

Implementation Review - Review of PBS's  
Appraisal Process for Rent Pricing  
Audit Report Number A060197/P/R/R08002  
January 2, 2008

Assignment Number A100096  
March 31, 2010





U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

---

Date: March 31, 2010

Reply to: R. Nicholas Goco  
Attn of: Deputy Assistant Inspector General  
For Real Property Audits (JA-R)

Subject: Implementation Review - Review of PBS's  
Appraisal Process for Rent Pricing  
Audit Report Number A060197/P/R/R08002  
January 2, 2008  
Assignment Number A100096

To: Robert A. Peck  
Commissioner, Public Buildings Service (P)

The Office of Inspector General (OIG) has completed an implementation review of the management actions taken on the three recommendations in the subject audit report. The review found that the Public Buildings Service (PBS) addressed all of the audit recommendations in the corrective action plan, dated February 29, 2008, (see Appendix A).

#### Background and Audit Report Findings

Rent charged in PBS's federally owned space is required by law to approximate commercial market rates. The major components of rent in federally owned buildings are the shell rent, operating costs, and parking, which are established by a market-based appraisal using comparable properties. Our initial review's objective was to address the following issues raised by a Director of the Administrative Office of the United States Courts (AOUSC) in a June 2006 letter to the GSA Inspector General: 1) PBS employees are adjusting independent appraisal rates in a predominately upward direction, 2) the Linking Budget to Performance program may have created an incentive for PBS employees to alter rental rates, 3) PBS has been overcharging the courts due to misclassified tenant floor cut space and erroneous billing, and 4) tenant access to appraisal documents has been limited.

The primary allegation in the AOUSC's June 2006 letter suggested that PBS personnel were adjusting contract appraisals for the purpose of increasing PBS income as well as for personal gain. Although the audit work did not support the AOUSC's assertions, it did identify appraisal adjustments and control issues. According to the written rationale included in most of the appraisal files, the majority of the adjustments (which were permitted by PBS policy at the time) were to correct deficiencies the Regional Appraisers identified in the contractor's appraisal. The audit also identified several control issues related to appraisal adjustments. For example, the appraisal files rarely contained supplementary documents to support the regional appraiser's

adjustments and there was little documentation of regional oversight over the appraisal reviews. Our review also found instances in which PBS appraisal policy was not followed, mainly as a result of errors by the contract appraisers that were not identified by PBS.

Additionally, we concluded the Linking Budget to Performance program did not provide an inherent incentive to adjust appraisals for personal benefit. We also found no consistency among the Regional Appraisers' performance plan critical elements, and found two critical elements (out of 50) with language that could be interpreted as encouraging profitability in PBS buildings. The audit also disclosed that PBS handled requests for appraisal information in accordance with then-current policy.

Accordingly, we made the following recommendations: 1) Establish specific documentation requirements for appraisal files to substantiate regional appraiser's decisions and actions regarding an appraisal file (e.g. disregarded appraisals, adjustments made due to changes in space measurements, and customer appraisal requests). Requirements should provide details on what should be documented and how the documentation should be executed; 2) Reinforce appraisal instructions and guidance with PBS regional appraisers to ensure the appraisal review process uncovers appraisal policy violations; and, 3) Develop consistent critical performance elements for regional appraisers that will ensure performance expectations do not conflict (in fact and appearance) with the professional duties of the regional appraiser.

In February 2008, management issued an action plan detailing the steps they proposed to take to implement our recommendations.

### Objective, Scope and Methodology

The objective of this implementation review was to determine if management had fully implemented the steps in their action plan. To accomplish this objective we examined the documentation submitted by PBS as supporting the accomplishment of the action plan steps. Additionally, we performed limited testing of the implementation of the guidance contained in these supporting documents. This testing included an analysis of 10 judgmentally selected contractor appraisals and related documents contained in PBS's Appraisal Data System (ADS). ADS provides PBS with a web-based nationally integrated database application that serves as a repository for Fair Annual Rent Appraisal and rent data. We also held meetings, and corresponded with, the National Office Lead Appraiser and three Regional Appraisers to obtain clarification on specific issues.

### Results

We concluded that management has fully implemented the actions listed on the corrective action plan and provided the necessary supporting documentation for each action step to the agency's Internal Control and Audit Division.

## Additional Observations

While the corrective actions taken by PBS addressed the issues raised in our initial report, our testing of the implementation actions suggests certain areas where clarifying the language in the program guidance might enhance controls in the appraisal program.

