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

Audit of the PBS National Capital Region's Lease Financial Performance

Report Number A170047/P/R/R19003
March 20, 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 the financial performance of its leases through the funds from operations (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 National Capital Region (NCR) leases meet the goals of the PBS pricing policy and GSA's annual performance plans and to determine the reasons for any excessive variances in lease FFO.

What We Found

PBS NCR is not effectively managing its leased portfolio to ensure that it is fully recovering the lease costs as required by the PBS Pricing Desk Guide (pricing policy). As a result, in Fiscal Year 2016, NCR posted a lease FFO loss of $49.8 million from its leasing portfolio. By reviewing a sample of 24 lease locations, we identified two deficiencies in PBS NCR's management of its leased portfolio that prevented individual leases from breaking even. First, we found that deficiencies in PBS NCR's planning and execution of certain leases resulted in unnecessary vacant space, causing lease FFO losses. Second, PBS NCR lease administration and accounting errors caused variances in, and inaccurate reporting of, lease FFO. Specifically, we found that PBS NCR overpaid lessors, did not reimburse tenant agencies for overbillings as required, and did not accurately record leasing actions in the financial system.

What We Recommend

We recommend that the Regional Commissioner, PBS NCR:

1. Quantify potential losses to GSA due to vacant space when planning space consolidation projects, and incorporate this risk analysis into business decisions.
2. Develop a control to identify when termination rights are upcoming for a lease in order to have time to confirm with the tenant agency if space will still be required.
3. Implement a process to ensure timely and accurate execution of lease actions, such as lease awards, extensions, terminations, and tenant improvement adjustments.
4. Implement a control to pass through recoveries to tenant agencies as required by PBS policy.
5. Reimburse tenant agencies for overpayments from the past 5 years.
6. Work with the Office of the Chief Financial Officer to correct accounting errors in the lease FFO tracking process.

In his response, the Regional Commissioner, PBS NCR agreed with our recommendations. PBS's written comments are included in their entirety as ***Appendix C***.

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Introduction

We performed an audit of the financial performance of leases in the PBS National Capital Region (PBS NCR).

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, for which it pays $5.57 billion in annual rent. PBS NCR leases over 52 percent of the space it provides to federal agencies. At the end of Fiscal Year (FY) 2016, NCR accounted for over 27 percent of PBS's leased inventory with 51.1 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 whether PBS NCR leases meet the goals of the PBS pricing policy and GSA's annual performance plans, and the reasons for any excessive variances in lease funds from operations (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 cost 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 NCR 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, such as NCR. The OCFO generates monthly lease financial performance reports and collaborates with the PBS NCR Office of Portfolio Management and Real Estate to follow up on leases with lease FFO loss or excessive gain. 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]

FY 2016 Lease FFO Results

In FY 2016, lease FFO regional performance varied; NCR had the largest negative effect on lease FFO, as shown in *Figure 2*.

[1] KPMG's FY14 Independent Auditors' Report on GSA's Financial Statements (November 2014).

Figure 2 – FY 2016 Lease FFO Results by Region

Region	FY 2016 Lease FFO (Loss)/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
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 tenant agencies, as well as 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.[2] 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.

[2] 40 USC 592.

Results

PBS NCR is not effectively managing its leased portfolio to ensure that it is fully recovering lease costs as required by PBS pricing policy. As measured by the lease FFO performance measure, PBS NCR's leasing portfolio lost over $49 million in FY 2016 and experienced a wide range of gains and losses on individual leases. Based on our testing, we identified two major issues causing excessive variances in lease FFO. First, we found that deficiencies in PBS NCR's planning and execution of certain leases resulted in unnecessary vacant space, which led to lease FFO losses. Second, PBS NCR lease administration and accounting errors caused variances in, and inaccurate reporting of, lease FFO. Specifically, we found PBS NCR overpaid lessors, did not reimburse tenant agencies for overbillings, and did not accurately record leasing actions in the financial system.

Finding 1 – Deficiencies in PBS NCR's planning and execution of certain leases resulted in unnecessary vacant space and lease FFO losses.

Based on our testing, we found that the major cause of lease FFO losses in PBS NCR was vacant lease space. In performing our testing, we judgmentally sampled 24 of the 527 lease locations in NCR. Because NCR had an overall lease FFO loss of $49,819,811 in FY 2016, our sample included more lease locations with lease FFO losses (18 leases with lease FFO losses of $31,099,632) than lease FFO gains (6 leases with lease FFO gains of $6,066,059). These leases represent 6.47 percent of the 54.7 million rentable square feet of space under lease in NCR. For details on the leases that we tested, see ***Appendix B***.[3]

Five of the six NCR locations with the largest lease FFO loss in FY 2016 had significant amounts of vacant space. At 11 locations in our sample, PBS NCR lost a total of $20,422,188 in rent, real estate taxes, and security charges that could not be passed through to a tenant agency because the space was vacant. Based on our review of the lease FFO reports, we concluded that vacant space is the primary reason why PBS NCR did not meet its lease FFO performance measure of a 0 to 2 percent lease FFO gain.

GSA established a performance goal to reduce vacant space in its leased inventory in an effort to lower the federal government's operational cost. However, we identified instances in our sample where PBS NCR could have avoided vacant space with improved planning based on knowledge of its customers. Specifically, we observed that PBS NCR:

- Did not take full advantage of a termination clause because it did not know that the tenant would be vacating leased space;

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

- Extended a lease for 5 years for an agency that was expecting to cease operations;
- Did not plan for vacant space resulting from a lease consolidation project; and
- Entered into leases for tenants that never took occupancy.

These are discussed in detail below.

