



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

ASSESSMENT OF HOTLINE COMPLAINT  
Procurement of Lease Number LRI00279  
for the Department of Homeland  
Security, Immigration and Customs  
Enforcement in Warwick, Rhode Island

Memorandum Number A200973-1  
March 19, 2020



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

March 19, 2020

TO: GLENN C. ROTONDO  
REGIONAL COMMISSIONER  
PUBLIC BUILDINGS SERVICE (1P)

A handwritten signature in cursive script, reading "Arthur F. Maisano".

FROM: ARTHUR F. MAISANO  
ACTING REGIONAL INSPECTOR GENERAL FOR AUDITING  
NORTHEAST AND CARIBBEAN REGION AUDIT OFFICE (JA-2)

SUBJECT: Assessment of Hotline Complaint  
Procurement of Lease Number LRI00279 for the  
Department of Homeland Security, Immigration and Customs Enforcement  
Warwick, Rhode Island  
Memorandum Number A200973-1

The purpose of this memorandum is to notify you of deficiencies in the award and administration of a lease for the Department of Homeland Security, Immigration and Customs Enforcement (DHS ICE) in Warwick, Rhode Island. We identified these deficiencies through an assessment of a complaint made through the GSA Office of Inspector General Hotline.

We found that GSA's Public Buildings Service's (PBS's) procurement process for Lease Number LRI00279 was significantly flawed, resulting in an improper lease award. PBS inappropriately accepted a late proposal, relied on a present value analysis that favored the winning offeror, and used inconsistent evaluation terms. We also found that PBS awarded the lease to an offeror that did not control the property at the time of their lease proposal. Finally, PBS failed to provide an adequate or timely postaward debriefing to the unsuccessful offeror. Taken together, these deficiencies compromised the integrity of the lease procurement. PBS regional management should determine whether the lease award should be reevaluated.

## Background

On August 16, 2007, PBS signed Lease Number LRI04549 with VAS Realty, LLC (VAS) for the occupancy of DHS ICE at 1 International Way in Warwick, Rhode Island. The original lease was for 30,000 rentable square feet (RSF) of office and general purpose space for a term of 10 years. The annual rent was ██████<sup>1</sup> for years 1 through 3 and ██████ for years 4 through 10 ██████ in total rent). Supplemental Lease Agreement 8 established an actual lease start date of May 1, 2009, and an expiration date of April 30, 2019.

In preparation for the lease expiration, PBS advertised for a replacement lease under Request for Lease Proposal (RLP) 7RI2043 on FedBizOpps.gov (FBO) on June 16, 2017. *Figure 1* shows the timeline of events for the replacement lease from award through debriefing.

**Figure 1 – Timeline of Events**

Date	Event
June 16, 2017	PBS advertises the replacing lease opportunity on FBO.
September 29, 2017	PBS issued RLP Amendment Number 1 revising the initial offer due date to October 11, 2017.
October 11, 2017	PBS received three on-time initial offers in response to the RLP for the properties at 1 International Way, 443 Jefferson Boulevard, and 487 Jefferson Boulevard.
November 10, 2017	The owners of 487 Jefferson Boulevard withdrew their offer, leaving only two responsive lease proposals to the RLP.
November 21, 2017	PBS requested final proposal revisions from the owners of 1 International Way and 443 Jefferson Boulevard due on December 1, 2017, by 5:00 PM.
December 1, 2017	PBS notified both offerors that it was canceling the final proposal revision request and pausing negotiations in the best interest of the government. PBS also notified both offerors that it was revising the requirements of the RLP to 15 years full-term and 10 years firm-term (formerly 10 and 7, respectively). This revised RLP was re-advertised on FBO on December 1, 2017.
December 2, 2017, through February 25, 2018	Three new parties expressed interest in the procurement as a result of the revised RLP and re-advertisement; however, DHS ICE eliminated two of the parties due to one property's proximity to a preschool and one property's location in a 100-year flood plain. The third new interested party eventually withdrew its property from consideration.
February 26, 2018	PBS again requested final proposal revisions from the owners of 1 International Way and 443 Jefferson Boulevard in compliance with RLP Amendment Number 2, which officially amended the RLP to 15 years full-term and 10 years firm-term. The final proposal revisions were due on March 9, 2018, by 5:00 PM. Amendment Number 2 was dated February 22, 2018, but issued to the remaining offerors on February 26, 2018, with the request for final proposals.

