



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

GSA's PBS Northwest/ Arctic Region Service Center Does Not Effectively Administer Lease and Service Contracts

Report Number A180053/P/4/R20002
February 20, 2020

Executive Summary

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Why We Performed This Audit

This audit was performed as part of a series of audits of GSA's Public Buildings Service (PBS) service centers originally included in our *Fiscal Year 2017 Audit Plan*. Our objective was to determine if PBS's Northwest/Arctic Region (Region 10) Service Center oversees and manages its lease and service contracts in accordance with contract provisions, PBS policies, and federal regulations.

What We Found

The PBS Region 10 Service Center is not providing effective oversight of its lease and service contracts. We found that lease administration managers are not conducting annual lease inspections and maintaining complete lease file documentation as required. Additionally, contracting officer's representatives are not ensuring that service contractors are meeting the contracts' performance standards. As a result, PBS and tenant agencies are paying for services that they are not receiving.

What We Recommend

We recommend the PBS Region 10 Commissioner strengthen internal controls to ensure that:

1. Lease administration managers conduct and document all lease inspections to ensure that lessors are complying with the terms of the lease and providing the required level of services.
2. Lease administration managers maintain all required lease documentation.
3. Regional management provides contract oversight necessary to ensure compliance with applicable quality control and contract file requirements.

The PBS Commissioner and Region 10 Commissioner agreed with our recommendations. GSA's written comments are included in their entirety in **Appendix B**.

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Introduction

We performed an audit of GSA's Public Buildings Service (PBS) Northwest/Arctic Region (Region 10) Service Center's lease and service contract oversight and administration.

Purpose

This audit was performed as part of a series of audits of PBS's service centers originally included in our *Fiscal Year 2017 Audit Plan*.

Objective

Our objective was to determine if the PBS Region 10 Service Center oversees and manages its lease and service contracts in accordance with contract provisions, PBS policies, and federal regulations.

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

Background

PBS service centers, located throughout the country, are responsible for ensuring that tenant needs are met efficiently and economically in GSA-owned and leased buildings. This responsibility includes the operation, maintenance, repair, alteration, and improvement of GSA-controlled spaces. Region 10 has one service center to support operations for GSA-owned and leased facilities in Alaska, Idaho, Oregon, and Washington. The PBS Region 10 Service Center is currently composed of seven field offices that report to one service center director in Spokane, Washington.

Starting in 2012, GSA moved all contract procurement from the service centers into a separate and independent division, the Acquisition Management Division. This division resides in Region 10 but does not report to the regional service center. In 2015, Region 10 management reassigned all lease procurement from its service center to the Leasing Division.

Although the PBS Region 10 Service Center is not responsible for awarding leases and contracts, it plays a significant role in the administration of these procurements. For leases, the Region 10 Leasing Division contracting officers designate Service Center lease administration managers (LAMs) as contracting officer's representatives (CORs) to provide technical, financial, and administrative support after the lease award. Under the PBS Lease Management Desk Guide (Desk Guide), LAMs are required to perform annual inspections of the leased space and verify periodic services are performed throughout the course of the lease terms. For Fiscal Year (FY) 2018, the Region 10 Service Center LAMs provided support for 464 leased properties totaling more than 7 million square feet and \$205.5 million in annual rent.

For contracts, Acquisition Management Division contracting officers designate PBS Region 10 Service Center employees as CORs to provide technical, financial, and administrative support after contract award for performance-based service contracts in GSA-owned buildings. CORs must perform responsibilities defined in Federal Acquisition Regulation (FAR) 1.604, *Contracting Officer's Representative*, and further detailed in the contracting officer's COR designation letter. The COR designation letter lists responsibilities such as monthly quality assurance inspections of custodial, elevator, and operations and maintenance service contracts to determine if the contractors are performing in accordance with contract requirements.

The CORs use quality assurance surveillance plans to conduct these inspections. These plans are developed by the CORs using the contractors' quality control plans, which describe how the contractor will comply with contract terms, including its processes for inspections, employee training, and responding to service calls. In FY 2018, the Region 10 Service Center administered 212 contracts and managed approximately 8 million square feet in 106 GSA-owned facilities.

