



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

Audit of PBS's Lease Extensions and Holdovers

Report Number A190033/P/R/R20007
June 22, 2020

Executive Summary

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Why We Performed This Audit

The General Services Administration's Public Buildings Service (PBS) has a number of means available to manage expiring leases, including extensions and holdovers. An extension is a negotiated agreement between the lessor and the government allowing the tenant agency to continue to occupy the premises after the original lease expiration date. A holdover is created when the tenant agency continues to occupy the premises beyond the expiration date of the lease term. While extensions and holdovers provide short-term flexibility, they are costly, time-consuming, and prohibit competition. Our objective was to assess if PBS is implementing its project lifecycle and leasing policies and procedures to minimize the use of extensions and holdovers.

What We Found

PBS has taken a number of steps to reduce its use of extensions and holdovers and encourage the use of more economical long-term lease agreements. Among other things, PBS issued guidance to increase upfront planning efforts for lease acquisitions and established simplified leases to reduce acquisition lead time for small and less-complicated lease actions. However, we found that PBS leasing staff face obstacles in adhering to this guidance and using the simplified lease process. This has contributed to delays in lease actions and increased the likelihood that PBS will have to enter into costly extensions or holdovers.

What We Recommend

We recommend that the PBS Commissioner:

1. Evaluate the upfront planning requirements to determine if revisions are necessary to align the expectations of Central Office and regional offices to reduce extensions and holdovers.
2. Increase collaboration with tenant agencies and communicate the importance of compliance with upfront planning milestones to reduce extensions and holdovers.
3. Increase awareness and training of the appropriate uses of all Request for Lease Proposals models.

The PBS Commissioner agreed with our recommendations and partially agreed with our findings. The Commissioner wrote that the report did not consider language from PBS's *Managing Customer Requirements* measure "demonstrating that the Regions are allowed to accept written consent from the customer, instead of a customer signature, for the [Client Project Agreement]." To address this comment, we added a footnote in the *Background* section of the report and made a corresponding clarification in *Finding 1*. However, this change did not affect our finding and conclusions. As noted in *Finding 1*, PBS obtained a completed Client Project Agreement—as indicated by the tenant agency's signature or another document signifying tenant agency concurrence—for only 3 of 16 lease projects in our sample.

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

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Introduction

We performed an audit of the Public Buildings Service (PBS) Office of Portfolio Management and Customer Engagement's and PBS Office of Leasing's management of expiring leases.

Purpose

This audit was included in the Office of Inspector General's *Fiscal Year 2019 Audit Plan*. PBS's leasing program is one of the General Services Administration's (GSA's) core functions. PBS has over 8,000 leases in its leasing portfolio. Leases that expire before PBS can negotiate another long-term solution result in extensions or holdovers. While these extensions and holdovers provide short-term flexibility, they are costly, time-consuming, and prohibit competition. PBS's strategy is to use more cost-effective, long-term leases.

Objective

Our audit objective was to assess if PBS is implementing its project lifecycle and leasing policies and procedures to minimize the use of extensions and holdovers.

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

Background

As the nation's largest public real estate organization, PBS provides workspace for more than 1.2 million federal employees. Approximately half of these employees work in government-owned buildings and half are located in leased space across the country.

PBS's leasing portfolio consists of more than 8,000 leases equating to \$5.7 billion in annual rent and more than 187 million rentable square feet of space.

When a lease approaches its expiration, the *PBS Leasing Desk Guide* states that PBS's first obligation is to check its inventory of government-owned and leased space to determine whether the tenant agency's need can be satisfied in existing vacant space.¹ If no suitable government-owned space is available to satisfy the tenant agency's need, PBS will execute a leasing procurement. GSA operates under the Competition in Contracting Act of 1984, which requires full and open competition for leasing procurements.² However, under some circumstances, noncompetitive actions such as extensions and holdovers may be necessary.

¹ *PBS Leasing Desk Guide*, Chapter 1, Section 3c.