PBS NCR Did Not Take Full Advantage of a Termination Clause

At 7520 Standish Place in Rockville, Maryland, PBS NCR did not capitalize on an opportunity to terminate the lease, which resulted in lease FFO losses due to vacant space. PBS NCR had extended the term of the lease contract by 5 years, from January 1, 2013, to December 31, 2017. The lease provided PBS NCR with annual termination rights beginning at the end of the second year (December 31, 2014) with 9-12 months' written notice. Therefore, to take advantage of the earliest possible termination, PBS NCR had a window of January 1 to March 31, 2014, to issue a notice.

The tenant, the Food and Drug Administration (FDA), provided an occupancy agreement termination letter to PBS NCR on April 18, 2014, stating that it would vacate the leased space by September 30, 2014. The FDA issued its letter 18 days after PBS's window for notifying the lessor of termination closed on March 31, 2014.

PBS NCR officials were aware that the FDA was not committed long term to this lease. For example, in the Price Negotiation Memorandum for the lease extension, written in 2012, the PBS NCR realty specialist stated that, due to the fact that the FDA tenants were planning to move to new federal space at the White Oak campus in Silver Spring, Maryland, FDA would have a continuing need for the lease only until mid to late 2014. However, PBS NCR could not provide evidence that it contacted FDA during the 2014 notification window to verify its future needs for the building.

Since PBS NCR did not give the lessor the required 9-12 months' notice to terminate the lease on December 31, 2014, PBS incurred a vacant space loss at the location for an additional year before it could terminate on December 31, 2015. This resulted in a FY 2016 lease FFO loss of $392,065 for 3 months of rental of space expenses from October to December 2015.

Extension of Lease When the Agency's Future Existence Was in Question

At 1717 Pennsylvania Avenue in Washington, D.C., PBS NCR extended the lease term for 3.5 years beyond the authorized term of the tenant agency. The Recovery Accountability and Transparency Board (RATB) had an occupancy agreement with PBS that acknowledged that the authorized term for the RATB ended September 30, 2015. However, PBS NCR extended the lease from April 9, 2014, to April 9, 2019, with no termination rights.

PBS NCR personnel were unable to explain the rationale for the 5-year extension. RATB vacated the space on September 30, 2015; however, PBS was still obligated to pay the lessor for rental of space expenses and real estate taxes. As a result, PBS NCR incurred a FY 2016 lease FFO loss of $837,753.[4]

No Planning for Vacant Space due to a Major Lease Consolidation Project

For the Health and Human Services (HHS) lease consolidation project in Rockville, Maryland, PBS NCR's planning documents detailed the benefits to the tenant agencies, but did not address the potential financial impact to GSA from the risk of vacant space created by the consolidation. Understanding and quantifying potential vacant space losses under this consolidation may have helped PBS NCR reduce vacant space and improve lease FFO.

PBS NCR leased space for HHS components in three locations that were consolidated to the Parklawn Building in Rockville, Maryland. (See ***Appendix B*** for the SAMHSA Building, Redland Technology Park, and Twinbrook Metro Plaza for details.) In March 2011, GSA selected the Parklawn Building as the site to consolidate HHS offices. Although the GSA/HHS Parklawn Housing Plan stated that the consolidation would reduce costs and improve space utilization for HHS, it did not account for the costs associated with the vacant space generated as a result of the consolidation. When the consolidation occurred between December 2015 and March 2016, it generated 439,436 square feet of vacant lease space. GSA was forced to absorb the rental costs and real estate taxes associated with this vacant space resulting in a FY 2016 lease FFO loss of $8.3 million.

We asked PBS NCR to provide documents that describe the planning for this consolidation, specifically considering its potential financial impact on GSA. The only documentation provided in response to our request was a Parklawn Housing Plan Summary from July 2012. Consideration of the financial impact of the consolidation was limited to a discussion of the future annual lease rent cost reductions for HHS; the financial impact to GSA from risk of vacant space was not discussed. We recognize that the creation of vacant space may be necessary for a successful consolidation; however, the financial impact to GSA from risk of vacant space should be evaluated in order to support more fully informed decisions on these projects.

Tenants Did Not Take Occupancy of Leased Space

PBS NCR acquired leased space at Union Square North in Washington, D.C., for the Medicaid and CHIP Payment and Access Commission (Medicaid) and the Department of Homeland Security (DHS). However, these agencies never completely occupied the space.

PBS NCR signed two 5-year leases for these tenants with terms starting in January 2012 and April 2012 respectively. Prior to occupancy, Medicaid released all of its space and DHS released 77 percent of its space. Pursuant to the PBS Pricing Policy in place at the time, the tenants were liable for only 4 months of rent after notifying PBS of their intent to release this space. Except

[4] The U.S. Agency of International Development backfilled the space in December 2017.

for a 1 month backfill of 3,520 rentable square feet, the 38,804 rentable square feet that Medicaid and DHS vacated in 2012 remained vacant for the entirety of FY 2016. As a result, PBS NCR was responsible for paying the associated rental costs and real estate taxes and resulting in a FY 2016 lease FFO loss of $1,490,626.

In our discussions with PBS NCR, officials noted that instances of tenants not taking occupancy of spaces intended for them led PBS to revise its policy. Tenants must now pay 16 months of rent in the event they back out of an occupancy.

As demonstrated by the examples above, we found that vacant leased space was the primary reason that PBS NCR's leasing program did not break even in FY 2016 and reported an overall lease FFO loss. While some amount of vacant space will inevitably occur, PBS NCR could have avoided some of the vacant space by working more closely with tenant agencies to plan for their space needs.

Finding 2 – PBS NCR lease administration and accounting errors caused variances in, and inaccurate reporting of, lease FFO.

The lease FFO for multiple leases was distorted due to a variety of administrative and accounting errors. PBS NCR overpaid lessors, did not reimburse tenant agencies for overbillings, and did not accurately record leasing actions in the financial system. These errors, and the corrections made by PBS NCR to address them, caused variances in, and inaccurate financial reporting of, lease FFO.

