U.S. DEPARTMENT OF TRANSPORTATION

OFFICE OF INSPECTOR GENERAL

FAA's Management and Oversight Are Inadequate To Secure Timely and Cost-Efficient Agency-Leased Offices and Warehouses

FAA

Report No. ZA2018040

April 11, 2018

U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL

Highlights

FAA's Management and Oversight Are Inadequate To Secure Timely and Cost-Efficient Agency-Leased Offices and Warehouses

Self-Initiated

Federal Aviation Administration | ZA2018040 | April 11, 2018

What We Looked At

Since 2003, the Government Accountability Office (GAO) has identified Federal real property management as a high-risk area. In fiscal year 2017, the Federal Aviation Administration's (FAA) independently acquired lease portfolio represented $104 million in annual rent, with office and warehouses comprising about three-quarters of that total. FAA's office and warehouse leases represent a total potential value of $1.4 billion. Given GAO's persistent high-risk designation of Federal property management and the sustained Governmentwide focus on reform in this area, as well as the magnitude of taxpayer dollars involved, our audit objective was to assess FAA's management and oversight of its office and warehouse leases.

What We Found

FAA's management and oversight are inadequate to secure timely and cost-effective Agency-leased offices and warehouses. In particular, FAA has not maintained accurate data on its leases or established effective policies and procedures to help ensure its office and warehouse leases are cost-effective. For example, 26 of the 50 leases in our sample contained data errors in FAA's property management database, which it uses to oversee, manage, and report on its leases. FAA also lacks an effective strategic planning process for identifying and achieving improved lease efficiency through efforts such as consolidations, relocations, and rightsizing of space. Finally, FAA has not established sufficient controls to reconcile and validate the accuracy of all lease payments. These weaknesses have not only led to many questionable lease decisions but also create serious obstacles to achieving the Agency's space utilization standard. By not using its leased space as efficiently as possible, FAA has missed cost savings opportunities. Overall, we project a total of $37.6 million in funds that could have been put to better use due to various weaknesses in the Agency's management and oversight of FAA-leased offices and warehouses.

Our Recommendations

FAA concurred with our 12 recommendations to improve FAA's management and oversight of its office and warehouse leases. Based on FAA's response, we consider all 12 recommendations resolved and open pending completion of planned actions.

All OIG audit reports are available on our website at www.oig.dot.gov.

For inquiries about this report, please contact our Office of Legal, Legislative, and External Affairs at (202) 366-8751.

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Memorandum

Date: April 11, 2018

Subject: FAA's Management and Oversight Are Inadequate To Secure Timely and Cost-Efficient Agency-Leased Offices and Warehouses | Report No. ZA2018040

From: Mary Kay Langan-Feirson
Assistant Inspector General for Acquisition & Procurement Audits

To: Federal Aviation Administrator

The Federal Aviation Administration (FAA) holds about 99.1 percent of the Department of Transportation's (DOT) real property assets, with over 25.1 million square feet in real property.[1] Since 2003, the Government Accountability Office (GAO) has identified Federal real property management as a high-risk area. In a 2015 report,[2] GAO stated that the Federal Government maintains excess and underused property and over-relies on cost-inefficient leasing situations. These concerns and others have prompted widespread attention and reform efforts. For example, in recent years, the Office of Management and Budget (OMB) has undertaken several initiatives and issued guidance to improve Federal real property management, specifically targeting offices and warehouses.

While the General Services Administration (GSA) is the central leasing agent for most Federal agencies, FAA has statutory authority to acquire space independent of GSA.[3] In fiscal year 2017, FAA's independently acquired lease portfolio represented $104 million in annual rent, with office and warehouses comprising about three-quarters of that total.[4] FAA's office and warehouse leases represent a total potential value of $1.4 billion. Despite its independent lease authority, FAA

[1] This includes FAA leased, Federally owned/FAA controlled, and GSA leased or owned real property.
[2] GAO, *High-Risk Series: An Update* (GAO-15-290), February 2015.
[3] 49 U.S.C. § 106(l)(6); 49 U.S.C. § 106(n); 49 U.S.C. § 40110(c)(1).
[4] FAA's independently leased office and warehouse space represents 4.1 of its 25.1 million square feet of real property.

is required as a Federal Real Property Council[5] member agency to participate in Governmentwide reform efforts and shares the responsibility to employ OMB's National Strategy[6] to enhance the efficiency and cost effectiveness of Federal office and warehouse space. Given GAO's persistent high-risk designation of Federal property management and the sustained Governmentwide focus on reform in this area, as well as the magnitude of taxpayer dollars involved, our audit objective was to assess FAA's management and oversight of its office and warehouse leases.

As part of our audit, we selected a statistical sample of 50 FAA leases of offices and warehouses, which allowed us to project funds that could have been put to better use due to various weaknesses in the Agency's management and oversight of FAA-leased offices and warehouses. Exhibit A provides more details on our scope and methodology, and exhibit B lists the organizations we visited or contacted.

We appreciate the courtesies and cooperation of DOT representatives during this audit. If you have any questions concerning this report, please call Mary Kay Langan-Feirson, Assistant Inspector General for Acquisition and Procurement Audits, at (202) 366-5225.

cc: The Secretary
DOT Audit Liaison, M-1
FAA Audit Liaison, AAE-100

[5] The Federal Real Property Council was established in 2004 to promote the efficient and economical use of Federal Government real property. The Council is chaired by OMB and composed of senior management officials from executive branch departments and agencies covered by the Chief Financial Officers Act of 1990, including GSA and FAA.

[6] OMB, *National Strategy for the Efficient Use of Real Property 2015-2020*, Spring 2015.

Results in Brief

FAA's management and oversight are inadequate to secure timely and cost-effective Agency-leased offices and warehouses.

We identified concerns in a number of areas, including:

- **Inaccurate lease data.** Twenty-six of the 50 leases in our sample contained data errors in FAA's Real Estate Management System (REMS)—the main tool the Real Property Division[7] uses to manage and oversee the Agency's leases as well as report to Congress and OMB. For example, REMS reported a Westbury, NY, office space as having 1,996 square feet with 2 employees, when the space is really 11,923 square feet housing 53 employees. These inaccuracies are due in part to the lack of a standard process for entering and validating data by the Service Regions and impede FAA's ability to effectively manage and accurately report on its leases.

- **Ineffective policies and procedures.** The Real Property Division's process for approving lease efficiency opportunities, including consolidations, relocations, and rightsizing of space, is often untimely and ineffective. We identified six leases in our sample where missed opportunities to reduce rent for unused space cost the Agency a total of approximately $5.7 million. Based on this finding, we project that FAA could have put $14.6 million[8] in funds to better use due to missed rent reduction opportunities.

- **Limited strategic planning.** Although FAA developed a 5-year (fiscal years 2017 to 2021) Real Estate Strategic Plan, it did not always use accurate or complete data during the strategic planning process. As a result, the Plan's value to the Agency in both identifying and achieving cost-effective lease opportunities is significantly limited.

- **Insufficient controls for lease payments.** FAA has not established sufficient controls to ensure the correct reconciliation and accuracy of all

[7] The Real Property Division (ALO-200) is FAA's primary contracting office for the acquisition, management, and disposal of real estate for air transportation, including managing all aspects of space acquisition and lease administration of real estate.

[8] Our $14.6 million total potential lease value projection ranges from $5.7 million to a 90-percent upper confidence limit of $24 million and is based on the time an opportunity to reduce rent for unused space was identified through when an opportunity was finally acted upon or the lease term expired, whichever came first.

lease payments. For example, we project an estimated $111,138[9] in funds that could have been put to better use for interest FAA never collected based on erroneous lease payments the Agency made for years before noticing and taking action to correct them. While these funds represent less than 1 percent of FAA's leasing portfolio, they indicate that, without more effective controls, the Agency remains at risk of misused or wasted funds.

As a result of its management and oversight weaknesses, FAA continues to make poor lease decisions and is not using its lease space as efficiently as possible. For example, in 2016, FAA established a utilization rate of 170 square feet per staff. However, six office leases associated with our sample that were awarded after this utilization standard was effective all exceed it—ranging from 206 to 438 square feet per person. Given the total potential value of these six leases,[10] we project that for the space above the 170 square foot utilization standard, FAA will pay a total of $22.9 million[11] through the full terms of the leases in our universe, representing funds that could have been put to better use. Overall, we project a total of $37.6 million[12] in funds that could have been put to better use due to various weaknesses in the Agency's management and oversight of FAA-leased offices and warehouses.

We are making 12 recommendations to improve FAA's management and oversight of its office and warehouse leases.

Background

As of fiscal year 2016, FAA independently leased approximately 48 percent of the Agency's 8.6 million square feet of office and warehouse space. Of the remaining amount, FAA either acquired the space through GSA (approximately 33 percent) or owned the property (19 percent).

