership information was not readily available for all buildings.

### Foreign-Owned Buildings Containing High-Security Space Leased by GSA



Source: GAO. | GAO-17-195

Federal officials who assess foreign investments in the United States and some tenant agencies occupying high-security leased space told GAO that leasing space in foreign-owned buildings could present security risks such as espionage and unauthorized cyber and physical access. However, 9 of the 14 tenant agencies GAO contacted were unaware that the space they occupy is in a building that we identified as foreign owned. The other five agencies that knew about occupying foreign-owned space had taken actions to mitigate the risk or were not concerned. Another risk is possibly entering into leases with hidden beneficial owners—the persons who ultimately own and control a building. According to the Treasury Department's Financial Crimes Enforcement Network, the risks of contracting with hidden beneficial owners include money laundering. GSA is not required to collect beneficial ownership information and therefore does not know the beneficial owners of the buildings it leases.

Federal agencies are required to assess and address the risks to their high-security facilities but GSA does not inform tenants when leasing space from foreign owners. When leasing space, GSA is required, among other things, to determine whether the prospective lessor is a responsible party, but foreign ownership is not one of the factors that it must consider. As a result, tenants may be unaware that they are occupying foreign-owned space and not know whether they need to address any security risks associated with such foreign ownership.

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## Abbreviations

CAGE	Commercial and Government Entity code
CFIUS	Committee on Foreign Investment in the United States
DEA	Drug Enforcement Administration
DHS	Department of Homeland Security
DOD	Department of Defense
DOE	Department of Energy
DOJ	Department of Justice
DUNS	Data Universal Numbering System
FAPIIS	Federal Awardee Performance and Integrity Information System
FAR	Federal Acquisition Regulation
FATF	Financial Action Task Force
FinCEN	Financial Crimes Enforcement Network
FINSA	Foreign Investment and National Security Act of 2007
FPS	Federal Protective Service
GSA	General Services Administration
ISC	Interagency Security Committee
IRS	Internal Revenue Service
LLC	limited liability corporation
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NGAGE	North Atlantic Treaty Organization CAGE code
OMERS	Ontario Municipal Employees Retirement System
OPM	Office of Personnel Management
REIT	real estate investment trust
SAM	System for Award Management
SEC	Securities and Exchange Commission

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January 3, 2017

The Honorable Tammy Duckworth  
United States Senate

The Honorable Jason Chaffetz  
House of Representatives

The Honorable Elijah E. Cummings  
House of Representatives

The federal government routinely leases space from private sector landlords, including high-security space<sup>1</sup> occupied by law enforcement agencies and members of the intelligence community. We have previously reported that government facilities—some of which contain high-security space used for classified operations, data centers, and to store items such as weapons and sensitive evidence—are vulnerable to threats from foreign sources that may affect their information systems and the physical security of the occupants.<sup>2</sup> The General Services Administration (GSA) leases space for many agencies in the federal government, including some high-security space. However, the extent to which GSA is leasing high-security space from foreign owners—entities based in foreign countries—is unclear. Furthermore, foreign ownership of GSA-leased space raises questions about potential security risks involving access to the facilities and the means by which these buildings were financed.

You asked us to examine GSA’s leasing of high-security space from foreign owners. We reviewed: (1) what is known about foreign ownership of high-security space leased by GSA; (2) what potential risks, if any, are posed by foreign ownership of high-security GSA-leased space associated with physical and cybersecurity and sources of funding; and (3) what policies and procedures guide GSA’s leasing of space from foreign-owned entities and how GSA follows them.

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<sup>1</sup>For this review, we considered high-security space to be the Interagency Security Committee’s facility security levels III, IV, and V. Facility security levels are assigned to all federal, nonmilitary facilities based on criteria such as mission criticality, symbolism, and facility size and population. Levels range from one (lowest) to five (highest).

<sup>2</sup>GAO, *Federal Facility Cybersecurity: DHS and GSA Should Address Cyber Risk to Building and Access Control Systems*, [GAO-15-6](#) (Washington, D.C.: Dec. 12, 2014).

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To determine what is known about foreign ownership of high-security space leased by GSA, we conducted our own assessment of the ownership of high-security GSA-leased space and compared our findings with a list of leased high-security space that GSA provided. We defined foreign-owned buildings as those that are owned by an immediate or parent company based in a foreign country. Another way of defining foreign ownership is the nationality of a building's beneficial owner—the person who ultimately owns and controls a company. While definitions of beneficial ownership vary, this is the definition we developed for the purposes of this report. The foreign owners that we identified may not necessarily be the beneficial owners. Identifying the beneficial owners would have required access to information that was not available.

To conduct our assessment, we obtained a list from GSA of its 1,406 high-security leased spaces (facility security levels III, IV, and V) within the United States as of March 2016. GSA provided us with information about the steps that it took to ensure the completeness and reliability of its leasing data. Based on our review of this information, we determined the data were sufficiently reliable for our purposes. We checked, or attempted to check, the ownership of all of the buildings in which those 1,406 leases of space are located in a database compiled by Real Capital Analytics as of March 2016.<sup>3</sup> We discussed with Real Capital Analytics' representatives the steps that the company took to ensure the completeness and reliability of its real property ownership data and determined that the data were sufficiently reliable for our purposes.

We took additional steps to verify the ownership information with the owners' representatives or other sources such as leasing documentation and company websites. Because the database was limited to information about commercial office buildings based on transactions within the last 15 years, we were unable to identify ownership information regarding 500 of GSA's 1,406 leases of high-security space as of March 2016.<sup>4</sup> For this review, we defined a "foreign owned" company as one that the real property database indicated is based in a foreign country and is an

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<sup>3</sup>Real Capital Analytics, Inc. is a data and analytics firm that is focused exclusively on the investment market for commercial real estate. We selected this firm because it met our criteria for access to real property ownership data.

<sup>4</sup>Besides office buildings, GSA leases other types of facilities such as warehouses and laboratories.

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immediate or highest level owner of the building.<sup>5</sup> We also checked the ownership of buildings in which GSA leases space that the agency indicated were owned by foreign entities. GSA officials said that they compiled that list based on information contained in the System for Award Management (SAM)—the federal acquisition and award system that GSA administers. GSA officials provided information on the types of data that contractors provide in SAM related to foreign ownership and discussed the extent to which that information was validated.

To determine potential security risks associated with leasing high-security space from foreign companies, we reviewed GSA leases of high-security space with foreign companies based in non-North Atlantic Treaty Organization (NATO) countries as of March 2016 focusing on owner access. We focused on foreign-owned companies that are not based in NATO member countries as a way of identifying leasing arrangements that could be of higher risk.<sup>6</sup>

We also reviewed case files of the Committee on Foreign Investment in the United States (CFIUS) involving foreign acquisitions of U.S. companies that are leasing space to GSA. In addition, we obtained information from the Department of Homeland Security (DHS) about cyber attacks on government facilities and reports on money laundering prepared by the Treasury's Department's Financial Crimes Enforcement Network (FinCEN) and the Financial Action Task Force (FATF).<sup>7</sup> We also

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<sup>5</sup>According to the Federal Acquisition Regulation, "immediate owner" means an "entity, other than the offeror, that has direct control of the offeror" and a "highest level owner" means "the entity that owns or controls an immediate owner of the offeror, or that owns or controls one or more entities that control an immediate owner of the offer." These entities may not necessarily be the beneficial owners. FAR § 52.204–17(a)(2) (2014).

<sup>6</sup>Formed in 1949 with the signing of the Washington Treaty, NATO is a security alliance of 28 countries from North America and Europe. According to the State Department, NATO's fundamental goal is to safeguard the Allies' freedom and security by political and military means. NATO remains the principal security instrument of the transatlantic community and expression of its common democratic values. It is the practical means through which the security of North America and Europe are permanently tied together. Under the 1949 NATO agreement, parties agreed that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all, and that each of them will assist the attacked by taking forthwith, individually and in concert with the other parties, such action as it deems necessary, including the use of armed force.

<sup>7</sup>FATF is an inter-governmental body established to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

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reviewed FinCEN's rules for financial institutions regarding requirements for beneficial owners and customer due diligence. Further, we interviewed officials from the Department of the Treasury, which chairs CFIUS; the Department of Defense (DOD), Department of Energy (DOE), DHS, and the Department of Justice (DOJ), which are CFIUS members; and representatives from five real estate companies. We submitted questions or interviewed officials from the tenant agencies that we identified as occupying space leased from companies based in countries that are not NATO members. The real estate companies were selected because they lease space to GSA or provide services regarding the leasing of space to GSA. We visited three foreign-owned high-security facilities that GSA is leasing to interview tenant agencies about security-related issues. We selected these facilities because they represented a variety of tenants and owners in two different geographic areas. Our findings from those visits are not generalizable to all GSA-leased high-security space.

In addition, we interviewed officials from the Securities and Exchange Commission (SEC) about public disclosure requirements for real estate investment trusts. We also interviewed organizations such as the Real Estate Roundtable,<sup>8</sup> the American Bankers Association, Global Financial Integrity,<sup>9</sup> Global Witness,<sup>10</sup> and the Financial Accountability and Corporate Transparency (FACT) Coalition<sup>11</sup> about customer identification due diligence requirements and challenges to identifying the beneficial owners.

To assess the policies and procedures that GSA uses when leasing space from foreign-owned entities and how GSA follows them, we reviewed the agency's leasing policies and procedures and interviewed GSA officials about the process that the agency follows when leasing from foreign companies. We compared the agency's policies and

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<sup>8</sup>The Real Estate Roundtable is an association of real estate firms and associations.

<sup>9</sup>Global Financial Integrity is a Washington, D.C.-based non-profit research and advocacy organization focused on curtailing illicit financial flows.

<sup>10</sup>Global Witness is an international advocacy organization that seeks to expose and break the links between natural resources and corruption, conflict, and other human rights abuses.