Results

The PBS Region 10 Service Center is not providing effective oversight of its lease and service contracts. We found that LAMs are not conducting annual lease inspections and maintaining complete lease file documentation as required. Additionally, CORs are not ensuring that service contractors are meeting the contracts' performance standards. As a result, PBS and tenant agencies are paying for services that they are not receiving.

Finding 1 – The PBS Region 10 Service Center is not providing effective lease oversight.

The Desk Guide requires that LAMs ensure that lessors are complying with the terms of the lease and providing the required level of services. In fulfilling their oversight responsibilities, LAMs are required to conduct annual lease inspections and maintain key lease documentation. However, as described below, we found that LAMs in the PBS Region 10 Service Center are not fulfilling these oversight responsibilities. As a result, PBS and tenant agencies are not receiving required services from lessors.

Required Annual Lease Inspections Are Not Performed

LAMs are not performing annual lease inspections as required. According to the Desk Guide, LAMs must conduct at least one lease inspection each fiscal year and document the results in PBS's Lease Management Tool.¹ However, as shown in *Figure 1*, the inspection reports were missing for over 37 percent of the leases in our sample.²

Figure 1 – Missing Inspections

FY	Sampled Leases Requiring Inspection	Missing Inspections	Percent Missing
2015	94	51	54.3%
2016	95	27	28.4%
2017	96	28	29.2%
Total	285	106	37.2%

Further, in one instance, we found that a LAM filed an annual lease inspection report that was not performed. For the Bellevue Pacific Center lease in Bellevue, Washington, the LAM

¹ The Lease Management Tool is PBS's tool for LAMs to record, track, and report issues that affect leased building operations.

² We sampled lease files from FYs 2015 to 2017. Some leases did not require an inspection because the lease began during the audit scope period.

submitted a lease inspection report for FY 2018. During our site visit to the leased facility, however, the LAM told us that an inspection was not performed for that fiscal year.

Annual lease inspections are an important part of PBS's lease oversight. However, because the PBS Region 10 Service Center LAMs are not performing these inspections as required, we found that lessors are not providing services required under the lease terms. We toured 32 of the 77 leased facilities in our sample and found deficiencies in the level of services provided for 28 of these facilities. For example:

- **U.S. Department of Agriculture: Blue Heron Building – 9173 W. Barnes Drive, Boise, Idaho.** The LAM did not complete inspection reports for FYs 2015 and 2017. While the lease requires carpet replacement every 7 years and repainting every 5 years, we found that painting and carpet replacement have not been performed since the lease was awarded in February 2010. Annual rent for this fully serviced lease is \$888,428.
- **U.S. Senator's State Office: Means Building – 313 D Street, Lewiston, Idaho.** The LAM has not conducted an annual inspection since FY 2012. The lease took effect on January 1, 2011. Due to the lack of oversight, periodic required services including painting have not been performed since the lease was awarded. The annual rent for this fully serviced lease is \$9,709.
- **National Oceanic and Atmospheric Administration: Wadkins Building – 304 South Water Street, Ellensburg, Washington.** The last documented inspection report in the Lease Management Tool was for FY 2015. The lease contract requires restroom cleaning three times a week and annual carpet shampooing in public areas. However, we noted that the carpet had significant rips and stains both in the common area as well as the office space, and the bathrooms were not clean. Annual rent for this fully serviced lease is \$37,800.

Annual lease inspections are important to ensure that lessors are complying with required lease terms and tenant agencies are receiving the required level of lease services. Accordingly, the PBS Region 10 Service Center should take action to ensure that LAMs conduct lease inspections to ensure that lessors are complying with the terms of the lease and providing the required level of services.

