THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE INSPECTOR GENERAL

Private Office Space Leasing by State Agencies

Robert A. Cerasoli
Inspector General
January 1997

The Commonwealth of Massachusetts
Office of the Inspector General

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His Excellency the Governor

The Honorable President of the Senate

The Honorable Speaker of the House of Representatives

The Honorable Chairman of the Senate Ways and Means Committee

The Honorable Chairman of the House Ways and Means Committee

The Honorable Chairman of the Senate Post Audit and Oversight Committee

The Honorable Chairman of the House Post Audit and Oversight Committee

The Directors of the Legislative Post Audit Committees

The Secretary for Administration and Finance

Members of the General Court

Omnibus ad quos praesentes literae pervenerint, salutem.

I am today releasing a report on the process by which the Commonwealth leases private office space for use by state agencies. This report examines the components of the Commonwealth's leasing process, impediments to timely and cost-effective leasing transactions, and the likely impact of recent measures to decentralize the leasing function.

Under new rules implemented in May 1996, state agencies are now authorized to procure and execute some of their own office space leases without the approval or oversight of the state Division of Capital Planning and Operations (DCPO). DCPO was created in 1981, on the recommendation of the Ward Commission, to serve as the state's real property manager. The agency delegation process is intended to streamline and speed up leasing transactions.

I share the Administration's interest in improving the cost-effectiveness of state government operations. However, I have serious concerns about the risks of waste and abuse posed by the agency delegation process as currently designed. My Office's analysis suggests that the cost of state leases is likely to escalate in the absence of the downward pressure DCPO has historically exerted on the size and cost of space leased by user agencies. As responsibility for protecting the Commonwealth's real property interests becomes increasingly fragmented among multiple state agencies with differing interests and expertise, long-range planning for the Commonwealth's leasing and real property needs will become increasingly difficult. Without effective oversight, a decentralized leasing system will be vulnerable to legal challenges from landlords, inappropriate political pressures, and conflicts of interest. Ironically, these risks mirror the problems that prompted the Ward Commission to recommend creation of a centralized, professional real property management agency nearly two decades ago.

The Commonwealth must continue to protect its annual $97 million investment in leased space. This report offers a series of legislative recommendations to promote systemwide planning, cost control, and accountability. I urge the Legislature to act on these recommendations.

Sincerely,

Robert A. Cerasoli
Inspector General

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EXECUTIVE SUMMARY

In April 1995, the Office of the Inspector General initiated a review of the process by which the Commonwealth leases private office space for use by state agencies. Leasing of private space is the responsibility of the state Division of Capital Planning and Operations (DCPO), an agency created in 1981 within the Executive Office of Administration and Finance on the recommendation of the Special Commission Concerning State and County Buildings, often called the Ward Commission after its chairman, John William Ward. The Ward Commission, which uncovered widespread public corruption and waste, recommended centralizing within DCPO the responsibility for ensuring that the state's real property needs -- including construction, repairs, renovations, leases, and operations -- are met efficiently and effectively.

DCPO's role and responsibilities for acquiring and disposing of state real property are set forth in Massachusetts General Laws c.7, §§40E-40L. DCPO is required by statute to facilitate the leasing process for state agencies; at the same time, DCPO is charged with ensuring that the leasing process is fair and accountable. DCPO's dual roles of service provider and watchdog sometimes generate competing pressures that DCPO must balance in carrying out its statutory responsibilities.

As of April 1996, DCPO was responsible for 498 leases totaling more than seven million square feet and costing more than $97 million per year. This Office's review focused on office leases, which accounted for 73 percent of the state's lease transactions, 61 percent of the state's annual lease payments, and 56 percent of the amount of space rented. The components of the Commonwealth's leasing function, impediments to timely and cost-effective leasing transactions, and the likely impact of recent measures to decentralize the state's leasing function are examined in this report.

During the course of this Office's review, the Secretary of Administration and Finance convened a "Property Work Group" representing state agencies, the Trial Court, and the

Governor's Office. The objective of the Property Work Group was to review and recommend improvements in the Commonwealth's real property management policies, procedures, and practices. The major focus of the Property Work Group's proposals was a new system for delegating leasing authority to state agencies. Under the new system, implemented in May 1996, user agencies with sufficient staff capability were authorized to procure leases of less than 15,000 square feet outside downtown Boston.

Significant Leasing Issues

This Office's statistical analysis of DCPO leasing data and interviews with user agency and DCPO officials yielded a mixed assessment of the Commonwealth's leasing process. The following is a summary of the significant leasing issues identified during this Office's review:

- **DCPO's professional management and oversight have protected the Commonwealth from excessive leasing costs and added value to the leasing function.**

- **Protracted leasing schedules encourage short-term lease amendments, which cause further schedule delays**.

- **DCPO, user agencies, and landlords all share responsibility for protracted leasing schedules.**

- **Some time savings projections for the user agency delegation process appear unrealistically high.**

- **Major exceptions to the lease size threshold established for agency delegation have already been authorized.**

- **The delegation process, as currently designed, poses new risks to the Commonwealth.**

- **Systemwide cost control and accountability require effective DCPO oversight of the agency delegation process.**

- **Statewide facility planning needs improvement.**

- **DCPO's post-delegation leasing, oversight, and planning responsibilities may warrant additional resources.**
- **Statutory restrictions reportedly impede cost-effective leasing.**

Conclusion and Recommendations

The recently instituted agency delegation process is intended to streamline leasing transactions. In principle, this Office does not oppose decentralization of state leasing if accompanied by sufficient and effective monitoring and enforcement. In practice, however, this Office has serious concerns about the risks posed by the agency delegation process as currently designed. Although the agency delegation process is intended to promote economical leasing, this Office's analysis suggests that it may have the opposite effect: leasing costs may escalate in the absence of the downward pressure DCPO has historically exerted on the size and cost of space leased by user agencies.

The agency delegation process also fragments responsibility for long-range facility planning. Given that the Commonwealth leases almost four million square feet of office space at an annual cost to state taxpayers of $60 million, planning and coordination of the leasing function are prerequisites to an efficient, cost-effective leasing function. Yet user agencies are required to prepare their own facilities plans, conduct their own searches for suitable state-owned space, and evaluate the costs and benefits of whatever options they are able to generate. From a systemic perspective, this disjointed and unsystematic approach is unlikely to result in sound, cost-effective leasing decisions.

Real estate transactions are more complex and require more specialized expertise than most other public procurements, yet user agencies with delegated leasing authority are not required to assign experienced real estate attorneys to represent the Commonwealth in negotiations with private attorneys representing landlords. Insufficient experience or diligence on the part of user agency attorneys could expose the Commonwealth to legal problems as well as favoritism or abuse in leasing transactions. To the extent that user agencies are subjected to inappropriate political pressures from landlords and other interested parties, these risks will be magnified.

The Ward Commission centralized leasing authority within DCPO to promote professionalism and accountability in the state's leasing transactions. Even if all eligible leases were delegated to user agencies, DCPO would continue to manage at least three-quarters of the Commonwealth's $97.7 million annual investment in private leased space (including non-office space). Moreover, as responsibility for leasing is shifted to user agencies, DCPO will need to assume important planning, monitoring, and enforcement responsibilities. Current DCPO resources devoted to leasing may well be insufficient to fulfill DCPO's essential responsibilities. The recommendations offered below are intended to ensure that the Commonwealth's investment in leased space is sufficiently protected from waste, fraud, and abuse.

Several statutory changes also appear warranted. While five-year leases make sense in some cases, they may be too short in cases where the state requires the landlord to finance substantial buildout. In addition, the statutory prohibition on renewing leases more than six months before they expire also appears unnecessarily restrictive. Permitting lease renewals to be exercised up to one year before the expiration date of the lease could increase the Commonwealth's leverage in negotiating lease amendments, improve the Commonwealth's relationships with private landlords and reduce the number of short-term lease amendments initiated in response to incomplete lease renewal transactions.

To protect the Commonwealth's interest in maintaining the cost-effectiveness and integrity of state leasing, the Inspector General offers the following recommendations to the Legislature:

1. **The Legislature should direct DCPO to prepare and periodically update a statewide master facility plan.**

2. **The Legislature should direct DCPO to prepare a detailed delegation oversight and evaluation plan.**

3. **The Legislature should direct DCPO to prepare a staffing plan and appropriate resources for its implementation.**

4. **The Legislature should mandate and fund a consultant study, commissioned by DCPO, to design a reliable system within DCPO for collecting and tracking information on usage of state-owned space.**

5. **The Legislature should amend M.G.L. c.7 to require all state agencies to provide information to DCPO on their usage of state-owned space.**

6. **The Legislature should amend M.G.L. c.7, §40G to allow the DCPO Commissioner to lease private space for a term not exceeding 10 years, provided that any lease exceeding the standard five-year term be ineligible for delegation.**

7. **The Legislature should amend M.G.L. c.7, §40G to permit lease renewals to be exercised within the 12 months prior to the lease expiration date.**

INTRODUCTION

In April 1995, the Office of the Inspector General initiated a review of the process by which the Commonwealth leases private office space for use by state agencies. This review was undertaken in response to a number of complaints received by the Office in recent years alleging that the Commonwealth's leasing process is inefficient, excessively time-consuming, and unfair to landlords seeking to lease space to the Commonwealth.

Leasing of private space is the responsibility of the state Division of Capital Planning and Operations (DCPO), an agency created in 1981 within the Executive Office of Administration and Finance on the recommendation of the Special Commission Concerning State and County Buildings, often called the Ward Commission after its chairman, John William Ward. The Ward Commission's two-year investigation revealed widespread corruption, poor design, and the waste of over one billion tax dollars over a decade. It also revealed that the Commonwealth had mismanaged its real property and identified the following specific management problems:

-- *Fragmentation of responsibility*: No single entity had the necessary statutory power to protect the state's real property interests.

-- *Lack of expertise and resource*s: Individual agencies lacked qualified staff to evaluate, conduct, and manage real property transactions.

-- *Inappropriate political considerations*: The absence of enforced requirements governing advertising, disclosure, and community involvement enabled favoritism and corruption to affect real property transactions.