<sup>11</sup>The FACT Coalition is a non-partisan alliance of more than 100 state, national, and international organizations focused on promoting greater transparency in corporate ownership and operations and combating money laundering and other criminal activity by the financial system.



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practices to federal internal control standards related to risk assessment and communication.

We conducted this performance audit from August 2015 to November 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

This is a public version of [GAO-17-21SU](#) that we issued in November 2016. This report excludes information that is deemed to be For Official Use Only (FOUO) by the audited agencies and that must be protected from public disclosure. Therefore, this report omits FOUO information and data related to foreign ownership of certain GSA-leased high-security space. Although the information provided in this report is more limited in scope, it addresses the same objectives as the sensitive report and the methodology used for both reports is the same.

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## Background

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### Foreign Investment in U.S. Commercial Office Buildings

The United States has long been open and receptive toward foreign investment. In 2011, the President issued Executive Order 13,577,<sup>12</sup> creating the SelectUSA Initiative, in part, to encourage foreign investment in the United States. In addition, legislation introduced in the 114th Congress is aimed, in part, at attracting more foreign investment in real estate through changes in the tax code.<sup>13</sup> According to some real estate companies we interviewed, investors are attracted to government-leased buildings because they provide a safe and reliable rate of return. Representatives from one real estate company added that the advantages of leasing to the federal government include the ability of investors to receive higher rates of return, compared with Treasury bonds, that the real estate also appreciates in value, and that the projects

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<sup>12</sup>Exec. Order No. 13,577, *Establishment of the SelectUSA Initiative*, 76 Fed. Reg. 35,715 (June 15, 2011).

<sup>13</sup>Real Estate Investment and Jobs Act of 2015, H.R. 2128 and S. 915, 114<sup>th</sup> Cong. (2015).

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help promote underdeveloped areas. A representative from another firm said that foreign investors are also interested in the government's long-term lease of space.<sup>14</sup>

Foreign investment in U.S. commercial office buildings has been increasing in recent years. According to Real Capital Analytics, annual foreign investment in significant<sup>15</sup> U.S. commercial office buildings increased from \$11.7 billion in 2011 to \$26.5 billion in 2015.<sup>16</sup> As shown in figure 1, of those amounts, investors from Canada, Germany, China, Norway, and South Korea invested the most during those 5 years. For example, data from Real Capital Analytics indicated that in 2015, foreign investors purchased 336 commercial office buildings in the United States, 106 of which were purchased by Chinese investors for a total of \$2.8 billion.<sup>17</sup> Chinese investment in U.S. commercial office buildings was part of overall increased Chinese investment in the United States. According to the National Committee on U.S.-China Relations and the Rhodium Group,<sup>18</sup> overall Chinese investment in the United States could reach \$30 billion in 2016, up from \$15 billion in 2015 and \$4.9 billion in 2011.

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<sup>14</sup>The Administrator of GSA is authorized by law to enter into lease agreements, not to exceed 20 years, on behalf of federal agencies. 40 U.S.C. § 585.

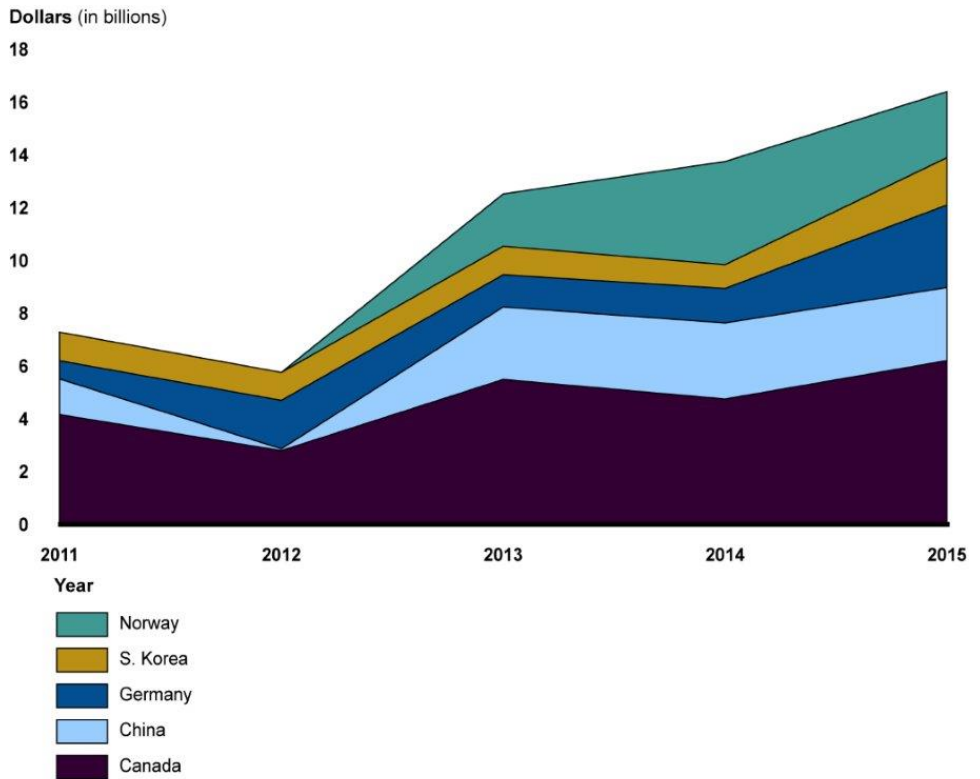
<sup>15</sup>Real Capital Analytics considered buildings that were part of transactions exceeding \$2.5 million to be significant.

<sup>16</sup>According to Real Capital Analytics, overall investment in U.S. commercial office buildings increased from \$67.3 billion in 2011 to \$149.9 billion in 2015.

<sup>17</sup>According to Real Capital Analytics, from January to August 2016, investors in the following countries invested the most in U.S. commercial office buildings: China (\$5 billion), Germany (\$2.9 billion), Canada (\$2.6 billion), Qatar (\$2.0 billion), and Saudi Arabia (\$1.8 billion).

<sup>18</sup>The National Committee on United States-China Relations is a nonprofit organization that promotes understanding and cooperation between the United States and China. Rhodium Group is a U.S.-based economic research firm.

**Figure 1: Annual Foreign Investment in U.S. Commercial Office Buildings from 2011 through 2015**



Source: Real Capital Analytics. | GAO-17-195

Note: In addition to the countries shown in the table, according to Real Capital Analytics, investors in the following countries also invested in U.S. commercial office buildings from 2011 through 2015: Switzerland (\$4.3 billion); United Kingdom (\$3.6 billion); Israel (\$3.6 billion); and other unspecified countries (\$20.2 billion).

## Agency Roles and Leasing Trends

GSA is responsible for leasing space for many agencies of the federal government and has about 8,300 leases of space. GSA develops, coordinates, issues, and administers real property policies, guidelines, and standards for property under its custody and control and for agencies operating under, or subject to, the authorities of the GSA Administrator. As of March 2016, GSA had about 1,400 leases of high-security space in about 850 buildings. Since 2008, GSA has leased more space than is federally-owned and under its custody and control. For example, in fiscal year 2015, GSA leased 190.8 million square feet of space, compared with having custody and control of 183.2 million square feet of federally-owned

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space. Overreliance on costly leasing is one of the major reasons that federal real property management remains on GAO's high-risk list.<sup>19</sup> Our work over the years has shown that leasing space often costs the government more than owning buildings, especially for long-term space needs.<sup>20</sup>

GSA and DHS's Federal Protective Service (FPS) have joint responsibility for protecting federal facilities held or leased by GSA. FPS has primary responsibility for the security and protection of buildings and their occupants, whereas GSA has primary responsibility for security fixtures, maintenance, and building access.<sup>21</sup> Some agencies also use their own police forces to protect their facilities. FPS and the client agencies set the facility security levels in consultation with GSA. As discussed later, these levels determine the frequency of required risk assessments of facilities, among other things.

CFIUS, an interagency committee chaired by the Treasury Department, reviews transactions that could result in foreign control of a U.S. business, which could include a company that leases space to the federal government, in order to determine the effect of such transactions on the national security of the United States. Under the Foreign Investment and National Security Act of 2007 (FINSA), CFIUS shall review "any merger, acquisition, or takeover...by or with any foreign person which could result in foreign control of any person engaged in interstate commerce in the United States" to determine the effects of such transaction on the national security of the United States.<sup>22</sup> To review a foreign acquisition of a U.S. business, CFIUS must determine that the acquisition is a "covered

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<sup>19</sup>GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington, D.C.: Feb. 11, 2015).

<sup>20</sup>GAO, *Federal Real Property: Overreliance on Leasing Contributed to High-Risk Designation*, [GAO-11-879T](#) (Washington, D.C.: Aug. 4, 2011).

<sup>21</sup>For information on GSA and FPS collaboration efforts, see GAO, *Homeland Security: FPS and GSA Should Strengthen Collaboration to Enhance Facility Security*, [GAO-16-135](#) (Washington, D.C.: Dec. 16, 2015).

<sup>22</sup>Foreign Investment and National Security Act of 2007, Pub. L. No. 110-49, 121 Stat. 246 (2007).

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transaction.”<sup>23</sup> CFIUS may recommend that the President suspend or prohibit any covered transaction that presents unresolved national security concerns. Under FINSA, the President may block a foreign acquisition that raises national security concerns, but this has rarely occurred.<sup>24</sup> CFIUS’s reviews are confidential and protected from public disclosure.

FinCEN is one of the Treasury Department’s primary bureaus to oversee and implement policies to prevent and detect money laundering. FinCEN uses anti-money laundering laws such as the Bank Secrecy Act to require reporting and recordkeeping by banks and other financial institutions. The regulation and enforcement of the Bank Secrecy Act involves several different federal agencies, including FinCEN, the federal depository institution regulators—the Federal Deposit Insurance Corporation, Federal Reserve, National Credit Union Administration, and the Office of the Comptroller of the Currency—the Internal Revenue Service (IRS), the Commodity Futures Trading Commission, DOJ, and SEC.