LAMs Are Not Maintaining Complete Documentation as Required

According to the Desk Guide, LAMs must perform regular lease file reviews to verify that the lease file contains key documentation, including a current copy of the lease contract, tenant occupancy agreements, inspection and performance documents, lease amendments, all general correspondence, and the schedule of periodic services. However, we found that LAMs were not maintaining all documentation as required.

In the most significant example, we found that the lease files for 70 of the 77 leases we reviewed did not include the required schedule of periodic services. According to the Desk Guide, lessors must provide this schedule within 60 days of occupancy. The schedule details when the lessor plans to perform cyclical or periodic services, including painting, carpet cleaning and replacement, and stripping and refinishing floors. Without these schedules, LAMs do not know the type and frequency of periodic services required under the lease, which prevents them from fulfilling their lease oversight responsibilities.

For example, we found that the schedule of periodic services was missing for a lease for the Transportation Security Administration at Pasco Airport Terminal in Pasco, Washington. As a result, the LAM was unaware of the required periodic services under the lease and did not provide effective oversight. During our site visit, we found that, due to this lack of oversight, the lessor was not providing required janitorial services, including trash removal, vacuuming, and dusting. Transportation Security Administration employees told us that they were performing these services on their own because they were operating under the assumption that the services were not provided under the lease.

LAMs need proper lease documentation to perform their duties and hold the lessor accountable for providing the required level of services. Therefore, the PBS Region 10 Service Center should strengthen controls to ensure that LAMs maintain all lease documentation as required.

Finding 2 – The PBS Region 10 Service Center is not providing effective oversight of service contracts.

Contract oversight is critical to ensuring that contractors adhere to the contract terms and conditions and provide the required level of services. CORs play a key role in support of effective contract oversight by monitoring contractor performance to ensure that the contractor's work complies with the contract terms, conditions, and scope of work.

However, as described below, we found two deficiencies in the contract oversight provided by the PBS Region 10 Service Center CORs. First, the CORs are not providing effective oversight of quality control for service contracts. As a result, PBS did not receive the level of service required under the contracts. Second, the CORs did not maintain contract documentation necessary to fulfill their oversight responsibilities.

Inadequate Oversight of Contractor Quality Control

Quality control and assurance is an essential part of contract oversight. Accordingly, the FAR and PBS policies and procedures establish a series of requirements governing quality control for service contracts. As described below, PBS Region 10 Service Center CORs did not effectively fulfill their responsibilities related to these requirements, leading to inadequate contractor performance.

Lack of Adequate Quality Control Plans. FAR 37.601, *Performance-Based Acquisition*, requires that service contracts include a performance work statement that describes the required results of the work. Performance-based acquisition must also include measurable performance standards (i.e., quality, timeliness, quantity) and the contractor's method of assessing performance against the standards.

To meet these requirements and ensure that the performance standards are met, PBS requires the contractor to submit a quality control plan detailing how it plans to meet the requirements of the performance work statement. According to Region 10's *Quality Assurance Surveillance Program* standard operating procedures, the contractor's quality control plan must include, at a minimum, how it plans to:

- Control the quality of supplies and services;
- Inspect services to ensure that the work meets all the quality standards in the contract;
- Train its employees to ensure they can accomplish all work tasks in the contract;
- Monitor deficiencies related to performance standards and ensure that the deficiencies are corrected and do not recur; and
- Respond to and monitor service calls.

We found that CORs either did not obtain or obtained inadequate quality control plans for 21 of the 32 service contracts we sampled. Of these 21 contracts, we found that the CORs failed to obtain quality control plans for 7 contracts. While CORs obtained quality control plans for the remaining 14 contracts, these plans did not meet PBS's minimum requirements.

For example, the operations and maintenance quality control plan at the Richland Federal Building and United States Courthouse in Richland, Washington, did not describe training requirements to ensure that the contractor's staff can accomplish all work specified in the contract. While the statement of work requires that contractor employees hold several types of certifications, the contractor's quality control plan does not address this requirement. In addition, the contractor's plan fails to describe how its employees will be trained to maintain the required certifications. This has contributed to problems with the contractor's ability to comply with the certification requirement. The COR told us that the operations and maintenance contractor's employees do not have the required certifications. The COR stated that he informed the contracting officer of the deficiency, but as of our fieldwork date, no corrective action had been taken.