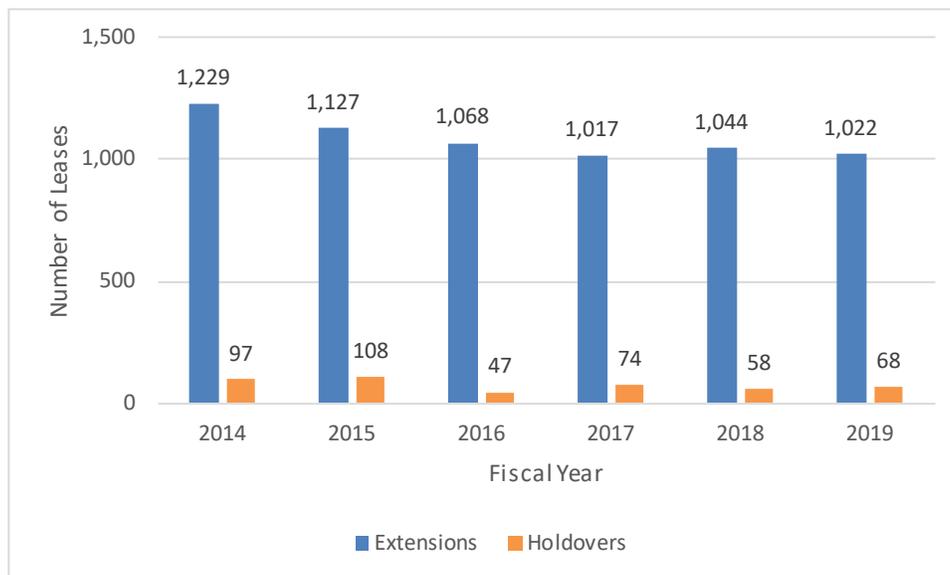
² 41 USC 3306(a)(1)(A).

PBS uses lease extensions when a tenant agency is unable to vacate the property by the time a lease expires. An extension is a negotiated agreement between the lessor and the government allowing the tenant agency to continue to occupy its current location for a short term.

A holdover is created when the tenant agency continues to occupy the space beyond the expiration date of the lease term despite the government having no contractual right to occupy the space. The holdover allows the tenant agency to remain in the space while PBS seeks a long-term solution.

Figure 1 presents the number of extension and holdover leases in PBS’s inventory at the end of Fiscal Years 2014 to 2019.

Figure 1 – Leases in Extension and Holdover Status by Fiscal Year



Extensions and holdovers are generally undesirable because they limit the negotiating power of the government to secure favorable contract terms, rental rates, or other conditions due to a lack of competition. Additionally, extensions and holdovers result in shorter terms, which may carry higher rental rates. Furthermore, lessors may not want to or even be able to accept the terms sought by the government due to prior commitments for the space. Finally, lessors may have trouble securing loans needed to improve the space to meet the tenant agency’s needs without a long-term agreement.

Notwithstanding these drawbacks, PBS officials told us that they sometimes use extensions as part of their overall portfolio management strategy. For example, PBS may enter into a lease extension to temporarily house a tenant agency that is awaiting completion of necessary build-out before moving into federally owned space.

Figure 2 presents the extension and holdover status of PBS’s inventory of leases as of September 2019.

Figure 2 – Leases in Extension and Holdover Status as of September 2019

Region	Active Leases	Extension Leases	Extension Percentages	Holdover Leases	Holdover Percentages
1	358	49	13.7%	6	1.7%
2	543	124	22.8%	9	1.7%
3	797	58	7.3%	0	0.0%
4	1,486	101	6.8%	12	0.8%
5	987	282	28.6%	10	1.0%
6	375	24	6.4%	5	1.3%
7	1,056	108	10.2%	6	0.6%
8	520	22	4.2%	2	0.4%
9	1,046	129	12.3%	9	0.9%
10	465	26	5.6%	0	0.0%
11	<u>551</u>	<u>99</u>	18.0%	<u>9</u>	1.6%
Total	8,184	1,022	12.5%	68	0.8%

Since 2015, PBS has been working to promote greater competition by reducing its dependency on lease extensions and holdovers, which are awarded to the incumbent lessor. In recent years, PBS has promoted longer lease-term strategies to reduce the frequency of recurring lease procurements and the resulting workload. Also, PBS increased the lead time for upfront planning with the tenant agency from 24 months to 36 months prior to expiration.