PBS NCR Overpaid Lessors for Rental of Space, Tenant Improvements, and Electricity Costs Causing Variances in Lease FFO

PBS NCR did not comply with the terms and conditions of its leases, resulting in overpayments to lessors. Overpayments cause fluctuations in lease FFO, including lease FFO losses in the fiscal year of the overpayment and lease FFO gains in the fiscal year of the recovery. In FY 2016, overpayments decreased lease FFO by $1.14 million for the leases in our sample. For overpayments made in prior years that PBS recovered in FY 2016, the recoveries increased lease FFO by $2.49 million in our sample.

Rental of Space Overpayments to Lessors. For three locations in our sample, PBS NCR overpaid rental of space expenses to lessors by not executing lease actions in a timely manner. It took months or years for PBS NCR to recover these overpayments. PBS NCR's actions for these locations did not meet PBS pricing policy, which requires PBS to pass through the lease contract rent to the tenant agency. The rental of space overpayments at the three locations caused variances in FY 2016 lease FFO, as discussed below:

- At Crystal Square II in Arlington, Virginia, PBS NCR renegotiated lease terms for two leases. Under the new lease terms, GSA was entitled to free and reduced rent from March 2015 to June 2015. However, PBS NCR continued to pay the lessor according to prior terms of the leases during this period, resulting in a $625,992 overpayment. PBS NCR did not recover this amount from the lessor until about 1 year later, in May 2016. The recovery increased FY 2016 lease FFO by $625,992.

- At Crystal Park 1 in Arlington, Virginia, PBS NCR did not terminate a lease in a timely manner, which resulted in 2 months of rent overpayments. In December 2012, the lease was terminated retroactive to September 30, 2012. Rent payments in October and November 2012 totaled $370,258. PBS NCR made no attempt to recover these overpayments until more than 3 years later. At that point, PBS NCR withheld rent for another location, Crystal Park 3 in Arlington, Virginia, to recover the funds from the lessor. The recovery increased FY 2016 lease FFO at Crystal Park 3 by $370,258.

- PBS NCR made duplicate rental payments for two leases at the Mark Center in Alexandria, Virginia, between August 2015 to April 2016. PBS NCR initially made holdover payments and later paid retroactively for the same space under replacement leases. When processing payments, PBS NCR provides payment information to GSA OCFO staff who confirm the accuracy of this information. In this case, neither PBS NCR nor GSA OCFO staff identified the holdover payments when processing retroactive payments for the replacement leases. As a result, PBS NCR overpaid $1,589,534.

  In July 2016, 11 months after the initial overpayment, the lessor reimbursed GSA in full. Because most of the overpayments occurred in the same fiscal year as the recovery, the net effect on FY 2016 lease FFO was minimal, resulting in a FY 2016 gain of $10,203.

Tenant Improvement Overpayments. PBS NCR erroneously overpaid for tenant improvement amortization by not following lease terms and making excess payments at three of the sample lease locations. These overpayments caused variances in FY 2016 lease FFO. The overpayments are discussed in detail below:

- PBS NCR signed a 10-year lease beginning in March 2005 at the James Polk Building in Arlington, Virginia. The supplemental lease agreement signed in September 2005 stated that tenant improvement payments were to be amortized over a period of 8 years. However, PBS NCR continued to make tenant improvement payments to the lessor for an additional 2 years. PBS NCR overpaid by $1,107,981, which the lessor refunded via a lump-sum payment in January 2016. The overpayment recovery increased FY 2016 lease FFO by $1,107,981.

- The lease for 500 C Street SW in Washington, D.C., stated that tenant improvement amortization payments of $334,107 annually were to end after the first 5 years of the lease, in August 2014. However, PBS NCR continued to pay for tenant improvement amortization through November 2015. Overpayments totaled $431,105, which PBS NCR recovered by withholding rent in December 2015. The net effect of the FY 2016 overpayments and the reimbursement increased FY 2016 lease FFO by $375,421.

- The lease for Mission Ridge in Chantilly, Virginia, stipulated that PBS NCR was to pay the lessor $55,793 annually in tenant improvement amortization. However, PBS NCR paid this amount twice in error, including it both as a component of shell rent and as a separate line item from October 2014 to March 2017. Overpayments over this period totaled $134,833. PBS fully recovered the overpayments by withholding rent in FY 2017; however, the overpayment resulted in a FY 2016 lease FFO loss of $55,793.

Electricity Cost Overpayments. PBS NCR erroneously overpaid for electricity costs at Mission Ridge because it did not hold the lessor to the lease terms. The overpayments at this location caused a variance in FY 2016 lease FFO.

According to the lease terms, the lessor was required to adjust above-standard electricity charges annually according to previous year actual costs; however, PBS NCR did not enforce this requirement.[5] As a result, PBS paid the lessor a total of $2,954,065 above actual electricity costs from October 2014 until March 2017, when GSA amended the lease to adjust the electricity costs based on actual costs incurred in the previous year.

PBS NCR owed the lessor $1,326,928 for unpaid heating, ventilation, and air conditioning costs, so the net amount the lessor owed PBS NCR for that period was $1,627,137 ($2,954,065 - $1,326,928). According to the lease terms, the lessor was to reimburse these costs via a lump-sum payment. However, PBS NCR agreed to allow the lessor to reimburse the amount in rent reductions over a 12-month period beginning May 2017 and ending April 2018. Of the $1,627,137 total that the lessor owed to PBS NCR, $1,085,071 was attributable to FY 2016, adding to the total lease FFO loss for this location.