The Ward Commission concluded:

> [T]here is a need for a central authority that possesses both expertise and adequate resources and that operates within the framework of a clear legal structure and systematic guidelines, to manage the allocation, acquisition and disposition of the Commonwealth's real property.[1]

To remedy the property management problems and promote accountability and professional stewardship of the Commonwealth's lands and buildings, the Ward Commission proposed a major legislative overhaul of the systems used by the Commonwealth to design, construct, and manage public buildings and to acquire and dispose of state property. The Ward Commission legislation assigned the newly created DCPO ultimate responsibility for ensuring that the state's real property needs -- including construction, repairs, renovations, leases, and operations -- are met efficiently and effectively.

DCPO's role and responsibilities for acquiring and disposing of state real property are set forth in Massachusetts General Laws c.7, §§40E-40L. The state's real property law permits the DCPO Commissioner to rent privately owned space for use by state agencies for a term not exceeding five years. DCPO must conduct a formal, advertised proposal competition for leased space except in emergency situations. A lease or tenancy-at-will may be renewed or extended, provided that the renewal or extension is not exercised earlier than six months prior to the expiration of the agreement. The DCPO Commissioner may delegate the responsibility for acquiring leased space to state agencies. However, the Commissioner must approve in writing all lease agreements, including those for which responsibility has been delegated to state agencies. The Ward Commission summarized the purpose of these requirements as follows:

[1] *Final Report to the General Court of the Special Commission Concerning State and County Buildings*, Volume 7, December 1980, p. 119.

> The legislation has, therefore, directly addressed the problem of statutory fragmentation. . . . It has created the potential for making resources available by centralizing expertise and establishing a management information system; and has tried to minimize the operation of inappropriate political considerations through publicity requirements.[2]

Thus, DCPO is required by statute to facilitate the leasing process for state agencies; at the same time, DCPO is charged with ensuring that the leasing process is fair and accountable. DCPO's dual roles of service provider and watchdog sometimes generate competing pressures that DCPO must balance in carrying out its statutory responsibilities.

Scope of this Review

According to data provided to this Office by DCPO, as of April 1996, DCPO was responsible for 498 leases totaling more than seven million square feet and costing more than $97 million per year. Of these leases, 362 were office leases totaling almost 3.9 million square feet and costing more than $60 million annually. An additional 29 leases totaled over 2 million square feet of court space at an annual cost of $25.4 million. (Most of this space was leased from counties; such leases are not subject to requirements for advertised competition.) The remaining 107 non-office leases were generally small leases of garages, storage space, and housing. (See Table 1.)

[2] *Final Report to the General Court of the Special Commission Concerning State and County Buildings*, Volume 7, December 1980, p. 127.

Table 1.

DCPO Leases (April 1996)

Lease type	Number	%	Annual cost	%	Square feet	%
Office	362	73%	$60,021,014	61%	3,875,959	56%
Non-Office						
Courts	29	6%	$25,419,641	26%	2,045,071	29%
Other	107	21%	$12,296,783	13%	1,083,039	15%
Total	498	100%	$97,737,438	100%	7,004,069	100%

Source: OIG analysis of DCPO data.

This Office's review focused on office leases. As Table 1 shows, as of April 1996 this category accounted for 73 percent of the state's lease transactions, 61 percent of the state's annual lease payments, and 56 percent of the amount of space rented. Moreover, because most court space is publicly owned, office leases accounted for the vast majority of space leased by the state through advertised competition.

The Office of Leasing and State Office Planning is responsible for the leasing function within DCPO. As of April 1996, DCPO's leasing staff consisted of the Director of Leasing and State Office Planning; the Deputy Director/Leasing Manager; five full-time project managers, one of whom was a contract employee recently added to the staff; and three administrative and technology support personnel who were not exclusively assigned to the leasing office. An attorney in DCPO's Office of the General Counsel devoted approximately 60 percent of his time to the leasing function, assisted by a part-time contract attorney.

In September 1995, the Office of Leasing and State Office Planning provided this Office with database information on 550 space requests processed by DCPO between January

1, 1994 and May 12, 1995. Of these, 83 were requests for non-office space, 55 had been withdrawn by the user agency or otherwise terminated prior to completion, and 193 had not been completed according to information in the database.

This Office examined the remaining 219 office lease transactions completed between January 1, 1994 and May 12, 1995. These included 179 amendments to existing leases and 40 new leases. From the 219, this Office selected a sample for an in-depth review. First, this Office judgmentally selected five of the 179 lease amendments for review because they were "outliers" -- i.e., they took substantially longer to complete than the average time for all lease amendments. From the remaining pool of 174 lease amendments and 40 new leases, this Office selected for further review a random sample of 25 lease amendments and 18 new leases.[3]

This Office reviewed all DCPO and user agency records pertaining to the 43 sample leases and lease amendments as well as all DCPO records pertaining to the five outliers. This Office then interviewed representatives from DCPO and 10 user agencies responsible for the sample leasing transactions. The office leases managed by these 10 user agencies accounted for 68 percent of the total annual leasing cost and square feet of office space leased by the Commonwealth as of April 1996. (See Table 2.)

In December 1996, this Office provided DCPO with a confidential draft of this report. In response, DCPO identified several technical corrections to the draft. The corrections have been incorporated into the current report.

[3] The Appendix to this report contains more detailed information regarding the Office's sample selection methodology.

Table 2.

State Agencies Interviewed for this Review
(Office leases by agency - April 1996)

Agency	**Number of leases**	**Annual cost**	**Square feet**
Dept. of Transitional Assistance	41	$10,250,420	760,367
Dept. of Employment and Training	35	$3,310,100	251,768
Dept. of Social Services	34	$5,820,986	436,311
Mass. Rehabilitation Commission	30	$2,736,321	197,285
Registry of Motor Vehicles	32	$10,307,182	373,945
Dept. of Mental Retardation	26	$1,897,995	138,818
Dept. of Mental Health	17	$799,031	68,108
Dept. of Revenue	15	$3,714,980	239,300
Dept. of Environmental Protection	3	$1,959,904	154,519
Commission for the Deaf and Hard of Hearing*	2	$127,975	8,775
Division of Capital Planning and Operations	n/a	n/a	n/a
Total	235	$40,924,894	2,629,196

*The Commission provided a written response to the Office's questions.
Source: OIG analysis of DCPO data.

Developments During This Review

In August 1995, the Secretary of Administration and Finance convened a "Property Work Group" representing state agencies, the Trial Court, and the Governor's Office. The objective of the Property Work Group was to review and recommend improvements in the Commonwealth's real property management policies, procedures, and practices.

Over the ensuing months, officials from the Executive Office of Administration and

Finance briefed the Office of Inspector General on the Property Work Group's preliminary findings and proposals. The major focus of the Property Work Group's proposals was a new system for delegating leasing authority to state agencies. Under the new system, agencies with sufficient staff capability would be authorized to procure leases of less than 15,000 square feet outside downtown Boston. The new agency delegation process was implemented in May 1996.

In December 1995, the Property Work Group co-chairman representing the Executive Office for Administration and Finance solicited this Office's comments on a draft version of a new leasing manual for use by state agencies. In response, this Office provided detailed comments and recommendations, several of which were incorporated into the *Real Property Leasing and State Office Planning Manual* issued in April 1996 by the Executive Office of Administration and Finance and DCPO.[4]

During the first half of 1996, the Legislature considered two legislative proposals to change and reorganize the leasing function. The Governor filed legislation that would have eliminated all statutory leasing provisions, including those mandating advertising, competition, and public disclosure. In a March 1996 letter to the Legislature, the Inspector General opposed this legislation:

> The Commonwealth's annual expenses on leases from private parties total more than $90 million per year. I see no justification for exempting this function from the public protections -- such as advertised competition and public disclosure of beneficial interests -- contained in the Commonwealth's real property law.

The legislation was not enacted.

The Governor's proposed budget for FY 1997 called for the separation of DCPO's leasing

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[4]The manual did not incorporate one major Office recommendation regarding the search for suitable state-owned space conducted prior to procuring or amending an agency lease. This issue is addressed in Part 4 of this report.

function from its other property management functions: responsibility for leasing private property would have been assigned to a newly created Operational Services Division within the Executive Office of Administration and Finance. The Inspector General opposed the proposed changes in DCPO's role and function. In a June 1996 letter to the Legislature, the Inspector General wrote:

> In my view, the state needs more planning and coordination of needs, not less. I believe that the proposed changes in the role and function of DCPO would expose the Commonwealth to fraud, waste, and abuse in . . . real property transactions.

The budget passed by the House of Representatives did not contain the Governor's proposal. The subsequent Senate budget bill would have transferred responsibility for leasing private property from DCPO to the Division of Procurement and General Services within the Executive Office of Administration and Finance. However, this provision was not contained in the enacted budget.

Overview of this Report

This report examines the components of the Commonwealth's leasing function, impediments to timely and cost-effective leasing transactions, and the likely impact of recent measures to decentralize the state's leasing function. Part 2 of this report profiles the leasing transactions completed during the period of January 1, 1994 through May 12, 1995. Part 3 describes the leasing process prior to May 1996 and the changes implemented since then. Part 4 discusses significant leasing issues identified during this review, including the risks posed by the recently implemented agency delegation process. Part 5 recommends legislative actions to control state leasing costs and preserve the integrity of the state's leasing function.

PROFILE OF STATE LEASING TRANSACTIONS

The following pages provide a brief profile of office lease transactions completed in the 17-month period between January 1, 1994 and May 12, 1995. According to DCPO records, the state completed 219 such transactions during this period, including 179 lease amendments and 40 new lease agreements. To develop the office lease transaction profile, the Office of the Inspector General combined information on these transactions with data from DCPO's leased space inventory database. DCPO inventory information was available for 217 of the 219 leases. Consequently, all but the last table in this section report on 217 leases.

During the 17-month review period, the 217 office leases accounted for almost 2.4 million square feet of space at an annual lease cost of $32.3 million, according to DCPO records.[5] (See Table 3.) The vast majority of these office leases served user agencies' branch office needs. Although relatively few in number (just 14 percent of the total), the central office -- or headquarters -- leases were generally larger and more costly[6] than the branch office leases, accounting for 33 percent of the space rented and 38 percent of the rent paid annually.