<sup>1</sup> Redactions in this report represent proprietary information related to lease pricing and administration.

March 9, 2018	VAS, the incumbent lessor at 1 International Way, submitted a timely final revised proposal to PBS, while Raith Capital Investors, LLC (Raith), the owner of 443 Jefferson Boulevard, notified PBS that it “has decided to pass [on the lease] and focus on the sale of the property.” This left VAS as the only timely final proposal with negotiations officially closed.
April 20, 2018	Cape Moraine, LLC (Cape Moraine) represented that it had control of 443 Jefferson Boulevard and submitted a late lease proposal after negotiations were officially closed. PBS accepted Cape Moraine’s late proposal.
July 9, 2018	PBS contacted VAS and Cape Moraine to request another final proposal revision due on July 17, 2018, by 5:00 PM. PBS also issued RLP Amendment Number 3, which reduced the number of outside parking spaces paid for in the lease to 34.
August 21, 2018	PBS notified Cape Moraine that its proposal to lease space at 443 Jefferson Boulevard was the “apparent successful offer.”
October 24, 2018	PBS and Cape Moraine signed Lease Number LRI00279 to house DHS ICE at 443 Jefferson Boulevard, Warwick, Rhode Island.
October 26, 2018	PBS notified VAS that it was “not considered” for the lease award and that PBS awarded the lease award to Cape Moraine.
October 29, 2018	VAS submitted a written postaward debriefing request to PBS.
November 27, 2018	PBS provided a written postaward debriefing response to VAS.
July 10, 2019	PBS signed Lease Amendment 14, which extended Lease Number LRI04549 at International Way (VAS) to November 1, 2020, to allow time for Cape Moraine to build out the space at 443 Jefferson Boulevard, as required by the new lease.

PBS relied heavily on the work of its broker, Jones Lang LaSalle (JLL), throughout this lease procurement process. PBS’s national broker contracts provide leasing support services, such as market surveys, site visits, document preparation, and lease negotiations. The national broker contracts are “no-cost” contracts; contractors collect real estate commissions paid by the building owner in lieu of direct payment by PBS for services performed. While the brokers have a significant role in PBS’s lease acquisitions, PBS personnel are required to oversee the brokers’ work and complete inherently governmental tasks related to lease award and administration, such as signing a lease and determining fair and reasonable pricing.

On December 21, 2018, we received a hotline complaint alleging that government personnel committed acts of fraud, waste, and abuse during the procurement of Lease Number LRI00279.

**Results**

While assessing the hotline complaint, we identified that PBS’s lease procurement process for the DHS ICE lease in Warwick, Rhode Island, was significantly flawed, compromising the integrity of the procurement and resulting in an improper lease award.

## **Issue - PBS's Lease Procurement Process Was Significantly Flawed, Compromising the Integrity of the Procurement and Resulting in an Improper Lease Award**

As described below, PBS's lease procurement process for Lease Number LRI00279 was deficient because PBS: (1) inappropriately accepted and considered a late proposal, eventually awarding the lease to the offeror that submitted the late proposal; (2) used a flawed present value analysis which incorrectly favored the winning offeror; (3) accepted and evaluated a proposal from an offeror that did not have control of the proposed property; (4) failed to provide an adequate or timely postaward debriefing to the unsuccessful offeror; and (5) used misleading and unclear acquisition terminology.

### **PBS and its broker inappropriately accepted and considered a late proposal contrary to federal regulations.**

PBS improperly accepted and considered a late proposal and subsequently allowed the lease procurement to continue, eventually awarding the lease to the offeror that submitted the late proposal.

