Office of Audits
Office of Inspector General
U.S. General Services Administration

Audit of the PBS Pacific Rim Region's Lease Financial Performance

Report Number A170047/P/9/R19005
June 13, 2019

Executive Summary

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Why We Performed This Audit

The PBS leasing program's objective is to generate sufficient revenue in order to "break even" or recover all costs of administering the program. PBS measures financial performance of its leases through the funds from operation (FFO) performance metric. PBS calculates lease FFO by deducting lease expenses (excluding depreciation) from lease revenue. PBS achieves its break even goal when a lease asset's revenue is 0 to 2 percent greater than expenses. The objectives of this audit were to determine whether PBS Region 9 leases met the goals of the PBS pricing policy and GSA's annual performance plans and to determine the reasons for any excessive lease FFO variances.

What We Found

PBS Region 9 met its overall FFO performance goal for Fiscal Year 2016; however, we found a wide range of gains and losses on individual leases caused by lease administration and billing errors. Specifically, PBS Region 9 improperly retained refunds for overpayments, made rental payments after lease agreements were terminated, and did not recover operating costs under non-fully serviced leases. We also found that PBS Region 9 failed to collect past due rent from several tenant agencies between Fiscal Years 2009 and 2016 resulting in FFO losses totaling more than $500,000.

What We Recommend

We recommend that the PBS Commissioner, in conjunction with the GSA Office of the Chief Financial Officer:

1. Return refunds of overpayments to the appropriate tenant agencies.
2. Develop and implement a process to refund recoveries of overpayments to tenant agencies as required.

We recommend that the Regional Commissioner, PBS Region 9:

3. Strengthen management controls to ensure standard lease terms are enforced and communicated effectively and in a timely manner to lease administrative personnel.
4. Strengthen oversight reporting with the Office of the Chief Financial Officer to ensure that PBS processes stop payments timely for terminated leases.

5. Strengthen its internal controls to prevent billing errors, discrepancies in its collections, and improper retention of tenant funds.
6. Work with the Office of the Chief Financial Officer to monitor and collect unpaid rent from tenant agencies.

In its response to our draft report, PBS generally agreed to implement our recommendations. However, PBS agreed to implement our first recommendation that it pass on recoveries of overpayments to tenant agencies only "to the extent doing so is consistent with PBS policy." We made minor adjustments to our report based on the information provided by PBS; however, those revisions did not affect our findings and conclusions.

PBS's technical comments cited certain legal authorities to further support its position that PBS can retain recoveries of overpayments. However, the authorities that PBS relies upon are not sufficient. The authorities cited in the technical comments do not provide the legal basis for retaining overpayments by tenant agencies. Accordingly, we stand by our conclusion that PBS must refund these recoveries to tenant agencies.

PBS's response is included in its entirety in ***Appendix D***.

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Introduction

We performed an audit of the financial performance of leases in the PBS Pacific Rim Region (PBS Region 9).

Purpose

This audit was included in the Office of Inspector General's *Fiscal Year 2017 Audit Plan*. PBS's leasing program is one of GSA's core functions. PBS administers over 7,000 leased properties, resulting in $5.57 billion in annual rent. PBS Region 9 leases over 49 percent of the space it provides to federal agencies. As of the end of Fiscal Year 2016, Region 9 accounted for 9 percent of PBS's leased inventory with 36 million rentable square feet out of a total of 187.9 million nationwide. Accordingly, the financial performance of its leasing program is critical.

Objectives

Our objectives were to determine if PBS Region 9 leases met the goals of the PBS pricing policy and GSA's annual performance plans, and the reasons for any excessive variances in lease funds from operation (FFO).

See ***Appendix A*** – Scope and Methodology for additional details.

Background

PBS's mission is to provide effective workplace solutions for federal agencies at best value. As part of this mission, PBS leases space from the private sector to meet its customers' needs. The leasing program strives to generate sufficient revenue to break even after covering all administrative costs.

When PBS leases space for a tenant agency, PBS and the tenant agency enter into an occupancy agreement that establishes each party's responsibilities. The occupancy agreement establishes the rent that the tenant agency will pay PBS. According to the PBS pricing policy, the rent the tenant agency pays to PBS is a pass-through of the underlying lease contract rent PBS pays to the lessor, plus any standard operating costs not performed through the lease, the PBS lease fee, and security charges. Additionally, both the operating costs and the real estate taxes that PBS pays to the lessor as part of the lease are passed through to the tenant. The PBS fee is 7 percent for cancellable occupancy agreements. The PBS fee is designed to cover contract risk, lease acquisition services, and lease administration. Contract risk includes the risk that PBS will be responsible for rent payments to the lessor if the tenant agency vacates the space before the lease has terminated.

The *U.S. General Services Administration Annual Performance Plan and Report Fiscal Year 2016* (GSA Performance Plan) included a performance goal for the Agency to generate sufficient lease FFO to effectively operate GSA leased buildings. The goal stated that, "GSA will improve the efficiency of the leasing program so that revenue available after administering the program is between zero and two percent in FY 2015 and FY 2016."

Lease FFO is PBS's performance measure for determining the efficiency of its leasing program. PBS calculates lease FFO by taking the revenue collected from tenant agencies minus all expenses (excluding depreciation) associated with the leased space, as shown in *Figure 1*.