[5]Because this discussion concerns lease transactions over a 17-month period rather than the state's leased space portfolio at a single point in time, a single lease may be included in the data more than once in some limited instances. This would be the case, for example, if a new lease had been executed and subsequently amended within the 17-month period.

[6]More than three-quarters of the 31 central office leases were located in Boston, a costly rental market for commercial office space.

Table 3.

Office Leases - Type of Facility
(Transactions completed 1/1/94 - 5/12/95)

Facility type	Number	%	Annual cost	%	Square feet	%
Branch	180	83%	$19,110,334	59%	1,534,329	65%
Regional	6	3%	$780,573	2%	56,018	2%
Central	31	14%	$12,420,438	38%	783,545	33%
Total	217	100%	$32,311,345	100%	2,373,892	100%

Source: OIG analysis of DCPO data.

The leases were located throughout the state and included five leases outside the state. (See Table 4.) The majority (63 percent) were in the eastern part of the state, including the Route 495 suburbs, the Route 128 suburbs, Boston, and Cambridge. Within this area, the state leased almost 1.8 million square feet of space (74 percent of the total) at an annual cost of over $25 million (77 percent of the total). The greatest concentration of state office leases was in Boston, which accounted for 35 percent of the space leased and 42 percent of the total annual lease cost. Within Massachusetts, the leases averaged $13.61 per square foot; Boston leases had the highest average lease rate at $15.94 per square foot. The five out-of-state leases averaged $21.10 per square foot.[7]

[7]The lease rates per square foot include expenses such as taxes, insurance, and maintenance in the rate calculation. However, some leases may include services not provided through most state leases (for example, a shared receptionist and copying equipment). Consequently, lease rates are not always directly comparable.

Table 4.

Office Leases - By Region
(Transactions completed 1/1/94 - 5/12/95)

Facility location	**No. of leases**	**%**	**Square feet**	**%**	**Annual cost**	**%**
Boston	42	19%	827,017	35%	$13,441,036	42%
Cambridge	2	1%	4,688	--	$44,338	--
Rte. 128 suburbs	44	20%	422,037	18%	$5,337,118	17%
Rte. 495 suburbs	48	22%	502,451	21%	$6,218,409	19%
Worcester region	22	10%	279,627	12%	$2,978,893	9%
Springfield region	25	12%	185,338	8%	$2,369,078	7%
Fitchburg-Greenfield corridor	12	6%	64,965	3%	$629,559	2%
Berkshires region	7	3%	34,329	1%	$419,120	1%
Cape Cod/Islands	10	5%	39,161	2%	$556,368	2%
Out of state	5	2%	14,279	1%	$317,426	1%
Total	217	100%	2,373,892	100%	$32,311,345	100%

Source: OIG analysis of DCPO data.

Seventy-three percent of the leases completed between January 1, 1994 and May 12, 1995 were for an occupancy period of less than two years. (See Table 5.) All but two of the 159 agreements for short-term occupancy were amendments to existing leases. Only 23 percent of the leases were for the full five-year term allowed under state statute.[8] The high volume of short-term lease amendments contributes considerably to user agencies' and DCPO's lease processing workload. The consequences of these amendments,

[8]M.G.L. c.7, §40G authorizes leases of up to five years. DCPO records include dates for actual occupancy of the space and lease termination. For a small number of the 217 leases reviewed, the duration of occupancy was slightly under five years. For the purpose of this analysis, this Office considered any occupancy in excess of four years a full-term occupancy.

particularly short-term extensions, are discussed in Part 4 of this report.

Table 5.

Office Leases - Duration of Occupancy
(Transactions completed 1/1/94 - 5/12/95)

Duration of occupancy	No. of leases	%
<= 1 year	103	47%
>1 - 2 years	56	26%
>2 - 3 years	6	3%
>3 - 4 years	2	1%
>4 years	50	23%
Total	217	100%

Source: OIG analysis of DCPO data.

As noted in Part 1 of this report, new procedures implemented in May 1996 permit the DCPO Commissioner to delegate authority to user agencies to conduct lease transactions for leases of up to 15,000 square feet outside downtown Boston. During the 17-month period this Office examined, 72 percent of the office lease transactions would have been eligible for delegation to qualified user agencies.[9] Although these leases accounted for the large majority of DCPO's workload in terms of the volume of transactions, they accounted for only 40 percent of the square feet rented and 37 percent of the annual rent obligations incurred by the state in this period. (See Table 6.)

[9]Seven months after implementation of the agency delegation process, eight of the 50 user agencies with leases meeting the delegation criteria had received delegation authority for one or more leases.

Table 6.

Office Leases - Size
(Transactions Completed 1/1/94 - 5/12/95)

Square feet leased	No. of leases	%	Square feet	%	Annual cost	%
< 2,501	35	16%	51,578	2%	$691,739	2%
2,501 - 7,500	85	39%	399,683	17%	$5,329,472	16%
7,501 - 15,000	55	26%	570,862	24%	$7,333,902	23%
15,001 - 50,000	37	17%	886,890	37%	$11,873,067	37%
> 50,000	5	2%	464,879	20%	$7,083,164	22%
Total	217	100%	2,373,892	100%	$32,311,345	100%

Source: OIG analysis of DCPO data.

Finally, the Office examined the amount of time it took to complete a new lease or lease amendment transaction during the 17-month period. Table 7 shows the amount of time between the date a user agency initiated the process by submitting a space request form to DCPO and the date on which the Commissioner signed the lease. Typically, new lease transactions took longer to complete than lease amendments: the median time for new leases was approximately one year (380 days), whereas the median time for lease amendments was approximately four months (119 days). Eight new lease agreements took more than two years to complete; one of these took more than three years. In addition, two lease amendments took more than two years to complete.

Table 7.

Length of Office Leasing Process
(Transactions completed 1/1/94 - 5/12/95)

Number of months from agency's submission of space request to DCPO Commissioner's approval of lease	**New leases**		**Amendments**	
	No. of leases	**%**	**No. of leases**	**%**
< 2 months	1	2%	39	22%
> 2 - 3 months	--	--	31	17%
> 3 - 6 months	5	12%	66	37%
> 6 - 9 months	12	30%	26	14%
> 9 - 12 months	9	23%	12	7%
> 12 months	13	33%	5	3%
Total	40	100%	179	100%

Source: OIG analysis of DCPO data.

The time required to complete state agency leasing transactions was a major focus of the Property Work Group convened in 1995 by the Secretary of Administration and Finance. The factors contributing to lengthy leasing transactions and the Administration's recent measures to decentralize the leasing process are discussed in later sections of this report.

THE STATE LEASING PROCESS

This section of the report provides a general description of the process used prior to May 1996 by DCPO and state agencies to enter into new leases and amend existing leases. The Office of the Inspector General developed this information principally by examining DCPO and user agency files relating to a sample[10] of the leasing transactions completed during the period January 1, 1994 through May 12, 1995, and by conducting interviews with officials of DCPO and user agencies regarding the Commonwealth's leasing process. This section of the report also describes recently instituted changes in the leasing process, including the May 1996 implementation of a system under which the DCPO Commissioner may delegate authority to state agencies to conduct leasing transactions.

New Leases

New office lease transactions are often time-consuming. According to data provided to this Office by DCPO on 38 of the 40 new state leases entered into between January 1, 1994 and May 12, 1995, processing these leases took, on average, slightly longer than one year from the date on which a user agency first submitted a request to lease space to DCPO to the date on which the lease was executed.[11] Additional time was required for user agency planning and preparation of the space request at the beginning of the

[10]A full description of the sample of 18 new leases and 30 lease amendments is provided in the Appendix to this report.

[11]DCPO's databases did not contain the transaction date information necessary to calculate this information on two of the 40 leases. For the remaining 38 leases, the mean (or average) number of days between the two dates was 472; the median number of days was 380.

process and for landlord preparation of the leased space -- or "buildout"[12] -- at the end. The leasing process includes four major phases: (1) needs assessment; (2) proposal solicitation, receipt, and evaluation; (3) proposer notification, document preparation and lease execution; and (4) space buildout and occupancy. User agencies are extensively involved in all four phases; DCPO typically is involved in only the first three phases.

Needs assessment

A user agency may seek a new lease agreement when, for example, an existing agreement is expiring or the user agency needs space to operate a new program or consolidate programs. User agency staff, typically under the direction of an agency facilities manager, begin the process by preparing a space needs assessment and space request form, called the "F1." In preparing the F1, the user agency follows DCPO guidelines specifying allowable office space for the number and positions of full-time equivalent staff, and the allowable ancillary space, such as circulation area, conference rooms, interview rooms, reception areas, computer rooms, and equipment rooms. The user agency also identifies its preferred geographic area for the space search, its cost estimate and budget for the lease, and other agency-specific considerations such as special client needs, security concerns, or unique equipment requirements. The F1 must be approved by the user agency; if the agency is located within a secretariat, the secretariat must also sign off on the F1 before it is forwarded to DCPO.

Upon receiving the user agency's F1, the DCPO leasing project manager assigned to the user agency reviews the space request to determine whether it meets the user agency's needs and DCPO guidelines. If not, the DCPO project manager discusses the space

[12] The term "buildout," as used in this report, refers to any construction, alteration, or other improvements to space leased by the Commonwealth. Typically, buildout is performed by contractors working for the landlord. Buildout commences after the lease is signed by all parties and is completed before the user agency occupies the space.

request with user agency staff. The Director or Deputy Director of the Office of Leasing and State Office Planning may also participate in the discussion. After the issues are resolved, the F1 is approved and signed by the DCPO project manager and the Director or Deputy Director.

DCPO then prepares the request for proposals (RFP) for the requested space. The state's standard RFP is augmented with information concerning the amount of leased space requested, the geographic search area, and any agency-specific needs (for example, buildout requirements, preference for single-floor location, adjacency to public transportation, and data wiring needs). The RFP packet also includes a copy of the state's standard lease agreement. DCPO forwards the draft RFP to the user agency for review and comment. The draft RFP may undergo multiple revisions before final approval by the user agency and DCPO.