PBS NCR Improperly Retained Reimbursements from Lessors

PBS NCR did not reimburse tenant agencies after recovering overpayments from lessors. According to PBS's Review Requirement Document for occupancy agreements, GSA should reimburse tenants if a recovery is within 5 years and over $50,000. However, PBS NCR officials misunderstood this policy. As a result, PBS NCR did not pass through real estate tax refunds to tenant agencies for two locations in our sample, increasing FY 2016 lease FFO for these leases by $1.70 million.

GSA hired PRGX USA, Inc. (PRGX) to perform payment recapture audits related to the Improper Payments Elimination and Recovery Act of 2010. In the payment recapture audits, PRGX detects and recovers overpayments and other errors in leases, and identifies recommendations for improvement. Additionally, lessors pass through to the Government its share of any real estate tax decreases. As discussed below, PRGX identified an overpayment to a lessor at one location and a lessor issued a credit for real estate taxes at another location, but PBS NCR did not reimburse the tenant agencies for the overcharges:

[5] The above-standard electricity charges resulted from a data center at this facility that uses more electricity than a standard office building.

- At 1801 North Lynn in Arlington, Virginia, a PRGX audit found that PBS NCR had calculated real estate taxes using the incorrect base year, and as a result, erroneously paid $1,147,103 in real estate taxes in September 2014. PBS NCR recovered the amount in full in January 2016 by withholding rent, but PBS NCR did not submit an exception request to Central Office to refund the tenant agency. This resulted in a FY 2016 FFO gain of $1,147,103.

- At Transpoint in Washington, D.C., the lessor issued a credit for the prorated decrease in tax year 2014 real estate taxes, which covered the period May 16, 2014, to April 30, 2015, minus the government's share of a fee for an appeal to the District of Columbia's Real Property Tax Appeals Commission. The lessor determined it owed GSA $635,566. GSA should have reimbursed the tenant agency occupying most of the space in the amount of $551,963. However, this recovery was not passed through to the tenant agency, resulting in an increase to the FY 2016 lease FFO of $551,963.

An official at the PBS Office of Portfolio Management and Customer Engagement told us that they have taken action to address these billing adjustment errors. In March 2018, this office sent an email to almost 1,000 employees involved with occupancy agreements clarifying the guidelines for when to pass through PRGX audit recoveries to the customer agency. They also told us that they plan to update the online pricing training course to include a section on billing adjustments to address this issue.

PBS should continue to implement processes to ensure that its staff is aware of policies requiring PBS to reimburse tenant agencies and to ensure that tenants have been properly reimbursed for real estate tax overpayments.

PBS NCR's Lease FFO Data Was Inaccurate Due to Accounting Errors

For 5 of the 24 lease locations in our sample, the lease FFO reports were inaccurate due to accounting errors affecting the leasing revenue and expenses recorded in the financial system. As a result, the reports for these locations did not accurately reflect the leasing program's performance, impairing management's ability to rely on the reports for making informed decisions about the program and individual leases. We found that PBS NCR did not record certain transactions or recorded transactions without the coding necessary to allocate the revenue or expenses to the correct location. Further, we found that PBS NCR's monthly lease FFO monitoring process did not effectively identify significant errors. These errors are discussed in detail below.

Understated Revenue Due to Coding Error. The lease FFO reports incorrectly showed a loss in FY 2016 for the Tycon Courthouse in Vienna, Virginia, because PBS NCR did not properly code a revenue transaction. The two leases at this location were fully occupied, but the financial report showed an unusually low rent revenue of $55,145 in comparison to the rental of space expense of $2,056,648. Although GSA's monitoring controls were ineffective to detect this discrepancy, we determined that it occurred because the budget and financial management staff did not enter the revenue source code for the transaction. As a result, revenue of $2,438,331 was not properly assigned to Tycon Courthouse, leading to a FY 2016 lease FFO distortion in the same amount.

Overstated Expenses Due to Claim Entry Error. The lease FFO reports overstated expenses by $678,168 in FY 2016 for two locations in our sample due to data entry errors when recording claim recoveries. These issues are discussed below.

- PBS NCR overpaid rent by $624,939 on a lease at Mark Center in Alexandria, Virginia, that should have terminated in 2015. After PBS NCR recovered the claim, the necessary offsetting transactions should have netted to zero. However, we determined that the U.S. Department of Agriculture OCFO analyst who created the offsetting entry did not include a building number necessary to allocate the transaction to the Mark Center lease.[6] Therefore, the lease FFO reports incorrectly overstated the expenses at this location.

- Similarly, at Crystal Park 1 in Arlington, Virginia, we determined that expenses were overstated by $53,229 because PBS NCR did not record a necessary offsetting transaction for a claim recovery. The claim recovery was related to an overpayment of rent at that location from 2012.

Although PBS NCR works in collaboration with the GSA OCFO to monitor lease FFO results, the monitoring did not result in corrections of these errors in the financial system. For the Mark Center lease, the PBS NCR monthly lease FFO tracking records noted that the $624,939 expense accrual was not properly liquidated. However, PBS NCR did not take corrective action. With regard to Crystal Park 1, the tracking records did not identify the error related to the claim recovery.

Overstated Expenses Due to Direct Labor Assigned in Error. The lease FFO reports overstated expenses by $182,594 at three locations in our sample because direct labor was assigned in error to the wrong leased locations. PBS NCR allocated direct labor expenses to The Portals and One Constitution Square in Washington, D.C., in error. At Mark Center, expenses should have been charged to a Reimbursable Work Authorization from the tenant agency, but were instead charged as direct labor to the PBS lease. None of these three errors were noted in the PBS NCR lease FFO monthly tracking process. The FY 2016 lease FFO loss attributable to this issue was $182,594.