On February 26, 2018, PBS issued a Request for Final Offer Proposals letter for the Warwick, Rhode Island, lease. In its letter, PBS explicitly provided that:

The date established by the Government for submission of Final Proposal Revisions represents the termination of all negotiations in connection with the above referenced RLP. After termination of negotiations, you may be contacted to provide additional information or for clarification of your offer. However, this is not a re-opening of negotiations and you will not be permitted to modify your proposal.

These final proposals were due no later than 5:00 PM eastern time on March 9, 2018.

On March 9, 2018, VAS, the incumbent lessor at 1 International Way, submitted a timely final revised proposal to PBS. On the same day, the second potential offeror, Raith, which at the time owned 443 Jefferson Boulevard, notified PBS that it "has decided to pass [on the lease] and focus on the sale of the property." At this point, PBS had only one timely final revised proposal.

RLP paragraph 4.01 – *Negotiations*, and the February 26, 2018, Request for Final Offer Proposals letter established that negotiations would terminate after the submission deadline for the final proposal revision. Chapter 2 of the *PBS Leasing Desk Guide*, also prohibits negotiations after the submission deadline for final proposal revisions.

However, in a March 29, 2018, email to PBS's broker, JLL, the PBS lease contracting officer (LCO) wrote that a representative of Cape Moraine—a realty investment firm that, as discussed later in this memorandum, did not own the property at 443 Jefferson Boulevard—contacted

him and informed him that they were going to submit a late proposal. The LCO notified the broker that:

I let [Cape Moraine] know that any offer at this timeframe will be considered late but accepted since we are down to one offeror (incumbent) and I want to keep as much competition in play as feasible. He can submit up to the time [the Contracting Officer] will award.

The LCO's decision to allow the late offer is problematic for two reasons. First, as described below, the LCO ignored federal and GSA acquisition regulations in notifying the broker that he would accept a late proposal at this stage of the lease action. Second, the LCO improperly disclosed source selection information by revealing the number of remaining offers to Cape Moraine, in violation of Federal Acquisition Regulation (FAR) 3.104-4, *Procurement Integrity*.

Cape Moraine submitted the late lease proposal to PBS on April 20, 2018, for 443 Jefferson Boulevard. PBS accepted and subsequently evaluated this proposal. PBS's action was contrary to RLP Section 3.02, *Receipt of Lease Proposals*, and in violation of FAR 15.208 and GSA Acquisition Regulations (GSARs) 552.270-1 and 570.303-3, which state that PBS should not consider any proposal received after the established due date and time.

With these actions, PBS inappropriately re-opened negotiations that were previously closed as of 5:01 PM on March 9, 2018, in accordance with RLP paragraph 4.01 - *Negotiations*, Chapter 2 of the *PBS Leasing Desk Guide*, and the February 26, 2018, Request for Final Offer Proposals letter sent to VAS.

PBS did have a chance to correct the situation. On July 9, 2018, PBS contacted VAS and Cape Moraine to request another final proposal revision, due on July 17, 2018 by 5:00 PM, and it also amended the RLP a third time. RLP Amendment Number 3 reduced the number of outside parking spaces paid for in the lease from 130 to 34. If PBS had interpreted the reduction in parking spaces as a material change to the RLP, it could have re-advertised or cancelled the RLP rather than issuing the amendment. This is dictated by Chapter 2 of the *PBS Leasing Desk Guide*, which states that a material change in requirements may necessitate more than just an amendment, as a new advertisement or a cancellation of the solicitation may be required.

However, PBS missed the opportunity to correct its error. PBS should have eliminated Cape Moraine's late proposal and have never provided Cape Moraine with this third RLP amendment or requested a final proposal revision from them.

**PBS accepted a flawed present value analysis from its broker, resulting in the wrong proposal being deemed the lowest priced offer.**

PBS’s decision to award the lease to Cape Moraine was based in large part on the results of JLL’s present value analysis that determined that Cape Moraine’s lease proposal was the “lowest priced technically acceptable offer.” However, we found that JLL’s present value analysis was flawed, resulting in the wrong lease proposal being deemed the lowest priced offer.