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## Federal Facility Security Risks Related to Foreign Ownership

Because owning property can provide access to the buildings and building systems, foreign ownership of government-leased space can pose security risks particularly regarding cybersecurity. In 2014, we reported that federal facilities are vulnerable to cyber attacks to their building and access control systems (e.g., heating, ventilation, and air-conditioning; surveillance cameras; and electronic card readers), which could provide unauthorized access to the facilities, endanger the occupants, and provide access to information systems.<sup>25</sup> We found that

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<sup>23</sup>CFIUS’s regulations define a “covered transaction” as “any transaction that is proposed or pending after Aug. 23, 1988, by or with any foreign person, which could result in control of a U.S. business by a foreign person.” 31 C.F.R. § 800.207. To determine whether a “foreign person” “controls” a U.S. business, CFIUS looks to its regulations, which define “control” as the “power, direct or indirect, whether or not exercised, through the ownership of a majority or a dominant minority of the total outstanding voting interest in an entity, board representation, proxy voting, a special share, contractual arrangements, formal or informal arrangements to act in concert, or other means, to determine, direct, or decide important matters affecting an entity....” 31 C.F.R. § 800.204(a).

<sup>24</sup>In 2012, President Obama ordered a Chinese company to divest certain assets related to wind farms because of national security concerns. In 1990, President Bush ordered a Chinese company to divest a U.S. manufacturing firm because of concerns that the company might take action that threatened to impair the national security of the United States.

<sup>25</sup>[GAO-15-6](#).

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insider threats—which can include disgruntled employees, contractors, or other persons abusing their positions of trust—represent a significant threat to building and access control systems, given insiders’ access to and knowledge of these systems. These insider threats can also include the owners and the people they employ to operate the buildings. In addition, we reported that nations use cyber tools as part of their information-gathering and espionage activities. In our 2014 report, we recommended that the Secretary of Homeland Security direct the Interagency Security Committee (ISC), housed within DHS, to incorporate the cyber threat to building and access control systems into ISC’s list of undesirable events in its Design-Basis Threat report, which informs agencies about the threats they face. DHS implemented our recommendation in 2016. DHS has identified or received reports of cyber attacks on government facilities in recent years such as incidents at a state law enforcement crime lab and a wastewater plant. Furthermore, in March 2016, the U.S. Attorney for the Southern District of New York announced the indictment of seven Iranians in a cyber attack on a city-owned dam in Rye, NY.

In this regard, multiple sources cite China as a primary source of cyber intrusions. In 2011, the Office of the National Counterintelligence Executive reported that “Chinese actors are the world’s most active and persistent perpetrators of economic espionage.”<sup>26</sup> Attorneys specializing in Chinese business practices and a real estate company representative told us that companies in China are likely to have ties to the Chinese government. In 2014, the Justice Department charged Chinese military hackers with cyber espionage against U.S. corporations and a labor organization for the purpose of gaining a commercial advantage—the first time that criminal charges have been filed against known state actors for hacking. Moreover, according to the Director of National Intelligence, China is the leading suspect in the cyber intrusion into the Office of Personnel Management’s (OPM) systems affecting background investigation files for 21.5 million individuals which OPM reported in July 2015.

To acquire a building for federal agencies, GSA may work with the private sector to design and construct a building that the government then

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<sup>26</sup>Office of the National Counterintelligence Executive, *Foreign Spies Stealing US Economic Secrets in Cyberspace: Report to Congress on Foreign Economic Collection and Industrial Espionage, 2009-2011* (October 2011). The Office of the National Counterintelligence Executive is part of the Office of the Director of National Intelligence.

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leases—which would give the construction firm access to the building’s structure. The security risk of having access to a building structure was evident in 1987 when the Senate Select Committee on Intelligence reported that “[i]n 1985, the Committee received its first testimony indicating that there was strong evidence that the Soviets had succeeded in incorporating a complex and comprehensive electronic surveillance system into the structure of the new U.S. Embassy under construction in Moscow....”<sup>27</sup> We reported in 1987 that the U.S. government contracted with a Soviet firm to construct the embassy building.<sup>28</sup>

Foreign-owned property located near federal facilities may also pose security risks. In 2014, we reported about DOD’s concerns over encroachment by foreign entities conducting business near its test and training ranges. We reported that foreign encroachment may provide an opportunity for surveillance of DOD test and training activities.<sup>29</sup>

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## Money Laundering in Commercial Real Estate Using Anonymous Companies and Hidden Beneficial Owners

Another potential risk to the government regarding foreign-owned leased space is the source of funds used to finance the projects. According to FinCEN, money laundering involves disguising financial assets so they can be used without detection of the illegal activity that produced them. Through money laundering, criminals transform the monetary proceeds derived from criminal activity into funds with an apparently legal source. According to the Federal Financial Institutions Examination Council’s<sup>30</sup> *Bank Secrecy Act/Anti-Money Laundering Examination Manual*, a compilation of guidance developed by the federal banking agencies and FinCEN, once illegal funds are in the financial system, additional transactions are used to create the appearance of legality. These transactions further shield the criminal from a recorded connection to the funds by providing a plausible explanation for the source of the funds.

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<sup>27</sup>Select Committee on Intelligence, United States Senate, *Report on Security at the United States Missions in Moscow and Other Areas of High Risk*, Report 100-154 (Washington, D.C.: Sept. 9, 1987).

<sup>28</sup>GAO, *U.S. Embassy, Moscow: Why Construction Took Longer and Cost More Than Anticipated*, GAO/NSIAD-88-23 (Washington, D.C.: Oct. 23, 1987).

<sup>29</sup>GAO, *Defense Infrastructure: Risk Assessment Needed to Identify If Foreign Encroachment Threatens Test and Training Ranges*, [GAO-15-149](#) (Washington, D.C.: Dec. 16, 2014).

<sup>30</sup>The Federal Financial Institutions Examination Council is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions.

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Examples include the purchase and resale of real estate, investment securities, foreign trusts, or other assets.

A 2015 State Department report on money laundering indicated that of 211 countries and jurisdictions, 67 are listed as being “of primary concern” regarding money laundering, including the United States, and 69 are listed as being “of concern.”<sup>31</sup> The report indicated that economies in countries such as the United States that attract funds globally are vulnerable to money laundering activity because the volume and complexity of the available financial options may make criminals believe they may more easily hide their funds.

In May 2016, the President announced steps to strengthen financial transparency and combat money laundering, corruption, and tax evasion, including a FinCEN rulemaking intended to strengthen customer due diligence requirements, in part, by requiring covered financial institutions to identify and verify the identity of beneficial owners.<sup>32</sup> In the final rule, FinCEN discussed the importance of identifying beneficial owners in the context of assisting financial investigations by law enforcement.<sup>33</sup> Specifically, FinCEN discussed a 2013 case in which New York prosecutors indicted 34 alleged members of Russian-American organized crime groups with having moved millions of dollars in unlawful gambling

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<sup>31</sup>U.S. Department of State, *International Narcotics Control Strategy Report Volume II: Money Laundering and Financial Crimes* (March 2015). According to the report, “jurisdictions of primary concern” are those that are identified as “major money laundering countries.” A major money laundering country is defined under the Foreign Assistance Act as one “whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking.”

<sup>32</sup>Under the final rule, a beneficial owner is generally either an individual who directly or indirectly owns 25 percent or more of the equity interests of a legal entity customer, or a single individual with significant responsibility to control, manage, or direct a legal entity customer. Financial institutions are required to collect and verify the identities of all natural persons (if any) who own 25 percent or more of the entity, and of one control person. The final rule states that a “control person” is one with “significant management responsibility.” Customer Due Diligence Requirements for Financial Institutions, 81 Fed. Reg. 29,398 (May 11, 2016) (to be codified at 31 C.F.R. pts. 1010, 1020, 1023, 1024, 1026). The term “covered financial institution” refers to: (i) Banks and credit unions; (ii) brokers or dealers in securities; (iii) mutual funds; and (iv) futures commission merchants and introducing brokers in commodities. 81 Fed. Reg. 29,398, 29,399.

<sup>33</sup>81 Fed. Reg. 29,398.



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proceeds through a network of shell companies<sup>34</sup> in Cyprus and the United States.<sup>35</sup>

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## GSA Is Leasing Some High-Security Space from Foreign Companies, but Lack of Information Makes Foreign Ownership Difficult to Identify

In October 2015, GSA provided us with a list of all the space that the agency believed it was leasing from foreign owners. GSA indicated that this list, which included 17 leases, was compiled using information that lessors provided in SAM.<sup>36</sup> Prior to November 1, 2014, GSA was not required to collect certain information from lessors through SAM, such as the parent, subsidiary, or successor entities to the lessor. All except one of these leases was entered into prior to November 1, 2014. We tried to validate the ownership through Real Capital Analytics' real property database which indicated that 6 of the 17 leases were with foreign companies, 4 of which were of high-security space. We were unable to validate foreign ownership regarding the other 11 leases because (1) the database indicated that two of the buildings are not owned by foreign companies, (2) the database did not contain ownership information on many of the buildings with GSA-leased space,<sup>37</sup> and (3) two leases on the list were no longer in effect.

Based on our independent analysis using the real property database, foreign entities owned high-security space that GSA is leasing in 20 buildings through 25 leases as of March 2016. Our analysis indicated that this space was owned by 16 different foreign entities, 7 of which are based in non-NATO countries. However, the real property database did not include information on all of the buildings in which GSA leases high-security space. Therefore, the results of our analysis are likely understated and GSA may be leasing more high-security space than what we identified in the 25 leases. For example, we also found that a Japanese parent company ultimately owns a building in Washington,

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<sup>34</sup>Shell companies have no operations and can be used for illicit purposes such as laundering money.