PBS management relies on financial data to evaluate the performance of the leasing program; therefore, the financial data needs to be accurate and timely. PBS NCR works in collaboration with the GSA OCFO to monitor lease FFO results, following up on unusual lease FFO gains or

[6] The U.S. Department of Agriculture OCFO provides financial services to the GSA.

losses as shown on monthly lease FFO reports. However, we noted instances in which errors in data entry and cost allocation adversely affected the reported lease FFO for FY 2016. To ensure the accuracy of its financial data, PBS should improve the processes to identify and correct errors during the lease FFO tracking process.

Conclusion

We found that PBS NCR is not effectively managing its leased portfolio to ensure that it is fully recovering the lease costs as required by PBS pricing policy. First, we found that deficiencies in PBS NCR's planning and execution of certain leases has resulted in unnecessary vacant space and lease FFO losses. Second, PBS NCR lease administration and accounting errors caused variances in, and inaccurate reporting of, lease FFO. Specifically, we found PBS NCR overpaid lessors, did not reimburse tenant agencies for overbillings as required, and did not accurately record leasing actions in the financial system.

As a result, PBS NCR did not meet the overall lease FFO goal of a financially neutral leasing program in FY 2016. PBS NCR should establish or strengthen processes and internal controls to correct the deficiencies affecting lease FFO monitoring to meet performance goals and ensure that management can rely on this information for making effective decisions on PBS's leased portfolio.

Recommendations

We recommend that the Regional Commissioner, PBS NCR:

1. Quantify potential losses to GSA due to vacant space when planning space consolidation projects, and incorporate this risk analysis into business decisions.
2. Develop a control to identify when termination rights are upcoming for a lease in order to have time to confirm with the tenant agency if space will still be required.
3. Implement a process to ensure timely and accurate execution of lease actions, such as lease awards, extensions, terminations, and tenant improvement adjustments.
4. Implement a control to pass through recoveries to tenant agencies as required by PBS policy.
5. Reimburse tenant agencies for overpayments from the past 5 years.
6. Work with the Office of the Chief Financial Officer to correct accounting errors in the lease FFO tracking process.

GSA Comments

In his response, the Regional Commissioner, PBS NCR agreed with our recommendations. PBS's written comments are included in their entirety as ***Appendix C***.

Audit Team

This audit was managed out of the Real Property and Finance Audit Office and conducted by the individuals listed below:

Marisa A. Roinestad	Associate Deputy Assistant Inspector General for Auditing
Timothy Keeler	Audit Manager
Gary Vincent	Auditor-In-Charge
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John Brandon	Auditor

Appendix A – Scope and Methodology

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

To accomplish our objectives, we:

- Reviewed reports that tracked the lease FFO for PBS NCR and GSA as a whole;
- Sampled 24 of the 527 lease locations in PBS NCR. Because NCR had a lease FFO loss in FY 2016, we judgmentally selected more lease locations that had a lease FFO loss (18) than lease locations that had a lease FFO gain (6) during the fiscal year. Our first sampling criterion was that the lease FFO loss or gain had to exceed $350,000 in total dollar value. Our second sampling criterion was that lease FFO losses had to exceed 10 percent and lease FFO gains had to exceed 5 percent, compared to rental of space expense. In the total PBS NCR population, 57 lease locations met these criteria;
- Reviewed lease documents, occupancy agreements, and rent bills;
- Interviewed PBS NCR personnel who were knowledgeable about the sample lease locations;
- Followed up with GSA OCFO personnel for lease locations that were financially complex;
- Reviewed GSA OCFO and PBS NCR monthly tracking of variances in lease FFO;
- Reviewed PBS's Pricing Desk Guide, Leasing Desk Guide, and the Review Records Document (a PBS policy on billing adjustments); and
- Reviewed the *U.S. General Services Administration FY 2014 - 2018 Strategic Plan* and the *U.S. General Services Administration Annual Performance Plan and Report Fiscal Year 2016* for GSA's leasing program goals.

We conducted the audit between April 2017 and March 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 24 PBS NCR lease locations. The FY 2016 FFO column is the official lease FFO figure for each location as reported by the OCFO. Numbers in parentheses represent a lease FFO loss; positive numbers represent a lease FFO gain.

For the report findings, we identified common root causes in lease FFO losses and excessive gains. However, each lease location may have had other factors that contributed to its FY 2016 lease FFO. The FY 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	FY 2016 FFO	Finding(s) (Note 1)
2	The SAMHSA Building, Rockville, MD	MD0802ZZ	($3,599,634)	1
3	Redland Technology Park, Rockville, MD	MD0776ZZ	($3,545,566)	1
4	The Portals, Washington, D.C.	DC0403ZZ	($3,131,770)	1, 2
5	Mission Ridge, Chantilly, VA	VA0070ZZ	($3,117,114)	2
6	Ballston Common, Arlington, VA	VA0345ZZ	($3,092,192)	1
7	Union Square North, Washington, D.C.	DC0221ZZ	($2,957,075)	1
8	Tycon Courthouse, Vienna, VA	VA0382ZZ	($2,132,397)	2
9	Twinbrook Metro Plaza, Rockville, MD	MD0268ZZ	($1,751,984)	1
10	Republic Square, Washington, D.C.	DC1475ZZ	($1,451,502)	1
11	270 Corporate Center 3, Germantown, MD	MD0262ZZ	($1,165,328)	1
12	One Constitution Square, Washington, D.C.	DC0207ZZ	($1,071,519)	1, 2
13	Mark Center, Alexandria, VA	VA1633ZZ	($869,919)	2
14	1717 Pennsylvania Avenue, Washington, D.C.	DC0189ZZ	($779,063)	1
15	Wilson R. Gale Building, Landover, MD	MD0219ZZ	($718,987)	N/A
16	Crystal Plaza Four, Arlington, VA	VA0905ZZ	($567,555)	N/A
17	7520 Standish Place, Rockville, MD	MD0198ZZ	($406,572)	1
18	Crystal Park 1, Arlington, VA	VA0251ZZ	($386,118)	2
19	Twin Towers II, Arlington, VA	VA0255ZZ	($355,337)	N/A
20	Crystal Park 3, Arlington, VA	VA0387ZZ	$460,232	N/A
21	500 C Street SW, Washington, D.C.	DC0292ZZ	$627,878	2
22	Transpoint, Washington, D.C.	DC1230ZZ	$636,326	2
23	Crystal Square II, Arlington, VA	VA0318ZZ	$774,766	2
24	James Polk Building, Arlington, VA	VA1447ZZ	$1,420,718	2
25	1801 North Lynn Street, Arlington, VA	VA0854ZZ	$2,146,140	2