The appraisal file guidance requires "...appraisals not used for rate setting purposes that are kept in the file, but the file must have a memo explaining (or justifying) in detail the reasons for not using that appraisal. However, appraisals (indeed any documentation not used for determining the FAR rate for a fiscal year) may be removed from the file, provided it is not used for rate setting purposes or uploaded in ADS." It is not clear from this language whether unused appraisals should, or should not, be maintained in the file. The National Office Lead Appraiser maintains that unused appraisals (allowed under the guidance for legitimate purposes) still need to be included in the appraisal files since they are part of the rate setting process. We believe it might be beneficial for PBS to clarify its guidance in this area to ensure all contract appraisals ordered by the Regional Appraisers are included in the appraisal files, along with the rationale for excluding the appraisal from the rate setting process.

The appraisal file guidance also requires R/U (Rentable/Usable) modification forms to reflect changes in the space measurements affecting the ratio of rentable to usable square footage in a building, since these changes impact a tenant's rental rate. The guidance does not require supplemental documentation from the Spatial Data Management (SDM) group to substantiate the re-measurement. We believe having the supplemental information would be useful. While this information is captured in STAR, PBS's inventory database, or in separate regional files, enclosing an independent SDM report with the applicable R/U memo would allow the reader of the appraisal file to easily follow the building changes that impact the building's rental rate.

Finally, the appraisal file guidance does not address documentation requirements for customer's requests for copies of the appraisals that support the tenant's rental rates. The Regional Appraisers do not routinely provide customers appraisal documents, but do so only upon request. The Regional Appraisers informed us they maintain records related to the few requests they receive, although one Regional Appraiser does not include them in the appraisal file due to limited file space. Maintenance of consistent documentation would verify that PBS is being responsive to its tenants.

Thank you and your staff for the courtesies extended during this review. If you require any additional information on this implementation review, please contact me on 202-219-0088.

  
Susan P. Hall  
Audit Manager  
Real Property Audit Office (JA-R)

1800 F Street, NW, Washington, DC 20405-0002

Federal Recycling Program



Printed on Recycled Paper

Implementation Review - Review of PBS's Appraisal  
Process for Rent Pricing  
Audit Report Number A060197/P/R/R08002  
Assignment Number A100096  
Appendix A



GSA Public Buildings Service

FEB 29 2008

MEMORANDUM FOR R. NICHOLAS GOCO  
DEPUTY ASSISTANT INSPECTOR GENERAL FOR  
REAL PROPERTY AUDITS (JA-R)

FROM: DAVID L. WINSTEAD *David L. Winstead*  
COMMISSIONER (P)

SUBJECT: Review of Public Buildings Service's Appraisal Process for Rent  
Pricing – Audit Report No. A060197/P/R/R08002

PBS appreciates the opportunity to comment on the Office of the Inspector General's final Audit Report Number A060197/P/R/R08002. The audit findings are consistent with some of the issues identified in PBS's quality reviews of the Rent appraisal program.

As required by GSA Order P 2030.2B, we have attached the approved Management Decision Record and a detailed Corrective Action Plan for accomplishing the audit's three recommendations. PBS's Office of Real Property Asset Management has the lead for implementing these recommendations.

Should you have any questions pertaining to the action plan, please contact Ms. Cathy Kronopolus, Assistant Commissioner for Real Property Asset Management, at (202) 501-0638.

Attachments

U.S. General Services Administration  
1800 F Street, NW  
Washington, DC 20425-0002  
www.gsa.gov

Implementation Review - Review of PBS's Appraisal  
 Process for Rent Pricing  
 Audit Report Number A060197/P/R/R08002  
 Assignment Number A100096  
 Appendix A

**PBS Corrective Action Plan –PBS's Appraisal Process for Rent Pricing**

Designated Responding Official:	Cathleen C. Kronopolus
Contact Person:	Robert Yevoli
Telephone Number:	(202) 219 - 1403
Date:	January 31, 2008

Action Report Number/ Title	Recommendation Number	Proposed Completion Date
A060197/P/R/R08002 Review of PBS's Appraisal Process for Rent Pricing	1	December 31, 2008
<b>Recommendation:</b> Establish specific documentation requirements for appraisal files to substantiate regional appraiser's decisions and actions regarding an appraisal file (e.g. disregarded appraisals, adjustments made due to changes in space measurements, and customer appraisal requests). Requirements should provide details on what should be documented and how the documentation should be executed.		