To further increase upfront collaboration with tenant agencies, PBS issued its *Managing Customer Requirements through Standardization and Upfront Planning* memorandum in January 2017. The memorandum requires that PBS projects meet milestones for developing requirements according to the PBS project lifecycle phases. Specifically, the memorandum provides that the first three phases of the project lifecycle—Identification, Initiation, and Planning—are critical to PBS’s ability to successfully execute the project. These phases are described in detail below.

Identification – During this phase, PBS works with the tenant agency to establish strategic requirements, which set the specifications of the space the tenant agency is requesting. PBS uses the following key deliverables to mark the completion of this phase:

- The Client Project Agreement (CPA) – This document was introduced through the *Managing Customer Requirements through Standardization and Upfront Planning* memorandum to facilitate discussion of strategic requirements and document agreement on the project between PBS and the tenant agency. The CPA outlines the tenant agency’s current occupancy, potential solutions for the future occupancy, and sets a commitment on how to proceed.

The CPA has two parts. Part 1 addresses basic attributes such as existing space, parking, and a proposed space recommendation. Part 2 facilitates the opportunity for PBS and the tenant agency to address strategic requirements in a more detailed discussion and come to a common agreement. The signed CPA indicates concurrence that PBS and the tenant agency have finalized strategic requirements and are ready to move to the next phase of the project.³ PBS and the tenant agency agree to the CPA by the end of the Identification phase.

- The Draft Occupancy Agreement (OA) – This document is a statement of the business terms between PBS and the tenant agency for a specific space assignment. PBS and the tenant agency agree to and sign the draft OA by the end of the Identification phase.

Initiation – During this phase, PBS formally assigns a project manager to the project. The PBS project manager leads the day-to-day activities of the project team. Among other things, they manage the relationship with the tenant agency and oversee the completion of project deliverables. The project manager is also responsible for initiating discussions with the tenant agency on functional requirements, which build on the strategic requirements to add more refined information about the space, expectations, schedule, and costs.

Planning – During this phase, the PBS project manager builds on the strategic and functional requirements to develop the specific project details. Completion of this phase is marked by the following key deliverables:

- Program of Requirements – A document that defines the tenant agency’s space and outlines their current space, head count, future growth, layout options, utilization rates, data room needs, typical furniture and floor plans, and early estimates for design and construction of the space. The tenant agency must submit the Program of Requirements by the end of the Planning phase.
- Agency-Specific Requirements – A document that defines a tenant agency’s unique space requirements for size and number of enclosed and open spaces, information technology requirements, security requirements, floor and wall finishes, and other details. The tenant agency must submit the Agency-Specific Requirements by the end of the Planning phase.
- Project Management Plan – A plan that defines all parameters of a project’s scope, schedule, safety, quality, risk, communication, and cost, in order to delineate strategies

³ PBS uses the term “signed CPA” to signify concurrence on the strategic requirements at the end of the Identification phase in the *Managing Customer Requirements through Standardization and Upfront Planning* memorandum, PBS training slides, and two process fact sheets on GSA’s public website. The memorandum specifies in Attachment 4 that a Standard Form 81, *Request for Space*, or written document notating agreement and attached to the completed CPA is also acceptable to indicate concurrence. Also, the PBS performance measure *Managing Customer Requirements*, for Fiscal Years 2017 to 2019, indicates the tenant agency can send an email to indicate concurrence.

for successful execution and to establish the roles and responsibilities of all parties involved. The Project Management Plan can be combined with the Acquisition Plan for smaller projects; however, for larger projects it must be a separate document. PBS must complete the Project Management Plan by the end of the Planning phase.

- Acquisition Plan – A plan to address all technical, business, management, and other significant considerations that will control the acquisition. The plan addresses such areas as the acquisition objective, potential sources of supply or services, competition, and milestones. PBS must complete the Acquisition Plan by the end of the Planning phase.