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

Notes:

1. This column identifies the finding related to the building. The findings are as follows:
    - Finding 1 – Deficiencies in PBS NCR's planning and execution of certain leases resulted in unnecessary vacant space and lease FFO losses.
    - Finding 2 – PBS NCR lease administration and accounting errors caused variances in, and inaccurate reporting of, lease FFO.
    - N/A – No applicable findings for this report.

2. <u>The SAMHSA Building</u> – In 2011, GSA awarded a lease to consolidate four components of HHS into one lease in the Parklawn Building in Rockville, Maryland. This consolidation was intended to reduce costs and improve space utilization rates. The renovated Parklawn Building was scheduled to be ready for occupancy between August 2015 and August 2017. Three of the four HHS offices to be consolidated in the Parklawn Building were included in our audit sample.

    One of these HHS tenants was located in the SAMHSA Building. PBS NCR extended the lease in the SAMHSA Building for 2 years, from August 2014 to August 2016, to facilitate the planned move to the Parklawn Building. The HHS tenant vacated this lease in March 2016. The lease FFO loss in FY 2016 due to the vacant space was $3,083,287.

3. <u>Redland Technology Park</u> – The HHS tenant in this lease was also part of the HHS consolidation to the Parklawn Building (see *Note 2*). The tenant was located in Redland Technology Park, in a lease that was set to expire in March 2013. GSA negotiated a 5-year extension to this lease to facilitate the eventual move to Parklawn Building and to add termination rights after March 2017 with 8 months' notice. The HHS tenant vacated in January 2016 and GSA terminated the lease in March 2017. The lease FFO loss in FY 2016 due to the vacant space was $3,226,601.

4. <u>The Portals</u> – Three of the four leases at this location had vacant space in FY 2016. One tenant took an early release from its space in September 2015, on a lease with a term through October 2017. Another tenant took a 2-month early release on a lease that terminated in January 2016. A third tenant reduced the amount of space that it was occupying in July 2015, on a lease with a term through July 2017. The lease FFO loss in FY 2016 due to vacant space was $2,713,510.

    Also, a GSA official determined that PBS NCR had erroneously charged $10,393 of staff labor as an expense to this location.

5. Mission Ridge – There were two payment issues at this lease location. First, PBS NCR overpaid the lessor by $1.63 million for above-standard electricity costs because it did not hold the lessor to the terms specified in the lease agreement. In November 2015, PBS NCR signed a lease amendment with the lessor stating that an estimate for annual electricity costs would serve as the baseline amount that GSA would pay to the lessor for above-standard electricity costs. The amendment further stated that the lessor must provide GSA with the actual electricity bills, with subsequent adjustments made annually based on the bills for the previous 12-month period. The difference between the amount GSA paid the lessor and the actual costs was to be reimbursed to either GSA or the lessor in a lump sum.

   PBS NCR did not enforce these requirements. The lessor did not provide PBS NCR with electricity bills for a full 12-month period until March 2016. PBS NCR continued to pay the estimated cost of $2,023,853 until March 2017. The actual electricity costs were significantly less than the estimate: $938,782 in FY 2015 and $711,124 in FY 2016. By the time PBS NCR amended the lease in May 2017 to lower these costs, it had overpaid the lessor by $2,954,065 for above-standard electricity costs for the period from October 2014 to March 2017.

   Separately, PBS NCR owed the lessor $1,326,928 for unpaid heating, ventilation, and air conditioning costs, so the net amount the lessor owed PBS NCR for that period was $1,627,137 ($2,954,065 - $1,326,928). Instead of following the lease terms for a lump-sum reimbursement, PBS NCR agreed to allow the lessor to reimburse this amount in rent reductions over a 12-month period. Therefore, PBS NCR would not receive full reimbursement until April 2018 for overpayments which began 3.5 years prior.

   The portion of this lease FFO loss attributable to these overpayments for FY 2016 was $1,085,071.

   In a second issue, PBS NCR overpaid the lessor by $55,793 annually for tenant improvements from October 2014 to March 2017 by erroneously including the expense both inside and outside the shell rent. Overpayments over that period totaled $134,833. PBS NCR recovered that amount by withholding it from the rental of space payment in April 2017. The lease FFO loss due to tenant improvement payments in FY 2016 was $55,793.

   Finally, an issue that had significant financial impact on FY 2016 lease FFO at Mission Ridge, but that we did not address as a common root cause, was the reversal of an accrual. In FY 2015, an accrual was entered that was later determined to be unnecessary. In the FY 2016 records for Mission Ridge, revenue was reduced by a credit of $2,126,362 to reverse this accrual, reducing FY 2016 lease FFO by that amount.

6. Ballston Common – At the beginning of FY 2016, Ballston Common had two GSA leases, both with the U.S. Coast Guard as the tenant. One lease had an expiration date of June 2016, the other of September 2021. The U.S. Coast Guard vacated both leases in January 2016 to relocate to the new DHS headquarters campus. GSA located a backfill tenant for the longer lease, but both leases had periods of vacant space. The FY 2016 lease FFO loss due to vacant space was $2,823,288.

