



SEP 04 2015

LAC-2015-05

MEMORANDUM FOR: REGIONAL COMMISSIONERS, PBS
REGIONAL LEASING DIRECTORS
REGIONAL LEASING SERVICES OFFICERS

FROM: *for* JAMES C. WISNER, ASSISTANT COMMISSIONER FOR
OFFICE OF LEASING (PR) *J. Wisner*

STUART BURNS, ASSISTANT COMMISSIONER FOR
OFFICE OF REAL PROPERTY ASSET MANAGEMENT
(PT) *S. Burns*

for ERICA NAVARRO, DIRECTOR, OFFICE OF BUDGET (BB) *E. Navarro*

SUBJECT: Timely Activation of Leases, Initiation of Lease Payments
and R-620s

- Purpose:** This Lease Acquisition Circular (LAC) issues direction and guidance to the Leasing Divisions, Lease Contracting Officers and Leasing Specialists regarding the timely activation of leases and initiation of lease payments. Financial audit findings over several past years indicate that rent payments are not always initiated timely in accordance with lease contracts, resulting in back payments and financial statements that underreport our obligations and expenses.

Attachments 1 and 2 to this LAC describe timeliness of initial lease payment(s) as prescribed in lease contracts, the steps to be completed in order to initiate lease payments timely, and the process for identifying leases as accrual candidates in the event the steps to initiate rent payments cannot be completed timely. Attachment 1 also describes the Leasing Financial Scorecard report introduced earlier this year, and its purpose as a monitoring tool for tracking past due and upcoming projects.

- Effective date:** This LAC and instructions are effective immediately and will remain effective until canceled or modified.
- Applicability:** This LAC applies to all General Services Administration (GSA) real property leases.

4. Cancellation: Not applicable


5. Instructions and Procedures: See attached memorandums.

Attachment 1 – Memorandum entitled “Timely Activation of Leases via R620’s, NFR FBF2010-001”

Attachment 2 – Memorandum entitled “Guidance for Identifying and Recording Expense and Revenue Accruals for PBS Leasing Actions”

MEMORANDUM

To: Regional Leasing and Portfolio Directors, Regional Financial Management Directors

From: Chris Wisner, Assistant Commissioner, Office of Leasing (PR) 

Date: September 4, 2015

RE: Timely Activation of Leases via R620's, NFR FBF2010-001

It is critical that PBS's financial statements accurately reflect our financial condition. Financial audit findings over several years indicate that rent payments are not always initiated timely according to lease contracts, resulting in back payments and understatement of obligations and expenses.

GSA lease contracts typically specify the first rental payment is due on the first workday of the next month if the lease commences on or before the 15th day of a month, and the first workday of the second month following commencement if the lease commences after the 15th day of a month.

The Lease Contracting Officer (LCO) may execute the Lease Amendment (LA) which has been signed by the lessor and memorializes the final rent amount, lease and rent commencement dates and expiration date once they receive the BA53 prevalidation.

Before rent payments can start, the following conditions must exist:

- Substantial completion
- Acceptance of the space by the Government

Once these conditions are met, the signed commencement LA is required before an R620 can be created, processed, approved by the LCO, and sent to the Financial Shared Services Provider ("FSSP") in Ft. Worth to start rent payments.

Back payments and understated expenses are caused by:

- Failure by the Leasing Specialist or LCO to initiate creation of the R620 timely after the necessary documents are in hand
- Delays in processes or receipt of the necessary documents that must precede creation of the R620. Some of these processes are not entirely within GSA's control and include:
 - construction delays by the tenant agencies that result in retroactive commencement dates
 - post-occupancy reconciliation of final tenant improvement costs and lease commencement date
 - lack of agreement between GSA and Lessor on punchlist items

- delayed receipt of lease amendment(s) executed by the lessor which memorialize the final terms of a lease
- Failure to accrue rent during periods when the R620 is not or cannot be created timely.

Once the R620 process is initiated by the Leasing Specialist or LCO, responsibility for processing the R620s resides in different business lines among the regions, including Leasing, Portfolio, a combination thereof, and regional OCFO.

ACTION: In order to resolve this situation:

1. Henceforth all leases and lease amendments for commencement will be accompanied by a letter from the LCO requesting a return response from the lessor within 5 business days after the date of mailing by the LCO.
2. For leases that commence on or before the 15th day of the month, in order for the first rent payment to be made timely, LCOs must upload the signed LA into GREX, initiate the R620 in REXUS, and request the BA53 analyst to review the R620 and respond in REXUS before close of business on the 15th day of the month.
3. For leases that commence after the 15th day of the month, in order for the first rent payment to be made timely, LCOs must upload signed LA into GREX, initiate the R620 in REXUS, and request the BA53 analyst to review the R620 and respond in REXUS before close of business on the 15th day of the month following the commencement month.
4. **ACTION FOR ACCRUALS:** If the processes and receipt of signed documents necessary for creation and approval of the R620 cannot be completed and forwarded to the FSSP in Ft. Worth in time to initiate rent payments timely according to the lease contract, the LCO must take the following action:
 - The LCO must check REXUS on the 15th of the month to verify completion. If not complete, the LCO must indicate the lease has commenced by updating the "Estimated Lease Commencement Date" field in REXUS with the actual commencement date. REXUS will not allow the user to enter information into the "Actual Lease Commencement Date" field prior to processing the R620. REXUS automatically populates that field when the R620 is processed.