The PBS project lifecycle applies to both prospectus and non-prospectus leases. For leases with annual rent above the prospectus threshold, GSA must seek congressional approval for the amount and purpose of the project.⁴ The Capital Investment and Leasing Program (CILP) is the annual process in which GSA identifies prospectus-level projects and submits the projects to the Office of Management and Budget and Congress for approval.

As shown in *Figure 3*, PBS requires earlier completion of the project lifecycle phases for prospectus projects. This is because prospectus projects are larger and involve more complexities than non-prospectus projects.

Figure 3 – Phase Deliverable Timeline

Project Phase	Prospectus Project	Non-Prospectus Project
Identification	12-6 months prior to the CILP	36-30 months prior to expiring OA
Initiation	6-5 months prior to the CILP	30-29 months prior to expiring OA
Planning	20-24 months after strategic requirements are finalized	29-24 months prior to expiring OA

In addition to placing an increased emphasis on upfront planning efforts, PBS has a number of means available to expedite the leasing process. For example, PBS uses different Request for Lease Proposals (RLP) and lease models to meet the varying lease requirements to acquire leased space. These include:

⁴ 40 USC 3307. The prospectus thresholds for 2018 were \$3.095 million for construction—alteration and lease projects and \$1.547 million for alterations in leased buildings.

- Global – A flexible template that includes additional requirements and allows the leasing staff to choose what parameters to include in each individual lease acquisition.
- Automated Advanced Acquisition Program (AAAP) – A multiple award lease procurement tool that allows the market to compete for multiple federal leases by submitting a single offer through a single online platform.
- Simplified – A streamlined process to acquire leases where the net annual rent is under the simplified lease acquisition threshold (SLAT) of \$250,000. It is best used for small leases where the tenant agency can accept the existing design and buildout of the space.
- Small – This model is applicable to leases under 3,000 square feet and under the SLAT.
- Warehouse – This model is specifically designed to accommodate the special characteristics of warehouse space.

Results

Extensions and holdovers are costly and inefficient means of managing PBS's lease portfolio. Accordingly, PBS has taken a number of steps to reduce its use of extensions and holdovers and encourage the use of more economical long-term lease agreements. Among other things, PBS issued guidance to increase upfront planning efforts for lease acquisitions and established simplified leases to more quickly award small and less-complicated leases. However, we found that PBS leasing staff face obstacles in adhering to this guidance and using the simplified lease process. This has contributed to delays in lease actions and increased the likelihood that PBS will have to enter into extensions or holdovers.

Finding 1 – Leasing staff face obstacles in adhering to planning milestones, increasing the likelihood that PBS will have to enter into costly extensions or holdovers.

Advanced planning with tenant agencies is critical for PBS's ability to reduce lease extensions and holdovers. In recognition of this, PBS emphasized upfront planning to engage tenant agencies beginning in July 2015. Subsequently, PBS found that its planning efforts were ineffective to ensure that tenant agencies completed key activities, such as finalizing requirements and obtaining financial commitments, in a timely manner. In response, PBS issued the *Managing Customer Requirements through Standardization and Upfront Planning* memorandum in January 2017 to align the lease planning process with critical milestones identified in the Identification, Initiation, and Planning phases of the PBS project lifecycle.

However, we found that PBS leasing staff face several obstacles in meeting the required milestones. We tested a sample of 16 leases expiring between January 2020 and May 2021 with annual rent over \$500,000 across four GSA regions. We found that PBS did not meet all of the required milestones we tested for 12 leases (75 percent).⁵ As a result, PBS's efforts to engage the tenant agencies in upfront planning have been ineffective, thereby increasing the likelihood that PBS will need to enter into costly lease extensions and holdovers.

For details on the lease procurement projects we tested, see **Appendix B**.