Poor Quality Assurance Surveillance Plans. FAR 46.401(a), *Government Contract Quality Assurance*, provides that agencies should prepare a quality assurance surveillance plan in conjunction with the preparation of the statement of work. These plans detail how the government will oversee the contractor's performance and are used by CORs to perform

monthly quality assurance inspections to assess the contractor's performance against the performance standards.

The PBS Region 10's *Quality Assurance Surveillance Program* further requires that the quality assurance surveillance plans must be created based on the contractors' quality control plan, work schedules, and terms and conditions of the contract. These plans must be reviewed and approved by the contracting officer and the COR's supervisor.

We found that the PBS Region 10 Service Center CORs prepared quality assurance surveillance plans for only 14 of the 32 contract files sampled. Of these 14 contracts, none were approved as required. We also found that quality assurance surveillance plans were ineffective because they were not prepared based on a complete assessment of available contract information.

For example, the COR could not prepare a quality assurance surveillance plan for a janitorial service contract at the Wayne L. Morse United States Courthouse in Eugene, Oregon. The quality control plan was inadequate because it failed to address the landscaping care and maintenance requirements included in the contract scope. Therefore, the quality assurance surveillance plan could not be completed because the contractor's quality control plan did not address the landscaping requirement.

This contributed to poor oversight of the contractor. As a result, the contractor did not effectively maintain the building's landscaping, which ultimately died off. PBS subsequently awarded another contract for an additional \$52,000 to cover the grounds keeping and landscaping maintenance services although these services were already included in the scope of the contract.

Without a quality assurance surveillance plan, the service center is not in compliance with Region 10 policy and the FAR, and CORs are unable to ensure that contractors meet performance standards and contract requirements.

Incomplete Contract File Documentation

FAR 4.801, *Government Contract Files*, provides that contract files should provide a complete background in order to provide a basis for informed decisions at each step in the acquisition process and support actions taken. However, we found that the contract files for 27 of the 32 contracts in our sample were incomplete. Specifically, we found that the contract files were missing key documentation necessary for CORs to provide effective contract oversight, including:

- *COR designation letters* that detail the duties and responsibilities of the individual designated to assist the contracting officer in the technical monitoring or administration of the contract.

- *Building operating plans* that describe in detail the contractor's procedures to maintain building equipment to operate safely and effectively, and that are used by CORs to evaluate whether the contractor successfully met performance standards.
- *Equipment inventory lists* that detail the inventory and location of all equipment and systems in the building, and that are used by CORs to ensure all building equipment has been inspected annually.

In summary, the PBS Region 10 Service Center is not providing effective oversight of its service contracts. Accordingly, regional management should strengthen its contract oversight to ensure compliance with applicable quality control and contract file requirements.

Conclusion

The PBS Region 10 Service Center is not providing effective oversight of its lease and service contracts. We found that LAMs are not conducting annual lease inspections and maintaining complete lease file documentation as required. Additionally, CORs are not ensuring that service contractors are meeting the contracts' performance standards. As a result, PBS and tenant agencies are paying for services that they are not receiving.

PBS needs to strengthen internal controls to improve the management and oversight of its lease and service contracts. PBS Region 10 acknowledged the need for improvements to its internal controls for these contracts and told us that they have already initiated corrective actions. These actions include additional training for LAMs, monthly meetings to discuss lease issues and requirements, and supervisory checks to ensure the schedules of periodic services have been transmitted to LAMs. While these are positive first steps, PBS should develop and implement effective controls to ensure that PBS staff maintains complete lease and service contract files, performs and documents required inspections, and enforces contract requirements.

Recommendations

We recommend the PBS Region 10 Commissioner strengthen internal controls to ensure that:

1. Lease administration managers conduct and document all lease inspections to ensure that lessors are complying with the terms of the lease and providing the required level of services.
2. Lease administration managers maintain all required lease documentation.
3. Regional management provides contract oversight necessary to ensure compliance with applicable quality control and contract file requirements.