Around 2013, FAA centralized its lease management and oversight at the Headquarters level, where previously it had been managed at the regional level. FAA stated that it moved to a centralized structure to promote consistency in leasing practices throughout the regions and help ensure compliance with Agency requirements. As a result of this change, FAA Headquarters' Real Property

[9] Our $111,138 total potential lease value projection ranges from $25,246 to a 90-percent upper confidence limit of $273,420.
[10] The total value from their respective award dates until December 31, 2017 (the end of our audit) and for just the square footage over the 170 standard was $560,597.
[11] Our $22.9 million projection has a precision of +/-$17.3 million at the 90-percent confidence level.
[12] Our $37.6 million projection has a precision of +/-$18.6 million at the 90-percent confidence level.

Division (Aviation Logistic Organization (ALO-200))[13] is now the primary contracting office for the management of the Agency's real estate. Specifically, the Real Property Division manages all aspects of land and space acquisition, lease administration, and disposal of real estate, as well as the acquisition of utilities services and the requirements of office space. Per its Rent Management Reference Manual, the Division is also charged with acquiring space to meet FAA mission requirements in the most cost-effective manner. As of December 2017, the Real Property Division consisted of 10 Federal employees and 17 contractors.

In fulfilling its mission, the Real Property Division is responsible for implementing and maintaining lease policy and guidance, developing strategic plans, managing the Agency's Real Estate Management System (REMS), certifying real estate contracting officers (RECO), and implementing OMB requirements. However, the actual acquisition of leased space is managed and overseen by real estate staff located in three regional Logistics Service Areas—Eastern, Western, and Central.[14] As of December 2017, real estate staffing at all three Service Areas totaled 62 Federal employees and 37 contractors. Moreover, although the Service Areas each represent separate divisions within the Aviation Logistic Organization, the Real Property Division is responsible for overseeing their leasing operations.

FAA's Management and Oversight Are Inadequate To Secure Timely and Cost-Effective Agency-Leased Offices and Warehouses

FAA's management and oversight are inadequate to secure timely and cost-effective office and warehouse leases. In particular, FAA has not maintained accurate data on its leases or established effective policies and procedures to ensure its office and warehouse leases are timely and cost-effective. FAA also lacks an effective strategic planning process for identifying and achieving improved lease efficiency through consolidations, relocations, and rightsizing of space. Finally, FAA has not established sufficient controls to reconcile and validate the accuracy of all lease payments. Overall, these weaknesses have not only led to many questionable lease decisions but also create serious obstacles to achieving the Agency's space utilization standard.

[13] The Real Property Division is part of the Aviation Logistic Organization (ALO), which falls under the Office of Regions & Property Operations, and, in turn the Office of Finance & Management.

[14] Several years ago, FAA consolidated all regional leases into these three Logistics Service Area Centers, located in College Park, GA (Eastern); Fort Worth, TX (Central); and Renton, WA (Western). There is a RECO located at FAA Headquarters who manages and oversees leases in the Washington, DC, area.

FAA Is Not Maintaining Accurate Data in Its Real Estate Management System

FAA tracks and manages its real property assets and related information in a web-based, nationwide database called REMS. According to Agency policy, logistics personnel are to ensure accurate and complete data entry into REMS. FAA lease policy further states the RECO must ensure that all information is entered into REMS after execution of a lease and that the Service Areas in general are responsible for entering, periodically monitoring, and correcting inaccuracies in REMS data.

However, when verifying the REMS data with the actual lease file documents, we identified significant inaccuracies in key data fields. For example:

- REMS reported a Westbury, NY, office space as having 1,996 square feet with 2 employees, when the space is really 11,923 square feet housing 53 employees.[15]
- Two leases reported in REMS as firm-term[16] were not actually firm-term, and seven leases that were firm-term were reported in REMS as not being firm-term.
- REMS reported 8,752 square feet for office space in Washington, DC, when the space was actually 7,019.

Overall, 26 of our 50 sample office and warehouse leases had one or more REMS data errors. Based on this finding, we project that 130[17] (39 percent) of the leases with a potential lease value of $1.2[18] billion (83 percent) in our universe have data errors or inaccuracies.

These inaccuracies impede FAA's ability to effectively manage and accurately report on its leases. For example, the Real Property Division uses REMS data for such tasks as identifying potential lease efficiency opportunities, determining "priority" leases (defined as those approaching expiration) for management focus, and making automated rent payments. In addition, Division officials told us that they use REMS as the system of record when OMB requests the status of the

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[15] FAA is required to report staff counts for REMS assets to OMB and for the Federal Real Property Profile on an annual basis. The Real Property Division uses FAA's Employee Information System to try and allocate Federal and contractor staff to REMS assets for this reporting. FAA provided staff counts for our REMS audit universe based on this annual reporting exercise.

[16] FAA defines a firm-term lease as the period or length of time the lease cannot be canceled without the approval of the lessor.

[17] Our 130 projection has a precision of +/-10 at the 90-percent confidence level.

[18] Our $1.2 billion projection has a precision of +/-$65.9 million at the 90-percent confidence level.

Agency's portfolio. REMS data also feed FAA's submission to the Governmentwide real property inventory database,[19] which is maintained by GSA and is used to assess progress and compliance with Governmentwide real property requirements and initiatives.

Although the Real Property Division retains overall responsibility and management of REMS, Agency policy holds the Service Areas responsible for data accuracy. However, FAA's policy does not prescribe what processes Service Areas should use to enter and review REMS data for accuracy. As a result, there is no consistency, even within a Service Area, on how these responsibilities are carried out. For example, our survey of the 29 RECOs associated with our 50 sample leases revealed that only 2 of the RECOs enter data into REMS. The remaining RECOs responded that they rely on contractors or selected FAA staff designated with REMS data entry responsibility, or that it was "unknown" who entered their lease data into REMS. Moreover, when we asked whether the 29 RECOs were responsible for ensuring the accuracy of their leases' REMS data, 16 responded yes, 12 responded no, and 1 responded unknown.

While Real Property Division officials acknowledged the accuracy issues with REMS, they pointed to several safeguards in place to help mitigate the situation. These safeguards include requiring new user training and regular data checks, as well as rolling triennial inventories of all real property assets, which began in 2008. However, given our findings, these safeguards have not been fully effective. Even FAA stated that it was difficult to assess whether data accuracy has improved since these safeguards were put in place. Therefore, inaccurate data will continue to impede FAA's lease management and oversight efforts.

Weaknesses in FAA's Policies and Processes Hinder Its Ability To Secure Cost-Effective Leases

Federal agencies are required to promote the efficient and economical use of America's real property assets through, among other things, improved policies and levels of accountability.[20] Moreover, each Executive agency is required to establish goals and policies that will lead the agency to reduce excess and

[19] As directed by Executive Order 13327 (February 2004), GSA established the Federal Real Property Profile Management System (formerly known as the Federal Real Property Profile) to be a Governmentwide real property inventory database. GSA maintains this database as the single, comprehensive database describing the nature, use, and extent of all real property under the custody and control of executive branch agencies. All Federal Real Property Council members must report to this database on an annual basis.
[20] Executive Order 13327, *Federal Real Property Asset Management*, February 4, 2004.

underutilized property in its inventory.[21] However, FAA's current lease policies and processes possess a number of weaknesses which have resulted in inefficient and uneconomical lease decisions, an increasing number of leases in holdover,[22] and inadequate support for using restrictive firm-term leases.

