



DEPARTMENT OF GENERAL SERVICES' BUREAU OF REAL ESTATE SERVICES

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2021

Auditor of Public Accounts

Staci A. Henshaw, CPA

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AUDIT SUMMARY

Our audit of the operating and capital leases administered by the Department of General Services' (General Services) Bureau of Real Estate Services (Real Estate Services) for the year ended June 30, 2021, found:

- proper recording and reporting of all transactions, in all material respects, in the Real Estate Services' real estate management system, the Commonwealth's lease accounting system, and the Department of Accounts' Attachment 11;
- no matters involving internal control and its operations 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 the audit finding and recommendation reported in the prior year.

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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 buying, selling, leasing, and conveying real estate interests of the Commonwealth;
- transactional documentation preparation; and
- real estate information database maintenance, reporting, and enhancement.

Real Estate Services is a bureau in the Division of Real Estate and Facilities Management at the Department of General Services. Real Estate Services leases over 4.55 million square feet of rental space. In fiscal year 2021, Real Estate Services managed 11 capital leases and 502 operating leases. General Services makes all lease payments to the lessor on behalf of the state agencies. In fiscal year 2021, General Services paid \$69.6 million in lease payments and had \$326.7 million in future obligations.

Lease Payments and Future Obligations

Type of Lease	Fiscal Year 2021 Payments	Future Obligations (2022-2046)
Operating	\$66,144,836	\$298,289,635
Capital	3,412,860	28,417,073

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

In 2017, the GASB issued Statement No. 87, *Leases*. The effective date of this accounting standard was postponed by 18 months by Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. It is effective for fiscal year 2022 and will significantly change the way governments account for leases. Under the new model, operating and capital leases no longer exist. All leases will be reported as financing transactions, which results in recording an intangible asset and a liability for every lease except short term leases (less than 12 months). GASB Statement No. 87 requires that existing leases be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation, not the inception of the lease. Real Estate Services has developed new policies and procedures and has implemented changes to its real estate management system to prepare for the new standard. We are reviewing Real Estate Services implementation of GASB Statement No. 87, including system changes, and will complete this review before the close of fiscal year 2022.



Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 22, 2021

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of General Services' Bureau of Real Estate Services** for the year ended June 30, 2021. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Annual Comprehensive Financial Report audit. 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 as reported in the Annual Comprehensive Financial Report for the Commonwealth of Virginia for the year ended June 30, 2021. In support of this objective, we evaluated the accuracy of recorded financial transactions in the 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 with respect to audit findings and recommendations 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 materiality 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 to achieve our objectives.

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.

Our consideration of internal control over financial reporting (internal control) was for the limited purpose described in the section "Audit Objectives" and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Conclusions

We found that Real Estate Services properly stated, in all material respects, the amounts recorded and reported in the 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 and recommendations reported in the prior year.

Exit Conference and Report Distribution

We discussed this report with management on September 30, 2021.

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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

DBC/clj

**DEPARTMENT OF GENERAL SERVICES
BUREAU OF REAL ESTATE SERVICES**

As of June 30, 2021

Joseph Damico
Director, Department of General Services

Sandra Gill
Deputy Director, Department of General Services

Bryan Wagner
Controller, Department of General Services

Holly Eve
Director, Division of Real Estate and Facilities Management

Karl Saimre
Director, Bureau of Real Estate Services