Client Project Agreements Were Not Completed as Required

The CPA was specifically introduced through the *Managing Customer Requirements through Standardization and Upfront Planning* memorandum to facilitate discussion of strategic requirements and document agreement on the project between PBS and the tenant agency. As discussed in the *Background* section, the CPA is required to document the tenant agency's concurrence with the strategic requirements of the lease project. Completion of the CPA is indicated by the tenant agency's signature or another document signifying tenant agency

⁵ We selected lease projects in the Mid-Atlantic, Great Lakes, Pacific Rim, and National Capital Regions.

concurrency. However, we found that PBS completed a CPA for only 3 of the 16 lease projects in our sample prior to the end of the Identification phase as required.

PBS regional leadership told us that CPAs are not being completed for several reasons. Among other things, tenant agencies do not want to sign the CPA because they are reluctant to make a commitment so early in the process. Additionally, PBS regional staff and tenant agencies see the CPA as duplicative of other forms of requirements, or as merely a conversation starter. Some tenant agencies prefer to use the predecessor form, the Standard Form 81, *Request for Space*, or an internally generated form to transmit their requirements.

Our testing confirmed this. For example, LCA02150 is a 10-year lease expiring January 2, 2021, for the U.S. Social Security Administration (SSA) in Sacramento, California. The project team sent a CPA to the tenant agency; however, in our meeting with the project team, they noted that SSA never submits the CPA back to PBS. In this case, the project team noted that they had to escalate their efforts to get a response from SSA by issuing three successive expiration letters leading to a follow-up meeting with the SSA central office. Eventually the tenant agency provided its requirements using an internal form, the SSA Space Request Form, in October 2018. This was more than 3 months past the CPA deadline. In a February 2019 meeting between GSA and SSA, the parties discussed that GSA will need to extend the lease.

In another example, LPA05363 is a 10-year lease for the U.S. Department of Housing and Urban Development (HUD) in Philadelphia, Pennsylvania. With a lease expiration date of August 31, 2020, PBS should have had a CPA by February 28, 2018. Instead, HUD submitted a Space Requirements Package in July 2017. PBS had been engaging HUD in a dialogue to reduce its space since 2015. Also, PBS and HUD had been exploring the possibility of HUD moving to federal space; this fell through and PBS pursued leased space. With these ongoing challenges with the tenant agency, PBS decided not to pursue the CPA form. Subsequent to our fieldwork, PBS issued an amendment to the lease to extend the expiration date by 9 months, to May 31, 2021. Although the amendment referred to this as a renewal, it is in essence an extension, because the original contract contained no renewal clause.

The CPA is critical to the timeliness of PBS lease procurements because it enables PBS and the tenant agency to establish preliminary requirements at the earliest practical point. However, as described above, PBS had difficulties in completing CPAs in a timely manner. This can have a cascading effect on the lease procurement, which can delay the award of a replacement lease and cause PBS to enter into an extension or holdover.

Other Key Milestones That Were Not Met

PBS also did not meet other milestones established in the *Managing Customer Requirements through Standardization and Upfront Planning* memorandum. Among other things, PBS did not obtain key information, including draft OAs, Project Management and Acquisition Plans, and tenant agency requirements. Without understanding the tenant agency's requirements and

receiving the tenant agency's financial commitment, PBS cannot move forward to advertise for a lease, increasing the likelihood that PBS will be forced to enter into an extension or holdover.

Draft Occupancy Agreement. The OA sets forth key terms between PBS and the tenant agency. PBS and the tenant agency signed draft OAs for only 3 of the 16 lease projects in our sample.

For example, LIL18302 is a 10-year lease expiring November 30, 2020, for the U.S. Department of Health and Human Services (HHS) Midwest Regional Office in Chicago, Illinois. Originally, PBS pursued a prospectus project for the HHS Midwest Regional Office, but the prospectus was rejected by the Office of Management and Budget. Subsequently, PBS spent significant time working with the tenant agency to reduce space, improve efficiency, reduce costs, and get the project under the prospectus threshold. The HHS Midwest Regional Office was home to 13 different components within HHS; the tenant agency had asked PBS to create 13 separate OAs because these components had different income streams. For the new project, the project team provided us with one OA for the new lease. It was submitted in time to meet the deadline, but it was not signed by the tenant agency as required. PBS officials told us they will have to extend this lease.