FAA's Process for Approving Identified Lease Efficiency Opportunities Is Not Timely or Effective for Reducing Lease Costs

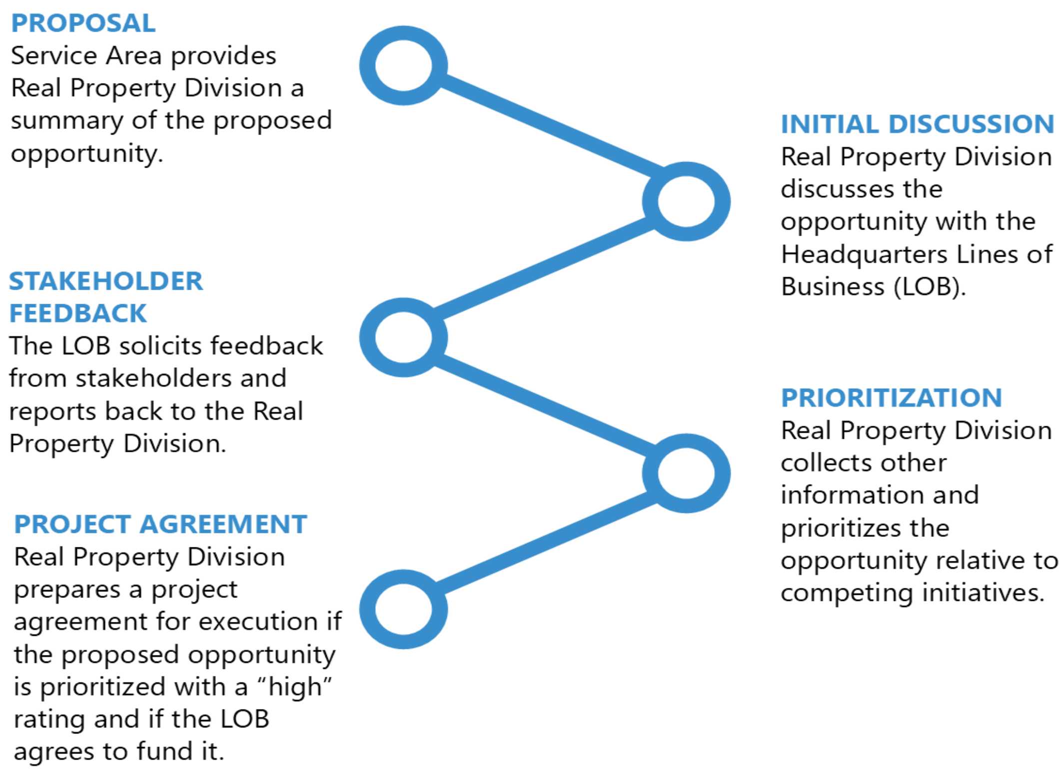
In order to carry out new space requests or any identified lease efficiency opportunities such as a relocation, consolidation, or rightsizing of existing leased space, Service Areas first need to obtain Headquarters' approval. This lease approval process has changed several times over the years[23] but essentially involves a multi-phased process that starts with the Service Area submitting a proposed lease efficiency opportunity to Headquarters to obtain the Real Property Division and affected line of business' (LOB) approval and funding to carry out the efficiency opportunity. Figure 1 summarizes the five key steps of the version of the approval process the Real Property Division transitioned to during the summer of 2017.

[21] 40 U.S.C § 524

[22] Holdover occurs when FAA continues to occupy the property it has leased after its lease term has expired.

[23] Since July 2014, this process has been referred to as the Space Solutions Process, but as of summer 2017, FAA has transitioned away from using this title for its lease approval process and has yet to identify a new title.

Figure 1. FAA's Lease Approval Process at the Time of our Audit



Source: OIG analysis of the current version of FAA's lease approval process, as provided by the Real Property Division on October 2, 2017.

Despite adjusting the process several times, the Real Property Division has never fully documented or communicated the process in any policy or guidance for the Service Areas or others. Moreover, the Division told us that the latest version of the process (as summarized in figure 1) is a transitional process leading to another version in the near future. We were told the head of the Real Property Division emailed this new transitional process to the Service Areas. However, none of the Services Areas' real estate staff stated they received this email or were familiar with the new process.

Service Area staff also noted that the lease approval process has always been unclear, lengthy, and in constant flux, making it difficult for them to implement, and at times leading them to make decisions to remain in inefficient leases to just avoid the process altogether. For example:

- For an office lease with underutilized space and over-market rental rates, a RECO documented on November 17, 2016, that since the current lease expires September 30, 2017, and the lease approval process can take up to 21 months for final approval, it would be in the best interest of the Agency to request another 2-year extension with the lessor.

- For an office lease that has a history of "continuous water intrusion issues, which have impacted our FAA mission" and whose space is significantly underutilized, a RECO told us that they are planning to renew the lease upon its February 28, 2018, expiration because the approval process takes so long and is constantly changing, therefore causing delays with completing space projects in a timely manner.

Based on our review, we found a number of specific instances where FAA's lease approval process (past and present) was less than effective, leading FAA to extend underutilized and overpriced leases and therefore, ultimately miss opportunities to reduce its footprint and lease costs. For example, due to the lengthy approval process, FAA has, at times, ended up remaining in inefficient leasing situations involving substantially underutilized office space at above market average rental rates. Specifically:

- In 2010, FAA noncompetitively awarded a 5-year succeeding[24] office space lease in Grand Rapids, MI, even though the space was over double the square footage needed based on staffing levels—including a 6,447 square foot suite that housed only 2 staff—and targeted by FAA as an opportunity to reduce its footprint. Mid-lease, the lessor offered FAA a smaller space across the hall, but because the Agency's approval process took so long, the lessor ended up leasing the space to another tenant. After losing the space across the hall, the RECO ended up extending the lease in 2015 for 2 additional years in order to allow time to find alternative options to reduce the space. It wasn't until March 2017 that the Real Property Division approved the existing space to be "rightsized."[25] As a result, the lease had to be extended another 6 months to allow time for the rightsizing to be completed and a new lease to be negotiated. Therefore, FAA remains in this underutilized space, paying about $4 per square foot over market average.[26] Furthermore, even after the rightsizing is complete, the RECO acknowledges the space will still be about 3,000 square feet too large.
- The RECO of a Pennsylvania office space lease nearing expiration notified the Real Property Division that FAA had been paying almost double the market rental rate during the entire 5-year term of this lease and that the lessor was demanding the same rental rate terms—which included a

[24] A succeeding lease is a new lease that begins upon expiration of an existing lease fulfilling the same space need.
[25] Rightsizing means identifying the actual amount of workspace needed to perform the agency's mission and making the adjustments to maximize efficiency—i.e., returning unused space to the lessor.
[26] The market rate or average was usually based on FAA's required market survey for all new, renewal, and succeeding leases or other lease file documentation. In cases where there was no market survey/analysis documented in the lease file, the audit used LoopNet—which FAA recommends in its Real Estate Guidance—for determining the market average for a similar sized space in the same vicinity.

3 percent annual escalator—if FAA wanted to remain in the space. Therefore, on September 12, 2016, the RECO requested the Division's reconsideration to make relocation of this space a priority. The Division directed the RECO to renew the lease for now given its pending expiration. As such, on June 7, 2017, FAA noncompetitively awarded a 5-year succeeding lease for this same space, carrying over the same excessive rental rate with a 3 percent annual escalation. As a result, the Agency continues to pay almost double the market rental average to remain in a space that, at the time of our audit, was substantially underutilized. Moreover, this lease includes a clause stating that if FAA wants to downsize but the lessor does not agree to reduced space or rental rate, the Agency will continue the lease under the existing payment plan.

Furthermore, FAA's lease approval process does not support its own timeliness goals. Agency policy requires RECOs to start the renewal or succeeding lease process at least 18 months prior to the existing lease's expiration date in order to complete the process before expiration and prevent FAA from becoming a holdover tenant. However, given that the lease approval process can take more than a year, and decisions are not always communicated from Headquarters to Service Area staff in a timely manner if at all, 18 months is not always sufficient. For example:

- In 2013, FAA extended a 1998 office-space lease in Trenton, NJ, even though it acknowledged the space was still almost double the need given the staffing levels and was identified by FAA as a candidate to reduce its footprint. The RECO justified this 3-year extension citing that the lease expiration was "fast approaching." After investing the time to find a suitable space to relocate, the RECO was instructed by Headquarters in March 2016—6 months before lease expiration—to proceed with a succeeding lease for the current underutilized space, noting that the LOB was considering moving some additional employees to the space. Therefore, the RECO did as instructed and noncompetitively awarded a 5-year succeeding lease on April 25, 2017, for the same excessive space and with the starting rental rate exceeding the market average by over $2 per square foot (as well as a 2 percent rent increase for the remaining 4 years, even though the consumer price index was around 0.7 percent). As of December 2017, the LOB has yet to move any additional staff to the space.

- In early 2014, a RECO and regional LOB began the process to gain approval to relocate an office space in Fresno, CA, that (1) was underutilized by nearly 50 percent, (2) did not comply with various FAA seismic and accessibility requirements, and (3) was infested with termites. However, the RECO had to extend the lease an additional year in both fiscal years 2016 and 2017 in order to buy more time to obtain Headquarters approval for the relocation and associated funding. Furthermore, the RECO had to obtain special legal approval on both of these 1-year extensions because it took the term of the lease beyond the Agency's 20-year authority. The RECO said the relocation is planned to occur upon the extended lease expiration date of September 30, 2018.

The Real Property Division told us that 18 months is the minimum requirement to start the renewal or succeeding lease process, and it is up to the Service Area RECOs and their manager to determine if the process needs to begin earlier. The Division also told us its main focus on lease oversight is leases nearing expiration—well within the 18 month expiration window. However, the Division's lengthy and ever-changing lease approval process leaves the Service Areas unclear when to start renewal and succeeding lease processes and does not promote timely lease actions.