Simultaneously with or shortly after issuance of the RFP, DCPO surveys state agencies and secretariats that control state property regarding the availability of suitable state-owned space. According to DCPO and user agency officials, the search for state-owned space is rarely successful.[13]

Proposal solicitation, receipt, and evaluation

DCPO advertises the RFP in the *Central Register* at least 30 days prior to the opening of proposals. The user agency advertises the RFP in a newspaper of general circulation within the proposed geographic search area once per week for four consecutive weeks. The last advertisement must appear at least eight days prior to the opening of proposals.[14] Questions from prospective proposers regarding the RFP are directed to and

[13]In a June 1996 letter responding to questions posed by this Office, DCPO identified three instances in the last several years in which DCPO identified public space that could be used to meet state agency needs in lieu of private leased space.

[14]M.G.L. c.7, §40H contains the advertising requirements.

answered by the DCPO project manager.

After the proposal submission deadline, the DCPO project manager conducts a preliminary review to determine whether each proposal meets the RFP criteria. If a proposal is unclear, the project manager may contact the proposer for additional information. The project manager also prepares a proposal cost analysis, which includes calculations of the proposed lease rate (cost per square foot), proposed lease price (cost per year), corrected rate (lease rate plus any agency costs per square foot not included in the lease rate, such as utilities, janitorial services, or parking), corrected lease price (annual cost plus any agency costs not covered by the proposed lease rate), total lease price (corrected lease price for all years of the lease) and net present value of the total lease price (corrected price for all years of the lease discounted by a factor reflecting the cost of funds).

DCPO forwards copies of all qualified proposals, along with the proposal cost analysis, to the user agency. The user agency staff and DCPO project manager then review each proposal in detail, and the user agency schedules site visits for proposals meeting the RFP criteria. The DCPO project manager and one or more user agency staff tour the proposed space with the landlord.

The user agency completes a proposal evaluation form, called the "F2." The F2 summarizes the user agency's assessment of each proposal's location, building condition, proposed space, landlord capacity, and overall suitability. The user agency ranks each proposal and submits its recommendation to DCPO. The F2 lists the user agency's preferred proposal first, followed by the other proposals in rank order of preference. The F2 requires the signature of an authorized user agency official. The DCPO project manager independently completes a proposal evaluation and ranks each qualified proposal. If the user agency and DCPO decide not to select any of the proposals, the RFP is readvertised.

Proposer notification, document preparation, and lease execution

According to user agency and DCPO officials interviewed by this Office, the user agency and DCPO recommend the same proposal in most instances.[15] The DCPO project manager and the Director of Leasing and State Office Planning approve the selection and sign the recommendation form. DCPO then notifies all qualified proposers of the selection.

The user agency meets with the landlord, often accompanied by the DCPO project manager, to discuss the lease terms, the preparation of a schematic space plan, the buildout construction plan, the buildout schedule, and other required lease exhibits (discussed below). Although landlords sometimes attempt to negotiate substantive changes to the lease, certain lease terms are required by statute and may not be altered.

The user agency prepares a schematic space plan showing the office layout and placement of furniture. The schematic space plan is then provided to the landlord who prepares, usually through an architect, a detailed buildout construction plan. DCPO's involvement during this stage of the process varies depending upon the user agency staff capacity and familiarity with the process.

When the user agency, the landlord, and DCPO reach agreement on the documents, the landlord signs the lease and submits all lease-related documents to the user agency. These documents include the beneficial interest disclosure statement, tax and employment security compliance certificate, ownership certificate, buildout construction plan, construction schedule, and associated drawings and property delineation documents, which are incorporated as exhibits to the lease.

[15] Agency and DCPO officials told this Office that most disagreements concern DCPO's preference for a lower-priced proposal than that recommended by the user agencies.

The user agency reviews the lease documents to make certain that the landlord's buildout construction plan reflects the user agency's schematic space plan, that all of the necessary documents and statements are complete, and that the lease has not been altered without the consent of the user agency. The lease is then signed by the user agency head and sent to DCPO.

Within DCPO, the project manager and a staff attorney review the lease documents. Riders are reviewed for compliance with statutes or DCPO policy. The beneficial interest disclosure statement is checked to verify that all individuals who have or will have a beneficial interest in the property are identified. Incomplete or incorrect lease documents are returned to the user agency or the landlord for revisions.

After verifying that the lease is complete and has been properly prepared, the project manager and attorney approve the lease and forward it to the DCPO Commissioner. The DCPO Commissioner signs the lease and a transaction approval form called the "F3." DCPO then provides a copy of the F3 and two copies of the signed lease to the user agency, and the user agency provides a copy of the signed lease to the landlord.

Space buildout and occupancy

After receiving the signed lease, the landlord begins buildout of the space. User agency involvement at this stage varies. Some user agencies review buildout progress on a weekly or biweekly basis, while other user agencies wait until buildout is complete before inspecting the space. When cabling and data wiring are handled separately by a user agency contractor, coordination between the landlord's contractor and the user agency's contractor is vital to avoid scheduling delays or construction changes. DCPO is not normally involved in the space buildout or buildout review.

Upon substantial completion of the buildout, the landlord notifies the user agency that the space is ready for occupancy. User agency staff visit the site and inspect the buildout to verify compliance with the lease. After the user agency approves the buildout, the user agency moves into the space.

User agency staff complete the occupancy approval section of the transaction approval form (F3) and forward the F3 to DCPO for DCPO's records. The user agency also sends a lease order and the signed F3 to the State Comptroller. When these documents have been approved by the Comptroller and the user agency has entered lease information into the state's accounting system, lease payments to the landlord can commence.

Lease Amendments

User agencies may seek to amend a lease for a variety of reasons, such as obtaining additional space or space modifications during the lease term, temporarily extending the lease term to enable the user agency to procure a new five-year lease, or renewing the lease for an additional five-year term. Processing lease amendments entails fewer steps than processing new leases: lease amendments do not require advertising, proposal evaluation, site visits, or -- except in rare cases -- major buildout. As a result, lease amendments usually take less time than procuring new leases. As previously noted, for lease transactions completed during the period of January 1, 1994 through May 12, 1995, the median time to complete new lease transactions was 380 days.[16] By contrast, lease amendments took approximately one-third of this amount of time: the median time to complete 179 lease amendments was 119 days.

As in the case of new leases, the user agency prepares a space request for a lease amendment. This request, called the "F1S," requires less information than the F1 for new space and generally reflects negotiations the user agency has already conducted with the

[16]For purposes of this discussion, the time from start to completion of a lease amendment is defined as the elapsed time from the date DCPO received an agency space request to the date the DCPO Commissioner signed the lease amendment.

landlord. If the user agency is located within a secretariat, the secretariat must sign off on the F1S before it is submitted to DCPO. The DCPO project manager then reviews the F1S. If the F1S proposes a change in the lease rate, the DCPO project manager's review may include a comparison of the proposed lease price with prices paid by the Commonwealth for comparable space in the same geographic area. The F1S must be approved and signed by the DCPO project manager and the Director or Deputy Director of Leasing and State Office Planning.

Upon approval of the F1S, DCPO and the user agency meet with the landlord to finalize the terms of the lease amendment, including agreement on any space renovations or other buildout required by the amendment. DCPO or the user agency prepares the lease amendment and lease exhibits, if any, and provides copies of these documents to the landlord for his or her signature.

The landlord signs the lease amendment and exhibits, if any, and returns the lease packet to the user agency. The user agency reviews and signs the lease amendment, completes the transaction approval form (F3), and sends the lease packet and F3 to DCPO. The DCPO project manager and a staff attorney review the lease packet. Incomplete or incorrect documents are returned to the user agency or the landlord for revisions. If the documents are complete, the project manager and staff attorney forward the lease packet and F3 to the DCPO Commissioner for signature. DCPO then provides a copy of the signed amendment and F3 to the user agency, and the user agency provides a copy of the signed amendment to the landlord.

The landlord begins any required space buildout after receiving the signed lease amendment. When the buildout is completed, the user agency occupies the space. The user agency sends a lease order and the signed F3 to the State Comptroller to enable the Commonwealth to continue lease payments to the landlord.

Recent Changes to the Leasing Process Instituted by DCPO

According to DCPO officials, DCPO recently implemented the following changes to the process of leasing private space for state agencies:

- -- A lease processing scheduling system to supplement the existing lease tracking system was implemented in 1995.
- -- The lease proposal form was changed to call the proposer's attention to the requirement that the proposer must agree to sign the Commonwealth's standard lease.
- -- The RFP was changed to encourage proposals that provide feasible, cost-effective opportunities to colocate two or more state agencies in a building or building complex.
- -- Proposal evaluation procedures were changed to enable elimination of unreasonably priced proposals before site visits are conducted.
- -- Operating procedures were changed to require a meeting of the DCPO project manager, the selected proposer, and the user agency to discuss the lease preparation process, the required lease exhibits, and the timetable for completion before the lease is finalized.
- -- Operating procedures were changed to require the DCPO project manager to review the lease documents for completeness before the landlord signs the lease.

DCPO Implementation of the Agency Delegation Process

Concurrent with this Office's review of the Commonwealth's leasing process, the Secretary of Administration and Finance convened the Property Work Group to review and recommend improvements to the process by which the Commonwealth procures private leased space. As a result of the Property Work Group's recommendations, DCPO implemented a new agency delegation process in May 1996. A user agency seeking delegated leasing authority must submit to DCPO a letter, signed by the agency head, outlining the agency's planned leasing activities for the next 12 to 18 months, the names and real estate experience of agency personnel to be responsible for leasing space, and the leases for which delegated authority is requested. DCPO may delegate leasing authority to user agencies on an annual basis, based on the following criteria: the size of the lease to be delegated must be less than 15,000 square feet,[17] the space must be located outside downtown Boston, the lease terms must not exceed five years, and the user agency must have experienced staff available to work on the lease.

User agencies with delegated leasing authority are now responsible for the following tasks formerly performed by DCPO:

1. Preparing a facility plan (similar to the space request) and the RFP in accordance with DCPO guidelines. DCPO does not approve either document.

2. Determining whether suitable state-owned space is available by contacting agencies that control state buildings and consulting with knowledgeable agency staff.