PBS Action Plan:		
Action to be Taken Step-by-Step	Supporting Documentation to be sent to BECA	Documentation will be Sent Last Day of the Month
1 Initial draft appraisal instructions and guidance to include requirements for appraisal files to substantiate regional appraiser's decisions and actions regarding an appraisal file (e.g. disregarded appraisals, adjustments made due to changes in space measurements, and customer appraisal requests). Draft issued to regional contacts for comments.	Copy of draft guidance	September 2008
2 Updated final draft submitted for issuance processing.	Copy of updated draft guidance	October 2008
3 Final appraisal instructions and guidance.	Copy of final guidance / web link	December 2008

Implementation Review - Review of PBS's Appraisal  
 Process for Rent Pricing  
 Audit Report Number A060197/P/R/R08002  
 Assignment Number A100096  
 Appendix A

**PBS Corrective Action Plan – PBS's Appraisal Process for Rent Pricing**

Designated Responding Official:	Cathleen C. Kronopolus
Contact Person:	Robert Yevoli
Telephone Number:	(202) 219 - 1403
Date:	January 31, 2008

Action Report Number/ Title	Recommendation Number	Proposed Completion Date
A060197/P/R/R08002 Review of PBS's Appraisal Process for Rent Pricing	2	December 31, 2008
<b>Recommendation:</b> Reinforce appraisal instructions and guidance with PBS regional appraisers to ensure the appraisal review process uncovers appraisal policy violations.		

PBS Action Plan:		
Action to be Taken Step-by-Step	Supporting Documentation to be sent to BECA	Documentation will be Sent Last Day of the Month
1 Initial draft appraisal instructions and guidance to include procedures that ensure the appraisal review process uncovers appraisal policy violations. Draft issued to regional contacts for comments.	Copy of initial draft guidance	September 2008
2 Updated final draft submitted for issuance processing.	Copy of updated draft guidance.	October 2008
3 Final appraisal instructions and guidance to ensure the appraisal review process uncovers policy violations.	Copy of final guidance / or web link.	December 2008

Implementation Review - Review of PBS's Appraisal  
 Process for Rent Pricing  
 Audit Report Number A060197/P/R/R08002  
 Assignment Number A100096  
 Appendix A

**PBS Corrective Action Plan –PBS's Appraisal Process for Rent Pricing**

Designated Responding Official:	Cathleen C. Kronopolus
Contact Person:	Robert Yevoli
Telephone Number:	(202) 219 - 1403
Date:	January 31, 2008

Action Report Number/ Title	Recommendation Number	Proposed Completion Date
A060197/P/R/R08002 Review of PBS's Appraisal Process for Rent Pricing	3	December 31, 2008
<u>Recommendation:</u> Develop consistent critical performance elements for regional appraisers that will ensure performance expectations do not conflict (in fact and appearance) with the professional duties of the regional appraiser.		

PBS Action Plan:		
Action to be Taken Step-by-Step	Supporting Documentation to be sent to BECA	Documentation will be Sent Last Day of the Month
1 Develop and draft consistent critical performance elements for regional appraisers that will ensure performance expectations do not conflict (in fact and appearance) with the professional duties of the regional appraiser.	Copy of draft performance elements.	September 2008
2 Updated final draft submitted for Issuance processing.	Copy of updates performance elements sent to Issuance Team.	October 2008
3 Final critical performance elements for regional appraisers to ensure performance expectations.	Copy of final guidance or web link.	December 2008

Implementation Review - Review of PBS's Appraisal  
Process for Rent Pricing  
Audit Report Number A060197/P/R/R08002  
Assignment Number A100096  
Appendix B

Report Distribution

Commissioner, Public Buildings Service (P).....	1
Regional Administrator, Northeast & Caribbean Region (2A) .....	1
Regional Administrator, Southeast Sunbelt Region (4A).....	1
Regional Administrator, Great Lakes Region (5A) .....	1
Regional Administrator, Northwest/Arctic Region (10A).....	1
Regional Inspector General for Auditing (JA-2, JA-4, JA-5, JA-9).....	4
Regional Inspector General for Investigations (JI-2, JI-4, JI-5, JI-9).....	4
Office of the Chief Financial Officer (B) .....	1
Assistant Inspector General for Auditing (JA, JAO).....	2
Assistant Inspector General for Investigations (JI).....	1
Director, Internal Control & Audit Division (BEI) .....	1