Project Management and Acquisition Plans. These plans are required to establish, among other things, the scope, cost, and schedule of the lease. PBS completed the Project Management and Acquisition Plans for only 6 of the 16 leases prior to the end of the Planning phase.

For example, LNV99090 is a 20-year lease from January 1, 2001, to December 31, 2020, for the U.S. Drug Enforcement Administration in Las Vegas, Nevada. The Project Management and Acquisition Plans were signed in August 2019, which was 8 months past the deadline. On June 18, 2019, PBS officials in Region 9 told us that the project was behind, but that an extension might be avoided if the incumbent lessor won the bid. Nevertheless, we found a May 14, 2019, email reflecting PBS's consideration of a 6- to 12-month extension with an additional soft term. On February 6, 2020, PBS awarded a task order to a broker to work on a 12-month extension.

Program of Requirements or Agency-Specific Requirements. The tenant agency's requirements provide critical information on its space needs, including the number of employees, future growth potential, furniture and floor plans, and information technology requirements. However, we found that PBS received the Program of Requirements or Agency-Specific Requirements for only 9 of the 16 leases prior to the Planning phase deadline.

For example, LVA02270 was a 10-year lease that expired March 24, 2020, for the U.S. Department of State in Lorton, Virginia, and is currently part of a 13-lease consolidation project. PBS is exploring interim actions to extend or renew the relevant leases until CILP approval. As a result, PBS had not entered into the Planning phases of the project as of June 25, 2019, and has not received the Program of Requirements or Agency-Specific Requirements, which should

have been received in March 2018. Congressional review, planning, and execution could take 3 years beyond the CILP submission. In March 2020, PBS extended the lease for 5 years.

In sum, PBS did not meet critical milestones for 12 of the lease procurement projects we tested. As a result, PBS has or will have to enter into extensions and holdovers for at least seven of these leases.

Finding 2 – PBS is underutilizing the Simplified Request for Lease Proposals and missing an opportunity to reduce lease acquisition time and prevent extensions and holdovers.

PBS is underutilizing the Simplified Request for Lease Proposals (RLP) in its acquisition process. Regional staff prefer the other RLP models because of their lack of familiarity with the Simplified RLP and because of the misconception that the Simplified RLP provides fewer protections compared to the other RLP models. This results in longer times to award leases, which can cause lease extensions and holdovers if PBS employees are spending unnecessary time on these smaller-value leases rather than focusing on higher-value leases elsewhere.

The *PBS Leasing Desk Guide* states that Simplified RLPs can be used for minimal-buildout lease acquisitions that fall below the SLAT, set at \$250,000. The *PBS Leasing Desk Guide* also states that the Simplified RLP and lease form reduce acquisition time for small lease actions. The Simplified RLP is applicable for lease acquisitions for facilities with low security requirements and when an agency can commit to an expedited design process.⁶ The other major RLP models are the Automated Advanced Acquisition Program (AAAP) and the Global RLP. The AAAP is a multiple-award lease procurement tool that allows the market to compete for multiple federal leases by submitting a single offer through a single online platform. The Global RLP includes additional requirements and allows the leasing staff to choose what to include in each individual lease acquisition.

During our site visits, PBS regional management told us that the Simplified RLP was not frequently used due to a lack of familiarity with the Simplified RLP, a preference for other RLP models, and because the Simplified RLP does not offer the same protections as the Global RLP.

We conducted a test of Simplified RLP use among smaller-value leases nationwide. To do this, we selected the three most recently acquired leases under \$225,000 in each of GSA's 11 regions.

⁶ The U.S. Department of Homeland Security's Federal Protective Service and the tenant agency determine the facility security level for each space requirement, in consultation with PBS. Facilities are categorized as level I to V, (lowest to highest). Simplified RLPs are applicable for security levels I and II.