3. Advertising the RFP in newspapers and the *Central Register*.

4. Answering questions regarding the RFP and receiving proposals.

5. Evaluating proposals, conducting site visits, and selecting the most advantageous qualified proposal.

6. Preparing a schematic space plan, finalizing the lease documents, and signing the lease. The user agency then submits a completed transaction approval form, certifying compliance with M.G.L. c.7, to DCPO for the DCPO Commissioner's signature.

7. Publishing a notice in the *Central Register* listing the location of the leased property, the property owner, and the annual average rent.

8. Submitting the signed transaction approval form to the Comptroller to initiate rental payments to the landlord after the user agency takes occupancy of the space.

9. Maintaining all lease transaction documents.

[17] Two leases exceeding this delegation threshold were delegated to user agencies during 1996.   These exceptions are discussed in Part 4 of this report.

Table 8 summarizes the changes in leasing task responsibilities for delegated leases.

Table 8.

Leasing Task Responsibilities Before and After Delegation

Leasing task	**Pre-Delegation responsibility**	**Post-Delegation responsibility**
Prepare facility plan (F1)	Agency	Agency
Approve F1 and prepare RFP	DCPO	Agency
Search for state space	DCPO	Agency
Advertise RFP in newspaper of general circulation	Agency	Agency
Advertise RFP in *Central Register*	DCPO	Agency
Answer questions regarding RFP	DCPO	Agency
Receive proposals	DCPO	Agency
Evaluate proposals and visit sites	DCPO/Agency	Agency
Select proposal	DCPO/Agency	Agency
Send notification letter to selected landlord and other proposers	DCPO	Agency
Send lease to landlord	DCPO	Agency
Prepare schematic space plan	Agency	Agency
Approve schematic space plan	DCPO	n/a
Finalize lease and related documents	DCPO/Agency	Agency
Sign transaction approval form (F3)	DCPO/Agency	Agency
Oversee buildout	Agency	Agency
Complete occupancy section of form F3 and submit to DCPO	Agency	Agency
Submit F3 to Comptroller	DCPO	Agency

Source: OIG analysis of DCPO Real Property Manual (1996)

SIGNIFICANT LEASING ISSUES

The statistical analysis of DCPO leasing data and interviews with user agency and DCPO officials conducted by the Office of the Inspector General yielded extensive quantitative and qualitative information regarding the state's leasing process. The previous sections of this report have profiled state leasing transactions and described the leasing process before and after major changes were implemented in May 1996. This section examines the broader implications of the information gathered during the course of this Office's review.

DCPO's professional management and oversight have protected the Commonwealth from excessive leasing costs and added value to the leasing function.

This Office's interviews of user agency officials[18] yielded strongly positive views of the project managers assigned by DCPO to assist user agencies in procuring private office space: user agency representatives praised DCPO project managers' professionalism, real property expertise, and helpfulness. Some user agency officials stated that they did not plan to seek delegated leasing authority because they did not want to forgo the assistance provided by DCPO project managers nor to acquire the expertise necessary to negotiate and review contract documents.

Although they voiced highly favorable opinions of DCPO project managers, some user agency officials questioned the value of DCPO's efforts to review and control user agency leasing activities. The examples they cited indicate that DCPO has taken its oversight responsibility seriously. For example, officials of several user agencies stated that DCPO has often questioned and, in some cases, scaled back their space requests when DCPO

[18] This Office interviewed representatives of 10 state agencies associated with the sampled leases and lease amendments completed between January 1, 1994 and May 12, 1995. (Table 2, contained in Part 1 of this report, lists the user agencies interviewed by this Office.)

determined that the requested square footage for specific functions exceeded DCPO standards. An official of another user agency pointed to DCPO's insistence that the user agency consider all proposals meeting the specifications rather than examining only the proposals the user agency deemed attractive.

Officials of five user agencies with major leasing requirements cited DCPO's emphasis on lease price as a factor that sometimes delayed leasing transactions. Some noted that when their agencies recommended higher-priced proposals over lower-priced proposals meeting the specifications, DCPO required their agencies to provide extensive -- and, in the agencies' view, excessive -- justifications for their recommendations. One user agency official stated that DCPO routinely objects if the user agency selects a proposal other than the lowest-priced or second-lowest priced proposal. From the perspective of some user agency officials, DCPO should not second-guess a user agency's decision to pay a higher price for a proposal the user agency regards as more desirable.

The comments of user agency officials suggest that DCPO's leasing staff have played a key role in limiting the square footage of leases and ensuring fair, competitive, cost-conscious proposal selection procedures. Predictably, these oversight activities have sometimes generated tensions with user agencies. From this Office's perspective, however, according consideration to all qualified proposals preserves the integrity of the procurement process; similarly, requiring a user agency to justify its selection of a higher-priced proposal when other, lower-priced, qualified proposals are available promotes accountable decision-making. In these respects, it appears that DCPO's leasing function is fulfilling the Ward Commission's purposes in creating a centralized, professional leasing office.

Protracted leasing schedules encourage short-term lease amendments, which cause further schedule delays.

The Office's analysis of 38 of the 40 new leases signed between January 1994 and May 1995 showed that the average time from start (submission of the user agency's space request) to finish (lease execution) was 472 days, or roughly 16 months.[19] Over one-half of the 38 leases took more than one year to complete; one-third took more than one and one-half years to complete.

The protracted state leasing process encourages the use of short-term lease amendments to enable user agencies to remain in private space and make lease payments[20] to the landlord pending execution of a new lease or longer-term lease amendment. As noted in Part 2 of this report, almost three-quarters of the leasing transactions over the 17-month period reviewed by this Office were lease amendments that extended existing leases for relatively short terms: two years or less. DCPO officials noted that the time-sensitive nature of most short-term lease amendments requires DCPO project managers and legal staff to accord these transactions priority over the longer-term transactions, further extending the time required to execute new leases.

Although lease amendments are processed much more quickly than new leases -- the Office's analysis showed an average processing time of four months for lease amendments versus 16 months for new leases -- this four-month investment of user agency and DCPO resources is highly inefficient. Each such transaction will require a substantial additional investment of time within one or two years: an additional four months for another lease amendment, or more than one year for a new lease. The cycle is self-perpetuating: as more new leases and longer-term amendments are delayed, user

[19]For two of the 40 leases, DCPO's databases did not contain the date information necessary to calculate the average start-to-finish time.

[20]The State Comptroller cannot authorize payment to a landlord unless a signed, authorized agreement has been executed.

agencies seek more short-term amendments to enable them to continue occupancy pending completion of the delayed transactions. According to DCPO's Director of Leasing and State Office Planning, short-term lease amendments are "devastating" to DCPO's capacity to plan and manage its leasing workload.

Short-term lease amendments also deprive the Commonwealth of the price benefits generated by competition. According to user agency and DCPO officials, these amendments are generally executed on the same terms and conditions -- including price -- as those incorporated into the original lease. If commercial office lease prices, utility rates, or other services included in the total lease payment have increased significantly since the original lease was executed, extending the lease at the same price may offer potential savings. However, if the original lease price included a substantial amount for buildout, extending the lease at the same price with little or no additional buildout may be financially undesirable.[21]

Under the new user agency delegation process, user agencies will be responsible for amendments to agency-procured leases. However, DCPO will continue to handle amendments to DCPO-procured leases, even for user agencies that have been delegated leasing authority. Unless the number and proportion of short-term lease amendments are substantially reduced, such amendments are likely to undermine current user agency and DCPO initiatives to promote more effective workload planning and management of the leasing function. In addition, short-term lease amendments will hinder the state from locking in favorable longer-term lease prices in periods of increasing prices for commercial office space leases.

[21]Some user agency officials stated that, in such cases, they attempt to negotiate lease price decreases or additional landlord-provided services to compensate for the buildout portion of the lease payment.

DCPO, user agencies, and landlords all share responsibility for protracted leasing schedules.

According to user agency and DCPO officials interviewed by this Office, the lengthy state leasing process has proven both costly and inefficient.[22] In their view, the excessive time consumed by leasing transactions has taxed user agency and DCPO resources while discouraging prospective landlords from competing for state leases. User agency and DCPO officials interviewed by this Office also shared the view that DCPO has had insufficient project management and legal staff to manage its lease workload in a timely and effective manner.

DCPO's leasing data for 1994 show that four DCPO project managers[23] were responsible for handling 120 user agency requests for new leases and 195 user agency requests for lease amendments -- an average of 79 space requests per project manager. According to DCPO officials, DCPO project managers juggle their assigned caseloads in response to competing deadlines and priorities, such as lease expiration dates, the fiscal year calendar, and pressures exerted by landlords. Workload planning and scheduling is made more difficult, according to DCPO officials, by user agencies' failure or inability to carry out their leasing responsibilities in a timely manner.

Uncertainty over future agency funding also impedes user agencies' ability to plan for their leased space needs, according to DCPO officials as well as some user agency representatives. One user agency official noted: "In the context of the current governmental reorganization initiative now in progress, we honestly don't know where we

[22] This opinion is reflected in the findings published by the Property Work Group convened by the Secretary of Administration and Finance in October 1995. The Property Work Group observed that the leasing process then in effect "takes too long and does not result [in] the most effective, efficient, or economical lease of property."

[23] DCPO had not yet contracted for the services of the fifth project manager currently on staff.

will be in six months." An official of another user agency told this Office that because of budget uncertainty, the user agency has made a practice of entering into 18- to 24-month leases with 30-day termination clauses. These short-term leasing arrangements, which are unavoidable in some cases, contribute to inefficiency and delays in the leasing process.

In interviews, most user agency officials expressed frustration with the inability of DCPO project managers to respond to their needs quickly and with the time required by DCPO to complete legal reviews of lease documents. These officials complained that they spend long periods of time waiting for DCPO to respond to space requests, approve documents, or take other actions required for completion of leasing transactions.

Under DCPO's leasing procedures, the Director or Deputy Director of Leasing and State Office Planning must approve specific documents, including the request for proposals (RFP), the recommendation to select a specific proposal, and the lease. As noted in the previous section of this report, DCPO's legal staff also review and approve the lease, which must be signed by the DCPO Commissioner before the landlord begins buildout of the leased space. Several user agencies expressed the view that DCPO's administrative approval procedures constitute a major source of delay and should be revised to give DCPO project managers authority to make final decisions and approve documents.