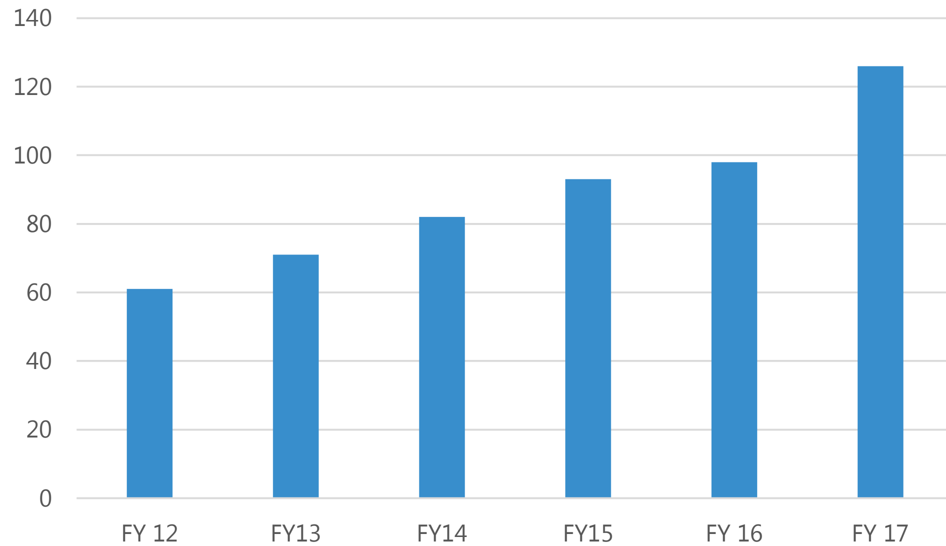
The Number of FAA Leases in Holdover Status Continues To Increase

A holdover period occurs when FAA continues to occupy the property it has leased after the lease term has expired. Holdovers can occur for a number of reasons, including a disagreement with the lessor over the new lease terms or the new relocation space is not ready. Leases in holdover subject the Government to financial risk, including potential penalties for continued occupancy without the lessor's agreement and potential inverse condemnation[27] claims by the lessor. As part of the effort to strengthen accountability and oversight of public buildings and help save taxpayer dollars, Congress recently directed GSA to implement strategies to avoid holdover leases in order to help reduce the costs of leased space.

However, while GSA has been working with Congress over the past couple years to eliminate holdover leases, FAA's leased assets in holdover have steadily expanded. (See figure 2.)

[27] Inverse condemnation is an action brought against the Government by a property owner to obtain just compensation for the Government taking their property without following eminent domain procedures.

Figure 2. Number of FAA Leases in Holdover, Fiscal Years 2012–2017



Source: OIG analysis of FAA-leased assets with an annual rent of $500 or greater contained in the Agency's REMS lease portfolio for each fiscal year 2012 through 2017.

Moreover, FAA policy states a holdover period should not exceed 6 months. However, 4 of the 50 leases in our sample (totaling $14.3 million) exceeded 6 months of holdover. In fact, FAA appears at times to use holdovers to compensate for untimely lease management processes and decisions. For example, a $341,000 office lease has been in holdover since October 1, 2009—over 8 years. Real Property Division officials admitted they are not focused on reducing the prevalence of holdover leases.

Notwithstanding its current 6-month holdover policy, FAA has begun a shift to an indefinite holdover period (i.e., as long as is needed by the Government) as part of its leasing strategy. In doing so, it has started using an indefinite holdover clause with its new leases, which allows the Agency to continue to occupy the space with the original lease terms "in full force and effect" on a month-to-month basis, without the possibility of eviction. Furthermore, the Real Property Division's new standardized lease template requires RECOs to use the indefinite holdover clause in all leases unless Headquarters and legal approves an exception. In comparison, GSA—the Federal Government's primary real estate agent—does not include a holdover clause in its standard lease form.

According to an FAA senior legal official, one reason for adopting this clause was the need to remain in spaces determined to be "mission critical" (i.e., locations supporting the safety of our airspace). However, we found FAA is using the indefinite holdover clause in non-mission critical leases involving general office and warehouse space.

While an indefinite holdover clause could be seen as benefiting FAA—such as by allowing the Agency to continue to occupy space beyond the lease expiration date without any rate increase—its use raises significant concerns. This is because the indefinite holdover essentially limits the lessor's ownership interest in the property, such as restricting or limiting a decision to sell the property or lease to a new tenant at a potentially higher rent. Moreover, the longer the holdover period, the greater the potential loss to the lessor. For example, FAA's indefinite holdover clause states the rent paid during the lease term will continue for the length of the holdover period, yet fair rental value for property usually increases in many real estate markets. In 2010, Government Leasing News reported that holdover tenancy is a recurring source of friction between the Government and lessors, with the lessor usually viewing the holdover tenancy as a source of financial loss and heightened risk. The risk associated with a lessor's inability to raise rent under an indefinite holdover tenancy could result in FAA, and ultimately the Government overall, incurring increased lease costs in the future.

As such, FAA's policy to shift to an indefinite holdover clause has created impediments in its ability to secure new leases. For example, an $8.3 million warehouse lease was in holdover for over 14 months due to the lessor refusing to sign a new succeeding lease containing the indefinite holdover clause. In another case, a nearly $1 million office lease whose rental rate was almost double the market average was in holdover for over 8 months because FAA wanted to include the indefinite holdover clause in the succeeding lease for the space. The lessor expressed concern that this clause allowed the Government to occupy the building without any increase in rent for an indefinite period, without any recourse on the lessor's part. The lessor only agreed to sign the succeeding lease after FAA revised the holdover clause to limit it to 180 days.

FAA Has Not Sufficiently Justified Its Use of Firm-Term Leases

According to FAA policy, a firm-term lease is defined as a lease that cannot be canceled without the approval of the lessor. As such, FAA does not have termination rights and commits to making future rental payments for the entire term or period of the lease. However, Real Property Division and Agency legal officials told us that FAA does have the ability to cancel or renegotiate a firm-term lease, but at a financial cost to the Agency. Regardless, FAA policy cautions that firm-term leases should not be entered into if there is any doubt about the long-term need for the space. FAA policy also states an analysis should be completed to show the use of a firm-term is advantageous to FAA.

However, 9 of the 12 firm-term leases in our sample (totaling $892 million) did not have any documentation to justify the decision to make them firm-term.

Furthermore, among these 12 leases, we found instances where FAA ended up not needing the full amount of leased space for the entire 10-year firm-term but continued to pay for the entire space through the term. For example:

- In 2007, FAA leased land in Hapeville, GA, to construct an office building for the Agency to occupy under a 10-year firm-term lease starting in April 2009. In 2008, FAA revised the initial request to more than double the size of space constructed based on projected staffing levels—but these projected levels were not sustained. In 2016, the Real Property Division identified this lease as a top priority for rightsizing—releasing an entire 50,352 square foot floor—and renegotiating the rent, as the current lease is significantly above market rental averages. However, FAA subsequently decided not to renegotiate or rightsize this space until the lease expires on September 30, 2019. According to the RECO, this is because FAA awarded this lease as firm-term. As a result, FAA will have paid at least $4.2 million for the 50,352 square feet of unneeded space, constituting a waste of Government funds.[28]
- In December 2000, FAA noncompetitively awarded a 5-year firm-term lease for three floors of office space in Washington, DC, potentially valued at $47.2 million. FAA then extended the lease several times, making it firm-term for a total of 17 years. Despite FAA vacating one of the three floors in September 2017, the Agency continued paying rent for all three floors through the lease expiration of December 14, 2017, as this lease remained firm-term until then. Therefore, FAA paid rent totaling $252,317 for 17,956 square feet of space on a vacant floor until the firm-term lease expired.

We received no evidence that FAA tried to cancel or renegotiate either of these two leases.

Factoring in these two examples, as well as four other leases in our sample where FAA missed legitimate opportunities for space efficiencies, FAA paid an approximate total of $5.7 million in rent for space that was not being utilized. (See exhibit C, table C-3.) Based on this finding, we project $14.6 million[29] in funds that could have been put to better use by FAA due to missed opportunities to reduce rent on unused or vacant space.

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[28] The $4.2 million is a conservative estimate because we performed our calculation starting from the day the Strategic Plan was issued (September 30, 2016); however, FAA was aware of the space's underutilization before this date.

[29] Our $14.6 million total potential lease value projection ranges from $5.7 million to a 90-percent upper confidence limit of $24 million and is based on the time an opportunity to reduce rent for unused space was missed through when an opportunity was finally acted upon or the lease term expired, whichever came first.