In the sample of 33 leases, the following RLP models were used:

Figure 4 – RLP Use in the Audit Sample

RLP Model	Count
Global	10
AAAP	11
Simplified	3
Warehouse	4
Small	5
Total Sample	33

Overall, out of the 33 sampled leases, the Simplified RLP was only used 3 times (9 percent). We focused our follow-up inquiries on the 10 leases that were acquired using the Global RLP because they are the most time consuming. For 3 of the 10 leases, PBS representatives stated that they did not use the Simplified RLP because they believed that it has fewer protective legal clauses and does not save time compared to the Global RLP. For another lease, PBS representatives stated they used the Global RLP because they were more familiar with that form than the Simplified RLP form. For the other six leases, PBS’s reasons for using the Global RLP over the Simplified RLP related to tenant improvement and build-out costs, which were too complex for the Simplified RLP.

Increasing the use of Simplified RLPs has the potential to decrease the occurrence of extensions and holdovers by focusing leasing resources on complex, higher-value leases that require more resources to negotiate. However, leasing staff familiarity with other lease methodologies and perceptions about the lack of legal protections are obstacles for PBS.

PBS’s Office of Leasing informed us of new efforts to combine the Simplified RLP model with the Small RLP model, with a planned pilot start date in Fiscal Year 2021 and final implementation in Fiscal Year 2022. The Small RLP is a model applicable to leases under 3,000 square feet and under the SLAT. PBS should increase awareness and training of the appropriate uses of all RLP models, including the combined Simplified RLP and Small RLP model when it is finalized. Through the training, PBS should address any regional concerns related to the perceptions of the Simplified RLP’s protections.

Conclusion

PBS has taken a number of steps to reduce its use of extensions and holdovers and encourage the use of more economical long-term lease agreements. Among other things, PBS has issued guidance to increase upfront planning efforts for lease acquisitions and established simplified leases to reduce acquisition lead time for small and less-complicated lease actions. However, we found that PBS leasing staff face obstacles in adhering to this guidance and using the simplified lease process. This has contributed to delays in lease actions and increased the likelihood that PBS will have to enter into costly extensions or holdovers.

PBS should evaluate the adequacy of upfront planning practices internally. Additionally, PBS should meet with tenant agencies in an effort to increase collaboration and compliance to reduce the number of extensions and holdovers.

Recommendations

We recommend that the PBS Commissioner:

1. Evaluate the upfront planning requirements to determine if revisions are necessary to align the expectations of Central Office and regional offices to reduce extensions and holdovers.
2. Increase collaboration with tenant agencies and communicate the importance of compliance with upfront planning milestones to reduce extensions and holdovers.
3. Increase awareness and training of the appropriate uses of all Request for Lease Proposals models.

GSA Comments

The PBS Commissioner agreed with our recommendations and partially agreed with our findings. The Commissioner wrote that the report did not consider language from PBS's *Managing Customer Requirements* measure "demonstrating that the Regions are allowed to accept written consent from the customer, instead of a customer signature, for the CPA." To address this comment, we added a footnote in the *Background* section of the report and made a corresponding clarification in *Finding 1*. However, this change did not affect our findings and conclusions. As noted in *Finding 1*, PBS obtained a completed CPA—as indicated by the tenant agency's signature or another document signifying tenant agency concurrence—for only 3 of 16 lease projects in our sample.

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

Audit Team

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

Cairo Carr	Acting Associate Deputy Assistant Inspector General for Auditing
Timothy Keeler	Audit Manager
Gary Vincent	Auditor-In-Charge
Renata Malionek	Management Analyst

Appendix A – Scope and Methodology

We examined PBS's use of, and attempts to limit, extensions and holdovers as a means to replace expiring leases. We also examined PBS's use of the Simplified RLP for qualified leases.