But this Office's analysis of the average time spent on the most time-consuming leasing tasks indicates that user agencies' internal planning, decision-making, and negotiations with landlords account for a significant share of the elapsed time between the user agency's initial space request and final lease execution. Landlords also delay the leasing process by requesting major modifications to the standard lease provisions and by neglecting to complete the required lease exhibits in the manner required. These time-consuming tasks are discussed below.

Approval of user agency space request and issuance of RFP

The Office's review indicated that one of the most time-consuming tasks in the leasing process occurs at the beginning, when DCPO reviews, negotiates, and approves a user agency's space request (the "F1"), and issues the RFP: 79 days on average for the 18 new leases in the sample. For the 36 new leases in DCPO's database for which relevant transaction dates were recorded,[24] the average time was even higher: 88 days. (See Table 9.) The times required to complete this task ranged from a few days to almost nine months. For 15 of these leases, this task took more than three months; for seven leases, it took more than six months.

Table 9.

Time Required to Approve User Agency Space Request and Issue RFP

Number of months from DCPO receipt of space request to RFP issuance	No. of leases	%
1 month or less	12	33%
>1 to 2 months	4	11%
>2 to 3 months	5	14%
>3 months	15	42%
Total	36	100%

Source: OIG analysis of DCPO data.

Interviews with user agency staff identified this task as a source of user agency concern and frustration. One user agency official attributed his agency's reliance on short-term lease amendments to DCPO's failure to approve requests for five-year lease extensions or new leases in a timely manner. Another user agency official, citing competition with

[24]Because DCPO leasing databases lacked complete information on leasing transaction dates for some leases, this discussion cites varying numbers of leases as sources for this Office's estimates of the lease processing times associated with specific tasks.

other state agencies for DCPO staff time, reported calling DCPO every day to check the status of the user agency's paperwork. (Paradoxically, this agency response further expands the workloads of the DCPO project manager, exacerbating the understaffing problem that prompted the agency's daily telephone calls to DCPO.)

However, this Office's review of lease files indicated that delays typically resulted from negotiations between a user agency and DCPO regarding the content of the RFP. In one case, for example, a user agency wanted to limit the geographic search area for the lease proposal competition to the greater Boston area, whereas DCPO wanted to expand the search area to Route 495 in order to elicit more proposals and increase competition. (The search area for this competition was ultimately expanded to Route 128 -- a search area larger than the user agency had defined but smaller than DCPO preferred.) This same user agency's space request contained more than 17 pages of agency-specific space requirements to be added to the state's standard RFP. It took over five months for DCPO to approve this space request and issue the RFP.

In a written response to questions posed by this Office, DCPO's Director of Leasing and State Office Planning noted:

> OLSOP's [Office of Leasing and State Office Planning] receipt of the Form 1 Space Request often marked the *beginning* of the discussion between OLSOP and the User Agency to determine the User Agency's space needs. In many instances, the time which elapses between the receipt of the Space Request and the issuance of the RFP is devoted primarily to assisting the User Agency to determine and complete its statement of need, convincing user agencies of appropriate search areas and square footage when their ideal is too restrictive or expensive, and obtaining other information from the User Agency required for the development of the RFP. [Emphasis in the original.]

The Director cited four leases in this Office's sample for which the process of defining or redefining the user agency's space needs and the appropriate search area for the RFP required two to four months.

Some user agencies suggested that the RFP preparation time could be reduced by delegating this task to user agencies or by allowing DCPO project managers authority to approve the F1 and issue the RFP without the approval of the Director or Deputy Director of the Office of Leasing and State Office Planning. User agencies' desire to work with autonomous DCPO project managers is understandable. However, based on interviews and DCPO file reviews, this Office did not find that administrative approvals significantly delayed DCPO's approval of user agency space requests or completion of RFPs. While there may be opportunities to streamline current procedures within the Office of Leasing and State Office Planning, administrative oversight of project managers' leasing decisions is a reasonable safeguard.

The Property Work Group predicted that the time spent on defining the user agency's space needs and preparing the RFP could be reduced to five weeks -- less than one-half the average time spent on these tasks for the leases analyzed by the Office. Since DCPO will no longer approve space requests for user agencies with delegated leasing authority, it is unlikely that the actual time these user agencies will spend planning their space requirements and preparing the RFP will be tracked in the future. However, the Office's review suggested that the time spent by DCPO and/or user agency managers on planning a user agency's space requirements and accurately translating those needs into a detailed RFP may be a worthwhile investment from a systemic perspective. User agencies who devote insufficient attention to this stage of the leasing process may reduce the likelihood of receiving responsive and cost-effective proposals.

Proposal evaluation and selection

After user agency staff and the DCPO project manager visit all qualified sites, user agencies and DCPO spend a significant amount of time evaluating proposals, selecting a proposal, and notifying the prospective landlord. Based on this Office's review of DCPO data on 33 new leases, this task consumed 120 days, on average. As Table 10 shows, 15 of 33 new leases for which transaction dates were available required more than three months from the date of the last site visit to the date proposers were notified of the selection.

Table 10.

Time Required to Evaluate Proposals and Notify Successful Proposer

Number of months from last site visit to landlord notification	**Number of leases**
1 month or less	9
>1 to 2 months	1
>2 to 3 months	8
>3 months	15
Total	33

Source: OIG analysis of DCPO data.

DCPO project managers must wait to hear from user agency staff before moving forward with the proposal selection process. This Office's review of 10 leases that were entered into during this 17-month period -- and for which relevant transaction dates were recorded -- revealed that internal user agency decision-making accounted for a significant portion of the time required to select a proposal. For these leases, user agencies spent, on average, almost 80 days selecting a proposal.[25] The time user agencies spent on this task varied from one day to almost one year.

User agency interviews confirmed that user agencies' internal procedures for evaluating and recommending proposals can significantly affect leasing schedules. One user agency official stated that the user agency may assign up to 10 user agency staff as well

[25]This time estimate represents the number of days between the date of the last site visit conducted by the user agency and the date of the user agency's proposal recommendation to DCPO.

as the user agency's architect[26] to attend site visits and evaluate proposals; before making a recommendation, the user agency must often wait for the architect to submit a site visit report. This official noted that the user agency's evaluation process can be as short as three weeks or as long as three months. Officials of two other user agencies estimated that internal proposal reviews and selection decisions within their agencies generally take four to six weeks. An official of a third user agency stated that even when competition is limited and the selection decision is noncontroversial, the user agency takes two to four weeks to submit its recommendation to DCPO.

For the 10 leases cited above, the time from the user agency's proposal recommendation to DCPO's notification to the landlord whose proposal was selected averaged 40 days. User agency officials stated that this portion of the process is sometimes delayed by disagreements between user agencies and DCPO regarding the proposal to be selected. As discussed earlier in this report, most such disagreements reportedly concern price: DCPO requires user agencies to justify their proposal selection decisions when they recommend higher-priced, qualified proposals in favor of lower-priced, qualified proposals. For delegated leases, user agencies are now authorized to make these selection decisions without DCPO input or approval, thereby eliminating the time that would have been spent resolving disagreements with DCPO. In the absence of pressure from DCPO on user agencies to consider lower-priced, qualified proposals, the overall cost of delegated leases may increase.

Landlord and user agency completion of lease negotiations and documents

The tasks of finalizing the lease, agreeing on buildout design, preparing lease-related plans and documents, and obtaining the landlord's signature on the lease took more than

[26]Some user agencies routinely contract with private architects to inspect and evaluate the office space under consideration.

two months[27] for over half of the 13 leases in this Office's sample for which relevant transaction dates were available. (See Table 11.)

Table 11.

Time Required to Finalize Lease and Obtain Landlord Signature

Number of months from proposal selection to landlord signature on lease	**Number of leases**
1 month or less	1
>1 to 2 months	3
>2 to 3 months	6
>3 months	3
Total	13

Source: OIG analysis of DCPO data.

According to user agency and DCPO officials, user agencies assume prime responsibility for this phase of the process, with DCPO providing assistance upon request. User agency staff and DCPO project managers typically meet with the landlord to review documents and plans required by the state, and to discuss buildout needs. The landlord is required to complete a number of lease exhibits, including the beneficial interest disclosure statement, ownership certificate, and tax compliance certificate. User agency and DCPO officials reported that landlords are generally eager to finalize the paperwork, complete construction of the premises, and begin collecting rent. However, landlords sometimes delay the process by failing to submit the necessary information and documentation in a timely fashion.

[27] This figure represents the number of days between DCPO's notification to the selected proposer and the landlord's signature on the lease.

Some landlords also contribute to protracted lease negotiations by requesting substantive changes to the lease terms and conditions, according to user agency and DCPO officials. One user agency official noted that some landlords mistakenly expect to be able to negotiate a higher lease price than that contained in their proposals. In a written response to questions posed by this Office, DCPO's Director of Leasing and State Office Planning explained the problem and recent DCPO efforts to address it:

> Although the Lease Proposal Form contains a certification signed by the proposer stating that it agrees to sign the Commonwealth Standard Lease, in our experience, proposers may not focus sufficient attention on the terms of this lease until after proposal selection. In order to reduce the number of occasions when selected proposers demand material changes to DCPO's lease form, and [when] transactions are delayed while negotiations pare back these demands, OLSOP revised the Lease Proposal Form to stress the need for attention to be paid to the lease form before a proposal is submitted.

The user agency is responsible for preparing a schematic space plan for the buildout. This plan guides development of the more detailed buildout design plan (which is usually prepared by the landlord's architect). Some user agencies commission an architect for this task, while others prepare the schematic space plan in-house. Depending upon the size of the area and/or the complexity of the user agency's buildout requirements, completion of a schematic space plan and preparation of design drawings may require a significant investment of time for both the user agency and the landlord. This Office's interviews with user agency officials and review of DCPO leasing files indicated that user agency indecision regarding the buildout specifications can delay the process of finalizing the lease.