Figure 1 – How to Calculate Lease FFO

PBS Region 9 officials informed us that they work in collaboration with the GSA Office of the Chief Financial Officer (OCFO) to track lease FFO performance. The GSA Performance Plan states that the OCFO is the lead office for the overall strategic goal of increasing efficiency of GSA operations. The OCFO tracks the revenue and expense performance of the PBS inventory nationwide and provides financial management support services to PBS regions, including Region 9. The OCFO generates monthly lease financial performance reports and collaborates with PBS Region 9 Portfolio Management Division and Real Estate Acquisition Division to follow up on leases with excessive FFO losses or gains. This is an important process as a previous independent audit of GSA's financial statements noted that GSA needs to improve the effectiveness of its controls over the processing of leases to ensure that leases are accurately and timely recorded in the financial management system.[1]

Fiscal Year 2016 Lease FFO Results

In Fiscal Year 2016, lease FFO regional performance varied; leases in Region 9 had the largest positive effect on lease FFO, as shown in *Figure 2.*

[1] *Audit of the General Services Administration's Fiscal Year 2014 Financial* Statements (November 2014).

Figure 2 – Fiscal Year 2016 Lease FFO Results by Region

Region	Lease FFO (Loss) or Gain
Central Office	($1,008,497)
New England Region	($1,293,547)
Northeast And Caribbean Region	($21,187,201)
Mid-Atlantic Region	$1,835,418
Southeast Sunbelt Region	$3,862,195
Great Lakes Region	$4,563,308
Heartland Region	$2,056,092
Greater Southwest Region	($8,687,518)
Rocky Mountain Region	$252,622
Pacific Rim Region	$5,769,636[2]
Northwest/Arctic Region	($4,197,708)
National Capital Region	($49,819,811)
Nationwide Total	**($67,855,013)**

Lease FFO losses or excessive gains in the leasing program adversely affect both PBS's owned and leased inventory. The Federal Buildings Fund (FBF) was established by the Federal Property and Administrative Services Act of 1949 to provide for the space needs of GSA tenants and to maintain buildings in the federal inventory.[3] Revenues deposited into the FBF are made available for the necessary expenses of real property management and related activities. The FBF is expected to generate sufficient funds to cover new construction, operations and maintenance, repair and alteration, and leasing. If lease FFO does not break even, PBS has to use the FBF to cover the loss using revenue from its owned properties, diverting funds that could be used for repair and renovation projects.

Excessive FFO gains and losses for individual leases indicate a problem with the lease's financial results. The objective of PBS's pricing policy is for leases to break even as all direct costs are passed on to customer agencies and operational costs are supposed to be covered by the leasing fee. However, excessive FFO gains and losses indicate that the pricing policy objective was not achieved and that management attention is required.

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[2] PBS Region 9's gain equates to a regional FFO percentage of 1 percent. This meets GSA's Performance Plan goal to have only between 0 and 2 percent revenue available after administering the leasing program.

[3] 40 USC 592.

Results

PBS Region 9 met its overall FFO performance goal for Fiscal Year 2016; however, we found a wide range of gains and losses on individual leases caused by lease administration and billing errors. Specifically, PBS Region 9 improperly retained refunds for overpayments, made rental payments after lease agreements were terminated, and did not recover operating costs under non-fully serviced leases. We also found that PBS Region 9 failed to collect past due rent from several tenant agencies between Fiscal Years 2009 and 2016, resulting in FFO losses totaling more than $500,000.

Finding 1 – PBS Region 9 lease administration and billing errors caused variances in FFO.

Based on our testing, we found that PBS Region 9's FFO losses were primarily attributable to errors in lease administration and billing errors. In performing our testing, we judgmentally sampled 20 of the 916 lease locations in Region 9. We also examined 10 claims identified by GSA's improper payments auditor. Taken together, these leases accounted for 9 percent of the 36 million rentable square feet under lease in Region 9. For details on the leases tested in our sample, see ***Appendix B***.[4]

In testing these lease locations, we determined that the lease FFO for multiple leases was distorted due to a variety of administrative and billing errors. We found that PBS Region 9 did not reimburse tenant agencies for overbillings, continued to pay lessors after the lease agreements were terminated, did not take advantage of a clause to reduce rental payments for vacated space, and did not bill tenant agencies for operating costs incurred for non-fully serviced leases.

These errors are discussed in detail below.

PBS Region 9 Improperly Retained Reimbursements from Lessors

PBS Region 9 did not fully reimburse tenant agencies after recovering overpayments from lessors. According to PBS's Review Requirements Document (RRD) for occupancy agreements, GSA should reimburse tenants if a recovery is less than 5 years old and over $50,000. In accordance with this policy, PBS retained a total of $64,800 from recoveries of overpayments of real estate taxes and rent.

Notwithstanding this policy, PBS did not provide a sufficient legal basis for retaining recoveries of overpayments from lessors. Absent such authority, PBS is required to pass these recoveries to tenant agencies at the time when lease overpayments are collected. Therefore, PBS Region 9

[4] For the report findings, we identified common root causes in FFO losses and gains. However, each lease location may have had other factors that contributed to its Fiscal Year 2016 FFO. For this reason, the Fiscal Year 2016 FFO total in ***Appendix B*** will not necessarily match the financial effect of the individual issues discussed in the report narrative.

should have refunded the full amounts recovered for these overpayments to the tenant agencies.