<sup>35</sup>U.S. Department of Justice, "Manhattan U.S. Attorney Charges 34 Members and Associates of Two Russian-American Organized Crime Enterprises with Operating International Sportsbooks That Laundered More Than \$100 Million," Press Release (Apr. 16, 2013).

<sup>36</sup>Although we focused on high-security leased space, GSA's list reflected space with various facility security levels.

<sup>37</sup>We did not find ownership information regarding about one-third of GSA's 1,400 leases of high-security space in this database.

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D.C., that was not in the database but which contains high-security space leased by DOJ that is not listed in table 1.

According to Real Capital Analytics, its database shows information on the chain of title, which is the succession of title ownership to real property from the present owner back to the original owner, when available. We contacted, or attempted to contact, each company to confirm that the company owned the property and was based in the country identified in the database. In some cases, we were unable to reach the companies to confirm ownership, but reviewed other information that confirmed ownership such as leasing documentation or found that the buildings were part of the companies' portfolios posted on their websites.

In four cases, when we contacted the parties that were identified in the database as the owners or their representatives, we were told that the information was outdated—that they sold the buildings and no longer owned them—or that the database information was incorrect—that the buildings were not owned by foreign affiliates. We excluded those cases from our review.

See table 1 for information on 20 of the 25 leases of high-security space that we identified as foreign-owned.<sup>38</sup> When we found that the lessors were incorporated in the United States but their parent companies were based in foreign countries, we included them as foreign owned. In one case, because of the complexity of the transaction involving the purchase of a building containing high-security GSA-leased space, we were unable to determine in which country the immediate owner of the building was based. That property is noted in the table.

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<sup>38</sup>Four tenant agencies determined that the information about the foreign-owned buildings that they occupy is for official use only and is not included in this report. One agency has two leases.

**Table 1: High-Security Space That GSA Leased from Foreign-Owned Companies, as of March 2016**

Location	Tenant agencies	Entity	Country in which the owner is based	Joint ownership	Square footage leased/annual rent <sup>a</sup>
10825 Financial Centre Parkway Little Rock, AR	Department of Justice- Drug Enforcement Administration	Gemini Investments <sup>b</sup>	China	x	16,979 square feet \$264,023
21711 N. 7th Street Phoenix, AZ	Department of Justice- FBI	Artis REIT	Canada		210,202 square feet \$7,776,637
1455 Market Street San Francisco, CA	Department of Defense-Army Corps of Engineers	Canada Pension Plan Investment Board <sup>c</sup>	Canada	x	71,728 square feet \$1,096,721
75/95 Hawthorne Street San Francisco, CA	State Department <sup>d</sup>	The Manufacturers Life Insurance Company <sup>e</sup>	Canada		28,067 square feet \$1,158,987
8000 E. 36th Street Denver, CO	Department of Justice- FBI	90 North Real Estate Partners <sup>f</sup>	United Kingdom		175,155 square feet \$6,256,775
616 H Street, N.W. Washington, D.C.	Department of Justice- FBI	Ontario Municipal Employees Retirement System (OMERS) <sup>g</sup>	Canada	x	111,487 square feet \$4,019,196
5200 Belfort Road, Jacksonville, FL	Department of Homeland Security-U.S. Secret Service	Gemini Investments <sup>b</sup>	China	x	17,512 square feet \$386,208
401 Edwards Street Shreveport, LA	Department of Justice-Drug Enforcement Administration <sup>h</sup>	Gemini Investments <sup>b</sup>	China	x	8,296 square feet \$174,451
	Social Security Administration <sup>h</sup>				27,997 square feet \$477,795
1122 Town & Country Commons Chesterfield, MO	Treasury Department-Internal Revenue Service	Eastern Holdings and Tibeir Fiduciary Management <sup>i</sup>	Israel		48,498 square feet \$737,264
2222 Market Street St. Louis, MO	Department of Justice- FBI	Eastern Holdings and Tibeir Fiduciary Management <sup>i</sup>	Israel		89,564 square feet \$2,130,684
400 S.18th Street St. Louis, MO	Department of Veterans Affairs-Veterans Benefits Administration	Eastern Holdings and Tibeir Fiduciary Management <sup>i</sup>	Israel		131,675 square feet \$1,772,872 <sup>j</sup>
55 West 125th Street New York, NY	Homeland Security-U.S. Secret Service GSA-space for former President	Deutsche Bank AG	Germany	x <sup>k</sup>	8,715 square feet \$405,265

Location	Tenant agencies	Entity	Country in which the owner is based	Joint ownership	Square footage leased/annual rent <sup>a</sup>
2970 Market Street Philadelphia, PA	Treasury Department-Internal Revenue Service	Korea Investment Holdings <sup>l</sup>	South Korea		862,692 square feet
	Treasury Department- Inspector General for Tax Administration				\$23,853,434
	Department of Homeland Security-National Protection and Programs Directorate				
Garapan Beach Road, Saipan, Northern Mariana Islands	Department of Justice- U.S. Marshals Service, Drug Enforcement Administration, and U.S. Attorneys	Fuji Project Co., Ltd	Japan		29,308 square feet \$336,149
5425 W. Amelia Earhart Drive Salt Lake City, UT	Department of Justice-FBI	Gatehouse Bank	Kuwait or United Kingdom <sup>m</sup>		163,040 square feet \$5,334,075
1110 3rd Avenue Seattle, WA	Department of Justice-FBI	Sakto Corporation <sup>n</sup>	Canada		130,876 square feet \$3,515,233
701 5th Avenue Seattle, WA	Social Security Administration <sup>o</sup>	Gaw Capital	China		30,920 square feet \$1,162,107
	GAO				104,841 square feet \$3,807,226
					23,394 square feet \$997,452

Source: GAO analysis | GAO-17-195

Note: This table was compiled using information from Real Capital Analytics, GSA, property owners or their representatives, and other GAO research.

<sup>a</sup>GSA 2016 data.

<sup>b</sup>According to a company representative, the investment capital for these facilities came from domestic sources.

<sup>c</sup>According to a Canada Pension Plan Investment Board representative, the Canada Pension Plan Investment Board owns 45 percent of this building as part of a joint venture.

<sup>d</sup>During our review, the State Department occupied this space but moved out in February 2016. Other federal tenants, including the Environmental Protection Agency (EPA), will move into this space under a different lease in October 2016 when GSA plans to terminate the other lease of space for EPA in this building.

<sup>e</sup>According to a company representative, this building is owned by the John Hancock Life Insurance Company, which is owned by The Manufacturers Life Insurance Company of Canada, also known as Manulife.

<sup>f</sup>According to a company representative, 90 North Real Estate Partners controls and owns ASP Denver, LLC, which owns the building.

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<sup>g</sup>According to OMERS, it owns 49 percent of this building as part of a joint venture and is a pension fund.

<sup>h</sup>These agencies occupy the same building, but GSA is leasing space for them separately.

<sup>i</sup>According to an attorney representing the owner of this building, Tibeir Fiduciary Management is a trust. The attorney said that the trustee is based in the United States and the trust beneficiaries live in Israel.

<sup>j</sup>According to GSA, this lease currently does not have an annual rent payment. This was a condemnation lease and GSA paid a total settlement of \$5 million. VA will be moving out of this space to a federal building by December 2016.

<sup>k</sup>According to a company representative, Deutsche Bank AG owns 90 percent of this building as part of a joint venture.

<sup>l</sup>The Real Capital Analytics database indicated that this building is owned by Korea Investment Holdings and that the building was purchased by Coretrust Capital Partners on behalf of Korea Investment Holdings. The website for Coretrust Capital Partners indicates that the firm, as U.S. asset manager for Korea Investment Management (KIM), advised KIM in the acquisition of this building and that KIM is a wholly-owned subsidiary of Korea Investment Holdings, which is based in Korea.

<sup>m</sup>According to the Real Capital Analytics database, this company is based in Kuwait. However, information provided by agents for the company indicated that it may be based in England. Both investment firms based in Kuwait and England are owned by the highest level owner, Gatehouse Financial Group Ltd., a New Jersey-based company.

<sup>n</sup>This information is based on a 2008 letter from GSA to the Sacto Corporation. See the last section of this report for more information about the ownership of this building.

<sup>o</sup>Two leases.

We found that 26 different agencies and departmental components occupy high-security leased space in buildings that we identified as foreign owned, 22 of which occupy space that we identified as owned by companies based in non-NATO countries (China, Israel, South Korea, and Japan). For example, we identified eight leases of high-security space from Chinese companies entered into prior to November 1, 2014. These leases are for space occupied by the Drug Enforcement Administration (DEA), Secret Service, Social Security Administration, and GAO. GSA indicated that SAM did not contain information on lessors that listed physical or mailing addresses in China.

The leases of space that we identified as being in foreign-owned buildings are occupied by agencies such as

- six FBI field offices,
- three DEA field offices, and
- two Social Security Administration offices.<sup>39</sup>

Because the tenants include intelligence and law enforcement agencies, this high-security space is used, among other things, for classified

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<sup>39</sup>One field office and one hearing office.

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operations and storage of weapons, law enforcement evidence, and sensitive data.

Examples of high-security leased space are shown in figure 2.

**Figure 2: Foreign-Owned Buildings Containing High-Security Space Leased by the General Services Administration**



Source: GAO. | GAO-17-195

Of the 25 leases, we found that the amount of space leased ranged from about 5,600 square feet to more than 800,000 square feet and that annual rent ranged from about \$174,000 to about \$24 million in 2016. We also found that 10 are high-value leases—those with a net annual rent above a threshold for which GSA is required to submit a prospectus, or proposal, to the House and Senate authorizing committees for their

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review and approval.<sup>40</sup> The threshold for submitting a prospectus was \$2.85 million for fiscal year 2014, the most recent threshold established. The total amount of space leased was about 3.3 million square feet at an annual cost of about \$97 million.

