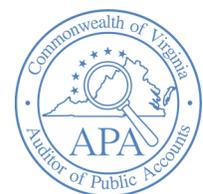




DEPARTMENT OF GENERAL SERVICES' DIVISION OF REAL ESTATE SERVICES

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2017

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



AUDIT SUMMARY

Our audit of the operating and capital leases administered by the Department of General Services' Division of Real Estate Services for the fiscal year ended June 30, 2017, found:

- proper recording and reporting of all transactions, in all material respects, in Real Estate Services' real estate management system, the Commonwealth's lease accounting system, and Department of Accounts' Attachment 11;
- no matters involving internal control and its operation necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to audit findings reported in the prior year.

-TABLE OF CONTENTS-

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY HIGHLIGHTS	1
INDEPENDENT AUDITOR'S REPORT	2-4
AGENCY OFFICIALS	5

AGENCY HIGHLIGHTS

Real Estate Services is the Commonwealth of Virginia's provider of real estate services to state agencies. Some of Real Estate Services responsibilities include:

- management of the Commonwealth's real estate portfolio;
- comprehensive transactional support for negotiating, leasing, and acquiring space;
- transactional documentation guidance; and
- real estate information database maintenance and enhancement.

Real Estate Services is a division of the Department of General Services. Real Estate Services leases about 13 million square feet of rental space in over 1,500 locations. In fiscal year 2017, Real Estate Services managed 11 master capital leases and 492 master operating leases. Real Estate Services makes all lease payments to the lessor on behalf of the state agencies. In fiscal year 2017, Real Estate Services paid \$61.3 million in lease payments and had \$332.7 million in future obligations.

Lease Payments and Future Obligations

Type of Lease	Fiscal Year 2017 Payments	Future Obligations (2018 – 2047)
Capital	\$ 2,779,281	\$ 27,234,166
Operating	\$ 58,537,060	\$ 305,523,457

Source: Real Estate Services' real estate management system and Commonwealth's lease accounting system

Fiscal Services maintains capital leases in the Commonwealth's lease accounting system and Real Estate Services maintains operating leases in its real estate management system. Real Estate Services provides Fiscal Services with financial reporting data for operating and capital leases from Real Estate Services' real estate management system to report to Departments of Accounts in support of the Commonwealth's Comprehensive Annual Financial Report.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 3, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the operating and capital leases administered by the **Department of General Services' Division of Real Estate Services** for the year ended June 30, 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective was to evaluate the accuracy of Real Estate Services' financial transactions related to operating and capital leases that they administer as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2017. In support of this objective, we evaluated the accuracy of recorded financial transactions in Real Estate Services' real estate management system, the Commonwealth's lease accounting system, and Department of Accounts' Attachment 11; reviewed the adequacy of Real Estate Services' internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Real Estate Services' management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Capital Leases

Operating Leases

Rent, insurance, and other related charges

Information system security over Real Estate Services' real estate management system

System access controls over Real Estate Services' real estate management system

We performed audit tests to determine whether Real Estate Services' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Real Estate Services' operations. We tested details of lease classification and performed analytical procedures.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that Real Estate Services properly stated, in all material respects, the amounts recorded and reported in Real Estate Services' real estate management system, the Commonwealth's lease accounting system, and Department of Accounts Attachment 11. The financial information presented in this report came directly from the Commonwealth's lease accounting system and Real Estate Services' real estate management system.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Real Estate Services has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Report Distribution

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC/alh

**DEPARTMENT OF GENERAL SERVICES
DIVISION OF REAL ESTATE SERVICES**

As of June 30, 2017

Christopher L. Beschler
Director, Department of General Services

Joseph Damico
Deputy Director, Department of General Services

Bryan W. Wagner
Controller, Department of General Services

Holly L. Eve
Director, Division of Real Estate Services