

August 1999

GENERAL SERVICES ADMINISTRATION

Actions Taken to Correct Rent Expense Estimation Weaknesses



General Government Division

B-282846

August 19, 1999

The Honorable Bob Franks, Chairman
Subcommittee on Economic Development,
Public Buildings, Hazardous Materials
and Pipeline Transportation
Committee on Transportation and Infrastructure
House of Representatives

Dear Mr. Chairman:

This report responds to the Subcommittee's request for a review of the General Services Administration's (GSA) system for estimating the rental expenses of the Federal Buildings Fund (FBF). The Subcommittee was concerned about how GSA estimated the funding needs for the rental-of-space account within FBF. On August 8, 1997, and again on January 9, 1998, the Subcommittee received requests from GSA to allow it to reprogram a combined total of \$324 million in New Obligational Authority (NOA) from other FBF accounts into the rental-of-space account to cover its underestimation of the expenses to be paid out of this account in fiscal years 1997 and 1998. In its requests, GSA attributed the need for the reprogramming actions to forecasting problems relating to lease expansions, lease cancellations, rent increases for existing leases, and the annualization of the fiscal year 1997 reprogramming.

At the time we started work on this request in August 1998, GSA's Public Buildings Service (PBS) was changing its rent expenditure tracking and estimating process and developing a new computer program, known as Galaxy, to facilitate this process. As agreed with the Subcommittee, the objectives of our review were to determine whether (1) the new Galaxy program included the elements needed for tracking actual rental expenditures and forecasting future rental-of-space funding requirements, and (2) the additional actions PBS was taking to improve its budget process addressed the causes of its underestimation of the rental-of-space account.

Results in Brief

Galaxy has seven basic components that appear capable of providing the data elements needed to track the actual expenditures made from the rental-of-space account and thus aid in forecasting the funding required for the rental-of-space account for budget purposes. PBS has recognized that the success of the Galaxy program depends on the accuracy and maintenance of the data entered into Galaxy. Consequently, it has emphasized this issue in its training manual for Galaxy. This manual states

that all active leases and projects loaded into Galaxy “must be validated.” The manual lists five steps that the analyst must follow to validate the information. Rent account analysts¹ that we interviewed emphasized the need to maintain good communications among (1) themselves, who maintain Galaxy; (2) the realty specialists, who maintain PBS’ System for Tracking and Administering Real Property (STAR),² the system from which the data in Galaxy were downloaded, and (3) customer agencies, that provide information on their space needs. We agree that GSA and its customer agencies need to have good communications to ensure that GSA knows about any potential changes in inventory that a customer agency may plan in a given fiscal year, so that those changes are reflected in GSA’s budget submission.

PBS has taken steps to improve (1) how it calculates the rental-of-space estimate, such as using local market rental increases instead of national averages in calculating the rent increase estimates, and (2) the budgeting process in general, by establishing the Office of Financial and Information Systems (FIS) to, among other things, oversee budget formulation, including estimating the rental-of-space account funding requirements. We believe that the actions PBS has identified to improve its budgeting process, if effectively implemented, address the causes it identified for its underestimation of the rental-of-space account.

Background

Funds from the rental-of-space account in FBF pay for all leased space in GSA’s inventory. During fiscal years 1997 and 1998, GSA received appropriations of about \$4.6 billion in NOA for this account, about \$2.3 billion in each fiscal year. GSA submitted two requests, totaling \$324 million in NOA, to reprogram funds from other FBF accounts into the rental-of-space account. On August 8, 1997, GSA requested approval to reprogram \$110 million of the fiscal year 1997 appropriated funds, and on January 9, 1998, it requested approval to reprogram another \$214 million of fiscal year 1998 appropriated funds. Both requests were approved. The amounts requested equaled about 4.7 percent of the amount initially requested by GSA in its budget requests for the rental-of-space account for fiscal year 1997, and 9.4 percent of the amount requested for fiscal year 1998.

¹ We have used rent account analyst as a generic term for the budget analysts and program analysts who assist in maintaining the Galaxy program.

² STAR is a new information system that became operational in January 1998. GSA currently uses STAR for project administration, space management, and client billing. We are currently reviewing STAR to determine what user problems may exist and what steps PBS is taking to ensure accurate, reliable, and consistent data in it.