Nine of the 14 tenant agencies that we contacted indicated they were not aware that the space they were occupying was in buildings that we identified as being owned by foreign companies.<sup>41</sup> For example, the Executive Office for United States Attorneys indicated that it has no records showing that GSA notified the office that a building it was occupying was foreign owned. The other five agencies that knew about occupying foreign-owned space had taken actions to mitigate the risk or were not concerned.

Besides GSA, other agencies use their own statutory authority to lease space from foreign companies. For example, the State Department is leasing space for the U.S. ambassador to the United Nations in the Waldorf-Astoria Hotel in New York City, which was acquired by a Chinese company in 2014. We also found that the U.S. Mint, using its own authority, is leasing its headquarters building in Washington, D.C., from a Japanese parent company that is the ultimate owner.

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<sup>40</sup>40 U.S.C. §§ 3307(a), (h). GSA's authorizing committees are the Senate Committee on Environment and Public Works and the House Committee on Transportation and Infrastructure. For more information on GSA's high-value leases, see GAO, *Federal Real Property: Greater Transparency and Strategic Focus Needed for High-Value GSA Leases*, [GAO-13-744](#) (Washington, D.C.: Sept. 19, 2013).

<sup>41</sup>We interviewed tenant agencies occupying space owned by companies based in non-NATO countries only.

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## Potential Risks of Leasing Foreign-Owned Space Include Espionage, Cyber Intrusions, and Money Laundering Concerns

### Selected Federal Officials and Real Estate Company Representatives Cited Physical and Cyber Security Risks Posed by Foreign Ownership

Several federal officials who assess foreign investments in the United States and selected real estate company representatives we spoke to told us that leasing space in foreign-owned buildings could present security risks such as espionage, unauthorized cyber and physical access to the facilities, and sabotage. For example, a DHS foreign investment official said that potential threat actors could coerce owners into collecting intelligence about the personnel and activities of the facilities when maintaining the property. The official said this situation could occur by direct observation or surreptitious placement of devices in sensitive spaces or on the telecommunications infrastructure of the facility. In addition, a DHS cybersecurity official said that advanced persistent cyber threats (adversaries possessing sophisticated levels of expertise and significant resources to pursue their objectives) tend to come from foreign sources. In addition, a representative from a real estate company said that foreign ownership could pose a cyber risk in buildings with data systems and sensitive information.

Based on our analysis, interviews, and other information, we identified low, moderate, and high security risk levels associated with leasing space from foreign owners. At the lower level of risk, foreign entities that invested through real estate investment trusts (REIT)<sup>42</sup> and other passive investments may be removed from accessing or managing the facilities. At the next level, foreign entities that have directly purchased the buildings may have access and operational control in the event that a

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<sup>42</sup>According to the Securities and Exchange Commission (SEC), a REIT generally is a company that owns income-producing real estate or real estate-related assets. REITs provide a way for individual investors to earn a share of the income produced through commercial real estate ownership without actually having to go out and buy commercial real estate. Many REITs are registered with the SEC and are publicly traded on a stock exchange. These are known as publicly traded REITs. In addition, there are REITs that are registered with the SEC, but are not publicly traded.



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lease or mitigation measure (discussed later in this report) does not exist to restrict such access. At the highest level, foreign entities that constructed the buildings could provide access to their structure and design, increasing the risk of nefarious action as demonstrated by the construction of the U.S. Embassy in Moscow and design-construction leased space, described earlier.<sup>43</sup>

Conversely, representatives from two real estate companies whom we interviewed said that it is not a security risk for the government to lease space in foreign-owned buildings or that the risks could be addressed. For example, one of the representatives said that access at high-security facilities is strictly controlled, including access by the owners, and that passive investors in properties do not have access to the buildings. A representative from a third real estate company said that it is not a security risk for the government to lease space in foreign-owned buildings because that company's properties are managed by U.S. companies with no involvement from the passive investors. He said that passive investors have on rare occasions toured the properties, but they were subject to the agencies' security clearance procedures. A representative from a fourth company said that foreign ownership is irrelevant when capital funds come from many investors that do not control the buildings. A representative from a fifth company said that people such as property managers, asset managers and building engineers, have more direct access to building systems and data than the owners and that they are subject to background checks and must be escorted in high-security buildings. He added that there could be cheaper ways to conduct nefarious action than by buying a building. Regarding the construction of new buildings, one company representative noted that construction contractors are vetted. A representative from a real estate association said that the federal government leasing space in foreign-owned buildings is not "in and of itself" a security risk. He said that foreign owners of U.S. real estate—including in some cases foreign governments—often will have meaningful, but noncontrolling, interests in that property which may give the foreign owner a sizable financial interest in the property's leasing income and appreciation, but no involvement in the actual management or operation of the property. However, he added that the security risk may increase if the federal government is leasing from ownership entities

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<sup>43</sup>Of the 11 buildings that we identified that are owned by companies based in non-NATO countries, we did not identify any that were constructed by the owners because the real property database that we used for this review was based on transactions involving existing buildings.

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controlled by companies from countries that are not allies of the United States.

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### Some Tenants Occupying Foreign-Owned Space Raised Security Concerns

Some agencies that are occupying buildings that we identified as owned by companies based in non-NATO countries raised the following concerns:<sup>44</sup>

- The Secret Service indicated that its counterintelligence branch determined that foreign ownership of a building it occupies could raise counterintelligence and security concerns. According to the Secret Service, the protection of its information, technology, personnel and space could be in jeopardy if the space were compromised through any unannounced inspections, emergency repairs to the building or any component within, the use of foreign nationals to provide any type of service, and any unescorted access throughout the space by the facility owner or representatives. Furthermore, the Secret Service indicated that the integrity and protection against potential compromise of the agency's protection and intelligence information, criminal investigations and personal identifiable information would require implementing additional countermeasures to mitigate any threats and protect the agency's operations as a result of occupying space in a building that we identified as being foreign owned.
- DEA indicated that foreign ownership raises security risks that should be mitigated. DEA's primary concern is the possible unauthorized access to its secure areas and information. According to the agency, two important mitigation methods are ensuring that independent locksmiths are utilized to secure the office and that the security vendor is not affiliated with the owner. DEA also indicated that it would be useful for GSA to inform the agency about changes in ownership because this information would help its security assessment.
- DOJ, which has three agencies occupying a building that we identified as being foreign owned, indicated that it would conduct additional reviews before occupying space leased from a landlord under the ownership, control, or influence of a country that is not an ally of the

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<sup>44</sup>We submitted questions to 14 tenant agencies that we identified as occupying space leased from companies based in countries that are not NATO members and received written responses from 10 of them and interviewed officials at the other 4 agencies.

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United States or with which the United States has no diplomatic relations.

- DHS's National Protection and Programs Directorate indicated that it has contacted GSA to identify any steps that it takes to assess the potential risk posed by a foreign-owned property and that in the future, DHS will use this information to assess space that GSA proposes that it occupy.

By contrast, the Administrative Office of the United States Courts, another tenant in foreign-owned space, indicated that knowing that the building is foreign owned would have been immaterial in occupying the space because, to its knowledge, GSA does not consider whether a company is foreign when reviewing potential offers and awarding a lease. Similarly, four other tenant agencies occupying space in buildings that we identified as being owned by companies based in non-NATO countries—FBI, IRS, Social Security Administration, and the Treasury Department Inspector General for Tax Administration—indicated that foreign ownership of those buildings did not raise security concerns. Tenant agencies such as the Administrative Office of the United States Courts, the Social Security Administration, and Department of Veterans Affairs also emphasized that GSA selects the leased space, not the tenants.

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## Owner Access Can Be Restricted through Lease Provisions and Mitigation Agreements

GSA leases of foreign-owned space generally restrict the owners from physically accessing the space except to maintain or inspect the facilities. According to GSA, every standard lease contains the same general restrictions on owner access without regard to the owner's nationality. Specifically, the restriction states that "the Lessor may at reasonable times enter the premises with the approval of the authorized Government representative in charge." Of the 11 buildings owned by companies based in non-NATO countries, the tenant agencies or the owners told us that the owners or their representatives had entered 8 of them, for example, for inspection purposes.<sup>45</sup>

If CFIUS has national security concerns about a covered transaction and does not believe those concerns can reasonably be addressed through the U.S. Government lease or other existing authorities, it may propose that the acquiring company enter into a mitigation agreement or impose conditions.

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<sup>45</sup>Regarding the 3 remaining buildings, the tenants said that the owners had not entered them or did not know whether the owners or their representatives had entered them.

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## GSA Does Not Check the Beneficial Owners of the Buildings It Leases

Another potential risk to the government regarding foreign-owned leased space is the possibility of entering into leases with hidden beneficial owners of buildings that are using the investment to launder money. A 2006 FinCEN report found that hidden beneficial owners launder money through commonly reported entities, such as property management, real estate investment, realty, and real estate development companies.<sup>46</sup> Furthermore, we have reported that money laundering and terrorist financing are crimes that can destabilize national economies and threaten global security.<sup>47</sup> GSA checks whether potential lessors have sufficient funds to meet their lease obligations, but is not required to collect beneficial ownership information and therefore does not know the beneficial owners of the buildings it leases. However, federal internal control standards indicate that management should identify, analyze, and respond to risks related to achieving the defined objectives.<sup>48</sup>

When leasing space, GSA checks the Excluded Parties List System, which is a list of companies and individuals that are excluded from receiving federal contracts,<sup>49</sup> and Treasury's Specially Designated Nationals and Blocked Persons List, which is a list of individuals and companies whose assets are blocked and U.S. persons are generally prohibited from dealing with them. In leasing from foreign companies, GSA does not consider whether the lessors are "politically exposed persons," which the Financial Action Task Force (FATF) defines as individuals who are or have been entrusted with a prominent function. According to FATF, many politically exposed persons hold positions that "can be abused for the purpose of laundering illicit funds or other

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<sup>46</sup>Financial Crimes Enforcement Network, *Money Laundering in the Commercial Real Estate Industry: An Assessment Based Upon Suspicious Activity Report Filing Analysis* (December 2006). The report's findings were based on a random sampling of suspicious activity reports describing commercial real estate transactions.