The OCFO uses this updated estimated date to determine lease commencements for recording and reporting accruals. The OCFO has established policy and processes for the identification and reporting of rent accruals. They are described in a memorandum from the Director of Financial Policy and Operations (BC) entitled "Guidance for Identifying and Recording Expense and Revenue Accruals for PBS Leasing Actions."


5. The LCO must upload the appropriate documents and initiate the R620 within 5 business days after receipt of the signed lease amendment from the lessor which memorializes the final rent amount and commencement dates.


6. PBS Financial Budgeting & Reporting Division (BP) in coordination with the National Office of Leasing (NOL) now publishes a monthly Lease Financial Scorecard report that is shared with the regional Leasing and Portfolio directors and regional Financial Management directors. The report lists all lease acquisition projects with estimated lease commencement dates that are past ("past due" projects) and projects with estimated lease commencement dates in the next two months. This report is a tool to be used by the regions to help plan R620 workload, identify projects with schedules that need updating and identify projects for which leases have commenced and should be considered for accruals. During FY15 performance targets will be established for on-time activation.

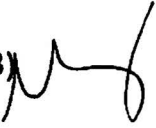



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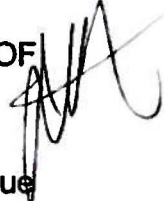
MEMORANDUM TO REGIONAL FINANCIAL MANAGEMENT DIRECTORS AND
REGIONAL LEASING DIRECTORS

FROM: AGNES LEUNG DIRECTOR, OFFICE OF FINANCIAL
MANAGEMENT (BG) 

KATHY HAMMER, DIRECTOR, OFFICE OF REGIONAL
FINANCIAL SERVICES (BR) 

ERICA NAVARRO, DIRECTOR, OFFICE OF BUDGET (BB) 

ANNE SHIMABUKURO, DIRECTOR, OFFICE OF BUSINESS
AND FINANCIAL ANALYTICS (BI) 

CHRIS WISNER, ASSISTANT COMMISSIONER, OFFICE OF
LEASING (PR), PUBLIC BUILDINGS SERVICE 

SUBJECT: Guidance for Identifying and Recording Expense and Revenue
Accruals for PBS Leasing Actions

Most GSA lease contracts stipulate that the lessor is due to receive the first rent payment by the first business day of the following month if the lease term and rent commence on or before the 15th of a month. If the lease term and rent commence after the 15th of a month, the first rent payment is due on the first business day of the second month following the month in which the lease term and rent commence.

If the processes necessary for creation and approval of the lease digest action (R620) cannot be completed to initiate rent payments timely according to the lease contract, an expense accrual should be established. Likewise, if the processes necessary for finalizing the Occupancy Agreement (OA) cannot be completed to initiate billing timely according to the OA, a revenue accrual should be established. Expense accruals are needed to report the lease expense where PBS has accepted beneficial occupancy and the first payment will be subsequent to that month and rent effective date. Revenue accruals are needed where tenants have agreed to their OA effective date and the

actual start of rent billing will be subsequent to that month. Accruals are required to be reported for material amounts to the Federal Buildings Fund (FBF). Refer below for dollar threshold for expense and revenue accruals.

The roles and responsibilities for establishing these accruals are defined below.

Office of Leasing

- If the R620 cannot be completed and forwarded to the Financial Shared Service Provider (FSSP) in Ft. Worth timely, it is imperative that the Lease Contracting Officer or Realty Specialist perform the following:
 - Update the Estimated Lease Term Commencement date in REXUS with the actual lease term commencement date and;
 - Ensure that the financial data in REXUS including Rentable Square Feet (RSF), and Annual Rent Rates are accurate, based upon the best information available.
- Changes to estimated lease term commencement date must be entered into REXUS for the accrual process to be effective. At this time, changes or updates to estimated lease term commencement dates made in GREX will not automatically push to REXUS. GREX and REXUS are expected to have that capability beginning August 2015.
- It is important to note that while REXUS has fields for Estimated Lease Commencement Date and Actual Lease Commencement Date, the Finance and Budget communities refer to these dates as "effective dates" because these are dates that initial rent payments or changes in the amount of rent payments are expected to become effective.
- Past due projects are identified on the Leasing Financial Scorecard Past Due Report and will be the basis for the accruals. The Leasing Financial Scorecard is a process tool created by the Office of the Chief Financial Officer (OCFO) to create more visibility and accountability for the past due lease projects. Here is the link to this scorecard google site; <https://sites.google.com/a/gsa.gov/anomaly-report/>

- It is important to update the critical data elements mentioned above because they are the basis for the formulation of the accruals. Recording these accruals ensures that lease expenses and revenue are properly stated each month, even when a lease payment or OA billing has not commenced.