In its August 8, 1997, reprogramming request for fiscal year 1997, GSA attributed the need for the reprogramming to three causes. First, it had estimated that the overall average rents would increase by 2 percent, but actual rent increases ranged from 3 to 5 percent. This resulted in the cost to the account being underestimated by about \$30.9 million. Second, on the basis of regional expectations, GSA had overestimated the amounts that would be saved through lease cancellations by about \$74.1 million. Third, GSA had not been able to absorb a \$5.1 million congressional reduction in appropriations requested for rental-of-space expenditures in fiscal year 1997.³ According to a GSA official, the agency could not absorb this cut because GSA was already short of NOA in this account. GSA alerted its oversight committees in its reprogramming request letter that these problems would also affect the rental-of-space account in fiscal year 1998.

In its January 9, 1998, reprogramming request for fiscal year 1998, GSA attributed the need for the reprogramming to four causes. First, GSA needed \$143.6 million to cover the \$110 million underestimation in fiscal year 1997 and to annualize this error for fiscal year 1998. Second, as in fiscal year 1997, GSA had estimated the overall average rental rate increase at 2 percent, but actual increases ranged from 3 to 5 percent. This resulted in the cost to the account being underestimated by about \$22.5 million. Third, as in fiscal year 1997, it had overestimated savings from lease cancellations, this time by about \$41.8 million. Finally, on the basis of what regional staff believed was going to happen, GSA had underestimated the need for expansion space. This resulted in a need for an additional \$6.1 million.

The process of formulating the budget is to begin no later than the spring of each year, about 9 months before it is transmitted to Congress and 18 months before the beginning of the fiscal year in which the budget becomes effective. During the first 6 months of this period (from about April through September), PBS compiles information on the various budget elements, including the rental-of-space account; reviews the information for reasonableness and accuracy; and prepares its budget estimates. During the next 3 months (October through December) these estimates are to be submitted as a portion of GSA's budget request to the Office of Management and Budget (OMB) for review. OMB reviews the budget request and passes it back to GSA with any changes, and GSA may appeal OMB's changes before the budget is finalized. Early the following year (between the first Monday in January and the first Monday in

³ The three figures total \$110.1 million for fiscal year 1997 after rounding.

February), the budget is to be submitted to Congress for its review and appropriation of funds.

Because of the timing of the budget process, when GSA realizes that an estimation error has been included in its budget request for that fiscal year (in fiscal year 1997 in this case), the error usually cannot be corrected in a future budget estimate until the second fiscal year after the error occurred (in this case, fiscal year 1999).

Scope and Methodology

To accomplish our objectives, we observed the Galaxy program in operation, reviewed training materials on its operation, reviewed documentation on the reprogramming requests, and interviewed PBS officials and budget and/or program analysts responsible for maintaining Galaxy in 10 of GSA's 11 regions. We discussed with the PBS Deputy Controller what elements were needed to track and forecast rent expenditures. We checked to see that the elements discussed were included in the Galaxy program. We did not verify the accuracy of the data in Galaxy, but we did obtain information from PBS on how it planned to ensure that the data would be accurate, reliable, and consistent. We also did not contact customer agencies to verify the extent to which they were being contacted by GSA regarding their future space needs.

We did our work in Washington, D.C., between August 1998 and May 1999 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Administrator of GSA. GSA's comments are discussed at the end of this letter.

Galaxy—GSA's Major Effort to Improve Tracking and Estimating in Its Rental-of-Space Account

GSA has taken corrective actions to specifically improve its tracking of the rental-of-space account and to improve its budget estimating for this account. The major step taken to improve both the tracking and estimating of the rental-of-space account was GSA's development of the Galaxy program to be the primary tool to manage the rental-of-space account for fiscal year 1999 and to help manage project expenditures for fiscal year 2001. The reason Galaxy was developed was to provide a means to have all the regions use a consistent format, the same set of tools, and the same assumptions to monitor, reconcile, and estimate future expenditures from the rental-of-space account. Rent account analysts responsible for the rental-of-space account had not had a financial management tool for tracking and analyzing the account since September 1997. The previous automated system was discontinued when STAR was being put on-line. Rent account analysts had been using manual spreadsheets to monitor the account since that time.

The Galaxy program software was developed under an existing support services contract, at no additional cost to GSA except for some travel to a region, as an interim program until a module could be developed for STAR. Current plans are to enhance Galaxy so that it will interface with STAR. A statement of work to accomplish this objective is currently being developed.

To implement Galaxy, GSA provided each region with training on its use and a copy of the software already loaded with the region's data for active lease contracts and active lease projects as of October 1, 1998. Galaxy has seven basic components, which include the elements PBS has identified as needed for tracking actual expenditures and estimating the funding requirements for future expenditures from the rental-of-space account. These components are described in table 1.