<sup>47</sup>GAO, *Anti-Money Laundering: Better Communication Could Enhance the Support FinCEN Provides to Law Enforcement*, [GAO-10-622T](#) (Washington, D.C.: Apr. 28, 2010).

<sup>48</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

<sup>49</sup>A 2009 GAO report found several deficiencies with the Excluded Parties List System, but GSA implemented our five recommendations. GAO, *Excluded Parties List System: Suspended and Debarred Businesses and Individuals Improperly Receive Federal Funds*, [GAO-09-174](#) (Washington, D.C.: Feb. 25, 2009).

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predicate offenses such as corruption or bribery.”<sup>50</sup> In 2010, the Senate examined how politically powerful foreign officials, their relatives, and close associates—politically exposed persons—have used the services of U.S. professionals and financial institutions to bring large amounts of suspect funds into the United States to advance their interests. Furthermore, in July 2016, DOJ announced the filing of civil forfeiture complaints seeking the forfeiture and recovery of more than \$1 billion in assets, including real estate in New York and Los Angeles, associated with an international conspiracy to launder funds misappropriated from a Malaysian sovereign wealth fund. We found that commercially available screening software can be used to identify heightened risk individuals and organizations and mitigate risks associated with illicit funds, money laundering, fraud, organized crime, sanctions program violations, terrorist financing, among other risks.

GSA’s lease of space for the FBI field office in Seattle may be an example of GSA leasing high-security space from a beneficial owner who is a politically exposed person. Our review found that the FBI field office in Seattle is ultimately owned by the Taib family of Malaysia through a series of domestic and foreign companies. Advocacy groups such as Global Witness allege that the Taib family has profited from corrupt practices in Malaysia.<sup>51</sup> The lease was executed by Wallyson’s, a Washington state corporation, which is owned by Sakti International Corporation, a California corporation. According to a Dun & Bradstreet report in GSA’s leasing file, Sakti International Corporation is 100 percent financed by the Taib family of Malaysia. Furthermore, according to a 2008 document in the GSA leasing file, Sakti International, located in Canada, is the parent company of Sakti International Corporation. The lease was signed by Rahman Taib—the president, secretary, and chief financial officer of Wallyson’s—who is also the son of the former chief minister of Sarawak, Malaysia.

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<sup>50</sup>According to the Federal Financial Institutions Examination Council’s *Bank Secrecy Act / Anti-Money Laundering Examination Manual*, banks should have risk-based procedures for identifying politically exposed persons accounts and assessing the degree of risks involved, which will vary. For example, the bank may increase reference inquiries, obtain additional background information on the politically exposed person from branches or correspondents operating in the client’s home country, and make reasonable efforts to consult publicly available information sources.

<sup>51</sup>Global Witness, *Inside Malaysia’s Shadow State: Backroom Deals Driving the Destruction of Sarawak* (March 2013).

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We found no evidence that the family has been indicted or convicted of wrongdoing that would disqualify them from leasing to the government. However, Global Witness representatives told us that the government runs financial and non-financial risks as well as a reputational risk if it leases from individuals who have been accused of wrongdoing, regardless of whether they have been indicted or convicted.

GSA and FBI officials said that they are not concerned about the ownership of the FBI field office in Seattle. According to GSA, “as long as the lessor performs according to the contract, additional concerns about ownership would not be raised.” FBI officials told us that the FBI does not have any concerns about either the physical or cyber security of the building or the sources of funding used to finance the building. The officials said that the owners may not enter the building. Our review of the lease for this building indicated that the government will have paid a total of \$56 million in rent over the 20-year term ending in 2019.

GSA officials said that leasing specialists must review the lists of excluded parties at least twice—after receiving offers and before awards. We asked GSA to provide evidence that it checked these lists with regard to the lease of space for the FBI field office in Seattle. Federal internal control standards indicate that documentation is a necessary part of an effective internal control system. However, GSA could not produce evidence that it had conducted these checks at those times. We did not find Taib family members on the Excluded Parties List or the Specially Designated Nationals and Blocked Persons List.

GSA indicated that most lessors establish a separate entity—usually a limited liability corporation (LLC)—for each building. Private LLCs are not subject to the same public disclosure requirements as publicly traded companies. Representatives from a real estate LLC that leases many buildings to GSA told us that its investment capital comes from foreign sources that use financial institutions in the United States. Because the real estate LLC is privately-owned, we found no publicly available information about its investment sources.

In May 2016, FinCEN issued final rules that would, in part, require covered financial institutions to identify and verify the beneficial owners of

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legal entity customers.<sup>52</sup> According to the rulemaking, covered financial institutions are not presently required to know the identity of beneficial owners, “enabling criminal, kleptocrats, and others looking to hide ill-gotten proceeds to access the financial system anonymously.” Covered financial institutions must comply with the new rules by May 11, 2018.<sup>53</sup>

Also in May 2016, Treasury announced that it sent beneficial ownership legislation to Congress for consideration that, among other things, would require companies formed within the United States to file beneficial ownership information with the Treasury Department, and face penalties for failure to comply. The legislation would also require the Secretary of the Treasury to define “beneficial owner” for the purposes of implementing the proposed legislation. Separately, members of the House and Senate have independently introduced various pieces of beneficial ownership legislation.<sup>54</sup> According to the sponsors, law enforcement efforts to investigate corporations and LLCs suspected of committing crimes such as money laundering have been impeded by the lack of available beneficial ownership information.

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<sup>52</sup>Under the final rule, a legal entity customer is generally a corporation, limited liability company, or other entity created by the filing of a public document with a Secretary of State or similar office, a general partnership, and any similar entity formed under the laws of a foreign jurisdiction that opens an account. 81 Fed. Reg. 29,398. See [https://www.fincen.gov/statutes\\_regs/guidance/](https://www.fincen.gov/statutes_regs/guidance/) for FinCEN guidance on this rule.

<sup>53</sup>FinCEN also has taken recent action to address money laundering concerns in residential real estate. In January 2016, FinCEN temporarily required certain U.S. title insurance companies to identify the natural persons behind companies used to pay “all cash” for high-end residential real estate in Manhattan and Miami. In July 2016, FinCEN expanded the targeting order to six major metropolitan areas.

<sup>54</sup>The Incorporation and Law Enforcement Assistance Act, H.R. 4450, 114<sup>th</sup> Cong. (2015), and S. 2489, 114<sup>th</sup> Cong. (2015), introduced by Rep. Carolyn Maloney and Sen. Sheldon Whitehouse. Bipartisan legislation requiring the disclosure of beneficial owners at the time of incorporation has been introduced in every session of Congress since 2008.

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## Treasury Exempts the Commercial Real Estate Industry from Certain Due Diligence Procedures

In 2002, FinCEN temporarily exempted certain financial institutions, including persons involved in real estate closings and settlements, from the requirement to establish an anti-money laundering program that includes verifying customer identities.<sup>55</sup> The exemption is still in place<sup>56</sup> and, in 2015, advocacy organizations such as Global Financial Integrity, Global Witness, and the FACT Coalition urged FinCEN to remove the exemption. The organizations said that investors can mask the true ownership of property in the United States when the real estate purchase is made through anonymous companies, allowing millions of dollars to be invested in real estate transactions without detection. Global Financial Integrity, Global Witness, and the FACT Coalition representatives also told us that it is easy in the United States to create untraceable shell companies—which have no operations and can be used for illicit purposes such as laundering money. However, GSA officials said that they rely on due diligence processes conducted by real estate companies and banks to check the legitimacy of the funds that are used to finance the buildings that GSA leases.

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<sup>55</sup>The USA PATRIOT Act amended the Bank Secrecy Act—the key statute that governs the U.S. government’s anti-money laundering regulatory structure—requiring the development of minimum standards for verifying the identity of covered financial institution customers. As a result of the USA PATRIOT Act, FinCEN’s regulations require covered financial institutions to establish a written customer identification program that includes procedures for obtaining minimum identification information from customers that open an account with the financial institution, such as a person’s date of birth, a government identification number, and physical address. The regulations stipulated that the program must include risk-based procedures for verifying the identification of a customer that enable the financial institution to form a reasonable belief that it knows the true identity of the customer. Other relevant requirements for financial institutions, added through amendments to the Bank Secrecy Act, direct covered financial institutions to inform the federal government of any suspicious transaction related to a possible violation of law or regulation by filing suspicious activity reports. Bank Secrecy Act, titles I and II of Pub. L. No. 91-508, 84 Stat. 1114 (1970), as amended, codified at 12 U.S.C. §§ 1829b, 1951-1959, and 31 U.S.C. §§ 5311-5322. The Bank Secrecy Act has been amended various times since its inception. The most recent comprehensive enhancements to the BSA occurred in October 2001 under title III of the USA PATRIOT Act. Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. No. 107-56, 115 Stat. 272 (2001).

<sup>56</sup>FinCEN’s stated purpose of the temporary exemption was to “enable Treasury and FinCEN to study the affected industries and to consider the extent to which anti-money laundering program requirements should be applied to them, taking into account the specific characteristics of the various entities defined as ‘financial institutions’ by the [Bank Secrecy Act].” In a 2003 Advanced Notice of Proposed Rulemaking that was not finalized, FinCEN sought comments as to whether “persons involved in real estate closings and settlements” should continue to be exempted from anti-money laundering requirements.



