GSA Public Buildings Service

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

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SUBJECT: LEASING ALERT - Material Changes that Constitute Rescoring

This Leasing Alert provides guidance to define lease modifications that would require re-evaluation of operating or capital lease classification for budget scoring.

The Chief Financial Officer's Act of 1990 (P.L. 101-576), as amended, requires the GSA Inspector General or an independent external auditor, as determined by the Inspector General, to audit GSA's financial statements. Under a contract monitored by the Office of Inspector General, KPMG, an independent public accounting firm, performed the Fiscal Years 2014 Financial Statements Audit of GSA. The contract required the audit be performed in accordance with the Government Auditing Standards issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 14-02, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 14-02 require that KPMG plan and perform the audit to obtain reasonable assurance about whether GSA's consolidated financial statements and the Funds' individual financial statements are free from material misstatement.

During fiscal year 2014, KPMG noted certain deficiencies in financial management and reporting oversight at GSA in the areas of classification of capital and operating leases. GSA maintains approximately 9,000 leases. As KPMG reported in the fiscal year 2013

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Internal Control over Financial Reporting section of our Independent Auditors' Report, GSA needs to continue to improve the effectiveness of its controls over the classification analysis of leases to ensure the proper accounting for, and disclosure of, leases in accordance with applicable accounting standards. KPMG noted that there was no evidence that GSA re-performed the lease classification analysis as part of a change in terms of the lease agreement and recommended that GSA PBS update its lease policies and procedures to define lease modifications that would require re-evaluation of operating or capital lease classification for budget scoring.

Prior to lease award and during the development of a lease project, it is possible that there will be changes to the project's budget, scope, and schedule. It is important to note that many of these changes could result in a change to the government's financial commitment to the lessor and require the project to be re-evaluated to verify that the lease classification has not changed. After lease award, these changes usually take place within lease amendments (LA); the Lease Contracting Officer must review the lease amendment to identify material changes to the original lease agreement and supporting scoring documentation. Examples of material changes that would warrant re-evaluating a lease using the updated information provided in the LA and using the current GSA-approved scoring workbook (located on the National Office of Leasing Google site) include;

- Increase in rentable square feet.
- Increase in lease term.
- Increase in net rent rate.
- Significant change in space type (e.g., If the predominant space within a project changes from general office space to lab or SCIF space).
- Change in Fiscal Year of lease award date.

The list above was not intended to be all inclusive, but identifies the most common changes that occur during the development of a project and during the life of a lease. If you have questions about other modifications that potentially change the government's financial commitment to a lessor, please contact the scoring team members within your region for assistance. It is critical that the Leasing Specialist make the Office of Real Property Asset Management aware of these changes so the final determination of operating lease treatment supports the lease as awarded. Also, after lease award, it is critical that the Leasing Specialist notify the Office of Real Property Asset Management of any material changes to the original lease agreement using an updated scoring analysis request including the material changes made to the original agreement.

As currently reflected in the Leasing Desk Guide, if the Government seeks to extend a lease for a temporary term (generally 1 to 3 years, not to exceed 5 years), the Leasing Specialist is authorized to make the determination that the proposed lease is an operating lease by certifying that the lease meets the criteria in paragraph 4(d) of this policy. The 90 percent scoring calculation is not required for the determination. The Leasing Specialist must complete the Determination of Operating Lease Classification for Leases 5 Years or Less, per paragraph 5(a) of this policy, and include a copy in the lease project file. No further action with regard to lease classification for budget scorekeeping purposes is required.

The Leasing Desk Guide will be amended in the near future to reflect these changes.

If you have any questions, please call Christian Hazen at (202) 208-2089 or John D. Thomas at (202) 501-2454.