Table 1: Galaxy Components

Component title	Component description
Base leases	Provides an inventory of all active lease contracts for space leased by GSA. This database includes lease number, building address, base square feet, and rental cost per square foot.
Reimbursable work authorizations (RWA)	Tracks agreements, using RWA number, between GSA and an agency to have GSA provide specific services that are beyond the standard level covered by the rental agreement.
Intra-budget activity authorizations (IBAA)	Tracks transfers of funds, using the IBAA number, from the rental-of-space account, Budget Activity 53, to the field office for each lease when the government is paying utilities and/or services not included in the lease.
Lump sum (debits) and withholds (credits)	Tracks debits or credits to lessors other than recurring monthly rent, such as tax claims, damage claims, and lessor default.
Operating cost escalations/consumer price index (CPI)	Tracks any increases or decreases in annual rental that are not the result of changes to the base leased square footage, such as a scheduled increase in cost per square foot agreed to in the lease.
Allowances and monthly/quarterly reports	Tracks amounts provided to each GSA region for its rental-of-space account and the plans for expending them.
Projects	Tracks agencies' requests for such things as new space and/or expansions to and deletions from existing space.

Source: GSA documents and officials.

The program can also generate various reports on both leases and projects, such as base rent by month, RWAs by lease number, IBAA's by lease number, lump sums by lease, operating cost escalation/CPI by lease, NOA by base lease, and estimate of rent increases tied to projects.

Rent account analysts are responsible for ensuring that Galaxy's data are accurate, reliable, and consistent. The training manual states that all active leases and projects loaded in Galaxy "must be validated." The

manual lists five steps that the analyst must follow to validate the information. Table 2 lists these steps.

Table 2: Data Validation Steps

Step	Activity
1	Reconcile Galaxy base leases to National Electronic Accounting and Reporting System (NEAR). ^a Any discrepancies must be resolved and accounted for properly. NEAR, STAR, and Galaxy must reflect the same data at the start of the fiscal year.
2	Review all lease projects in Galaxy to see whether they upload from STAR, there is a project for every expiring lease, and all projects are up-to-date and make sense.
3	Enter estimated average CPI increase for each lease in order to activate the CPI projections.
4	Enter all Lump Sums, IBAA's, or RWA's. These data should be identified through STAR, budget call data, and interviews with realty specialists.
5	Ensure that the analyst keeps the database up-to-date throughout the fiscal year.

^aNEAR is GSA's financial accounting system.

Source: GSA document.

Also, other guidance in the manual indicates that Galaxy must be reconciled to NEAR on a monthly basis to ensure that accurate obligations are stated in NEAR. Further, the manual states that the effectiveness of any system is contingent upon the information it is supplied. Therefore, each region is responsible for ensuring the accuracy of the data input into Galaxy. Without accurate data, a credible status report for the rental-of-space account cannot be produced.

Further, the regional rent account analysts we interviewed all agreed that communications between themselves and the realty specialists will be key in maintaining the accuracy of Galaxy. The analysts believed that communications would be of particular importance in estimating the rent account for a future budget year because, in order to estimate future expenditures, they rely not only on information about active leases, but also on information on projects in process. Project information is dependent upon the realty specialists' communications with the customer agencies. The analysts we interviewed all believed that, with proper communications, Galaxy should help avoid past problems and improve the estimating process. We were told that all GSA regions are to create a branch that will have as one of its responsibilities the initiating and inputting of all project data into STAR. This process should help ensure that the projects are entered into STAR. In May 1999, at least one region had already begun interviewing applicants for positions in the new branch.

We agree that good communication between the analysts maintaining Galaxy and the realty specialists maintaining STAR is critical to the accuracy of the data in Galaxy. To project the rent expenditure account, it

is particularly important to obtain data on lease projects, which reflect potential changes in the inventory. This information is not as readily available as data on existing leases, but must be obtained from customer agencies. Further, we agree that good communication between GSA and its customer agencies is essential to improving the accuracy of the rental-of-space estimate. However, this may not be easily accomplished, even with good communications, given that for budget purposes GSA needs to estimate changes in space requirements approximately 18 months in advance. In his testimony on April 24, 1997, the PBS Commissioner testified that, when he asked federal agency facility managers in a quarterly meeting whether they could identify the space reductions from downsizing a year in advance, they all said that they could not. This shows how difficult it may be for GSA to get accurate information on changes in the inventory.

