



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

Existing Practices Hinder PBS's Management of Transition Assets

Report Number A130121/P/R/R15002
March 19, 2015



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

REPORT ABSTRACT

OBJECTIVES

The objectives of our audit were to: (1) Determine if PBS developed strategies and action plans in a timely manner for transition assets, and if the strategies and plans were implemented effectively; and (2) Evaluate the reasons behind any assets that remained in the transition status for extended periods of time.

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Existing Practices Hinder PBS's Management of Transition Assets

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WHAT WE FOUND

We identified the following during our audit:

Finding 1 – Strategies for some transition assets are not supported by specific action plans.

Finding 2 – Action plan statuses are neither regularly updated nor historically tracked.

Finding 3 – PBS does not track the duration of a transition asset's holding period.

WHAT WE RECOMMEND

Based on our audit findings we recommend the PBS Commissioner:

1. Ensure each asset's action plan addresses the asset's long-term strategy, specific to customer profile, market dynamics, and asset condition.
2. Ensure that action plans' completion dates and status descriptions are updated between the annual Asset Business Plan submissions to assist management in tracking progress.
3. Require retention of the historical action plans in the ABP tool to track past efforts and strengthen the accountability for achieving long-term strategies.
4. Implement an original classification date as part of the core asset analysis holding period to assist management in monitoring the amount of time needed to achieve transition strategies.

MANAGEMENT COMMENTS


The PBS Commissioner concurred with the recommendations. Management's written comments to the draft report are included as **Appendix B**.



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

DATE: March 19, 2015

TO: Norman Dong
Commissioner
Public Buildings Service (P)

FROM: Catherine M. Chunn 
Audit Manager
Program Audit Office (JA-R)

SUBJECT: Existing Practices Hinder PBS's Management of Transition Assets
Report Number A130121/P/R/R15002

This report presents the results of our audit of PBS's management of transition assets. Our findings and recommendations are summarized in the Report Abstract. Instructions regarding the audit resolution process can be found in the email that transmitted this report.

Your written comments to the draft report are included in **Appendix B** of this report.

If you have any questions regarding this report, please contact me or any member of the audit team at the following:

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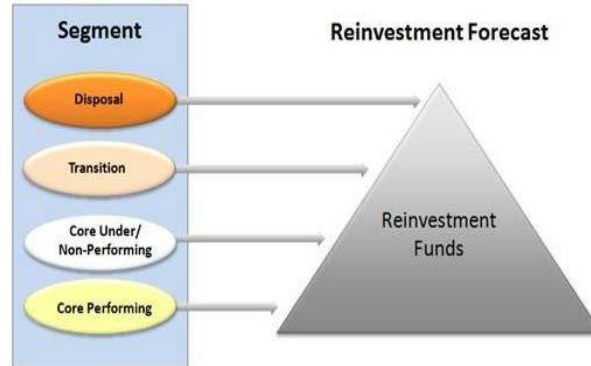
On behalf of the audit team, I would like to thank you and your staff for your assistance during this audit.

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Introduction

The focus of our audit was transition assets, which represented 8 percent of PBS owned inventory in fiscal year 2013. Transition assets are defined as owned assets with an uncertain future, which is designated by a 6 to 15-year holding period. PBS will fund basic needs of transition assets, as well as life safety and emergency repairs, but will typically avoid any major reinvestment, in accordance with the PBS portfolio strategy,¹ as shown in the diagram below:



One of the tools PBS uses to manage transition assets is the Asset Business Plan (ABP). The ABP is a web-based management tool used to capture individual asset information. The ABP contains thirteen sections of information for each owned asset, two of which capture the results of the core analysis. The Core Asset Analysis page presents the core test results, the assignment of the holding period, and any written justifications by the regional asset manager.² The Strategy and Action page presents the strategy to address asset issues and specific action plan steps to implement the strategy. The asset strategy must address the three aspects of the PBS portfolio strategy.

Currently, the core asset analysis includes a series of five quantitative tests used to evaluate the three aspects of the PBS portfolio strategy: customer profile, market dynamics, and asset conditions. These five quantitative tests include:

- Asset occupancy: the average vacancy rate over the past 3 years;
- Backfill potential: backfill opportunities based on local expiring leases;
- Market payback period: calculation of the years needed for an asset's income to pay back building reinvestment;
- Reinvestment level: planned reinvestment compared to an asset's fair replacement value; and
- Asset lifecycle: a measure of the need for reinvestment in core building systems.

¹ PBS portfolio strategy is to target reinvestment funds based on three aspects (customer needs, market conditions, and asset characteristics) to result in a self-sustaining portfolio of assets.

² If a regional asset manager elects to reclassify an asset's holding period, that person can do so by including a written justification in the ABP.