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Representatives from a real estate company that uses foreign investments to finance buildings that are leased to GSA told us that they rely on banks and an independent global firm that provides fiduciary services to ensure that the sources of funds comply with applicable regulations. However, banking and real estate associations expressed different views on which parties are primarily responsible for checking the sources of funds used for commercial real estate. A representative from the American Bankers Association said that while it might seem reasonable for real estate companies to rely on banks (and for GSA to rely on real estate companies) to check the legitimacy of the funds that are used to finance real estate projects, banks do not always have sufficient information about the transaction. He said that when these transactions are put together, the lender may not have direct contact with the purchaser or the seller and if the purchaser or a seller is a corporation, the bank knows the corporation but not necessarily the details about the corporation, its structure or its management. The representative added that because the real estate company is dealing directly with the corporation as its client and has access to the individuals who can provide that information, the real estate company has a direct relationship and is in the best position to obtain any detailed information about the purchaser or seller.

However, a representative from the Real Estate Roundtable, an association of real estate firms and associations, said that the many participants in the commercial real estate transactional process such as mortgage bankers, brokers, and title agents, are unlikely to have any significant and important information bearing on the possibility of money laundering activities given their function in commercial real estate transactions. He said that these participants are generally small businesses unequipped to deal with significant training on regulations, policing, audit and record keeping responsibilities. The Real Estate Roundtable representative also said that anonymity and liquidity—two characteristics important to money launderers—typically do not exist in real estate transactions because real estate transactions generally involve illiquid and visible assets. In addition, a representative from the National Association of Real Estate Investment Trusts told us there is a low risk of illegal foreign money being used to finance publicly traded REITs. He noted that because a publicly traded REIT is financed and operated in effectively the same manner as any other publicly traded company<sup>57</sup> it is very unlikely it would be used as a mechanism to launder

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<sup>57</sup>A publicly traded REIT must have at least 100 or more beneficial owners.

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money. Furthermore, the Real Estate Roundtable representative said that because real estate is not a highly liquid asset and real estate transactions generally create a detailed “paper trail” of debt and equity investors, commercial buildings are not ideally suited to be money laundering vehicles. However, in its 2006 report on money laundering in the commercial real estate market, FinCEN stated that although real estate historically has been a relatively illiquid asset, money launderers may use real estate both as an investment and vehicle to store laundered funds.

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## GSA’s Leasing Policies and Procedures Do Not Include Determining Foreign Ownership

GSA’s leasing policies and procedures do not distinguish between leasing from domestic or foreign companies. When leasing space, GSA is required, among other things, to determine whether the prospective lessor is a responsible party.<sup>58</sup> As discussed earlier, GSA officials said that this process includes, among other things, checking whether the entity has the financial means to fulfill the contract and assessing whether the building will be operated properly. However, under GSA’s Acquisition Manual, foreign ownership is not one of the factors that GSA must consider when deciding whether to contract for a lease. Offerors are required to disclose certain ownership information that may indicate whether they are foreign owned.

The Homeland Security Act of 2002 authorizes GSA to protect federal facilities except those functions delegated to the Department of Homeland Security.<sup>59</sup> Tenant agencies and FPS also have responsibility for

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<sup>58</sup>The General Services Administration’s Acquisition Manual, which incorporates aspects of the Federal Acquisition Regulation, requires that GSA determine whether an offeror for a leasing agreement is a “responsible party” prior to GSA’s awarding of the contract. A responsible party must: (1) have sufficient financial resources to perform the contract; (2) be able to comply with the performance schedule; (3) have a satisfactory performance record; (4) have a satisfactory record of integrity and business ethics; (5) have the necessary organization and experience, (6) have the necessary production, construction and technical equipment; and (7) be otherwise qualified to receive an award under applicable laws and regulations.

<sup>59</sup>Under section 422(a) of the Homeland Security Act of 2002, with the exception of law enforcement and related security functions transferred to the Secretary of Homeland Security, the Administrator of General Services is to retain all powers, functions, and authorities vested in the Administrator under chapter 10 of title 40, United States Code, and other provisions of law that are necessary for the operation, maintenance, and protection of such facilities and grounds. The respective security responsibilities of GSA and FPS to protect federal facilities are discussed in the background section of this report.

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protecting federal facilities.<sup>60</sup> According to the Interagency Security Committee (ISC) standard on protecting federal facilities, tenant agencies and FPS are to conduct risk assessments for facilities with security levels III, IV, and V at least every 3 years.<sup>61</sup> The standard also states that tenant agencies are responsible for making final facility security level determinations, must devise a risk management strategy, and, if possible, fund appropriate security countermeasures to mitigate the identified risk. As discussed earlier, GSA's information on foreign ownership of high-security space was not reliable, and, as a result, tenant agencies lack information on such foreign ownership even though it can pose risks involving physical and cyber security and foreign financing. As discussed below, GSA's existing procedures for obtaining information provide the agencies with some information on foreign ownership, but this information is incomplete. GSA officials said that they do not have the ability or authority to check foreign ownership beyond certain sources currently available to them.<sup>62</sup> In addition, although GSA checks whether potential lessors have sufficient funds to meet their lease obligations, it does not check the lessors' source of funds.

As discussed below, various steps in the leasing process may disclose whether an offeror's company is foreign owned as well as whether the company is owned by an immediate or highest level owner. However, these sources provide incomplete information on foreign ownership and foreign investment in space leased by GSA. In addition, GSA officials said that they do not validate the information on foreign ownership that contractors disclose in SAM.

*Lessors are required to self-disclose whether they are foreign owned.* One way that GSA can identify a foreign company during the leasing process is when the lessor completes the representations and

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<sup>60</sup>We reported in 2014 that FPS and about 30 other federal agencies are responsible for protecting civilian federal facilities, in part, by assessing risks to their facilities. GAO, *Federal Facility Security: Additional Actions Needed to Help Agencies Comply with Risk Assessment Methodology Standards*, [GAO-14-86](#) (Washington, D.C.: 2014).

<sup>61</sup>Exec. Order No. 12,977, *Interagency Security Committee*, 60 Fed. Reg. 54,411-54,412 (Oct. 24, 1995). Exec. Order 12,977 requires executive branch departments and agencies to cooperate and comply with the ISC's policies and recommendations, including any standards that ISC sets.

<sup>62</sup>Based on our review of relevant statutes and regulations, we did not find any clear indication as to whether GSA does or does not have the authority to check ownership more thoroughly than what is required by the FAR.

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certifications form, which is part of the lease agreement, as required by the Federal Acquisition Regulation (FAR).<sup>63</sup> When completing this form, the lessor is required to certify with respect to whether a taxpayer identification number is needed if it is a (1) “nonresident alien, foreign corporation, or foreign partnership that does not have income effectively connected with the conduct of a trade or business in the United States and does not have an office or place of business or a fiscal paying agent in the United States” or (2) “an agency or instrumentality of a foreign government.”

*GSA is required to check whether prospective lessors are barred from conducting business with the government.* GSA’s Leasing Desk Guide requires GSA to ascertain whether the offeror has been disqualified or excluded from participating in federal contracts. As previously discussed, GSA indicated that it checks the Excluded Parties List System and Treasury’s Specially Designated Nationals and Blocked Persons List. We did not find any of the owners based in foreign countries listed in table 1 on the Excluded Parties List or the Specially Designated Nationals and Blocked Persons List.

*Companies are required to report information about their identities using various business codes.* Under the FAR, an offeror must register with Dun & Bradstreet’s Data Universal Numbering System (DUNS), which are unique identifiers for business, and include the DUNS number when registering in SAM. Companies are assigned a Commercial and Government Entity (CAGE) code—an identification number assigned by the Defense Logistics Agency that is used within the federal government—to participate in SAM. Each entity (business, individual, or government agency) must register with SAM to conduct business with the federal government. Starting on November 1, 2014, the Federal Acquisition Regulation (FAR) began requiring offerors to provide additional ownership information through SAM, including, among other things, the “immediate” and “highest” level ownership of the offeror, and the CAGE or North Atlantic Treaty Organization CAGE (NCAGE) codes<sup>64</sup>

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<sup>63</sup>GSA form 3518 is used to make representations and certifications regarding matters such as small business program participation, affirmative action compliance, and payment of taxes.

<sup>64</sup>Foreign entities are required to obtain what is referred to as NCAGE codes.

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for these entities.<sup>65</sup> “Immediate owner” means an “entity, other than the offeror, that has direct control of the offeror.” This definition includes “ownership or interlocking management, identity of interests among family members, shared facilities and equipment, and the common use of employees.”<sup>66</sup> A highest level owner means “the entity that owns or controls an immediate owner of the offeror, or that owns or controls one or more entities that control an immediate owner of the offer.” Of the 8 lessors based in non-NATO countries that we identified from leases entered into prior to November 1, 2014, and thus not required to include immediate and highest level ownership information, 7 did not self-identify as foreign owners on their certifications and representations form.<sup>67</sup>

Our review of GSA’s lease inventory found that the business entity names are frequently building names or street addresses that do not reflect useful ownership information. FBI officials told us that GSA could contact the FBI if it had concerns about a particular foreign company, but declined to state what types of information it could provide to GSA.

CFIUS has a limited role in identifying risks of GSA leasing from foreign companies. CFIUS officials said that, consistent with the scope of FINSA, CFIUS could not review GSA leasing from a foreign company unless a

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<sup>65</sup>FAR § 52.204–17 (2014). Section 852 of the National Defense Authorization Act for Fiscal Year 2013 (NDAA) required the Federal Awardee Performance and Integrity Information System (FAPIIS) to “include information on any parent, subsidiary, or successor entities to the corporation...to give the acquisition officials using the database a comprehensive understanding of the performance and integrity of the corporation in carrying out Federal contracts and grants.” National Defense Authorization Act for Fiscal Year 2013, § 852, Pub. L. No. 112-239, 126 Stat. 1632. In 2014, DOD, GSA, and NASA amended the FAR to require offerors to provide the CAGE codes of the immediate and highest level owners of offerors that are responding to a solicitation for a Federal contract. Information on Corporate Contractor Performance and Integrity, 79 Fed. Reg. 31,187 (May 30, 2014) (codified at FAR § 52.204-17 (2016)). In 2016, DOD, GSA, and NASA further amended the FAR by requiring that FAPIIS include, to the extent practicable, information on any parent, subsidiary, or successor entities to a corporation. 81 Fed. Reg. 11,988 (Mar. 7, 2016). According to this final rule, the data on immediate owner and direct subsidiaries are available through FAPIIS based on the data obtained from offerors in response to the FAR provision cited above, § 52-204-17, which requires this information for the CAGE code.