FAA Lacks an Effective Strategic Planning Process To Improve Lease Efficiency

In response to recent Executive Orders and OMB mandates, as well as to better manage rising lease costs and the Agency's sizeable real property portfolio, FAA developed its first and only 5-year Real Estate Strategic Plan (fiscal year 2017 through 2021) in September 2016. In this plan, FAA identifies 36 opportunities spanning through 2021 that it could implement to improve the efficiency of Agency-leased and -owned administrative space through potential cost savings and space reductions—i.e., consolidations, relocations, or rightsizing. FAA also uses its 5-year Real Estate Strategic Plan to feed DOT's Real Property Efficiency Plan, which is required to be submitted annually to GSA and OMB and describes the Department's overall strategic and tactical approach in managing its real property.

However, during the Strategic Planning process FAA did not always use accurate or complete data to develop its Plan. As a result, some of the efficiency opportunities listed in the Plan are not practical for implementing, thereby significantly limiting its value in both identifying and achieving cost-effective lease opportunities. Moreover, given the weaknesses with the Plan, the Agency may not be providing an accurate representation of its efforts to manage its real property as well as achieve OMB efficiency initiatives.

Many of these errors are due to a lack of effective coordination with the Service Areas responsible for the leases. For example:

- The Plan identified as one of its top seven recommended efficiency opportunities the consolidation of two existing Houston, TX, offices into a single leased space. However, the RECO for the Houston lease notified the Real Property Division in January 2017 that the information they used to make this recommendation was inaccurate, as the current space they wanted to consolidate staff into was already fully occupied—making the recommendation infeasible. The Division confirmed that because of the new information the RECO provided, they were no longer looking into the Houston lease; yet it remains in the plan as a top opportunity.

- The Plan identified another efficiency opportunity for one LOB's North Olmsted, OH, office lease to consolidate into another LOB's leased office space, and then rightsize that space. However, the RECO determined this proposed efficiency opportunity was not feasible because all workstations were already filled. The RECO stated they were never consulted when the Real Property Division developed this recommendation.

These weaknesses are due in part to issues with the Plan's source data. The Real Property Division told us the strategic planning process begins by downloading REMS data to analyze and identify potential efficiency opportunities. However, as discussed earlier in this report, there are significant accuracy issues with REMS data, including key data fields the Division relies on during the planning process such as utilization numbers and lease expiration dates. In addition, FAA's intention was and remains to update the plan annually, but according to Division officials we interviewed, resource constraints have not allowed for this.

Furthermore, many of the 29 RECOs assigned to our 50 sample leases said they were not consulted when the Plan was developed, even though they are the warranted officials responsible for managing the leases being considered and ultimately included in the Plan. For example, only 1 of the RECOs responsible for the 11 sample leases identified as efficiency opportunities in the Strategic Plan told us they were ever consulted by the Real Property Division when developing the Plan. In fact, even though the Real Property Division stated it sent the Plan to all the Service Areas in October 2016, a number of Service Area managers as well as RECOs told us that they were not even aware of what was in the Plan.

Another shortfall of the strategic planning effort is that the Real Property Division has no ability to enforce implementation of the lease efficiency opportunities identified in the Plan. Real Property Division officials stated that a big hindrance to carrying out the identified lease opportunities is getting the LOBs to agree to fund them—which could be because the opportunities usually involve an up-front cost with the financial benefit being recognized years out. Therefore, most of the Plan's lease efficiency opportunities do not actually get implemented, and the Agency misses out on cost savings. For example:

- In 2014, FAA identified a consolidation opportunity involving several office space leases in Memphis, TN (one of which had 41 of 199 empty cubicles), potentially saving the Agency approximately $1.1 million over 10 years. This consolidation never occurred. In 2016, the Real Property Division recommended this consolidation in its 5-year Strategic Plan as the #11 overall priority, to occur at lease expiration on September 30, 2018. However, as of the end of November 2017, the responsible RECO stated that they are currently seeking to obtain a succeeding lease for the existing space because LOB funding has yet to be provided to carry-out the consolidation opportunity. As of September 2017, only 2 of the 41 empty cubicles had been filled. Therefore, we calculate that FAA will pay a total of approximately $345,454 for this empty space from April 2014, when the consolidation opportunity was first identified, to the lease expiration on September 30, 2018.
- As of August 2017, FAA planned on carrying out only 5 of the 11 leases in our sample identified as efficiency opportunities in the Strategic Plan. Yet,

it is questionable whether even these five planned efficiency opportunities will be implemented since only three have received funding approval. Furthermore, funding approval does not guarantee final funding will provided.

As a result of the weaknesses in FAA's strategic planning efforts, the Agency has remained in inefficient and overpriced leases. For example:

- In both the 5-year (fiscal year 2017 to 2021) Real Estate Strategic Plan and a June 2014 DOT Real Property Cost Saving and Innovation Plan (provided to OMB), FAA identified an LOB's Long Beach, CA, office lease as a potential relocation/consolidation efficiency opportunity. The Strategic Plan cited an approximately $2.6 million one-time cost to implement the efficiency opportunity that was estimated to yield a $4.3 million dollar 10-year projected savings. However, the RECO redid the cost-benefit analysis in 2017 and found the one-time cost was actually $4.6 million—almost double what the Division determined. Based on this and the fact that one of the other LOB leases potentially involved was already renewed through 2021, the Division closed the relocation/consolidation opportunity in August 2017 as "not feasible." However, this efficiency opportunity remains in the Strategic plan. The RECO told us she has gotten no further direction from Headquarters and assumes the space will just be renewed upon its expiration on September 30, 2018, although it is significantly underutilized and the rent is about $18 per square foot above market average.
- In June 2014, FAA reported to OMB (via DOT's Real Property Cost Saving and Innovation Plan) that "by September 2015 or earlier," it would terminate a lease for office space in Washington, DC, and consolidate into other locations. Instead of terminating this lease, FAA Headquarters instructed the RECO in 2015 to extend it for an additional 3 years under a firm-term lease. The RECO was unable to provide us a clear answer on how this space has been utilized since the 3-year extension and was uncertain as to why the 3-year extension was needed when he awarded it. Furthermore, the RECO reported that since September 2017, just one employee was utilizing 100 square feet of the total 7,019 square foot space and doing so only temporarily until he is relocated with his new team. The RECO reported a group has moved into the space as of December 1, 2017, but was uncertain as to the number of employees in the space, how long they will be there, and therefore, the extent to which the space was now being utilized. Moreover, despite the space's poor utilization, this lease was not included in the fiscal year 2017–2021 Real Estate Strategic Plan. (See figure 3 for photos of this leased office space in Washington, DC.)

Figure 3. Photos of FAA-leased Office Space in Washington, DC

Source: OIG. Photos taken on August 16, 2017.

In response to our findings, the Real Property Division stated that the 5-year Real Estate Strategic plan is a static document representing a point in time, and this is why information in the plan may no longer be accurate. Furthermore, the Division stated that FAA has been successful in achieving space reduction for its offices and warehouses over the past 5 years. However, without an accurate and up-to-date real estate strategic plan in place, FAA is left without a clear roadmap of potential lease efficiency opportunities and initiatives to help the Agency to continue to reduce underutilized property and promote more economical lease spending. Moreover, the accuracy of DOT's Real Property Efficiency Plan—reported to OMB annually—may be compromised, since FAA's input is based in part on its Real Estate Strategic plan.

FAA's Does Not Have Sufficient Controls To Fully Reconcile and Ensure the Accuracy of Lease Payments

While Agency policy establishes clear responsibility and controls for Real Property Division staff to conduct budgetary reviews and approvals prior to lease award, FAA has not established sufficient controls to reconcile and validate the accuracy of payments throughout the term of the lease. As a result, we have identified a number of lease-related payment issues. These may also have occurred in part because FAA's automated lease rent payments are pulled directly from the REMS database—which as previously mentioned, contains significant data accuracy issues, including errors with respect to annual rent. The lease payment issues include the following:

- **Rent Payments Made When No Lease in Place.** During the period of November 1, 2006, through March 15, 2007, FAA began occupying a hangar (warehouse space) at an airport in Fort Worth, TX, without a lease in place. The RECO admitted the lease was subsequently backdated to reflect the November 1, 2006, date of occupancy. Although FAA received a bona fide benefit from this unauthorized commitment, the $5,664 in total rent eventually paid for those 4.5 months represents an improper payment because FAA did not follow contracting protocol and someone other than an authorized contracting official obligated the Government.

- **Uncollected Interest on Erroneous Payments.** Based on file documents for three of our sample leases, we found FAA made erroneous lease payments that went unnoticed for a significant amount of time. For example, it took almost 10 years for FAA to realize it was making erroneous utilities payments on an all-inclusive lease for office space in Rochester, NY. These overpayments were made on a monthly basis from October 2006 to February 2016 and totaled $57,411. FAA told us they are currently working with the lessor on a plan for repayment of the $57,411, but does not plan to collect any interest for these overpayments. Based on errors associated with three leases in our sample, we estimate FAA missed out on $25,246 in uncollected interest. By projecting this finding over our universe, we estimate FAA will have lost a total of $111,138[30] in uncollected interest, which represents funds FAA could have put to better use. (See exhibit C, table C-4.)