The core asset analysis results in a holding period for each asset. If an asset passes all test areas, it is considered a core asset with a holding period of greater than 15 years. Otherwise, the asset will be classified as either a transition asset with a 6 to 15-year holding period or a disposal asset with a holding period of less than 5 years. However, if PBS determines that an alternative strategy is appropriate, it must develop a justification to change the classification.

When developed in fiscal year 2005, the core asset initiative was designed to forecast the makeup of the PBS portfolio in 5 to 15 years by identifying the holding period for each asset. PBS surveyed regional portfolio managers and customer agencies to determine long-term asset strategies and identify its core assets. By conducting a core asset survey, PBS had a snapshot of what its portfolio composition would be in 15 years, helping managers plan reinvestment decisions with more accuracy and effectiveness.

While the core asset analysis was the focus of our audit efforts, other PBS programs impact the management of transition assets. Our audit efforts were centered on the information in the ABP as the focal point where the core asset analysis results are merged with each asset's strategy.

Objectives

Our objectives were to: (1) determine if PBS developed strategies and action plans in a timely manner for transition assets, and if the strategies and plans were implemented effectively; and (2) evaluate the reasons behind any assets that remained in the transition status for extended periods of time.

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

Results

Although PBS has developed individual asset strategies for each transition asset, PBS's management of those assets may be hindered by existing practices. In particular, the asset strategies for some transition assets are not supported with specific action plans, the action plan statuses are not being updated or tracked, and the holding period for transition assets cannot be assessed.

Finding 1 – Strategies for some transition assets are not supported by specific action plans.

Although we found that PBS developed individual asset strategies for each transition asset, the strategies for some of these assets are not supported by specific action plans. Without specific action plans targeted at customer profile, market dynamics, and asset conditions, long-term asset strategies may not be met.

PBS documents asset strategies and the supporting action plans in the ABP for each asset. According to the *FY 2013 Asset Business Plan Guidance* (guidance), the ABP should provide all information, strategies, and long-term plans necessary to manage the business of operating and optimizing an asset. ABPs should include well-articulated strategies that discuss each asset's performance relative to the three aspects of PBS's portfolio strategy; as well as action plans that document significant steps, either planned or recently completed, which are necessary to implement the strategy. The guidance also directs that upcoming repair and alteration projects should not be included in an action plan unless they are essential to strategy implementation.³

We reviewed the ABPs for 37 transition assets. While each of the transition assets in our sample had a strategy narrative, 21 (57 percent) had either no action plan or the action plan solely addressed basic repair and alteration work items and not the asset's long-term strategy.

When we reviewed the action plan steps listed in the ABP, we accepted basic repair and alterations as appropriate action plan steps if they were mentioned as necessary to the strategy. For example, one federal building's strategy mentioned lack of parking as an issue, and the construction of a parking pavilion was listed in the action plan. However, many of the repair and alteration steps listed in the sample were of a minor nature, such as replacement of exterior tiles on front steps, repair plaza, installing retaining wall and planters, or upgrading bathrooms. Some repairs listed were more significant, such as elevator repairs, but the issue was not mentioned in the strategy.

PBS Office of Real Property Asset Management, Portfolio Analysis Division officials stated that they approve ABPs without action plans because they do not believe an action plan is necessary in all cases. Also, the Portfolio Analysis Division officials approved the action plans with basic repair and alteration steps because they asserted it gave regional asset managers latitude to gauge the importance of those projects.

³ Basic repair and alteration projects are necessary to keep buildings in proper condition to protect building value and meet tenant needs.

However, an asset's action plan should outline the steps necessary to implement and accomplish the long-term strategy. The action plan translates the general discussion of the strategy section into specifics that management can track, including: what specific work is planned, which office is responsible, how much the work will cost, and when the work is anticipated to be completed. Without specific action plans targeted at customer profile, market dynamics, and asset conditions, long-term asset strategies may not be met.

Recommendation 1

The PBS Commissioner should ensure each asset's action plan addresses the asset's long-term strategy, specific to customer profile, market dynamics, and asset condition.

Management Comments

In their comments, management agreed with the audit finding and concurred with the recommendation (see **Appendix B**).

Finding 2 – Action plan statuses are neither regularly updated nor historically tracked.

Progress on asset strategies cannot be assessed because the status of action plan steps is neither updated nor tracked. PBS's asset managers were either unaware of or failed to update the required ABP fields within the action plans – project progress or completion dates.