<sup>66</sup>Under the FAR, “interlocking management” refers generally to a management construct where “[o]fficers, directors, employees, or principal stockholders of one [business entity] serve as a working majority of the board of directors or officers of another [business entity].

<sup>67</sup>We did not review all the leases identified in table 1. We focused on leases executed with companies based in non-NATO countries.

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foreign person, as defined in CFIUS's regulations, acquired control of a U.S. business that owned the building in which GSA was leasing space.<sup>68</sup> Additionally, CFIUS could not review a foreign company's construction of a building in the United States if the company did not acquire control of a U.S. business. During 2014 (the most recent available information) CFIUS conducted 147 reviews of covered transactions.

Because GSA is not required to identify beneficial ownership information for the space it leases and because GSA is not informing tenant agencies when the space they are occupying is leased from foreign owners, tenants may not be aware that they are occupying space that is foreign owned and may not be addressing any security risks associated with foreign ownership. Because GSA is not identifying the beneficial owners of the properties it leases, it cannot check whether those owners raise any issues that may represent security risks to tenant agencies.

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## Conclusions

GSA's incomplete information and lack of policies and procedures regarding foreign ownership of high-security leased space may undermine the security of the tenants' facilities. When GSA does not know the beneficial owners of the high-security properties that it is leasing, it lacks information that should be shared with its tenants for their facility risk assessments. Moreover, when tenant agencies lack information about the beneficial owners of their high-security facilities, they may not correctly evaluate the security risks and, consequently, not take the most appropriate steps to secure their buildings, leaving the facilities vulnerable, for example, to cyber intrusions.

Our review found that GSA is leasing a small portion of its high-security leased space from foreign owners. However, because ownership information was not available regarding about one-third of the buildings with high-security leased space, GSA is likely leasing from more foreign companies than is readily identifiable. Because CFIUS's authority is limited to reviewing foreign acquisitions that could result in control of a U.S. business, which rarely involves GSA-leased space, CFIUS has a limited role in identifying and mitigating risks of GSA leasing from foreign

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<sup>68</sup>Under 31 C.F.R. § 800.204(a), "[t]he term foreign entity means any branch, partnership, group or sub-group, association, estate, trust, corporation or division of a corporation, or organization organized under the laws of a foreign state if either its principal place of business is outside the United States or its equity securities are primarily traded on one or more foreign exchanges."

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companies. As a result, GSA cannot rely on CFIUS to identify and mitigate these risks. As the leasing agent, GSA is in the best position to identify the beneficial owners of the high-security space that it leases and communicate the relevant information to its federal tenants so that they may adequately assess and mitigate any potential security risks associated with them.

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## Recommendation for Executive Agency Action

We recommend that the Administrator of the General Services Administration determine whether the beneficial owner of high-security space that GSA leases is a foreign entity and, if so, share that information with the tenant agencies so they can adequately assess and mitigate any security risks.

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## Agency Comments

We provided a draft of this report for review and comment to GSA, the departments of Defense (DOD), Energy (DOE), Homeland Security (DHS), Justice (DOJ), State, the Treasury, and Veterans Affairs (VA); the Administrative Office of United States Courts; the Federal Deposit Insurance Corporation (FDIC); the Office of the Director of National Intelligence (ODNI); the Securities and Exchange Commission (SEC); the Social Security Administration, and agencies which determined that the information about the foreign-owned buildings that they occupy is for official use only and is not included in this report.

GSA provided written comments, reprinted in appendix I, agreeing with the report's recommendation. DOD provided a letter, reprinted in appendix II, indicating that it had no comments on the report. ODNI provided a letter, reprinted in appendix III, indicating that ODNI and the Intelligence Community concur with the recommendation. The Social Security Administration provided a letter, reprinted in appendix IV, indicating that the report accurately reflects its activities regarding this review. DHS, DOJ, the Department of the Treasury, and the Social Security Administration provided technical comments which we incorporated as appropriate. The Administrative Office of the United States Courts, DOE, FDIC, SEC, the State Department, and VA had no comments.

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As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Administrator of the General Services

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Administration, the Secretaries of Defense, Energy, Homeland Security, State, Treasury, and Veterans Affairs; the Attorney General; Director of the Administrative Office of the United States Courts, Director of National Intelligence, Chairman of the Federal Deposit Insurance Corporation, Chair of the Securities and Exchange Commission, Commissioner of the Social Security Administration, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2834 or [wised@gao.gov](mailto:wised@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.



David Wise  
Director, Physical Infrastructure Issues



# Appendix I: Comments from the General Services Administration



The Administrator

November 8, 2016

The Honorable Gene L. Dodaro  
Comptroller General of the United States  
U.S. Government Accountability Office  
Washington, DC 20548

Dear Mr. Dodaro:

The U.S. General Services Administration (GSA) appreciates the opportunity to review and comment on the U.S. Government Accountability Office (GAO) draft report entitled *Federal Real Property: GSA Should Inform Tenant Agencies When Leasing High-Security Space from Foreign Owners* (GAO-17-195). As a result of its findings, GAO made one recommendation to GSA:

GAO recommends that GSA determine whether the beneficial owner of high security leased space is a foreign entity and, if so, share that information with the tenant agencies for any needed security mitigation.

GSA has reviewed the draft report and agrees with the recommendation for agency action.

If you have any additional questions or concerns, please contact me at (202) 501-0800 or Ms. Lisa A. Austin, Associate Administrator, Office of Congressional and Intergovernmental Affairs, at (202) 501-0563.

Sincerely,

A handwritten signature in blue ink that reads "Denise Turner Roth".

Denise Turner Roth  
Administrator

cc: Mr. David Wise, Director, Physical Infrastructure Issues

1800 F Street, NW  
Washington, DC 20405-0002  
[www.gsa.gov](http://www.gsa.gov)

# Appendix II: Comments from the Department of Defense



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY  
CIVIL WORKS  
108 ARMY PENTAGON  
WASHINGTON DC 20310-0108

OCT 26 2016

Mr. David Wise  
Director, Physical Infrastructure  
U.S. Government Accountability Office  
441 G. Street, NW  
Washington, D.C. 20548

Dear Mr. Wise:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report 17-21, "FEDERAL REAL PROPERTY: GSA Should Inform Tenant Agencies When Leasing High-Security Space from Foreign Owners," dated October 7, 2016 (GAO Code 100285).

The DoD acknowledges receipt of the subject draft report and has no comments. The DoD appreciates the opportunity to review the report and wishes to thank those involved for their candor, professionalism and collaborative engagement throughout the development of this draft report.

Very truly yours,

  
Jo-Ellen Darcy  
Assistant Secretary of the Army  
(Civil Works)

# Appendix III: Comments from the Office of the Director of National Intelligence

GAO received ODNI's letter on Nov. 16, 2016.

UNCLASSIFIED

OFFICE OF THE DIRECTOR OF NATIONAL INTELLIGENCE  
DIRECTOR OF LEGISLATIVE AFFAIRS  
WASHINGTON, DC 20511

Ms. Cathleen A. Berrick  
Director, Defense Capabilities and Management  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

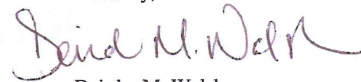
Dear Ms. Berrick:

(U) The Office of the Director of National Intelligence (ODNI) appreciates the opportunity to review the draft Government Accountability Office (GAO) Report GAO-17-21, "Federal Real Property: GSA Should Inform Tenant Agencies When Leasing High-Security Space from Foreign Owners." ODNI and the Intelligence Community concurs with the GAO recommendations.

(U) This version is considered unclassified and may be released to the public.

(U) If you require additional information, please contact the Office of Legislative Affairs at 703-275-2474.

Sincerely,



Deirdre M. Walsh

UNCLASSIFIED

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# Appendix IV: Comments from the Social Security Administration

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November 2, 2016

Mr. David Wise  
Director, Physical Infrastructure Issues  
United States Government Accountability Office  
441 G. Street, NW  
Washington, DC 20548

Dear Mr. Wise:

Thank you for allowing us to review the draft report, "FEDERAL REAL PROPERTY: GSA Should Inform Tenant Agencies When Leasing High-Security Space from Foreign Owners" (GAO-17-195). The draft report accurately reflects our activities for this engagement and we have no additional comments.

If you have any questions, please contact me at (410) 965-4991. Your staff may contact Gary S. Hatcher, Senior Advisor for the Audit Liaison Staff, at (410) 965-0680.

Sincerely,

/s/  
Frank Cristaudo  
Executive Counselor to the Commissioner

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

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# Appendix V: GAO Contact and Staff Acknowledgments

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## GAO Contact

David Wise, (202) 512-2834 or [wised@gao.gov](mailto:wised@gao.gov)

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## Staff Acknowledgments

In addition to the individual named above, Keith Cunningham, Assistant Director; Bob Homan, Analyst-in-Charge; Lisa Shibata; Camilo Flores; Tonita Gillich; and Michelle Weathers made key contributions to this report.

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Katherine Siggerud, Managing Director, [siggerudk@gao.gov](mailto:siggerudk@gao.gov), (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

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## Public Affairs

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

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## Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, [spel@gao.gov](mailto:spel@gao.gov), (202) 512-4707, U.S. Government Accountability Office, 441 G Street NW, Room 7814, Washington, DC 20548



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