7. Union Square North – At the beginning of FY 2016, Union Square North had four active GSA leases. Three had vacant space in FY 2016. In one lease, the tenant released the space prior to taking initial occupancy in 2012. Except for a one month backfill of 3,520 rentable square feet (RSF), the space was vacant the entirety of FY 2016. Another tenant took only partial occupancy in 2012, with the remaining 77 percent of the leased space being vacant. We calculated the vacant space loss due to these two leases to be $1,490,626.

   Additionally, a third tenant took an early release (allowable per PBS policy) from its leased space in December 2015. This space remained vacant the remainder of FY 2016, resulting an in additional loss of $1,405,345.

8. Tycon Courthouse – GSA awarded a lease in August 2015; however, it did not activate the occupancy agreement associated with this lease in its financial records until May 2016. GSA did not properly recognize the revenue associated with this late activation in the financial records due to a revenue source coding error. This resulted in understated revenue of $2,438,331 in FY 2016.

9. Twinbrook Metro Plaza – This is one of three locations in our audit sample that had vacant space related to the Parklawn Consolidation (see *Notes 2* and *3*). Occupancy commenced in August 2013, and the tenant agency vacated in December 2015. However, the lease did not give GSA the right to terminate the lease agreement until August 2016. Therefore, GSA was obligated to pay $214,004 per month in rental of space to the lessor without receiving rent revenue from a tenant from January 2016 to August 2016. PBS NCR was unable to pass through a total of $1,581,805 in rental of space expenses and $28,683 in vacant space security charges to a tenant agency. The total FY 2016 lease FFO loss due to vacant space was $1,610,488.

10. Republic Square – The tenant agency vacated all 18,936 RSF at this location in 2013, citing a need to consolidate due to budget reductions and new Administration policies. According to the lease, GSA had to continue to pay rental of space to the lessor until lease expiration in October 2016. Another agency backfilled 2,136 RSF in 2014. With the majority of space remaining vacant, GSA was unable to pass through $61,964 per month in rental of space expense, $229,797 in real estate taxes, and $12,432 in security charges to a tenant agency in FY 2016. The resulting effect on lease FFO was a $985,875 loss in FY 2016.

11. 270 Corporate Center 3 – The tenant agency vacated about 85,800 RSF at this location in 2011 and 2012, and GSA backfilled 2,807 RSF in 2014. The remaining space was mostly vacant until it was fully backfilled in April 2016. The lease expires in 2019 and does not contain any termination rights for GSA. Therefore, PBS NCR continued to pay rental of space for the entire 85,800 RSF when it was mostly vacant and was unable to pass through about $182,600 per month in rental of space expenses, $67,708 in real estate taxes, and $30,709 in security costs to a tenant agency until April 2016. The total lease FFO loss due to vacant space in FY 2016 was $1,194,212.

12. One Constitution Square – This space was originally leased to be swing space for GSA itself. A tenant backfilled a portion of the space in May 2014 after GSA vacated. The lease FFO loss due to vacant space was $517,401 for FY 2016. Also, GSA determined that $119,873 of the total Repair and Alteration expenses of $127,385 in FY 2016 was staff labor charged direct to this location in error, requiring adjustments.

13. Mark Center – GSA had two leases at Mark Center in FY 2016; each was a replacement lease with a term starting in August 2015. However, GSA did not activate these new leases or adjust the associated tenant occupancy agreements until May 2016. Once the new leases were active, GSA submitted claims to the lessor for the rent paid in holdover and made billing adjustments to the tenants. The net effect of these adjustments was to increase FY 2016 lease FFO by $10,203.

    GSA processed one claim correctly, but not the other. GSA collected the overpayment from the lessor and the offsetting transactions should have netted to zero. However, one entry of $624,939 did not include the building number that was needed to allocate the transaction to this location. As a result, an expense of $624,939 was not offset, overstating the lease FFO loss at Mark Center.

    Also, we determined that $52,328 in labor expense should have been charged to a reimbursable work authorization from the tenant agency, instead of as direct labor to the PBS lease.

14. 1717 Pennsylvania Avenue – At 1717 Pennsylvania Avenue, PBS NCR extended the lease term for 3.5 years beyond the authorized term of the tenant agency. The RATB had an occupancy agreement with PBS that acknowledged that the authorized term for the existence of the RATB ended September 30, 2015. However, PBS NCR extended the lease from April 9, 2014, to April 9, 2019, with no termination rights.

    PBS NCR was unable to explain the rationale for the 5-year extension. RATB released the space to PBS on September 30, 2015. We calculated the lease FFO loss attributable to the vacant space to be $837,753 in FY 2016.

15. Wilson R. Gale Building – We found no reportable issues at this location in the context of our audit objectives.

16. Crystal Plaza Four – We found no reportable issues at this location in the context of our audit objectives.

17. 7520 Standish Place – At 7520 Standish Place, PBS NCR did not capitalize on an opportunity to terminate the lease, which resulted in an additional year of vacant space. PBS NCR extended the lease term by 5 years, from January 1, 2013, to December 31, 2017. PBS NCR had annual termination rights beginning after the end of the second year (December 31, 2014) with 9-12 months' written notice. Therefore, to take advantage of the earliest possible termination, PBS NCR had a window of January 1 to March 31, 2014, to issue a notice.