The RLP stated that the lease would be awarded to the responsible offeror whose offer: (1) conformed to the requirements of the RLP and lease documents and (2) was the lowest priced technically acceptable offer submitted based on a present value price evaluation.

The Price Negotiation Memorandum and Record of Award Decision presented Cape Moraine as the lowest priced technically acceptable offer to the RLP with a present value price of [REDACTED] per ANSI/BOMA office area (ABOA) square foot (SF). However, as detailed in **Appendix A**, we found two significant flaws in this present value analysis. First, we found that the net present value calculation was incorrect because it did not properly account for fees and included an erroneous step rent calculation. Second, the analysis was based on a flawed calculation for lump-sum costs, which are used to fund the tenant improvements necessary for occupancy.

Figure 2 shows the results of JLL’s present value analysis, as accepted by PBS, compared to the results we developed after addressing the flaws we identified. For ease of presentation, we separated the present value analysis into its two component parts: a present value calculation of future rent payments and the required lump-sum payment, each reduced to a per square foot rate.

**Figure 2 – Comparison of Present Value Analyses**

PER PBS/JLL CALCULATION			
	<u>443 Jefferson Boulevard</u>		<u>1 International Way</u>
Net Present Value Per ABOA SF	[REDACTED]	Net Present Value Per ABOA SF	[REDACTED]
Lump-Sum Per ABOA SF	[REDACTED]	Lump-Sum Per ABOA SF	[REDACTED]
Total	[REDACTED]	Total	[REDACTED]
PER AUDIT CALCULATION			
	<u>443 Jefferson Boulevard</u>		<u>1 International Way</u>
Net Present Value Per ABOA SF	[REDACTED]	Net Present Value Per ABOA SF	[REDACTED]
Lump-Sum Per ABOA SF	[REDACTED]	Lump-Sum Per ABOA SF	[REDACTED]
Total	[REDACTED]	Total	[REDACTED]
	A		B
		<u>Difference</u>	
			\$ 3.09
		C=A-B	

As shown above, PBS concluded that the proposal for 443 Jefferson Boulevard was the lowest priced offer, based on a net present value price of [REDACTED] per ABOA SF, versus 1 International Way’s net present value price of [REDACTED] per ABOA SF. However, after adjusting for identified flaws, our per audit present value analysis shows that VAS’s proposal for 1 International Way was actually \$3.09 per ABOA SF less than Cape Moraine’s proposal for 443 Jefferson Boulevard. Additionally, DHS ICE has incurred rent costs since Lease Number LRI04549 expired on April 30, 2019. Lease Amendment 14 executed a new annual rent of [REDACTED] effective May 1, 2019, and expiring April 30, 2021, with a firm-term to November 1, 2020. This amendment is to continue the occupancy at 1 International Way while the new space at 443 Jefferson Boulevard is built out to accommodate DHS ICE. PBS and JLL did not consider this cost in its analysis of Cape Moraine’s lease proposal even though it knew the new office location had to be built out to DHS ICE’s specifications and would not be ready when Lease Number LRI04549 expired.

We compared the total lease cost for both locations including the adjusted lump-sum payment for move and replication (tenant build-out) costs and the cost to extend the lease at 1 International Way. With the adjustments, the total cost for the lease at 443 Jefferson Boulevard is increased by [REDACTED] for the move and replication costs and [REDACTED] for the lease extension. With these additional costs, the move to 443 Jefferson Boulevard is approximately [REDACTED] more than remaining at 1 International Way over the 10-year firm term of the lease and [REDACTED] more over the full 15-year term. Our results are presented in *Figure 3* below:

**Figure 3 – Comparison of Total Lease Cost<sup>2</sup>**

	443 Jefferson Boulevard	1 International Way	Difference
LRI00279: Total Rent Over Firm-Term (10 Years)	[REDACTED]	[REDACTED]	[REDACTED]
LRI00279: Move and Replication Costs	[REDACTED]	[REDACTED]	[REDACTED]
LRI04549: Amend 14 Rent Through 11/1/20	[REDACTED]	[REDACTED]	[REDACTED]
Total Lease Cost Over Firm-Term	[REDACTED]	[REDACTED]	[REDACTED]
LRI00279: Total Rent Over Full-Term (15 Years)	[REDACTED]	[REDACTED]	[REDACTED]
LRI00279: Move and Replication Costs	[REDACTED]	[REDACTED]	[REDACTED]
LRI04549: Amend 14 Rent Through 11/1/20	[REDACTED]	[REDACTED]	[REDACTED]
Total Lease Cost Over Full-Term	[REDACTED]	[REDACTED]	[REDACTED]

Our analyses confirm that the present value analysis and total lease cost for 443 Jefferson Boulevard were higher than 1 International Way. PBS should have recognized that JLL’s present value analyses for these proposals was flawed, and it should have ordered JLL to correct them so as to achieve an accurate comparison. Additionally, PBS should have considered total lease cost comparisons that include the rent to remain in place while the new office space is being built out. This is an actual cost resulting from the decision to relocate.

<sup>2</sup> Our calculations only include Lease Number LRI04549 Amendment 14 rent over the firm-term (to November 1, 2020). If this amendment goes to its full term (through April 30, 2021), then the rent cost line item increases to [REDACTED] for 443 Jefferson Boulevard.



**The winning offeror did not have control of the 443 Jefferson Boulevard property at the time of its proposal.**

The winning offeror, Cape Moraine, did not have control of the 443 Jefferson Boulevard property when it submitted its proposal on April 20, 2018.

As shown below in *Figure 4*, the property ownership of 443 Jefferson Boulevard changed multiple times during 2018.

**Figure 4 – Ownership Timeline of 443 Jefferson Boulevard**

Date	Event
Week of April 9, 2018	The property at 443 Jefferson Boulevard was put up for auction. Raith was the owner at this time.
April 17, 2018	Cape Moraine sent G3 Jefferson Blvd, LLC (G3) <sup>3</sup> a letter of intent to purchase 443 Jefferson Boulevard.
April 20, 2018	G3 accepted and agreed to the terms of Cape Moraine’s offer. Cape Moraine submitted its lease proposal for 443 Jefferson Boulevard to PBS.
May 7, 2018	G3 and Cape Moraine signed the Purchase and Sale Agreement for this intended purchase.
May 11, 2018	G3 obtained a Special Warranty Deed to 443 Jefferson Boulevard from Raith.
December 26, 2018	Cape Moraine obtained ownership of the property through a quitclaim deed.

The timing of these transactions is important when lined up against Cape Moraine’s interactions with PBS. For example, when Cape Moraine contacted the LCO on March 29, 2018, advising him about its forthcoming late proposal, the property was actually owned by Raith. When Cape Moraine submitted its late proposal on April 20, 2018, the property was still owned by Raith.

Furthermore, in submitting its late proposal, Cape Moraine made the following representation:

We have control of the property at 443 Jefferson Blvd. through an extended LOI [letter of intent] with the seller (see attached) and P&S [Purchase and Sale] agreement to follow early next week.

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<sup>3</sup> G3 bought 443 Jefferson Boulevard at auction from Raith; however, it did not officially own the property until May 11, 2018. Cape Moraine’s representation of control of 443 Jefferson Boulevard only referred to its dealings with G3, rather than the actual owner at this time, Raith.

This representation was false. RLP paragraph 3.06 – *Additional Submittals*, requires offerors that are not owners of the offered property to either submit an authorization from the ownership entity to submit an offer on its behalf, or a current written agreement to acquire interest in the property that includes the offer and a statement from the current owner that the agreement is in full force and effect. Cape Moraine could not claim control over the property at the time of its lease proposal (April 20, 2018), because it was not yet dealing with the property’s owner. When Cape Moraine submitted its letter of intent to purchase and its lease proposal, G3 did not yet own the property at 443 Jefferson Boulevard. Further, when Cape Moraine and G3 signed the purchase and sale agreement on May 7, 2018, G3 still did not own the property. This does not satisfy the requirements of RLP paragraph 3.06.