The action plan is used to document significant steps, either planned or recently completed, which are necessary to implement the strategy. However, we noted many instances where the estimated completion date was past due without an actual completion date or a revised estimated completion date. Additionally, many of the description fields did not note the status of the planned work item. Specifically:

- 15 of 25⁴ projects had an estimated completion date listed for an action item, where the estimated completion date was past due without an actual completion date or a revised estimated completion date.
- 18 of 27 assets with action plans did not note the current status of the planned work item in the description field. For example: the Hot Springs Post Office/Courthouse action plan included an action item, "*Evaluate asset for disposal*," for which the estimated completion date has passed and no information was included in the description field.

⁴ From our sample of 37 transition assets, 10 had no action plans and 2 had action plans with no completion dates. As a result, we tested 25 action plans for completion by a specific date and 27 assets for completed action plans.

Also, we noted that the current action plans are written for the upcoming year with no record of the regions' progress on the previous year's action plan steps. The ABP tool does not track, nor does it require input of the regions' progress on, past action plan steps on the ABP Strategy and Action Plan page. Without tracking past action plan steps, there is less accountability for progress toward achieving the asset's overall strategy.

If the action plan step is related to a renovation project, the status may be captured in the Investment page of the ABP, which compiles information from other PBS project databases.⁵ However, in our sample, the most common action steps were unrelated to investment. Rather, most were efforts to backfill vacant space and for PBS to continue working with current tenants concerning their space needs, such as expansion or reduction of space.

Recommendation 2

The PBS Commissioner should ensure that action plans' completion dates and status descriptions are updated between the annual Asset Business Plan submissions to assist management in tracking progress.

Management Comments

In their comments, management agreed with the audit finding and concurred with the recommendation (see **Appendix B**).

Recommendation 3

The PBS Commissioner should require retention of the historical action plans in the ABP tool to track past efforts and strengthen the accountability for achieving long-term strategies.

Management Comments

In their comments, management agreed with the audit finding and concurred with the recommendation (see **Appendix B**).

Finding 3 – PBS does not track the duration of a transition asset's holding period.

PBS does not track the actual duration that an asset is classified as in transition. Each asset is evaluated annually through the core asset analysis and each transition asset is given the same holding period of 6 to 15 years. As a result, the timeframe for achieving strategies is obscured.

⁵ The Investment page lists values from the Inventory Reporting Information System (IRIS), Physical Condition Survey (PCS), and WebBER (Web Building Evaluation Report).

The holding period for each asset is noted in the Core Asset Analysis page of the ABP. The regional asset managers in the regions use a drop-down box in the ABP to select the holding period, either greater than 15 years, 6 to 15 years, or less than 5 years.

The previous holding period for the asset is shown; however, the guidance is to select a holding period that corresponds to the current year's core asset analysis test results and justifications.

As a result, the asset holding period is acting as an arbitrary timeframe based on the core asset classification rather than providing a milestone to implement and achieve the strategy for the transition asset. For example, an asset classified as a transition asset in 2013 has a 6 to 15-year holding period. If this same asset is classified as a transition asset in 2014, it is also assigned a 6 to 15-year holding period.

As such, the holding period does not reflect the timeframe needed to meet the asset's strategy. Without setting a milestone related to the strategy, an asset could be classified repeatedly under the transition status with a 6 to 15-year holding period. As a result, the timeframe needed to achieve the asset strategy is obscured and the meaning of the transition asset classification is diminished.

Recommendation 4

The PBS Commissioner should implement an original classification date as part of the core asset analysis holding period to assist management in monitoring the amount of time needed to achieve transition strategies.

Management Comments

In their comments, management agreed with the audit finding and concurred with the recommendation (see **Appendix B**).

Conclusion

The core asset analysis evaluates every owned asset based on the three elements of PBS portfolio strategy: customer needs, market dynamics, and asset condition. When developed in fiscal year 2005, the objective of the core asset analysis was to enable PBS to forecast the makeup of its portfolio in 5 to 15 years by identifying the holding period for each asset. Using this snapshot of its portfolio, PBS could plan reinvestment decisions with more accuracy and effectiveness.

However, to ensure that the reinvestment decisions are accurate and effective, PBS needs to develop and implement the asset strategies and action plans needed to align the portfolio with the forecast. This is especially important for transition assets that, with the implementation of the right strategy and action plan, could transition into a long-term core asset or move into disposal.

Our audit focused on the management of transition assets, specifically with the development of asset strategies and the action plans needed to implement them. Although we found that PBS developed specific strategies for its transition assets, it could improve on its management of these assets. In particular, PBS should: (1) ensure the asset action plan addresses an asset's long-term strategy, specific to customer profile, market dynamics, and asset condition; (2) ensure that action plans' completion dates and status descriptions are updated between the annual Asset Business Plan submissions to assist management in tracking progress; (3) retain the historical action plans in the ABP tool to track past efforts and strengthen the accountability for achieving long-term strategies; and (4) implement an original classification date as part of the core asset analysis holding period to assist management in monitoring the amount of time needed to achieve transition strategies.