DCPO lease review and approval

Based on this Office's review of 17 sample leases, it took, on average, more than 50 days from the date of the user agency's signature on the lease to the date of the DCPO

Commissioner's signature. The DCPO Commissioner signed 10 of 17 leases within one month after the user agency signed them; the remaining seven leases were signed from one to seven months after the user agency signed them. According to DCPO officials, four of the seven leases that required one to seven months for DCPO's approval were delayed because the leases submitted to DCPO by the user agencies contained inaccuracies or because the lease exhibits, such as the landlord's disclosure of beneficial interest statement and the buildout construction schedule, were incomplete. DCPO reported that one of the four leases was signed by the user agency more than one month before the user agency forwarded it to DCPO, thus creating the erroneous impression that DCPO had not approved the lease in a timely manner. Of the three remaining leases, DCPO reported that two were delayed by legal issues raised by the landlords in the final stages of the leasing process.

Since the landlord must receive a signed copy of the lease before proceeding with buildout, lease approval delays can engender frustration on the part of user agencies and landlords. Moreover, DCPO's involvement at the end of the process -- after the user agency has finalized the lease with the landlord and after the user agency has agreed to the buildout design -- can engender user agency resentment.

According to DCPO officials, DCPO has recently adopted procedural changes to address the problem of incomplete lease documents. The DCPO project manager is now required to meet with the selected landlord and user agency to discuss the steps involved and the timetable for completion of the lease and accompanying exhibits.[28] The DCPO project manager is then required to review the lease and exhibits for completeness before the landlord signs the lease.

DCPO currently assigns two attorneys to the leasing function. The attorney in charge of

[28] According to user agency officials interviewed by the Office, DCPO project managers often provided such assistance to user agencies and landlords even before DCPO formalized these procedures.

leasing spends approximately 60 percent of his time on this function, and a contract attorney devotes two or three days per week to handling routine leasing transactions. In interviews, some user agency officials questioned the need for DCPO's legal review of the final lease in instances when the Commonwealth's standard lease terms have not been altered. In this Office's view, however, DCPO's legal review is needed to verify claims that no changes have been made to the lease terms and that the lease exhibits are accurate and complete.

DCPO officials reported that the volume of leasing transactions for which DCPO is responsible has sometimes exceeded DCPO's capacity to conduct thorough legal reviews in a timely manner. However, DCPO officials anticipate that user agency delegation and the recently instituted changes to DCPO's standard leasing forms will reduce the number and complexity of legal reviews conducted by DCPO attorneys. The adequacy of the legal resources assigned to DCPO's leasing function should be assessed in the wake of these changes.

Landlord completion of space buildout

The final step in the process is to build out the space for occupancy by the user agency. During the buildout period, the landlord's contractors prepare the premises for the user agency by, for example, constructing offices, painting walls, laying carpet, and installing telephone and data wiring. Until May 1996, the Commonwealth's standard lease provided the user agency with 21 days to occupy the space after buildout is complete; this time period has since been reduced to 15 days. According to user agency officials, most landlords are eager to complete buildout so that a user agency may occupy the space and the landlord may begin collecting rent.

For the 35 leases in DCPO's database for which relevant transaction dates were recorded, the average time required for the landlord to complete the space buildout and the user agency to occupy the space was 83 days. In general, the time required to complete buildout depends upon a number of factors, including lease size, complexity of the renovations, landlord cooperation, and the user agency's oversight capacity. This Office's review of DCPO data for 35 new leases revealed that 27 leases of less than 10,000 square feet took 65 days, on average, from DCPO's lease approval to completion of buildout and user agency occupancy of the space. By contrast, eight leases of more than 10,000 square feet took 114 days, on average. This Office also found several cases in which the buildout period was extended because the renovations were made while the user agency occupied the space.

This Office noted several cases in which user agencies delayed completion of buildout by, for example, objecting to the color of paint selected by the landlord or failing to install technology wiring in accordance with the agreed-upon schedule. More often, however, the time required for buildout appears to hinge on factors beyond the direct control of the user agency.

Other sources of delay

In some cases, delays and cancellations of leasing transactions are primarily attributable to factors external to the leasing process and, thus, beyond the control of user agency or DCPO leasing staff. For example, policy changes can significantly alter a user agency's space requirements and leasing transaction schedules. The following chronology of an office space procurement in Lynn to house a branch of the Department of Transitional Assistance (DTA) illustrates the impact of policy changes on leasing schedules. As this chronology illustrates, DCPO cancelled two consecutive proposal competitions and extended DTA's existing office space lease three times between June 1992 and September 1995 in response to DTA policy changes affecting DTA's office space requirements.

June 1992: DCPO advertised for office space proposals in Lynn for the DTA (then the Department of Public Welfare) and received four proposals.

July 1992: DTA's existing lease of office space in Lynn was extended to June 1993.

Sept. 1992: DCPO notified proposers that the RFP was being withdrawn because of changes in buildout requirements. DCPO issued a second RFP for office space in Lynn and received seven proposals.

July 1993: DTA's existing lease was extended to June 1994.

Oct. 1993: After reaching agreement with the DTA, DCPO notified the selected proposer.

Mar. 1994: The DTA notified DCPO of changes in the agency's space requirements because of the planned implementation of the BEACON system, an on-line eligibility system enabling the DTA to conduct client interviews at employee workstations rather than in separate interview rooms. The policy decision to implement the BEACON system required the DTA to upgrade and reconfigure its office space throughout the state.[29]

July 1994: DTA's existing lease was extended to June 1995.

May 1995: DCPO notified the selected proposer that the lease would not be finalized because the proposed office space could not accommodate the new BEACON system to be implemented by the DTA.

Sept. 1995: DCPO executed a new lease for office space in Salem combining the DTA's Beverly, Salem, Gloucester, and Lynn offices.

Some time savings projections for the agency delegation process appear unrealistically high.

The Property Work Group convened by the Executive Office of Administration and Finance predicted, in an October 1995 publication outlining its findings, that the agency delegation process would shorten the estimated 56 weeks required to execute a lease by 23 weeks, or almost six months. The *Real Property Leasing and State Office Planning Manual* issued in April 1996 by the Executive Office of Administration and Finance and DCPO predicted that the agency delegation process would reduce the 56-week lease

[29] According to DTA, the BEACON system will be implemented in all 44 DTA offices by May 1997.

execution schedule by more than 50 percent: to 26 weeks for delegated leases and 27 weeks for DCPO-procured leases.

Based on a comparison of average and predicted times to complete the major tasks contained in these leasing schedules, the rationale for these predicted time savings is not clear. The major leasing tasks for which time savings were predicted are discussed below.

Search for leased space

The search for leased space encompasses the planning and procurement phase of the leasing process, during which user agencies identify their space requirements, DCPO prepares and issues the RFP for leased space, the user agency and DCPO conduct site visits and evaluate the responsive proposals, the user agency recommends a proposal to DCPO, and DCPO approves the recommendation. The Property Work Group estimated that the search for leased space under the predelegation leasing process took approximately 36 weeks. The Office's review of DCPO leases indicated that these tasks took 45 weeks, on average.[30]

The Property Work Group predicted in October 1995 that the agency delegation process would reduce the time required to complete these tasks to 20 weeks; the Leasing Manual's estimate of 16 weeks slashed an additional four weeks from this phase of the leasing process. Put another way, user agencies with delegated leasing authority are expected to complete the search for leased space *five months faster* than the average

[30]The Office's review of 33 DCPO leases executed between January 1994 and May 1995, for which relevant transaction dates were available, revealed that these leases took, on average, 42 weeks from when the user agency submitted to DCPO a space request to execution of the lease. In interviews, user agency officials indicated that preparing the space request took an average of three weeks. This estimate was added to the 42 weeks for consistency with the estimates provided by the Property Work Group and the Leasing Manual.

schedule for this phase of the process before the agency delegation process was implemented.

This prediction of five months of time savings for this phase is not persuasive. To the extent that the pre-delegation leasing process was delayed by user agency conflicts and negotiations with DCPO over the user agency's space requirements and proposal recommendations, delegated leases will not encounter these delays. According to the Leasing Manual, however, DCPO-procured leases are to be completed in 17 weeks. This schedule presumes that user agency conflicts and negotiations with DCPO will consume only one additional week during the leasing process.

The remainder of the five-month savings estimate may be based on an expectation that reducing DCPO's workload will significantly speed up processing of all leasing transactions, whether or not these transactions have been delegated to user agencies. Based on this Office's review, some reduction in lease processing times appears likely. However, as the previous discussion has shown, user agencies' internal review and decision-making procedures significantly affect the schedule for completing the search for leased space. Whether or not user agencies' internal procedures can be accelerated sufficiently to meet the schedule proposed by the Leasing Manual remains to be seen.

Completion of lease documents

During the second major phase of the leasing process, the user agency prepares the schematic plan for the leased space selected during the RFP process, reaches agreement with the landlord regarding the lease terms, ensures that the lease exhibits are complete, obtains the necessary landlord and user agency signatures on the lease, and transmits a transaction approval form to DCPO, which returns the signed transaction approval form to the user agency.

The Property Work Group estimated that completing the lease documents took 20 weeks under the predelegation leasing process. This Office's review revealed the average time for these tasks to be eight weeks longer.[31] The Property Work Group predicted that the agency delegation process would reduce the time required to complete lease documents to 13 weeks; the Leasing Manual cited a 10-week schedule for these tasks. In other words, user agencies with delegated leasing authority are expected to complete the lease documents in half the time required before the delegation process was implemented. The Leasing Manual lists an identical schedule of 10 weeks for DCPO-procured leases.

Two key assumptions appear to underlie the predicted time savings for this phase of the leasing process: that recently implemented changes to the lease documents will shorten or eliminate user agency negotiations with landlords, and that the delegation process will enable user agency and DCPO staff to conduct timely legal reviews. These assumptions appear reasonable.

However, several factors affecting the time required to complete the lease documents are unlikely to change as a result of the agency delegation process. As noted earlier, the process of finalizing a lease is sometimes delayed by user agency indecision regarding the buildout specifications. In addition, landlord-caused delays -- e.g., delays resulting from a landlord's incomplete or improperly completed lease exhibits -- may continue to hamper user agency and DCPO efforts to shrink leasing schedules.

Overall, the Leasing Manual's leasing schedule calls for delegated leases to be executed within 26 weeks from the date the user agency begins to plan its space needs, and for DCPO-procured leases to be executed within 27 weeks of this date. The Property Work Group estimated that the predelegation leasing process took 56 weeks from space planning through lease execution. This Office's review revealed an average time of 73 weeks from space planning through lease execution.