As discussed below, FFO was distorted for three leases in our sample when PBS Region 9 made corrections for overpayments of real estate taxes and rent. Although PBS Region 9 passed on portions of amounts recovered for these overpayments to the tenant agencies, it improperly retained the balance of the recoveries.

- At the Bureau of Land Management National Training Center in Phoenix, Arizona, PBS Region 9 retained overpayments of real estate taxes between 2013 and 2015. The lessor refunded the full real estate tax overpayment amount of $38,452 in April 2016. However, PBS Region 9 returned only $14,947 to the tenant agency through rent credits contributing to an FFO loss of $16,804 for Fiscal Year 2016. PBS Region 9 retained the remaining $23,505 balance of the refund ($38,452 - $14,947), but should have returned this amount.

- At the Soscol Building in Napa, California, PBS Region 9 retained a refund of $35,274 for overpayments of real estate taxes between 2013 and 2016. The lessor refunded this amount in April 2016; however, PBS Region 9 did not pass on the refund to the tenant agency. When we informed PBS Region 9 of this issue in February 2018, they told us that the tenant agency was not reimbursed due to a mistake in the occupancy agreement that did not allow reimbursement of real estate tax refunds. PBS Region 9 subsequently corrected the tenant agency's occupancy agreement, but retained the full amount of the refund citing the RRD policy. This contributed to a $36,050 increase in lease FFO for Fiscal Year 2016.

- Under the terms of the lease for the South El Camino Real building in Oceanside, California, a rent reduction was available to PBS Region 9 effective July 2014. PBS Region 9 did not execute the leasing action necessary to take advantage of this rent reduction until March 2016. This resulted in overpayments totaling $114,788. Although the lessor fully refunded the overpayments, PBS Region 9 only credited the tenant agency for 1 fiscal year due to RRD restrictions. PBS credited the tenant $108,766 in March 2016, but improperly retained the remaining $6,022 resulting in an FFO gain in Fiscal Year 2016.

PBS Region 9 Paid Lessors after Lease Agreements Were Terminated

For two leases in our sample PBS Region 9 continued to pay lessors after the leases were terminated months or years earlier, resulting in FFO distortions for these lease locations. These leases are discussed below:

- At the University Business Center in Goleta, California, PBS Region 9 terminated a lease in November 2015, but continued to pay rent for nine more months, resulting in overpayments of $77,881. PBS Region 9 recovered the overpayments from the lessor by withholding rent for an active lease at that location; however, the error caused a $68,664 FFO gain in Fiscal Year 2016.

- PBS Region 9 paid $107,413 to the lessor at the Harbor Square Parking Garage in Honolulu, Hawaii, for parking spaces terminated over a year earlier. In December 2014 PBS Region 9 informed the lessor of the termination of 23 of 39 parking spaces, effective January 2015. However, between January 2015 and April 2016, PBS Region 9 continued to pay rent for these parking spaces because personnel believed that the termination could not be processed due to additional ongoing lease contract negotiations between the lessor and GSA. The issue was escalated to the director of PBS's Lease Acquisition Program Execution office who clarified that PBS Region 9's termination request was valid and that a refund was due. The lessor accepted the termination request and agreed to refund GSA the full amount. PBS withheld rent from the lessor and initiated a claim in order to recover the full overpayment. The overpayment of rent paid to the lessor and partial refund resulted in a $25,020 FFO loss for Fiscal Year 2016.

PBS Region 9 Failed to Invoke a Clause to Reduce Rent in a Timely Manner

PBS lease agreements include a standard clause that provides for a reduction in rent if the government fails to occupy or vacates the leased space in whole or in part prior to expiration of the term of the lease. The clause specifies that the reduction must occur after the government gives 30 calendar days notice to the lessor. However, PBS Region 9 did not exercise this clause in a timely manner at the Equity Office Properties Trust in Los Angeles, California. As a result, PBS paid $3,167 in rent for the vacant space during Fiscal Years 2016 and 2017. For Fiscal Year 2016, this caused an FFO loss of $1,174.

The tenant vacated the space in July 2016; however, PBS Region 9 was not granted a reduction in rent until February 2017. This seven month delay occurred because PBS Region 9 personnel misunderstood the reduction of rent clause and the required steps to invoke it. Specifically, PBS personnel stated that they were unaware that advance notice was required to obtain the rent reduction. When PBS Region 9 personnel eventually did request the rent to be reduced, the lessor did not accept the request since they were not given proper notice as defined in the lease agreement. In addition, the lessor refused to reduce rent until damage to the property caused by the tenant was repaired. Once the issues were resolved, the lessor agreed to the reduction of rent and refunded the full overpayment.

PBS Region 9 Did Not Bill Tenant Agencies for All Operating Costs

PBS generally awards fully serviced leases that include operating costs in the rent paid to the lessor (e.g., cleaning, utilities, maintenance, etc.). However, some PBS leases are not fully serviced. For these leases, PBS awards separate contracts for operating services and bills the tenant agency for the services provided. We noted two leases where the tenant agency was inaccurately billed for operating costs.