Appendix A – Purpose, Scope, and Methodology

Purpose

This audit assessed the effectiveness of PBS's management of its transition assets, as part of the overall management of its real property inventory. This audit was included in the Office of Inspector General's Fiscal Year 2014 Audit Plan.

Scope and Methodology

Our audit focused on 37 transition assets in fiscal year 2013, that were located in the New England, Northeast and Caribbean, Southeast Sunbelt, Greater Southwest, and National Capital Regions. We also selected 16 assets that moved in and out of transition status between fiscal years 2010 and 2013 to understand the reasons behind the status changes. We selected our samples from transition asset information received from the Portfolio Analysis Division for the fiscal years 2010 to 2013. Our audit sample was judgmentally selected based on our risk assessment.

To accomplish our objectives, we:

- Interviewed personnel from the PBS Office of Real Property Asset Management, which oversees the core asset analysis and ABP submissions;
- Reviewed core asset test results, asset strategies, and action plans in the ABPs for the transition assets selected for review;
- Contacted regional asset managers responsible for the transition assets to gain details on the asset issues faced and the progress of strategies and plans noted in the ABP; and
- Reviewed PBS guidance and procedures.

We conducted the audit between September 2013 and August 2014 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

We evaluated internal controls over the management of transition assets to the extent necessary to address the audit objectives. Related internal control issues are discussed in the context of the audit findings.

Appendix B – Management Comments



GSA Public Buildings Service

February 13, 2015

MEMORANDUM FOR MARISA A. ROINESTAD
ASSOCIATE DEPUTY ASSISTANT INSPECTOR GENERAL
FOR AUDITING PROGRAM AUDIT OFFICE (JA-R)

FROM: NORMAN DONG
COMMISSIONER (P)
PUBLIC BUILDINGS SERVICE

A handwritten signature in blue ink, appearing to read "ND", is written over the printed name "NORMAN DONG".

SUBJECT: Existing Practices Hinder PBS's Management of Transition
Assets Draft Report - Audit Number A130121

The Public Buildings Service (PBS) appreciates the opportunity to review and comment on the subject draft audit report entitled *Existing Practices Hinder PBS's Management of Transition Assets Draft Report*.

PBS agrees with the report's recommendations as stated in the draft report:

1. Ensure each asset's action plan addresses the asset's long-term strategy, specific to customer profile, market dynamics, and asset condition.
2. Ensure that action plans' completion dates and status descriptions are updated between the annual Asset Business Plan (ABP) submissions to assist management in tracking progress.
3. Require retention of the historical action plans in the ABP tool to track past efforts and strengthen the accountability for achieving long-term strategies.
4. Implement an original classification date as part of the core asset analysis holding period to assist management in monitoring the amount of time needed to achieve transition strategies.

To address the first three recommendations, the PBS Portfolio Analysis Division is revising the annual Asset Business Plan (ABP) guidance to include direction that transition assets must have an action plan that supports the designated asset strategy and addresses the appropriate aspects of the PBS Portfolio Strategy: customer, market and asset condition. The guidance will require PBS users to provide updates on the

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Appendix B – Management Comments (cont.)

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progress of the actions in a timely manner and maintain a history of the actions from year to year. PBS users will follow these instructions to prepare the 2015 ABP updates. PBS will review all plans for compliance prior to approving any ABPs.

Strengthening the action plans for transition assets and maintaining a chronology of the actions will show the steps being taken to shift assets from transition to either the core or disposal category. The improved action plans will better support the PBS strategy to maintain a robust portfolio of strong income-producing assets that satisfy the long-term needs of our customers and dispose of excess properties that no longer serve a predominantly Federal use.

Finally, since full implementation of recommendation four requires ABP system updates, PBS will meet with the ABP developers to discuss these enhancements and the associated cost of this work. In the interim PBS will consolidate historic end of year Inventory Segment Reports into one excel repository and post the report on the PBS Portfolio Analysis Division's internal website.

Should you or your staff have questions, please contact Beth Lemanski on (202) 501-3277.

Appendix C – Report Distribution

PBS Commissioner (P)

PBS Deputy Commissioner (PD)

PBS Chief of Staff (P)

Regional Administrator (1A, 2A, 4A, 7A, WA)

Regional Commissioner, PBS (1P, 4P, 7P, WP)

Acting Regional Commissioner, PBS (2P)

Acting Assistant Commissioner, Office of Real Property Asset Management (PT)

Chief Administrative Services Officer (H)

Branch Chief, GAO/IG Audit Response Branch (H1C)

Audit Liaison (BCP)

Assistant Inspector General for Auditing (JA)

Director, Audit Planning, Policy, and Operations Staff (JAO)