- **Discrepancies With the Accounting System.** We conducted an analysis of FAA's leases from fiscal years 2012 through March 9, 2017, compared with FAA's fiscal year 2016 lease-related payments, as identified in the Agency's accounting system, Delphi. Based on this analysis, we identified the following mischarges resulting in improper payments:

    - FAA made $3,300 in fiscal year 2016 lease payments on a lease that was terminated in fiscal year 2013. FAA admitted these payments were "errors." Because the lease had already been terminated, this $3,300 represents an improper payment.

    - FAA made a $1,000 fiscal year 2016 lease payment on a lease that the Agency was unable to find or associate with a real property asset. FAA's response to us about this finding was that it "appears to be a

[30] Our $111,138 total potential lease value projection ranges from $25,246 to a 90-percent upper confidence limit of $273,420.

lease payment," although officials were unable to provide any support for this assumption. As a result, we consider this $1,000 as an improper payment.

We also identified the following lease payments in which the wrong object class codes were used:

- FAA made a total of $156,727 in fiscal year 2016 lease payments under incorrect object class codes. Specifically, the payments were not actually lease-related although the accounting system object class code showed they were. Additionally, FAA's accounting system showed $374 in interest payments paid in fiscal year 2016 that were coded as lease-related payments. However, these interest payments were also incorrectly coded, as they were not related to a lease.
- In fiscal year 2016, FAA made $173,595 in payments to a resort that were coded in the accounting system as lease-related payments. The Real Property Division stated that it appears the paying organization again used the wrong object class code in the accounting system. However, FAA's accounting group claimed the charges were legitimately coded because the payments were for 3-night sleeping accommodations for use during an annual Air Show and is booked as a lease expense instead of travel because of how the hotel is rented out. However the lease-related object class code description listed in the system was "Office Space," which the accounting group admitted was an error.

When asked about these discrepancies, FAA stated that using the wrong object class code does not impact the funding source. However, FAA does recognize accurate reporting by object class is an extremely important financial and cost accounting internal control and stated the Agency makes every effort to correct object class errors when they are identified. Real Property Division officials further pointed out that they have no control over the use of object class codes made by other organizations within the Agency. Nevertheless, FAA officials stated they would reclassify some of these payments to the correct coding. Use of the correct object class codes is important as it affects the Agency's reporting of lease expenses and efforts to reduce its real property footprint, including in its annual Performance and Accountability Report.

While Real Property Division officials do not disagree with our overall finding about a lack of sufficient controls to reconcile and validate the accuracy of lease payments, they point out that the lease-related payment issues we identified represent less than 1 percent of the $190 million lease budget portfolio the Division manages. As for addressing the weaknesses, FAA stated that in

November 2017 it implemented a new web-based system to improve management of the Real Property Division's budgets. Previously, Headquarters and the Service Areas relied on Excel spreadsheets. According to Real Property Division officials, this new system consolidates lease data from REMS, Delphi, and PRISM (the Agency's procurement management system), which will help ensure that the Division works with the same information as the Service Areas and has access to the most up-to-date and accurate information. While promising, it remains to be seen whether this step will help FAA ensure accuracy of its lease payments, and, in turn, reduce the risk of wasted or misused funds.

FAA Exceeds Its Space Utilization Standard for Many of Its Office Leases

As this report has illustrated, data accuracy issues, shortfalls in existing policies and procedures, and an ineffective strategic planning process have all resulted in untimely and cost-ineffective lease decisions. These same conditions also make it difficult for FAA to achieve its space utilization standard—both now and going forward.

Space utilization measures how efficiently an agency is using space and is traditionally calculated by dividing the area of the space by the personnel that occupy the space. Each agency is required to promote maximum utilization of Federal space to provide the greatest value to the Government.[31] In order to help agencies use the minimum amount of space required to perform their mission and ultimately reduce costs, OMB required in March 2015 that each agency issue a policy that specifies maximum useable square feet by workstation for owned and leased domestic office space—i.e., set a utilization rate.[32]

In response, FAA revised its Space Order in May 2016,[33] setting a utilization rate standard of 170 useable square feet per person for all planned and future administrative space. Although FAA's established utilization rate falls in the middle of DOT's established rate range of 150 to 190 square feet per person, it is higher than the rate recommended by GSA in its fiscal year 2017 performance plan of 150 square feet per person. Nevertheless, we found FAA frequently

[31] 41 C.F.R. § 102–79.10.
[32] OMB Management Procedures Memorandum No. 2015-01, *Implementation of OMB Memorandum M-12-12 Section 3: Reduce the Footprint*, March 25, 2015.
[33] FAA Order 4665.4a: *Administrative and Technical Space Standards* was issued May 26, 2016. This Order defines the 170 usable square foot standard as an "all-in" utilization rate standard to include administrative, support, special-use, and joint-use space, but does not include technical space.

exceeded the Agency's 170 square foot utilization rate for its office leases.[34] Specifically, we determined at least 31 of the 38 office spaces in our sample of 50 leases currently exceed this standard (see table 1)—although only 3 of these office leases were awarded after FAA established its 170 square foot utilization standard, and per the OMB directive, an Agency is not required to retrofit existing space to meet the standard. However, these three leases significantly exceed FAA's 170 square foot utilization standard—ranging from 317 to 438 square feet per person.

Table 1. FAA Utilization Rates for 38 Office Leases Sampled

	Lease Count	Average (sf per person)	Range (sf per person)
At or below the 170 sf standard[35]	3 of 38	169	156 to 180
Over the 170 sf standard	31 of 38	321	188 to 628
Incomplete data[36]	4 of 38	Unable to determine	

Source: OIG analysis of data obtained on our 50 sample leases from FAA's RECOs and lease file documentation.

*"sf" = square foot

Furthermore, since adopting the standard, FAA has awarded succeeding leases to three additional leases in our sample that had expired, and all three of these succeeding leases also exceed the standard—ranging from 206 to 313 square feet per person.

Given the total potential value of these six leases in our sample that were awarded after the Agency adopted the 170 square foot standard and yet exceed the standard,[37] we project that FAA will pay a total of $22.9 million[38] through the full terms of the leases in our universe for just the square footage in excess of the 170 square foot standard. These amounts represent funds that could have been put to better use by FAA, because they are funds spent on renting space that

[34] Prior to establishing the 170 square foot utilization standard, FAA policy stated its assignment of office space was based on an average of 152.5 square feet per person—although the 152.5 was not all-inclusive or a hard-fact requirement.

[35] We allowed up to 10 square feet over the 170 square foot standard to be considered as "at or below the standard."

[36] "Incomplete data" includes: (1) RECOs were unable to provide us the staff counts and/or square footage; or (2) REMS reported an office with 2,456 square feet with zero employees. We did not factor these in our averages.

[37] The total value from their award date until December 31, 2017 (the end of our audit) and for just the square footage over the 170 standard was $560,597.

[38] Our $22.9 million projection has 90-percent confidence limits ranging from $5.6 million to $40.3 million.

exceeds the Agency's space utilization standard (see exhibit C, tables C-1 and C-2).

Moreover, another 13 of our 38 office leases are set to expire by the end of fiscal year 2018—all of which are presently above the 170 square foot standard. At least three already have succeeding lease awards in progress in excess of the standard. GAO has also recently raised concerns over FAA's office utilization rate, reporting in July 2016 that the 9 FAA office leases in its sample of 30 averaged almost 300 rentable square feet per employee as of the first quarter of fiscal year 2016.[39]

FAA Headquarters officials told us that they are enforcing the 170 square foot utilization standard on all office leases, including succeeding leases, awarded since it was adopted under the revised Space Order. However, the Aviation Logistics' Director later clarified that while they enforce the 170 square foot standard on larger lease projects, they are not as diligent enforcing it on smaller ones.

Although OMB allows exceptions to the standard for succeeding leases if the Agency can demonstrate that application of the standard is not cost effective, we found no documentation to support that FAA conducted such an analysis. A Real Property Division official told us that the Division had communicated to RECOs the requirement to document a justification when application of the utilization standard is not cost effective. However, FAA has not documented this requirement in any of its lease-related policies or guidance.