- At the Fresno Yosemite International Airport lease in Yosemite, California, PBS Region 9 paid for cleaning services, but did not bill the tenant agency until nearly a year later. PBS Region 9 paid for cleaning services for 11 months without billing the tenant agency, resulting in a $6,852 FFO loss reported for Fiscal Year 2016. PBS Region 9 eventually billed the tenant agency the following fiscal year recovering the full amount.

- Similarly, at the Molokai Airport lease Hoolehua, Hawaii, PBS Region 9 began paying for janitorial services in September 2016 for services that started in July 2016. However, the tenant agency was not billed for these services until November 2017. Furthermore, when attempting to correct the mistake, PBS Region 9 incorrectly billed the tenant agency for 13 instead of 14.5 months of service. This resulted in a Fiscal Year 2016 FFO loss of $1,280.

Lease FFO is a key performance metric used to assess the financial health of leases in PBS Region 9's inventory. However, as shown above, PBS Region 9's lease administration and billing errors have resulted in FFO variances for individual leases. These variances can adversely affect management's ability to rely on FFO results to assess the performance of individual leases and make informed decisions about PBS Region 9's lease portfolio. Therefore, PBS Region 9 management should strengthen its controls surrounding lease administration and billing to improve financial performance of its leases and ensure the reliability and accuracy of FFO results for individual leases.

Finding 2 – PBS Region 9 did not collect past due rent from tenant agencies resulting in FFO losses totaling more than $500,000.

Tenant agencies are obligated to pay rent in accordance with the terms and conditions of their occupancy agreement. Section 1.2 of PBS's *Pricing Desk Guide* states, "rent is a pass-through of the underlying lease contract rent, plus any standard operating costs not performed through the lease, the PBS lease fee, and security charges." Thus, PBS relies on tenants to pay their rent in order to have sufficient funds to pay its lessors and administer the leasing program.

However, we found that PBS Region 9 did not collect rental payments from three Department of Defense (DoD) agencies between Fiscal Years 2009 and 2016. Although the amount of uncollected rent for our audit period of Fiscal Year 2016 was $16,402, the cumulative total between Fiscal Years 2009 and 2016 was $572,835 (see *Figure 3*). In September 2017, GSA wrote this amount off, resulting in a Fiscal Year 2017 FFO loss of $572,835. For more information on the specific leases see ***Appendix C***.

Figure 3 – Total Uncollected Rent from DoD Agencies
Fiscal Years 2009 – 2016

DOD Agency	Number of Leases	Uncollected Rent
Washington Headquarters Services	5	$402,560
United States Air Force Real Property Agency	2	$150,226
Defense Logistics Agency	2	$20,049
Total	**9**	**$572,835**

These losses resulted from ineffective oversight of FFO in Region 9. As noted in the *Background* section of this report, Region 9 PBS works collaboratively with the GSA OCFO's PBS Analytics Division to track lease FFO performance. The PBS Analytics Division is also responsible for monitoring rent payments from tenant agencies. As part of this joint effort, Region 9 receives reports identifying, among other things, uncollected rent. However, PBS and OCFO personnel in the region are not monitoring the information provided in these reports to take appropriate action to collect past due rent.

For example, the monthly FFO reports provided to PBS Region 9 by the GSA OCFO include allowance for loss entries. These entries show the likelihood that rent will be uncollected and identify high risk transactions for management action. For Fiscal Year 2016, we noted that the monthly FFO reports included 38 allowance for loss entries covering the past due rent cited above. While PBS Region 9 personnel reviewed these entries, they did not use them to make efforts to collect unpaid rent.

In addition, regional OCFO personnel responsible for monitoring leased FFO receive monthly emails from OCFO's PBS Analytics Division notifying them of reports posted to the PBS Accounting Metrics website that show unpaid rent. However, the Region 9 OCFO personnel did not use these reports.

To ensure PBS collects rent timely and monitors rent collection, PBS Region 9 should implement processes to improve communication and coordination with the OCFO. PBS Region 9 should improve its monthly FFO review process to ensure timely collection of rent from tenant agencies and avoid FFO losses.

Conclusion

Although PBS Region 9 met its overall FFO goal of breaking even on leases, we found FFO distortions for individual leases. These distortions were caused by a variety of administrative and billing errors, and uncollected rent. In particular, PBS Region 9 improperly retained refunds of overpayments of real estate taxes and rent and paid lessors after lease agreements were terminated. It also did not take advantage of a clause to reduce rental payments in a timely manner, and did not bill tenant agencies for cleaning and janitorial services provided under non-fully services leases. Additionally, PBS Region 9 failed to collect rent from three DoD agencies resulting in FFO losses totaling over $500,000.

To improve FFO performance at the individual lease level, PBS Region 9 should improve controls to effectively administer leases and recover costs incurred for non-fully serviced leases. PBS Region 9 should also strengthen its monitoring controls surrounding unpaid rent to ensure that management takes action to collect amounts owed in a timely manner.

Recommendations

We recommend that the PBS Commissioner, in conjunction with the GSA Chief Financial Officer:

1. Return refunds of overpayments to the appropriate tenant agencies.
2. Develop and implement a process to refund recoveries of overpayments to tenant agencies as required.