**PBS did not provide an adequate or timely postaward debriefing, as requested by VAS.**

PBS did not promptly notify VAS of its unsuccessful offer in accordance with FAR 15.503, *Notifications to Unsuccessful Offerors*, and Chapter 2 of the *PBS Leasing Desk Guide*. PBS notified Cape Moraine that it was the “apparent successful offeror” on August 21, 2018; however, PBS did not notify VAS that it was not considered for lease award until October 26, 2018, approximately 2 months later. This notification should have happened within 3 days of award.

On October 29, 2018, VAS submitted a written debriefing request to PBS in accordance with FAR 15.506. In its debriefing request, VAS submitted eight questions for PBS to answer “in addition to the minimum debriefing information required by FAR Section 15.506 Postaward debriefing of offerors, paragraph (d) ....”

PBS provided a written debriefing response to VAS on November 27, 2018, well beyond the 5-day debriefing timeframe identified in FAR 15.506 and the *PBS Leasing Desk Guide*. In addition, PBS’s debriefing document only provided responses to VAS’s submitted questions. It did not provide all of the minimum debriefing information required by FAR 15.506, which includes:

- (1) The government’s evaluation of the significant weakness or deficiencies in the offeror’s proposal;
- (2) The overall evaluated cost or price and technical rating of the successful offeror and the debriefed offeror, and past performance information on the debriefed offeror;
- (3) The overall ranking of all offerors; and
- (4) A summary of the rationale for award.

PBS must administer its notification and debriefing process in accordance with the FAR and its own leasing policy.

## **PBS used the terms “competitive range” and “competitive negotiation range” interchangeably.**

In its October 26, 2018, notification of unsuccessful offeror letter, PBS notified VAS that it was outside the “competitive negotiation range” per RLP paragraph 4.01 – *Negotiations*. We could not find this term in the RLP, which only refers to the term “competitive range.” The term is also not found in the FAR, GSAR, or *PBS Leasing Desk Guide*. It appears to be a hybrid term that PBS created referring to its negotiation objectives.

FAR 15.306(c) states that Agencies shall evaluate all proposals, and, “if discussions are to be conducted, establish the competitive range.” It further defines the competitive range as a range “comprised of all the most highly rated proposals,” and if a proposal is not included in the competitive range, it shall be eliminated from award consideration. FAR 15.306(d) further explains that negotiations in a competitive acquisition take place after the establishment of the competitive range and are called “discussions.”

PBS’s notification to VAS that it was outside the “competitive negotiation range” is problematic because it is an undefined term that is misleading and unclear. PBS was conducting discussions with VAS, so it must not have been outside of the competitive range, which, according to RLP paragraph 4.01 and FAR 15.306, is established before discussions occur. However, it could have been outside of PBS’s negotiation objectives, as defined in FAR 15.406-1 and the *PBS Leasing Desk Guide*. Therefore, PBS’s notification to VAS eliminated it from award consideration based on unclear conditions.

PBS contracting officials should clearly communicate with offerors so there is no confusion or misunderstanding with regard to the procurement and the offeror’s status. One way to accomplish this would be to use terminology consistent with the FAR, GSAR, and *PBS Leasing Desk Guide*. PBS’s use of the term “competitive negotiation range” resulted in correspondence that was misleading, confusing, and inaccurate.

## **Conclusion**

In sum, PBS’s lease procurement process was significantly flawed, compromising the integrity of the procurement and resulting in an improper lease award. This occurred due to the following circumstances:

- (1) PBS improperly accepted and considered a late proposal and subsequently allowed the lease procurement to continue, eventually awarding the lease to the offeror that submitted the late proposal;
- (2) PBS accepted a flawed present value analysis from its broker, resulting in the wrong proposal being deemed the lowest priced offer;
- (3) The winning offeror did not have control of 443 Jefferson Boulevard at the time it submitted its proposal;

- (4) PBS did not provide an adequate or timely postaward debriefing to VAS; and
- (5) PBS used misleading and unclear acquisition terminology.