Furthermore, when we asked Real Property Division officials how they determine and track the utilization rates of their current lease portfolio, they could not provide a clear answer. The Division mainly relies on REMS data for tracking and monitoring Agency leases—data which we already identified as inaccurate and therefore, unreliable. Furthermore, the Division uses FAA's Employee Information System to allocate Federal and contractor staff to REMS assets on an annual basis, so headcounts are generally not known on an ongoing basis by REMS users. Moreover, the majority of the lease files are maintained in hard-copy at the Service Areas, so file documentation is frequently not available for Real Property Division staff to reference electronically regarding current square footage and staffing numbers. Additionally, we found that in many instances the RECO managing any particular office lease did not know how many employees were occupying the space. For example, the RECOs for 8 of our 38 sampled office leases originally reported the current number of employees in the space as "Unknown." Therefore, it is unclear how the Real Property Division would be able

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[39] GAO, *Actions Needed to Enhance Information on and Coordination among Federal Entities With Leasing Authority* (GAO-16-648), July 2016.

to accurately track, assess, and report—including to OMB—on the utilization rates it has established for its office leases.

Conclusion

Underutilized office and warehouse space creates a needless and costly burden to both the Agency and taxpayers. Although FAA has taken some steps to identify opportunities to use its space more efficiently, the Agency continues to award leases that are significantly over its targets for space utilization and at higher-than-market rental rates. As such, further action is needed to ensure that FAA adequately manages and oversees its office and warehouse leases, including improving its processes for planning, identifying, and approving lease efficiency opportunities, as well as its oversight of lease data and payments. Until then, FAA remains at risk of improper payments and will have missed opportunities to put funds to better use in helping fulfill the mission of the Agency.

Recommendations

To improve FAA's management and oversight of its office and warehouse leases, we recommend that the Federal Aviation Administrator:

1. Revise and document a standardized data entry and validation process for the Service Areas to follow to help ensure consistent and accurate REMS data entry.
2. Develop, document, and implement a new lease approval process that will allow for more timely decisions and for improved coordination with Service Area staff on the status of the decisions made during this process. Implementing this recommendation could potentially put $14.6 million in funds to better use due to missed rent reduction opportunities, which timely and coordinated lease efficiency opportunity decisions could have potentially prevented.
3. Improve and document methods used to share and communicate Headquarters lease policies, guidance, and initiatives to all real estate staff members in the Service Areas.
4. Revise and document lease policy and templates to clarify that the indefinite holdover clause should only be used in office and warehouse leases where mission-critical safety equipment or functions are housed, and document a process to verify this policy is followed.

5. Revise, document, and implement a procedure to require and verify that for any office or warehouse lease whose firm-term portion is greater than one year, an analysis showing use of a firm-term lease is advantageous to the Agency is documented in the lease file.
6. Revise and document the real estate strategic planning process so that it: (1) provides for annual updates and (2) increases Service Area involvement and awareness.
7. Develop and implement a method for increasing the likelihood that LOBs provide the necessary funding to implement agreed upon lease efficiency opportunities.
8. Develop, document, and implement controls to (1) reconcile and validate the accuracy of lease payments that are made during the term of the lease and (2) verify that any lease payment made has an active and valid lease associated with it. Implementing this recommendation could potentially put $111,138 in funds to better use for uncollected interest on erroneous lease payments.
9. Take appropriate action to address the $9,964 in improper payments identified in this report.
10. Provide additional guidance and/or training to FAA staff to reinforce existing policy regarding: (1) the proper coding of payments captured under each of the various lease-related object class codes in the Agency's accounting system, Delphi; and (2) the requirement for approving officials to ensure the accuracy of accounting codes.
11. Develop, document, and implement a process to ensure that for any new or succeeding office space lease that does not meet the utilization standard, a justification is developed and documented in the lease file as to why the application of the Agency's space utilization standard is not cost effective.
12. Revise, document, and implement an internal control process to regularly track and assess the utilization rate for all office space leases in the Agency's current portfolio using data that is updated for accuracy on a regular basis. Implementing this recommendation could potentially put $22.9 million in funds to better use by preventing FAA from paying rent on unneeded space in excess of its utilization standard.

Agency Comments and OIG Response

We provided a copy of our draft report to FAA on March 1, 2018, and received its response on March 28, 2018, which is included as an appendix to this report. FAA concurred with our 12 recommendations and proposed appropriate target action dates. Accordingly, we consider all recommendations resolved but open pending completion of the planned actions.

However, while FAA agreed with our findings that some funds could have been put to better use, the Agency did not agree with our total projection of $37.6 million in potential savings, as captured in recommendations 2, 8, and 12. FAA believes the $37.6 million is overstated because it does not factor in one-time costs for moves and space reconfiguration. However, the majority of the lease inefficiencies involved in our projections were related to FAA paying for unused or excessive space, and only one lease inefficiency involved a move, which was across the hall. Furthermore, we used a very conservative methodology in estimating our projections. For example, our $14.6 million projection was based only on the timeframe we could clearly identify and support from lease file documentation or RECO information that FAA missed specific opportunities to reduce the rent. There is a strong likelihood that the lease inefficiencies related to the missed opportunities occurred for a substantially longer time than the period on which we based our projection. Moreover, our $22.9 million projection regarding the amount FAA is paying for unneeded space in excess of its utilization standard was never intended to include one-time costs of moving or space reconfiguration, as these costs can vary. Rather, it is the amount of money that FAA is paying for space that exceeds its own Agency's utilization standard. Finally, the $111,138 projection due to uncollected interest on erroneous lease payments is a completely separate issue from one-time costs associated with relocating or reconfiguring leased space.

Actions Required

We consider recommendations 1 through 12 resolved but open pending completion of planned actions.

Exhibit A. Scope and Methodology

We conducted this performance audit between May 2017 through March 2018 in accordance with generally accepted Government auditing standards as prescribed by the Comptroller General of the United States. 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.

To assess FAA's management and oversight of its office and warehouse leases, we obtained a file of the Agency's real estate portfolio extracted from its Real Estate Management System (REMS) as of March 9, 2017. Our IT Specialist independently accessed REMS to validate the completeness and accuracy of this portfolio. FAA then updated the portfolio file to correct all discrepancies identified during our independent validation. Therefore, we deem this file reliable enough for purposes of this audit. From this file, we developed our universe of all 337 FAA office and warehouse leases, representing an annual rent of $75.3 million.

The sample selected from this universe included 50 leases[40] (14.8 percent of the 337 leases in our universe) representing an annual rent of $44.2 million. FAA provided us the total potential value for our 50 sample leases at $1.1 billion. Given that FAA could not readily provide the total potential value for our entire 337 lease universe, we computed the total potential value for our entire universe by multiplying each of the 337 lease's annual rent by the length of the lease (in years), and then estimated a $1.4 billion total potential value for all 337 leases based on the total potential value FAA provided for our 50 sample leases. Therefore, the $1.1 billion total potential value of our 50 sample leases represents 78 percent of the $1.4 billion in our universe. To select this sample, we first stratified the universe into nine strata by type of lease and total value. Of the nine strata, we selected a census from five, and a stratified probability proportional to size sample with replacement from the remaining four—where size equaled the total potential value of the lease. Our sample design allowed us to project our sample results for different attributes with a precision no greater than +/-4.7 percent of the $1.4 billion estimated total potential value for all 337 FAA-leased office and warehouses.

To help assess FAA's management and oversight of its office and warehouse leases, we developed a standardized checklist of over 60 Agency lease-related

[40] Our sample initially included a total of 53 leases. However, due to our sampling methodology, 3 leases were selected twice, which reduced our actual sample size to 50.

requirements based on key criterion, including FAA's Acquisition Policy and Guidance and its Real Estate Guidance. We completed this checklist for all 50 sample leases using selected lease file documentation provided by FAA. Based on the results of this checklist review, we identified 27 of our 50 sample leases to conduct further follow-up on.[41] This included travel to each of the three Aviation Logistics Service Area Centers—College Park, GA, Fort Worth, TX, and Renton, WA—in addition to FAA Headquarters, to review the entire lease file and interview the associated Real Estate Contracting Officers (RECOs) for the 27 identified sample leases. Additionally, to help ensure data reliability, we randomly selected a total of 15 space leases among the three Service Areas and Headquarters to assess the quality and completeness of the lease file documentation.

To further evaluate FAA's management and oversight of it office and warehouse leases, we interviewed officials from FAA's Real Property Division and Aviation Logistic Organization in Washington, DC, as well as those located in the three Service Areas. We also surveyed the 29 RECOs FAA identified as responsible for managing all 50 leases in our sample, receiving a 100 percent response rate.

Finally, during this audit we reviewed GAO reports on Federal real property, GSA's lease guidance and policy, Code of Federal Regulations, and relevant OMB memorandums. We also interviewed GSA OIG to discuss leasing topics and issues to gain a Governmentwide perspective, and to compare FAA's leasing practices with those of GSA.

[41] The 27 leases included 24 that were managed by the three Logistics Service Area Centers (i.e., 8 Western, 9 Eastern, and 7 Central) and 3 by Headquarters.