We recommend that the Regional Commissioner, PBS Region 9:

3. Strengthen management controls to ensure standard lease terms are enforced and communicated effectively and in a timely manner to lease administrative personnel.
4. Strengthen oversight reporting with the Office of the Chief Financial Officer to ensure that PBS processes stop payments timely for terminated leases.
5. Strengthen its internal controls to prevent billing errors, discrepancies in its collections, and improper retention of tenant funds.
6. Work with the Office of the Chief Financial Officer to monitor and collect unpaid rent from tenant agencies.

GSA Comments

In its response to our draft report, PBS generally agreed to implement our recommendations. However, PBS agreed to implement our first recommendation that PBS pass on recoveries of overpayments to tenant agencies only "to the extent doing so is consistent with PBS policy."

We made minor adjustments to our report based on the information provided by PBS; however, those revisions did not affect our findings and conclusions. PBS's technical comments cited certain legal authorities to further support its position that PBS can retain recoveries of overpayments. However, the authorities that PBS relies upon are not sufficient. The authorities cited in the technical comments do not provide the legal basis for retaining overpayments by tenant agencies. Accordingly, we stand by our conclusion that PBS must refund these recoveries to tenant agencies.

PBS's response is included in its entirety in ***Appendix D***.

Audit Team

This audit was managed out of the Pacific Rim Region Audit Office and conducted by the individuals listed below:

Hilda M. Garcia	Regional Inspector General for Auditing
Eric Madariaga	Audit Manager
Alexandra Breedlove	Auditor-In-Charge
Arthur Hernandez	Auditor

Appendix A – Scope and Methodology

We examined PBS Region 9's processes and controls in place over lease administration, tenant billing, accounting, and their effect on FFO.

To accomplish our objectives, we:

- Reviewed PBS's directives, internal policies, and procedures pertaining to the leasing process;
- Reviewed the United States Code, GSA's Fiscal Years 2015 through 2017 Annual GSA Performance Reports and Performance Plans, PBS Pricing Desk Guide, PBS Leasing Desk Guide, and PBS Lease Review Requirements Document;
- Examined lease contract documents, occupancy agreements, leasing inventory reports, national and regional FFO tracking reports of direct and indirect expenses, Fiscal Years 2016 and 2017 lease revenue and expense reports, annual performance plans, and PBS's *Reform Pricing 2017-18 Final Report*;
- Sampled 20 lease locations and 10 claims identified by GSA's improper payment auditor in Fiscal Year 2016;
- Evaluated PBS Region 9's monthly research process of FFO variances;
- Reconciled monthly revenue and expense reports to identify the causes of FFO losses or gains for our audit sample;
- Reviewed the GSA Office of Inspector General September 2012 report entitled *Audit of the Public Buildings Services, Southeast Sunbelt Region's Lease Administration Practices* and the results of the three most recent improper payment audits of GSA;
- Interviewed GSA officials and staff from national and regional PBS and OCFO offices;
- Researched available resources from OCFO's PBS Analytics Division's internal website;
- Examined a property tax refund analysis performed by a PBS contractor;
- Reviewed OCFO reports on past due rent from tenant agencies; and
- Reviewed planning documents, prospectuses, and diagrams for the renovations at the San Ysidro Land Port of Entry.

We conducted the audit between May 2017 and June 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

Our assessment of internal controls was limited to those necessary to address the objectives of the audit.

Appendix B – Summary of Findings for Leases in Audit Sample

The purpose of this appendix is to summarize the results of our judgmentally selected sample of 20 leases in PBS Region 9 and 10 overpayments to lessors (claims) identified by GSA's improper payment auditor in Fiscal Year 2016 that were later refunded to GSA. We identified common root causes in FFO losses and gains. The Fiscal Year 2016 FFO column is the official FFO figure for each location as reported by the OCFO. Numbers in parentheses represent an FFO loss; positive numbers represent an FFO gain.

For the report findings, we identified common root causes in FFO losses and gains. However, each lease location may have had other factors that contributed to its Fiscal Year 2016 FFO. The Fiscal Year 2016 FFO column below will not necessarily match the financial effect of the individual issues discussed in the report narrative, or in the supporting notes in this Appendix, as the report focused on common root causes.