PBS regional management should assess these issues to determine appropriate steps to remedy the issues identified in this memo and to prevent this from occurring in the future. PBS could benefit by providing training to its lease contracting staff on the issues we identified and by implementing controls to ensure that future lease procurements are administered in accordance with the FAR, GSAR, and PBS Leasing Desk Guide.

### **Audit Team**

This assignment was managed out of the Northeast and Caribbean Region Audit Office and conducted by the individuals listed below:

Arthur F. Maisano  
Michael Vaccarelli

Acting Regional Inspector General for Auditing  
Auditor-In-Charge

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## **Appendix A - Present Value Analysis Flaws and Impact**

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PBS's decision to award Lease Number LRI00279 to Cape Moraine was based in large part on the results of JLL's present value analysis that determined that Cape Moraine's lease proposal was the "lowest priced technically acceptable offer." However, we found two significant flaws in this present value analysis. First, the net present value calculation was incorrect because it did not properly account for fees and included an erroneous step rent calculation. Second, the analysis was based on a flawed calculation for lump-sum costs, which are used to fund the tenant improvements necessary for occupancy. As a result, the present value analysis was incorrect, resulting in the wrong lease proposal being deemed the lowest priced offer. The details of the flaws we identified are presented below.

### **Flaw 1: Incorrect Net Present Value Calculation**

We found that the net present value calculation was flawed due to errors with the [REDACTED] fees as well as with the step rent calculation.

#### **Fee Error**

For 443 Jefferson Boulevard, JLL did not properly input Cape Moraine's proposed [REDACTED] fee of [REDACTED] percent of total tenant improvement construction costs. This understated the total lessor [REDACTED] percentage in the net present value calculation as [REDACTED] percent rather than [REDACTED] percent, resulting in a [REDACTED] rate per ABOA SF, rather than [REDACTED].

#### **Step Rent Calculation Error**

For 1 International Way, JLL did not properly calculate VAS's proposed step rent, as it incorrectly applied the [REDACTED] rate to proposed [REDACTED] square footage, rather than the [REDACTED] rate. This resulted in a [REDACTED] rate per ABOA SF instead of the correct [REDACTED] rate.

### **Flaw 2: Errors in Lump-Sum Amount**

JLL used an erroneous lump-sum amount that effectively changed the outcome of its analysis. It was necessary to incorporate a lump-sum amount into the analysis of Cape Moraine's offer for 443 Jefferson Boulevard because, unlike the incumbent lessor's proposal, accepting Cape Moraine's offer would include a full build-out and moving costs.

JLL included a lump-sum amount of [REDACTED] for these costs. This lump-sum amount was derived based on an estimate of [REDACTED] per ABOA SF for moving and [REDACTED] per ABOA SF for construction [REDACTED]).

We reviewed relevant correspondence and found that the LCO forwarded to JLL estimated move costs of ██████ per ABOA SF based on an unsupported estimate of a GSA regional account manager. JLL accepted this estimate and used it in its present value analysis. Additionally, on June 6, 2018, the LCO forwarded JLL three Tenant Improvement Cost Summaries (TICS) prepared by GSA estimators for recent DHS ICE projects in New England. Of the three, JLL chose to base its estimated construction costs for its lump sum amount on a DHS ICE project in Williston, Vermont, where the costs were ██████ per ABOA SF.