Improvements to Other Problem Areas in PBS' Rental-of-Space Forecasting Process

In addition to implementing Galaxy, GSA has taken other steps to address its underestimation that led to a total of \$324 million in reprogramming requests for fiscal years 1997 and 1998. Table 3 lists the areas with budget estimation problems in the rental-of-space account as well as the NOA needed by fiscal year.

Table 3: Areas Underestimated in the Rental-of-Space Account, by Fiscal Year

Dollars in millions		
Problem area	FY 1997	FY 1998
Underestimating rent increases	\$30.9	\$22.5
Overestimating lease cancellations	74.1	41.8
Congressional reduction for lease expenditures	5.1	0.0
Annualization of fiscal year 1997 shortage	0.0	143.6
Underestimating expansions	0.0	6.1
Total	\$110.0^a	\$214.0

^aDoes not total due to rounding.

Source: GSA documents.

In addition to implementing Galaxy, GSA has taken several other steps to specifically address the problem areas listed in table 3. First, a GSA official told us that GSA regions would use local market rental rate increases to determine the region's estimated rental rate increase for a budget year. In fiscal years 1997 and 1998, GSA used national averages to determine rental rate increases. Further, according to an official, GSA will try to improve its estimation of lease cancellations by comparing the amount of a region's projected cancellations with the historical trends for that region. If the projected cancellations for a region appear to deviate from the historical trends, the divergence will be reviewed to see whether there is a justification for it. If there is not, GSA will rely on the historical trend data. In fiscal years 1997 and 1998, the budget estimates that

overestimated the savings from lease cancellations relied on the figures provided by the regions. Finally, with regard to expansion space, according to a GSA official, no specific action other than the use of Galaxy is being taken. The variance in this area only amounted to 0.03 percent and that only in fiscal year 1998.

Also, PBS officials told us that four controls have been established to improve the rental-of-space account estimate of future expenditures. Each region (1) will be required to develop a financial plan to be used to track the rental-of-space account on a quarterly basis, (2) will be required to provide an explanation for a variance of plus or minus 0.5 percent between actual obligations and the established targets, (3) will have a set limit of NOA for existing leases and annualizations of leases, and (4) will have a “cannot exceed limit” for indefinite authority.⁴

Further, as we stated in our March 1998 testimony on overestimation of rental revenue projections, GSA issued an order in July of 1997 establishing FIS, with one of its responsibilities being the budget estimating process.⁵ It also hired a chief financial officer to oversee FIS. If implemented as designed, both actions should, in our opinion, improve PBS’ financial management of FBF.

Conclusions

Galaxy appears to have elements needed to track PBS’ rental-of-space account and aid in more accurately estimating this account for future budgets. To the extent that PBS effectively implements the steps it has taken to maintain accurate data and good communications within GSA and with its customer agencies, has improved its estimation and budgetary process, and has corrected the problems it identified as causing its underestimation of the rental-of-space account, it should be able to produce better estimates of this account in the future.

Agency Comments and Our Evaluation

On July 16, 1999, the PBS Deputy Controller provided oral comments on a draft of this report. He said that GSA generally agreed with the draft report and pointed out that PBS had established a requirement that the regions explain variances of plus or minus 0.5 percent between actual obligations and established targets. We modified our report to reflect this requirement.

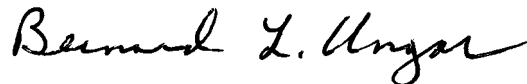
⁴ PBS defines indefinite authority as the funding for unplanned expansions whereby the net new increase in revenue is sufficient to cover all associated costs of the lease action.

⁵ General Services Administration: Overestimation of Federal Buildings Fund Rental Revenue Projections (GAO/T-GGD-98-69, Mar. 5, 1998).

We are sending copies of this report to Representative Robert E. Wise, Ranking Democratic Member of your Subcommittee; Senator Ben Nighthorse Campbell, Chairman, and Senator Byron L. Dorgan, Ranking Minority Member, Senate Subcommittee on Treasury and General Government, Committee on Appropriations; Senator George V. Voinovich, Chairman, and Senator Max S. Baucus, Ranking Minority Member, Senate Subcommittee on Transportation and Infrastructure, Committee on Environment and Public Works; Representative Jim Kolbe, Chairman, and Representative Steny Hoyer, Ranking Minority Member, House Subcommittee on Treasury, Postal Service, and General Government, Committee on Appropriations; the Honorable David J. Barram, Administrator, GSA; and to others upon request.

If you have any questions regarding this report, please call me or Ron King at (202) 512-8387. The key contributor to this assignment was Tom Keightley.

Sincerely yours,



Bernard L. Ungar
Director, Government Business
Operations Issues

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