Note	Building Name	Building Number	Fiscal Year 2016 FFO	Finding (Note 1)
2	801 West Civic Center Drive, Santa Ana, CA	CA7395ZZ	$201,007	1
3	40 North Central Avenue, Phoenix, AZ	AZ6972ZZ	$114,807	N/A
4	Equity Office Properties Trust, Los Angeles, CA	CA8004ZZ	$112,983	1
5	1st National Bank, San Diego, CA	CA5939ZZ	$73,044	N/A
6	University Business Center, Goleta, CA	CA6684ZZ	$68,664	1
7	4560 Viewridge Avenue, San Diego, CA	CA6949ZZ	$34,520	N/A
8	US Post Office & Courthouse, Prescott, AZ	AZ0011ZZ	$0	N/A
9	Molokai Airport, Hoolehua, Hawaii	HI8450ZZ	($1,548)	1
10	US Post Office, Los Angeles, CA	CA0105ZZ	($2,196)	N/A
11	US Post Office & Federal Building, Blythe, CA	CA0180ZZ	($4,158)	N/A
12	US Post Office, Salinas, CA	CA0086ZZ	($5,250)	N/A
13	Fresno Yosemite International Airport, Fresno, CA	CA7448ZZ	($10,954)	1
14	Northridge Business Center, Los Angeles, CA	CA7856ZZ	($36,585)	N/A
15	Harbor Square Parking, Honolulu, HI	HI6563ZZ	($42,056)	1
16	US Post Office, San Francisco, CA	CA0292ZZ	($42,888)	N/A
17	Sky Harbor Airport, Phoenix, AZ	AZ7432ZZ	($43,502)	N/A
18	Main US Post Office, Honolulu, HI	HI0200ZZ	($76,720)	N/A
19	Ernst & Young Plaza, Los Angeles, CA	CA7349ZZ	($116,012)	N/A
20	LAX Airport, Los Angeles, CA	CA7533ZZ	($119,582)	N/A
21	San Ysidro Border Station, San Ysidro, CA	CA6916ZZ	($1,555,711)	N/A

Appendix B – Summary of Findings for Leases in Audit Sample (cont.)

Notes:

1. This column identifies the finding related to the building as follows:
   - Finding 1 – PBS Region 9 lease administration and billing errors caused variances in FFO.
   - N/A – Not applicable or no findings for this report.

2. 801 West Civic Center Drive: The $201,007 FFO gain was due to a delay in processing billing adjustments, which resulted from a change in lessor in June 2016. The billing has since been corrected.

3. 40 North Central Avenue: The $114,807 FFO gain was due to billing adjustments for eight active leases at this building from March through June 2016. A majority of the billing adjustments were passed through, but we found $14,769 that was not passed through to the tenant agency.

4. Equity Office Properties Trust: The $112,983 FFO gain was a result of free rent adjustments provided by the lessor that were passed through to the tenant. Additionally, vacant space FFO losses occurred at this location that were beyond PBS Region 9's control. The space was leased on behalf of the Secret Service who provided protection to a domestic dignitary. When protection of this individual was no longer required, the space was vacated. However, PBS Region 9 did not timely exercise a clause in the lease agreement to request a reduction in rent from the lessor. This resulted in overpayments to the lessor and a Fiscal Year 2016 FFO loss of $1,174.

5. 1st National Bank: The $73,044 FFO gain was due to a joint use childcare center cost that is paid for by tenant agencies, but is not passed through to the lessor. There is no reportable issue within the context of our audit objectives.

6. University Business Center: The $68,664 FFO gain occurred because PBS Region 9 did not pay the lessor rent from August 2015 through March 2016 due to a withhold of rent for another lease at the same building.

7. 4560 Viewridge Avenue: The $34,520 FFO gain was due to billing correction for a delay in completion of tenant improvements. There is no reportable issue within the context of our audit objectives.

8. U.S. Post Office & Courthouse – Prescott: There was no FFO gain or loss in Fiscal Year 2016 since the lease is in holdover status, and the tenant has completely vacated. PBS is currently not paying any rent or receiving any revenue for this lease location. There is no reportable issue within the context of our audit objectives.

9. Molokai Airport, Hoolehua, Hawaii: The $1,548 FFO loss was due to delayed and incorrect billing for cleaning and janitorial services. PBS Region 9 started paying for janitorial services in September 2016 (for services starting in July 2016), but the tenant agency was not billed until November 2017. Furthermore, when PBS Region 9 attempted to correct the mistake, they only billed the tenant agency for 13 months of services, instead of the correct 14.5.

10. U.S. Post Office – Los Angeles: The $2,196 FFO loss was due to G&A costs exceeding the revenue collected for the PBS fee.

11. U.S. Post Office & Federal Building – Blythe: The $4,158 FFO loss was due to G&A costs exceeding the revenue collected for the PBS fee.

12. U.S. Post Office – Salinas: The $5,250 FFO loss was due to G&A costs exceeding the revenue collected for the PBS fee.

13. Fresno Yosemite International Airport: The $4,102 FFO loss was due to G&A costs exceeding the revenue collected for the PBS fee. There was an additional $6,852 loss that resulted from an April 2016 PBS payment for a retroactive cleaning fee that was supposed to be passed through to the tenant. However, the tenant agency was not billed until March 2017.

14. Northridge Business Center: The $31,661 FFO loss was due to G&A costs exceeding the revenue collected for the PBS fee. An additional $4,924 was not passed through to the tenant agency.

15. Harbor Square Parking: The $17,036 FFO loss was due to G&A costs exceeding the revenue collected for the PBS fee. In addition, there was a $25,019 loss which resulted from overpayments made to the Postal Service for unused space. PBS has initiated a claim to recover the remaining balance.

16. U.S. Post Office – San Francisco: The $42,888 FFO loss was due to G&A costs exceeding the revenue collected for the PBS fee.

17. Sky Harbor Airport: The $44,202 FFO loss was due to G&A costs exceeding the revenue collected for the PBS fee. We identified an additional $340 FFO gain that resulted from a billing adjustment that occurred in March 2016.

18. Main U.S. Post Office – Honolulu: The $76,720 FFO loss was due to G&A costs exceeding the revenue collected for the PBS fee. There was an additional $1,373 loss that resulted from a late billing adjustment.