    The FDA (tenant) provided an occupancy agreement termination letter to PBS NCR on April 18, 2014, that it would vacate fully by September 30, 2014. This was 18 days beyond the window that would allow PBS NCR the first opportunity to terminate the lease. PBS NCR officials were aware FDA was not committed long term to this lease. In the Price Negotiation Memorandum for the lease extension, written in 2012, the PBS NCR realty specialist stated that because the FDA tenants were planning to move to new federal space at the White Oak campus in Silver Spring, Maryland, FDA would have a continuing need for the lease only until mid to late 2014. However, PBS NCR could not provide evidence that it contacted FDA during the termination window to confirm the tenant's continued occupancy. Since PBS did not give the lessor 9-12 months' notice in order to terminate the lease on December 31, 2014, PBS NCR incurred a vacant space loss at the location for an additional year before it could terminate on December 31, 2015. The 3 months of rental of space expenses attributable to FY 2016 (October – December 2015) totaled $392,065.

18. Crystal Park 1 – This location did not have an active GSA lease in FY 2016. The most recent GSA lease at this location expired in December 2013. GSA and the lessor had a legal dispute centered on whether GSA had renewed the option on the lease, so the location had to remain open in GSA records. The United States Court of Federal Claims ruled in GSA's favor in January 2017.

    An earlier GSA lease at Crystal Park 1 terminated in September 2012; however, GSA continued to pay the rent in October and November 2012. The overpayment totaled $370,258. To recover the funds, GSA and the lessor agreed to withhold 7 monthly rental of space payments at another of the lessor's locations, Crystal Park 3. Also, an OCFO official informed us that one of these monthly rental of space claim entries, for $53,229, was erroneously coded. Although Crystal Park 1 was an inactive location, accounting entries to process the claim appear in FY 2016. The result of these accounting entries is that Crystal Park 1 records reflect a lease FFO loss in FY 2016.

19. Twin Towers II – We found no reportable issues at this location in the context of our audit objectives.

20. Crystal Park 3 – We found no reportable issues at this location in the context of our audit objectives.

21. 500 C Street SW – PBS NCR overpaid the lessor by $431,105 for tenant improvements by not following lease terms. According to the lease, tenant improvement payments of $334,107 annually were to be amortized over the first 5 years of the lease, ending in August 2014. However, PBS NCR continued to include tenant improvement payments in the rental of space payments until November 2015. PBS NCR recovered the funds in December 2015 by withholding rental of space payments to the lessor. The net effect of the overpayments in October and November 2015 and the full reimbursement in December 2015 caused a lease FFO gain of $375,421 in FY 2016.

22. Transpoint – The lessor issued a credit for the prorated decrease in tax year 2014 real estate taxes, which covered the period May 16, 2014, to April 30, 2015, minus the government's share of a fee for an appeal to the District of Columbia's Real Property Tax Appeals Commission. The lessor determined it owed GSA $635,566. GSA should have reimbursed the tenant agency occupying most of the space in the amount of $551,963. However, this recovery was not passed through to the tenant agency, resulting in an increase to the FY 2016 lease FFO of $551,963.

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

23. Crystal Square II – PBS NCR overpaid a total of $625,992 on two leases at this location because officials did not timely execute lease actions. PBS NCR processed two lease actions in June 2015, retroactive to March 2015. The new terms reduced rent for one lease and awarded 8.5 months of free rent for the other. However, between March and June 2015, PBS NCR had paid rent according to the prior terms. As a result, PBS NCR overpaid the lessor by $625,992 during that period. PBS NCR reimbursed the tenant agency in full by July 2015 and applied the proper period of free rent. The lessor reimbursed PBS NCR through rent reductions until May 2016 and began the period of free rent 4 months late. The rent abatements and additional months of free rent in FY 2016 lowered expenses for PBS NCR, resulting in a lease FFO gain of $625,992 in FY 2016.

24. James Polk Building – GSA received a check from the lessor for $1,107,980 to refund an overpayment of tenant improvement costs for an expired lease at this location. That prior lease had a term of 10 years; however, the tenant improvement costs were to be paid over the first 8 years. Due to a data entry error, GSA included tenant improvement costs in rental of space payments for the full 10 years. This refund reduced the rental of space expense and resulted in a lease FFO gain of $1,107,981 in FY 2016.

25. 1801 North Lynn Street – GSA had overpaid the lessor $1,147,103 for 2013 real estate taxes by using the wrong base year to calculate the amount owed. PBS NCR passed through this expense to the tenant agency, which in turn paid PBS NCR the $1,147,103. A PRGX audit identified the overpayment, and PBS NCR withheld $1,147,103 from rent to the lessor in FY 2016 to recover the funds. However, PBS NCR did not reimburse the tenant agency. According to a PBS NCR budget representative, PBS NCR does not reimburse the tenant agency if PRGX conducted its audit outside of the 2 fiscal year time frame after the overpayment.

    However, we verified the policy with PBS Central Office and found that, according to the June 2007 lease Review Requirements Document, PBS personnel can use an approved Exception Form to process a billing adjustment of at least $50,000 per year within 5 years. The credit in question fits this criteria; therefore, PBS NCR officials should have submitted an exception request. Central Office officials confirmed that they received no such request. This resulted in a FY 2016 lease FFO gain of $1,147,103.

Appendix C – GSA Comments

GSA

Public Buildings Service

March 8, 2019

MEMORANDUM FOR: MARISA A. ROINESTAD
ASSOCIATE DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING
REAL PROPERTY AND FINANCE AUDIT OFFICE (JA-R)

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

FROM: DARREN J. BLUE
REGIONAL COMMISSIONER
PUBLIC BUILDINGS SERVICE (WP)

SUBJECT: Response to the Office of Inspector General (OIG) *Audit of the PBS National Capital Region's Lease Financial Performance* (A170047-1)

The Public Buildings Service appreciates the opportunity to comment on the above draft audit report. PBS reviewed the report and concurs with the six recommendations made by your office. Recommendation five could result in gains/losses for current year Funds from Operations and will require additional internal coordination.

Please contact Darren Blue at (202) 708-5891 if you have any questions.

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Appendix D – Report Distribution

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