### **PBS's Broker Used a Government Estimate Not Representative of the 443 Jefferson Boulevard Lease Scenario**

We could not find any documentation to support or disprove the estimated move costs of ██████ per ABOA SF. However, we found a number of documents that indicate that the estimated construction costs of ██████ per ABOA SF were significantly understated. The TICS for the DHS ICE project in Williston, Vermont, expressly states:

From our lease procurement it has been determined that we will be remaining in place and ICE expects to be able to re-use much of the space as is with minor alterations and other cosmetic upgrades (aka "refresh") to the finishes such as carpet and paint..." [emphasis added]

This annotation clearly indicates that the ██████ per ABOA SF in construction costs on this TICS is not representative of a scenario where DHS ICE is relocating to a completely new space that requires a full build-out, as was the case with Cape Moraine's offer at 443 Jefferson Boulevard.

### **PBS's Broker Disregarded Government Estimates where the Tenant Agency was Expected to Relocate**

JLL disregarded the TICS PBS provided for the DHS ICE projects in Derby Line, Vermont, and Bangor, Maine, where the tenant was expected to relocate. These documents presented construction costs of ██████ and ██████ per ABOA SF, respectively (an average of ██████). Because these construction cost estimates were for projects where the tenant was expected to relocate, they were more representative of the lease scenario for 443 Jefferson Boulevard, and they were significantly greater than the estimate JLL used in its lump-sum calculation for its present value analysis (i.e., ██████ per ABOA SF).

Additionally, we found that the lessor for the DHS ICE lease in Derby Line, Vermont, is Fort Fairfield BP, LLC. Lease documents for Fort Fairfield BP, LLC and Cape Moraine are signed by the ██████, so the TICS for the DHS ICE lease in Derby Line, Vermont, actually represented a recent DHS ICE move and build-out where the lessor was an entity run or managed by the ██████ Cape Moraine. This further supports our conclusion that the construction cost estimate JLL used in its present value analysis was too low and was inappropriate, given the circumstances, as the Derby Line, Vermont, lease represents a recent

New England DHS ICE relocation and build-out conducted by the [REDACTED] with much higher construction estimates.

### **PBS Disregarded a Government Estimate Specifically for 443 Jefferson Boulevard**

We found a TICS that was prepared on September 20, 2018, specifically for the DHS ICE relocation to 443 Jefferson Boulevard. According to the LCO, “The Purpose of the IGE TICS is to have the Agency prepare and submit a fair and reasonable RWA for the lump sum payment for the TI and BSAC thresholds that are expected to be exceeded prior to Lease Award.”<sup>4</sup> This TICS resulted in total reimbursable construction costs of [REDACTED], or [REDACTED] per ABOA SF, in excess of the [REDACTED] tenant improvements already included in the lease rent. PBS accepted a reimbursable work authorization for that amount on October 23, 2018. The TICS was prepared by the same GSA estimator that prepared the Williston, Vermont, TICS that JLL used in its present value analysis for 443 Jefferson Boulevard.

In light of the above, we recalculated the lump-sum component of the present value analysis for 443 Jefferson Boulevard to be more representative of the circumstances that existed. We used the construction cost factor of [REDACTED] per ABOA SF, because this is what DHS ICE actually provided in reimbursable work authorization funds. We also used the [REDACTED] per ABOA SF moving cost factor, the same factor used by PBS and JLL. This resulted in a total lump-sum factor of [REDACTED] per ABOA SF for estimated move and construction costs, or a total lump-sum amount of [REDACTED] ( [REDACTED] ). This corrected lump-sum factor equates to a rate of [REDACTED] for purposes of the present value analysis as presented in *Figure 2* of this report.

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<sup>4</sup> RWA, TI, and BSAC are acronyms for reimbursable work authorization, tenant improvements, and building specific amortized capital, respectively.

<sup>5</sup> This number [REDACTED] has been rounded for report presentation purposes. The actual number is [REDACTED].

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## ***Appendix B - Memorandum Distribution***

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GSA Administrator (A)

GSA Deputy Administrator (AD)

Commissioner (P)

Regional Administrator (1A)

Regional Commissioner (1P)

Acting Chief of Staff (PRAC)

PBS Audit Liaison (PT)

Chief Administrative Services Officer (H)

Audit Management Division (H1EB)

Assistant Inspector General for Auditing (JA)

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