19. Ernst & Young Plaza: The $116,012 FFO loss was due to $303,053 of real estate taxes that were not passed through to the tenant agency. PBS is currently seeking to fully recover this amount from the tenant as a result of this audit.

20. LAX Airport: The $115,694 FFO loss was due to G&A costs exceeding the revenue collected for the PBS fee. In addition, $3,887 was not passed through to the tenant agency.

21. San Ysidro Border Station: This annual $1,555,711 FFO loss was due to PBS Region 9 not collecting rent from the tenant agency for the use of temporary leased parking. In 2015, PBS Region 9 entered into a lease for United States Customs and Border Protection (CBP) employee parking because of renovations taking place at the San Ysidro Land Port of Entry. PBS Region 9 included the construction of a new parking structure in its renovation plans that would replace the existing parking CBP was using on federally-owned property. However, changes in the construction schedule beyond GSA's control necessitated moving CBP from its existing parking on federal property before the new parking structure was built. As PBS's occupancy agreement with CBP required PBS to include parking as part of the rent, PBS Region 9 entered into a four year lease agreement to procure temporary parking for CBP while the new parking structure was under construction. However, in accordance with instructions received from a Space Pricing Specialist in PBS's Pricing Policy & Tools Division, PBS Region 9 did not charge CBP rent for the temporary leased parking. In total, this lease will cost PBS Region 9 over $6 million. There is no reportable issue within the context of our audit objectives.

Appendix B – Summary of Findings for Leases in Audit Sample (cont.)

Summary of Claims in Audit Sample

We selected 10 overpayments to lessors (claims) identified by GSA's improper payment auditor in Fiscal Year 2016 that were later refunded to GSA. We selected these overpayments to verify if the refunds were passed through to PBS Region 9 tenant agencies.

Note	Building Name	Building Number	Original Claim Amount	Percent Passed Through	Finding (Note 1)
2	2160 South El Camino Real, Oceanside, CA	CA7658ZZ	$114,788	95%	N/A
3	Bureau of Land Management National Training Center, Phoenix, AZ	AZ6769ZZ	$38,452	39%	1
4	Soscol Building, Napa, CA	CA7885ZZ	$35,274	0%	1
5	301 East Virginia, Phoenix, AZ	AZ6482ZZ	$21,434	N/A	N/A
6	301 East Ocean Boulevard, Long Beach, CA	CA7334ZZ	$100,390	100%	N/A
6	El Centro Federal Court Building, El Centro, CA	CA7464ZZ	$92,250	100%	N/A
6	150 Almaden Boulevard, San Jose, CA	CA7663ZZ	$52,538	100%	N/A
6	995 Hardt Street, San Bernardino, CA	CA8405ZZ	$37,648	100%	N/A
6	3160 Garrity Way, Richmond, CA	CA7583ZZ	$36,346	100%	N/A
6	Air Libre and Tatum Boulevard, Phoenix, AZ	AZ7134ZZ	$30,917	100%	N/A

Notes:

1. This column identifies the finding related to the building as follows:
    - Finding 1 - PBS Region 9 lease administration and billing errors caused variances in FFO.
    - N/A – Not applicable or no findings for this report.

2. 2160 South El Camino Real: The $114,788 claim was a result of a missed step rent decrease in early March 2016 that was supposed to go into effect in July 2014. PBS credited the tenant agency back a total of $108,766, or 95 percent, of the original claim amount due to RRD policy.

3. Bureau of Land Management National Training Center: The $38,452 claim resulted from prior year real estate tax refunds. Due to the RRD policy, PBS could only credit the tenant agency back 39 percent of the refund.

4. Soscol Building: The $35,274 claim resulted from prior year real estate tax refund. The refund was not automatically passed through to the tenant agency because of a data entry error. Furthermore, PBS was unable to correct the error due to the RRD policy.

5. 301 East Virginia: The $21,434 claim resulted from overpayments between PBS Region 9 and the lessor. Thus, there was no need to pass through a credit to the tenant agency.

6. The claim associated with this lease location was fully passed-through to the tenant agency.

Appendix C – Summary of Findings for Leases in Audit Sample with Unpaid Rent

The purpose of this appendix is to summarize the results of the nine Region 9 lease locations that had uncollected rent between Fiscal Years 2009 and 2016 totaling $572,835 in revenue losses. The audit team identified the nine lease locations from delinquent rent reports provided by OCFO's PBS Analytics Division. OCFO deemed the overdue rent as uncollectable when they wrote off the entire amount in September 2017.