Office of the Chief Financial Officer

- The PBS Financial Services Division (BGP) will work with the PBS Budget Division (BBP) and the PBS Analytics Division (BID) to develop the list of accrual candidates each month. This list will be based on the Leasing Financial Scorecard Past Due Report. This creates a direct link between the work GSA is doing on past due projects on the Leasing Financial Scorecard and the accruals needed for those projects considered past due.
 - BGP and BBP compare the past due effective dates (also known as estimated lease term commencement dates in REXUS) with records in GALAXY2. If there is a past due project date in REXUS and the project has yet to have an executed R620, then review for possible accrual is necessary.
 - For instances where payments are still being made under the old lease and the new replacing lease has commenced, but there is no executed R620 for the new lease, then an accrual may be needed for the project value. This can be identified in GALAXY2 and REXUS.
- BGP will require review for every accrual candidate with a projected value of \$50,000 or greater. The projected accrual value is a cumulative amount calculated using the effective date of the lease action through the end of the current month. Potential accruals below this threshold will be accepted if a region chooses to submit them; however, review of items below the established threshold will not be required. This threshold will be reviewed annually and guidance will be issued to revise it if that becomes necessary.
- If the anticipated accrual amount meets or exceeds the accrual reporting threshold, this will be reported to the regional financial services divisions (RFSD) as a recommended accrual. It is the responsibility of the regional RFSD to confirm if the accrual is needed and validate the dollar amount.

- There will be one point of contact in each region that is responsible for submitting the response to the expense and revenue accrual files monthly to BGP.
 - This person will coordinate with others as necessary to ensure that all expense and revenue accruals are properly stated.
 - This person will also provide a Funds Certification, signed by a PG53 budget analyst, for the total of the expense accruals to be submitted.
 - All expense and revenue accruals must be sent to BGP a minimum of 4 business days prior to the end of the month. This date will be communicated to the regions monthly when the files are sent out.

Budget Activity 53 Analysts

- The expense and revenue accrual files will have suggested accrual values based on the calculations in GALAXY2. Suggested accrual values are based on rental rates, less free rent and broker commission credits. This information is updated in REXUS and pulled into GALAXY2 automatically. Therefore, by the Office of Leasing keeping these data elements updated in REXUS, the accrual amounts will be estimated correctly.
- The accrual value should be adjusted by the budget analyst if needed.
 - For example, if there is a succeeding lease project and the current lease stops paying, the accrual should be more than the difference between the old and the new rate set in GALAXY2. It would have to account for a month of unrecorded expense as well. The budget analyst would be expected to update the accrual value in this case to properly record the necessary expense accrual.
 - Please note that negative expense accruals should not be submitted via this process. Instances where it is discovered that a negative expense accrual is needed, typically would involve an overpayment by GSA to the lessor. These instances require communication with the FSSP in Ft. Worth to initiate the claims process.
 - For example, if there is a new lease coming online and payment has not yet been made a positive expense accrual would be desired for that lease. And if the old lease has terminated, it's possible that if an overpayment occurred then a claim would need

to be processed against the lessor for that old lease. This request should be communicated with the FSSP in Ft. Worth directly to establish a claim for the overpayment on the terminated lease. However, if the new lease payment can be reduced and offset for the overpayment on the old lease, then a claim would not be necessary.

Revenue Teams

- Revenue teams will recommend corresponding revenue accruals for past due items on the same worksheet sent by BGP.
 - Values should be approximately 7% (cancelable) or 5% (non-cancelable) higher than expense accruals depending on the PBS fee of the OA. PBS reduces the fee to 4 percent for tenant agencies that occupy space in USPS-controlled properties.
 - Revenue and expense accruals may differ, outside of the PBS fee factor. For example, timing can play a factor in the accruals if an OA effective date differs from the lease effective date. Also, expenses can differ if the lease is less than fully serviced (e.g., net of utilities) where GSA pays for the utilities and is reimbursed by the tenant agency.
 - It is possible to accrue a negative revenue accrual if an over-billing has occurred and a billing adjustment cannot be processed prior to the end of the month.
- There will be additional revenue accruals that are not associated with lease projects.
 - These accruals are typically associated with non-billing OAs and OAs in owned locations.
 - BID will identify these accruals by matching the Rent Revenue Billing against the Revenue Forecast. These accruals will be included on a separate tab of the worksheet sent out by BGP.
 - These must be reviewed for accuracy as well and adjusted accordingly.

Central Office Final Steps

- BGP will be responsible for processing the requested accruals.
 - BGP will submit the accrual files monthly and will verify that they are processed correctly.
 - BGP will share the Valid Accounting Transaction (VAT) entries from FMIS with everyone on the accrual distribution list monthly.
 - As these accruals are self-reversing in nature, BGP will also confirm that they reverse properly each month.

While the goal for GSA is timely processing of all lease actions, it is understood that sometimes there will be things outside of our control that hinder this. In these situations, the use of accruals will ensure that our financial statements are accurate on a monthly basis.