Exhibit B. Organizations Visited or Contacted

Federal Aviation Administration Facilities

Federal Aviation Administration (FAA) Headquarters, Washington, DC

Eastern Logistic Service Area Center, College Park, GA

Central Logistics Service Area Center, Fort Worth, TX

Western Logistics Service Area Center, Renton, WA

Exhibit C. Detailed Results From Our Statistical Projections

Table C-1. Three Sample Leases That Were Awarded After Issuance of FAA's Space Order and Exceeded the 170 Square Foot Utilization Standard

Lease Description (Lease Term)	Total Potential Value of Lease	Staff Count	Square Footage	Utilization Rate	Cost of Square Footage Over 170 Utilization (until 12-31-17)	Cost of Square Footage Over 170 Utilization (through lease term)
Office space in AK *(10-1-16 to 9-30-21)*	$1,212,000	19	6,228	328	$141,728	$567,222
Office space in CA *(10-1-16 to 9-30-21)*	$1,580,054	25	7,932	317	$183,217	$733,270
Office space in AK *(10-1-16 to 9-30-26)*	$718,926	11	4,823	438	$48,698	$389,903

Table C-2. Three Succeeding Leases to Our Sample That Were Awarded After Issuance of FAA's Space Order and Exceeded the 170 Square Foot Utilization Standard

Lease Description (Lease Term)	Total Potential Value of Lease	Staff Count	Square Footage	Utilization Rate	Cost of Square Footage Over 170 Utilization (until 12-31-17)	Cost of Square Footage Over 170 Utilization (through lease term)
Office space in PA *(10-1-11 to 9-30-16)*	$953,250	24	7,500	313	$115,796	$489,163
Office space in NJ *(6-1-98 to 9-30-16)*	$4,608,403	26	6,095	234	$59,186	$244,014
Office space in VA *(2-1-98 to 9-30-17)*	$5,032,743	36	7,413	206	$11,973	$240,110

Table C-3. Six Sample Leases Where FAA Missed Opportunities To Reduce Rent for Unused Space

Lease Description (Lease Term)	Total Potential Value of Lease	Cost of Missed Opportunity	Circumstances of Missed Opportunity
Office space in DC *(12-15-00 to 12-14-17)*	$47,187,079	$252,317	FAA vacated an entire floor (17,956 square feet) of this leased space on September 2, 2017, but continued to pay rent for the vacated space until lease expiration on December 14, 2017.
Office space in NJ *(6-1-98 to 9-30-16)*	$4,608,403	$74,459	On December 14, 2007, FAA awarded a supplement to reduce the square footage of the space due to underutilization from 12,152 to 7,341 and reduce the monthly rent accordingly from $25,075 to $15,147 effective March 1, 2008. However, FAA ended up canceling this supplement and awarding a new one, resulting in the reduced space and rent not becoming effective until October 15, 2008. FAA did not document nor could the RECO explain the reason for this 7.5 month delay.
Office space in GA *(4-10-09 to 9-30-19)*	$27,485,301	$4,191,804	FAA's September 30, 2016 Real Estate Strategic Plan identified the release of an entire floor (50,352 square feet) as it is underutilized. However, FAA will hold on to the floor and continue to pay rent on this underutilized space until lease expiration on September 30, 2019.
Office space in MI *(10-1-10 to 5-31-18)*	$1,800,015	$598,628	To address longstanding utilization concerns with the space, FAA identified in June 2014 an opportunity to relocate to a smaller suite in the building, reducing the square footage from 13,825 to 4,888. However, FAA took so long approving this move that the lessor ended up leasing the space to another tenant. Therefore, FAA has remained in the underutilized 13,825 square foot space until lease expiration on March 31, 2018.
Office space in DC *(7-15-10 to 9-30-18)*	$3,216,360	$272,365	Since the LOB's last management negotiations team ended their work in August 2017, only 1 employee has occupied 100 square feet of the entire 7,019 square foot of leased space. The RECO reported a group has moved into the space as of December 1, 2017, but was uncertain as to the number of employees in the space, how long they will be there, and therefore, if the space was fully utilized. Despite unclear and inconsistent utilization of the space by the managing RECO, FAA continues to pay the entire rent through lease expiration on September 30, 2018.
Office space in TN *(10-1-08 to 9-30-18)*	$6,411,860	$345,454	Since April 9, 2014, FAA has been paying rent for this 33,800 square foot space although 41 of the 199 cubicles (100 square feet each) were unfilled. Around September 1, 2017, 2 of the empty cubicles were occupied, leaving 39 still unfilled. FAA continues to pay rent on the entire space, with lease expiration not until September 30, 2018.

Table C-4. Three Sample Leases Where FAA Did Not Collect Interest Payments

Lease Description (Lease Term)	Total Potential Value of Lease	Estimated Value of Uncollected Interest	Circumstances of Uncollected Interest
Office space in GA *(4-10-09 to 9-30-19)*	$27,485,301	$8,265	FAA made an error in the dates of the lease's rent schedule, which resulted in FAA overpaying the monthly rent by $24,998 from October 1, 2013 to October 1, 2014—for a total of $299,976 in overpayments. FAA eventually caught and corrected this error, and was reimbursed the $299,976 on January 20, 2015. However, FAA did not collect any interest on these overpayments.
Office space in NY *(10-1-13 to 9-30-23)*	$1,910,006	$15,294	FAA made erroneous utilities (gas and electric) payments—starting on the previous lease for this space and into this succeeding lease—on a monthly basis from October 2006 to February 2016, totaling $57,411. FAA is currently working with the lessor on a plan to get reimbursed for these overpayments, and anticipates the repayment will occur around the end of January 2018. FAA is planning on getting the full $57,411 reimbursed, but is not collecting interest on these overpayments.
Office space in VA *(2-1-98 to 9-30-17)*	$5,032,743	$1,687	On September 1, 2014, FAA erroneously overpaid the lessor $20,647. The lessor caught this overpayment and reimbursed FAA the full amount on January 31, 2017. FAA did not collect any interest on this overpayment and was unable to tell us the cause of the overpayment.

Exhibit D. List of Acronyms

ALO	Aviation Logistic Organization, FAA
ALO-200	Real Property Division, FAA
DOT	Department of Transportation
FAA	Federal Aviation Administration
GAO	Government Accountability Office
GSA	General Services Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
RECO	Real Estate Contracting Officers
REMS	Real Estate Management System
U.S.C.	United States Code

Exhibit E. Major Contributors to This Report

DARREN **MURPHY**	PROGRAM DIRECTOR
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Appendix. Agency Comments

Federal Aviation Administration

Memorandum

Date: March 28, 2018

To: Mary Kay Langan-Feirson, Assistant Inspector General for Acquisition and Procurement Audits

From: H. Clayton Foushee, Director, Office of Audit and Evaluation, AAE-1

Subject: Federal Aviation Administration's (FAA) Response to Office of Inspector General (OIG) Draft Report: Management and Oversight of Its Office and Warehouse Leases

The FAA has achieved continuous improvements in the management, oversight and administration of approximately 2,600 cost leases with a total annual budget of $190 million. Overall, the Agency has been successful in achieving space reductions over the past five years. Between 2012 and 2017, we reported a reduction of more than 532,000 square feet to the Office of Management and Budget. In Fiscal Year (FY) 2018, the FAA continues to improve its lease management with several initiatives to expand and develop more timely and efficient lease processes by utilizing best commercial business practices. The FAA has set a target of 69,000 square feet of administrative space reduction in FY 2018, and it has updated training and communication to improve Federal Real Property management. These and other process improvements have allowed Real Property personnel to have a standard and consistent platform to efficiently acquire office and warehouse spaces through leasing.

The FAA has reviewed the draft report and offers the following comments in response to the OIG findings and recommendations:

- The FAA agrees with the OIG's findings that some funds could have been put to better use by either rightsizing in place—releasing excess space after re-design the facility—or relocating to a new facility, however, we disagree with the OIG's methodology and projection of $37.6 million in potential savings. The OIG's calculation is overstated and does not factor in one-time contractual costs for moves and space reconfiguration. In many cases, one-time costs will negate any costs savings on a 20-year lease.
- The FAA agrees that $9,964 in improper payment were made and we will take appropriate actions to address these improper payments. However, FAA disagrees with the OIG's assertion that this was due to systemic management and oversight weaknesses. This amount represents a very small fraction of the total portfolio, less than one percent.

Upon review of OIG's draft report, the FAA concurs with the 12 recommendations and will implement the recommendations as follows:

Recommendations	Target Date for Completion
9	6/30/2018
3, 4, 5	9/30/2018
1, 7, 8, 11, 12	12/31/2018
2, 6	2/28/2019
10	3/31/2019

We appreciate this opportunity to respond to the OIG draft report. Please contact H. Clayton Foushee at (202) 267-9000 if you have any questions or require additional information about these comments.

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