Building Name	Building Number	Agency	Uncollected Rent	Finding (Note 1)
1312 "J" Street, Sacramento, CA	CA6426ZZ	Washington Headquarters Services	($187,911)	2
222 North Sepulveda Boulevard, El Segundo, CA	CA6093ZZ	Washington Headquarters Services	($97,908)	2
50 Fremont, San Francisco, CA	CA6957ZZ	United States Air Force Real Property Agency	($77,060)	2
10880 Wilshire Boulevard, Los Angeles, CA	CA8004ZZ	United States Air Force Real Property Agency	($73,166)	2
401 West "A" Street, San Diego, CA	CA5939ZZ	Washington Headquarters Services	($67,529)	2
1329 Kettner Boulevard, San Diego, CA	CA8251ZZ	Washington Headquarters Services	($25,552)	2
475 West Broadway, San Diego, CA	CA7004ZZ	Washington Headquarters Services	($23,662)	2
801 "I" Street, Sacramento, CA	CA0083ZZ	Defense Logistics Agency	($15,387)	2
90 7th Street, San Francisco, CA	CA0305ZZ	Defense Logistics Agency	($4,663)	2

Note:

1. This column identifies the finding related to the building as follows:
    - Finding 2 - PBS Region 9 did not collect past due rent from tenant agencies resulting in FFO losses totaling more than $500,000.

Appendix D – GSA Comments

GSA

The Public Buildings Service

March 29, 2019

MEMORANDUM FOR: HILDA M. GARCIA
REGIONAL INSPECTOR GENERAL FOR AUDITING
PACIFIC RIM REGION AUDIT OFFICE (JA-9)

THROUGH: DANIEL W. MATHEWS
COMMISSIONER
PUBLIC BUILDINGS SERVICE (P)

Dan W. Mathews

FROM: DAN R. BROWN
REGIONAL COMMISSIONER
PUBLIC BUILDINGS SERVICE (9P)

SUBJECT: Office of Inspector General Draft Report on the Audit of the PBS Pacific Rim Region's Lease Financial Performance (A170047-2)

Thank you for the opportunity to comment on the subject draft audit report (Draft Report). PBS agrees to implement recommendations two through five of the Draft Report. PBS also agrees to implement recommendation one to the extent doing so is consistent with PBS policy.

Please see the attached Technical Comments document for PBS's specific comments regarding recommendation one.

Please contact Dan Brown, PBS Regional Commissioner Region 9, at (253) 709-5086 with any questions regarding this response.

Attachment

1800 F Street, NW
Washington, DC 20405

www.gsa.gov

Technical Comments

- Page "i" of the Executive Summary of the Draft Report incorrectly states that "[t]he PBS leasing program's objective is to generate sufficient revenue in order to 'break even' or recover all costs of administering the program." While the quoted statement represents one of PBS's measures of lease program performance, it does not reflect the objective of the PBS leasing program. The mission of the Office of Leasing is to assist Federal agencies in accomplishing their missions by providing lease acquisition services that deliver space timely, at best value, and with superior workplace solutions.

- The Draft Report states on page 3 that the "Federal Buildings Fund was established by the Federal Property and Administrative Services Act of 1949...." Please note the Federal Buildings Fund (FBF) was established by the Public Buildings Amendments of 1972, Pub. L. 92-313, § 3 (June 16, 1972).

- With regard to recommendation one, PBS agrees that funds retained within the FBF contrary to PBS policy should be returned to the tenant agency in question. However, there are specific examples cited in the Draft Report where it appears that the overpayments and refunds described would not be required, per the PBS policy cited in the report, for refund to the tenant agency. For example, the first bullet on page 5 of the Draft Report describes a Department of the Interior - Bureau of Land Management lease where the Region is said to have received a refund of real estate tax overpayments in the amount of $38,452 covering multiple years, but only returned $14,947 to the tenant agency. The Draft Report suggests the remaining amount should have been returned to the tenant agency "in accordance with federal fiscal law." However, per PBS policy, it was appropriate to return to the tenant agency only $14,947, and to retain the remainder as that amount was less than $50,000.

- PBS also disagrees that 31 U.S.C. § 3302(b) and the Comptroller General Decision cited in footnote 5 of the Draft Report compel rebates to the general fund of the Treasury. In *Accounting for Rebates from Travel Management Center Contractors*, B-217913.3 (June 24, 1994), GAO stated: "As a general rule all funds received for the use of the United States must be deposited in the general fund of the Treasury to the credit of the appropriate receipt account, *unless deposit to the credit of an appropriation or other fund account is authorized by law."* (emphasis added). The FBF is, in fact, such a fund authorized by law into which PBS is required to deposit tenant agency Rent payments pursuant to 40 U.S.C. § 592. Any overpayments received by PBS from a private sector lessor are credited to the FBF, and are distinguishable from the "approximate commercial charges" PBS imposes on tenant agencies pursuant to 40 U.S.C. § 586. Moreover, while 31 U.S.C. § 3302(b) refers to monies being deposited in the Treasury, the Draft Report does not recognize that the FBF is, in fact, a fund within the Treasury. *See* 40 U.S.C. § 592(a) ("There is

1

in the Treasury a fund known as the Federal Buildings Fund."). Thus, PBS' crediting of refunds and overpayments from landlords in the FBF complies with fiscal law, but also 31 U.S.C. § 3302(b).

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Appendix E – Report Distribution

GSA Administrator (A)

GSA Deputy Administrator (AD)

Commissioner (P)

Deputy Commissioner (P)

Chief of Staff (P)

Regional Administrator, Pacific Rim Region (9A)

Regional Commissioner, Public Buildings Service, Pacific Rim Region (9P)

Deputy Regional Commissioner, Public Buildings Service, Pacific Rim Region (9P)

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Chief Financial Officer (B)

Director, Office of Leasing (9PR)

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