GSA Comments

The PBS Commissioner and Region 10 Commissioner agreed with our recommendations. GSA's written comments are included in their entirety in **Appendix B**.

Audit Team

This audit was managed out of the Southeast Sunbelt Region Audit Office and conducted by the individuals listed below:

Nicholas Painter	Regional Inspector General for Auditing
Melanie Mochizuki	Audit Manager
Michelle Luna	Auditor-In-Charge
Kelly Lu	Auditor

Appendix A – Scope and Methodology

This audit was performed as part of a series of audits of PBS’s service centers originally included in our *Fiscal Year 2017 Audit Plan*. Our audit focused on the economy and efficiency of the service centers relative to contract administration.

To accomplish our objective, we:

- Judgmentally sampled 77 lease contracts, representing 16.6 percent of all lease contracts in the region;
- Reviewed lease documents, including the lease agreements, occupancy agreements, schedules of periodic services, and COR designation letters;
- Judgmentally sampled 32 service contracts for GSA-owned buildings in Region 10, representing 15.1 percent of the total number of service contracts in the region;
- Reviewed service contract documents, including contracts, building operating plans, equipment inventory lists, COR designation letters, quality control plans, and quality assurance surveillance plans;
- Toured 13 GSA-owned buildings and 34 leased spaces in Idaho, Oregon, and Washington;
- Interviewed PBS and tenant agency officials;
- Reviewed prior GSA Office of Inspector General audit reports on PBS’s service centers; and
- Reviewed applicable criteria such as PBS’s Lease Management Desk Guide, Region 10’s Quality Assurance Surveillance Program, the FAR, and other policies and regulations.

We conducted the audit between April 2018 and December 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 objective.

Internal Controls

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

Appendix B – GSA Comments



GSA Northwest/Arctic Region

January 24, 2020

MEMORANDUM FOR NICHOLAS PAINTER
REGIONAL INSPECTOR GENERAL FOR AUDITING
SOUTHEAST SUNBELT REGION AUDIT OFFICE (JA-4)

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

FROM: WAYNE C. BENJAMIN
REGIONAL COMMISSIONER
PUBLIC BUILDINGS SERVICE (10P)

SUBJECT: Response to the Office of Inspector General (OIG) Draft
Audit Report, *GSA's PBS Northwest/Arctic Region Service
Center Does Not Effectively Administer Lease and Service
Contracts (A180053)*

Thank you for the opportunity to comment on the subject draft audit report. The Public Building Service (PBS) has reviewed the report, agrees with the recommendations to strengthen internal controls, and is providing the following technical comments.

As discussed with the OIG audit team in the November 19, 2019 meeting and reflected in documentation provided by PBS at that time, the OIG's identified findings in the draft audit report are from more than 2 years ago. Since the OIG's audit in fiscal year 2017, PBS Region 10 has implemented a lease management inspection process that uses the Lease Management Tool (a national PBS Application) to track and store lease management records. Additionally, the Region's Quality Assurance Service Process uses the National Computerized Maintenance Management System to store quality and contract compliance documentation. The Region provided additional documentation to demonstrate the steps Region 10 has taken to improve internal controls. These changes have improved how Region 10 is effectively managing its lease and service contracts.

If you have any questions, please contact Kimberly Hawthorne, Director, Facilities Management Division, (253) 931-7401.

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Appendix C – Report Distribution

GSA Administrator (A)

GSA Deputy Administrator (AD)

Commissioner (P)

Acting Deputy Commissioner (P)

Acting Chief of Staff (WPB)

PBS Audit Liaison (PT)

Regional Administrator (10A)

Regional PBS Commissioner (10P)

Regional Counsel (LDA)

Director, Facilities Management Division (10PM)

Director of Financial Management (BG)

Chief Administrative Services Officer (H)

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Assistant Inspector General for Auditing (JA)

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