To accomplish our objective, we:

- Reviewed PBS guidance on reducing extensions and holdovers, specifically a memorandum from January 2017 titled *Managing Customer Requirements through Standardization and Upfront Planning* and the *PBS Leasing Desk Guide*;
- Reviewed OAs, lease agreements and amendments, CPAs, and other documentation found on the GSA Real Estate Exchange or provided by PBS;
- Examined spreadsheets created and maintained by PBS that documented the lease status and location information for all leased locations nationwide;
- Conducted site visits to Regions 3, 5, 9, and 11 to test sample leases. We selected the regions with varying success in lease replacement and a sufficient number of higher-value leases;
- Tested PBS's adherence to its *Managing Customer Requirements through Standardization and Upfront Planning* memorandum. We selected 16 leases with annual rent over \$500,000, expiring between January 2020 and May 2021. We interviewed leasing teams and analyzed documents to determine if the milestones outlined in the memorandum were met;
- Tested 20 leases with annual rent over \$500,000 and that expired between October 2018 and April 2019. We interviewed members of the leasing teams; analyzed documents; and recorded common themes and causes for replacements, extensions, and holdovers; and
- Conducted a nationwide test to determine if PBS used the Simplified RLP when appropriate. To do this, we selected the 3 most recently acquired leases in each of GSA's 11 regions, totaling 33 leases below \$225,000. The SLAT at the time of the test was \$250,000.

We conducted the audit between April 2019 and January 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

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

Appendix B – Sample Testing Results for Upfront Planning

Lease Number	CPA Part 2 (30 months)	SF-81 or Other Requirements (30 months)	Draft OA (30 months)	PMP ⁷ and Acquisition Plan (24 months)	POR ⁸ or ASR ⁹ (24 months)	Completed All Applicable Deliverables Tested
LPA05363	No	Yes	Yes	Yes	Yes	✘
LMD09605	No	Yes	No	No	Yes	✘
LWV03382	Yes	N/A	Yes	Yes	Yes	✔
LVA09493	No	Yes	No	No	No	✘
LIL19218	No	Yes	No	Yes	Yes	✘
LIL17843	No	Yes	N/A	Yes	Yes	✘
LMI18404	Unsigned	No	No	No	No	✘
LIL18302	No	No	No	Yes	Yes	✘
LCA02150	No	No	No	No	Yes	✘
LCA01839	No	No	No	No	No	✘
LAZ02614	N/A	N/A	N/A	N/A	N/A	✔
LNV99090	No	Yes	No	No	Yes	✘
LDC02207	N/A	N/A	N/A	N/A	N/A	✔
LDC02208	Yes	N/A	Yes	Yes	Yes	✔
LVA02270	No	No	No	No	No	✘
LVA02259	No	No	No	No	No	✘

The deadlines for non-prospectus projects are listed in the column headers as the months prior to expiration of the current lease term. The deadlines for prospectus-level projects are on a cycle that pertains to CILP approval and is different than non-prospectus projects.

⁷ Project Management Plan.

⁸ Program of Requirements.

⁹ Agency-Specific Requirements.

Appendix C – GSA Comments

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Public Buildings Service

May 27, 2020

MEMORANDUM FOR CAIRO CARR
ACTING ASSOCIATE DEPUTY ASSISTANT INSPECTOR
GENERAL FOR AUDITING
REAL PROPERTY AND FINANCE AUDIT OFFICE (JA-R)

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

SUBJECT: Response to the Office of Inspector General (OIG) Draft
Audit Report, *Audit of PBS's Lease Extensions and
Holdovers* (A190033)

Thank you for the opportunity to comment on the referenced draft audit report. PBS reviewed the report and agrees with the report's recommendations.

PBS partially agrees with the findings. As discussed in the exit meeting with the OIG Audit team on April 20, 2020, and reflected in documentation provided by PBS at that time, PBS has technical feedback on Finding 1 regarding customer concurrence for the Client Project Agreement (outlined on page 4 of the audit report). Specifically, the draft report did not consider stipulations that are notated in the Managing Customer Requirements measure as written by PBS Central Office for FY 2017-2020. The measure included language demonstrating the Regions are allowed to accept written consent from the customer, instead of a customer signature, for the Client Project Agreement.

PBS appreciates your office's consideration of these technical comments and those previously provided, as you develop the final report. If you have any questions, please contact Stuart Burns, Assistant Commissioner, Office of Portfolio and Customer Engagement at 202-969-7263.

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Appendix D – Report Distribution

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