[31] The Office's 28-week estimate for this phase is based on the Office's review of 33 DCPO leases executed between January 1994 and May 1995 for which relevant transaction dates were available.

To achieve the leasing schedules predicted in the Leasing Manual would require user agencies and DCPO to reduce the time spent on this portion of the leasing process by *more than 60 percent*. Setting ambitious lease processing objectives may well be an appropriate management technique. However, if dramatic schedule reductions are achieved at the expense of sound planning, accountability, and administrative oversight, the leases executed on behalf of the Commonwealth may not meet user agency needs at a reasonable cost or contain sufficient legal safeguards.

Major exceptions to the lease size threshold established for agency delegation have already been authorized.

DCPO's standards for agency delegation established a maximum threshold of 15,000 square feet for leases eligible for delegation to user agencies. The rationale for establishing a maximum threshold for delegated leases was to ensure that the state's professional real property agency would continue to be responsible for very large leases, which generally represent more complex, expensive transactions. However, within a few months of implementing the agency delegation process, two user agencies had received delegation authority for leases exceeding the maximum delegation threshold of 15,000 square feet:

-- In June 1996, barely one month after the delegation process was implemented, the Department of Transitional Assistance requested delegation authority for six leases: three leases under the threshold and three leases exceeding the threshold. DCPO delegated the three smaller leases and advised DTA that consideration would be given to delegating one of the three larger leases to DTA. DTA subsequently requested and received delegation authority for a lease of 25,000 square feet.

-- In November 1996, the Department of Revenue requested and received delegation authority for two leases under the threshold and one lease exceeding the threshold. The latter lease entails 27,000 to 30,000 square feet -- potentially twice the area set as the maximum threshold for agency delegation.

The Leasing Manual issued in April 1996 notes that "a small number of pilot projects of leases greater than 15,000 square feet will be delegated to an Agency."[32] The Leasing Manual makes no reference to the selection criteria for choosing among potential pilot projects, nor of the higher standards -- if any -- that must be met by the agency requesting delegated authority for a pilot project. Nevertheless, the Leasing Manual's characterization of these leases as "pilot projects" suggests that more delegations of larger leases to user agencies are planned.

In this Office's view, these "pilot projects" are ill-advised and should not be permitted to proceed at this point. Until experience is gained under the standards that have been established for agency delegation, DCPO should not waive those standards.

The delegation process, as currently designed, poses new risks to the Commonwealth.

DCPO's oversight role in approving user agency space requests and proposal selection decisions has been eliminated for user agencies with delegated leasing authority. To the extent that user agency conflicts with DCPO over the size and cost of leases have delayed leasing transactions, the delegation process will speed up space planning and acquisition. However, this Office's interviews strongly suggest that user agencies with delegated leasing authority will accord less importance than DCPO to controlling the size and cost of state leases. Under these conditions, unwarranted escalation in the size and cost of state leased space appears likely. Since responsibility for monitoring lease costs will now rest with individual user agencies with delegated leasing authority, it is unclear whether, how, or by whom trends such as leasing cost escalation will be monitored or

[32] The draft version of the manual reviewed by this Office contained a nonspecific reference to a "small number of pilot projects." Had the draft manual stated that such projects would entail waiving the agency delegation threshold of 15,000 square feet, this Office would have informed the Executive Office of Administration and Finance of its objection to the pilot projects.

evaluated -- or *if* such trends will be monitored or evaluated -- from a systemic perspective.

The inexperience of the user agencies' legal staff represents a second major risk for the Commonwealth. To be eligible for delegated leasing authority, user agencies are required to assign the legal review of the delegated lease or leases to an attorney licensed to practice in Massachusetts. The attorney is not required to have real estate expertise or experience. While a user agency attorney's unfamiliarity with real estate issues is unlikely to create problems on standard leases, it may prove detrimental to the Commonwealth's interests when complex issues arise during the negotiation phase of the leasing process.

Moreover, user agency attorneys may not be able or willing to devote as much time as DCPO attorneys have devoted to ensuring that the lease exhibits are accurate and complete. In addition to exposing the Commonwealth to legal problems, incomplete lease exhibits could open the door to favoritism or abuse in leasing transactions. For example, DCPO officials report devoting significant time to ensuring that landlords properly complete the disclosure of beneficial interest statement required under M.G.L. c.7, §40J. The Ward Commission's purpose in requiring this statement was to minimize favoritism in real property transactions.[33] According to DCPO's attorney in charge of leasing, landlords frequently fail to provide all names and addresses of individuals with a direct or indirect beneficial interest in the property, as required by the statute. In the past, although user agencies are supposed to review landlord-prepared lease exhibits before forwarding them to DCPO, some user agencies apparently have not ensured that these exhibits are complete. In an April 1996 training workshop for staff attorneys of user agencies seeking delegated leasing authority, DCPO officials emphasized the importance of ensuring landlord compliance with this disclosure requirement. If user agency

[33] *Final Report to the General Court of the Special Commission Concerning State and County Buildings*, Volume 7, December 1980, p. 126.

attorneys do not rigorously enforce this disclosure requirement, the state's leasing process will be less accountable and more vulnerable to abuse.

The risk of increased landlord protests and legal challenges generated by user agencies' proposal selection procedures and decisions has implications for both the cost and integrity of the state's leasing process. As noted in Part 3 of this report, the Office of Leasing and State Office Planning changed the existing proposal evaluation procedures in 1996 to allow DCPO and user agencies with delegated leasing authority to eliminate from further consideration proposals determined to be unreasonably priced relative to the other proposals received. The Leasing Manual contains no specific decision rule or guideline for user agencies making these determinations.[34]

The current process -- under which each user agency is permitted to establish its own decision rule for rejecting proposals for a specific lease after the proposals are opened -- is likely to subject landlords competing for state leases to procedural rules that vary significantly, and may even conflict, from user agency to user agency. In some cases, qualified proposals may be unfairly or inappropriately rejected. Without a uniform decision rule for determining whether or not a proposal for a state lease is reasonably priced, legitimate landlord protests are likely to result.

The absence of clear decision rules means that achieving systemwide uniformity will be impossible. It also renders the leasing process more vulnerable to inappropriate political pressures from landlords and other interested parties. According to DCPO officials, landlords and others do attempt to bring such pressures to bear on leasing transactions and decisions subject to the approval of the DCPO Commissioner. Decentralization of these transactions and decisions will shift the focus of these inappropriate political pressures to user agency staff.

[34] The Leasing Manual states: "DCPO reserves the right to eliminate from further consideration any proposals that are found to be unreasonably priced in relation to the majority of the proposals received. Such proposals shall be considered non-qualifying."

User agencies with delegated leasing authority are now responsible for handling landlord protests, which DCPO formerly handled. DCPO does not plan to review a user agency's transactions in connection with a specific lease until long after the final lease is executed. If legitimate questions arise regarding the fairness or legality of a proposal selection process conducted by a user agency, it is not clear whether, how, or by whom such questions will be examined and addressed.

Systemwide cost control and accountability require effective DCPO oversight of the agency delegation process.

The risks of agency delegation outlined in the preceding pages bear a striking similarity to those articulated by the Ward Commission in support of its proposal to create a centralized, professional real property management agency within state government:

> The Commission was struck . . . by the absence of any entity which has the statutory power necessary to protect the state's interests in its real property. Instead . . . numerous state agencies are granted power to acquire, manage and dispose of real property. **The resulting diffusion of responsibility for the performance of real property management functions has meant a serious lack of coordination and uniformity among the offices concerned.** [35] [Emphasis added.]

Without effective oversight, auditing, and enforcement of the leasing procedures and transactions conducted at the user agency level, the agency delegation process could foster exactly the types of problems DCPO was created to solve: fragmentation of responsibility, lack of expertise and resources, and inappropriate political considerations. According to the Leasing Manual, DCPO will "periodically" review the leasing transactions of user agencies that have been delegated authority to lease space. These post-transaction reviews are described in the Leasing Manual as follows:

[35] *Final Report to the General Court of the Special Commission Concerning State and County Buildings*, Volume 7, December 1980, p. 107.

> DCPO will review project files and conduct interviews with Agency staff and others involved in transactions. DCPO will meet with the Agency upon completion of its review and will close the review by letter. The review may confirm that the Agency is proceeding expeditiously to acquire leased space in accordance with M.G.L. Chapter 7 and the Leasing Manual; it may identify the need for further training of Agency staff; changes to or clarification of the Leasing Manual, or the need for remedial action.

DCPO officials interviewed by this Office indicated that they planned to review a sample of delegated leases and that they did not anticipate conducting these reviews until mid-1997, at the earliest. It appears that no other details of the post-transaction review procedures have as yet been developed.

In this Office's view, the absence of specific proposal rejection standards, post-transaction review schedules, oversight procedures, and criteria for revoking a user agency's delegated authority renders the delegation process unacceptably vulnerable. A credible oversight plan is essential to safeguard the leasing function. By preparing such a plan early in the implementation phase of the delegation process, DCPO would be better equipped to forecast its staffing requirements.

The effectiveness of the oversight plan will depend on strong and consistent enforcement of its provisions. The Leasing Manual's description of DCPO's role and responsibilities states that DCPO is responsible for establishing and maintaining standards for facilities planning, for developing standard RFP forms, and for developing and maintaining standard leasing documents.[36] It is noteworthy that the Leasing Manual does *not* cite enforcement of leasing standards as a DCPO responsibility. In the absence of timely and appropriate enforcement, user agencies may come to regard compliance with procedures and standards as unimportant or unnecessary. As the Ward Commission noted:

> The granting to state agencies over the years of authority to manage real property

[36] Leasing Manual, page 3-1.

> has created a real reluctance on their part to look to a coordinating agency for guidance. . . . [37]

Statewide facility planning needs improvement.

In 1987, the Inspector General requested reliable information on state agencies' needs for office space in Boston. In response, the then-DCPO Commissioner wrote:

> Unfortunately, no formal planning studies addressing [state agencies' space needs] currently exist. . . . Clearly, the Commonwealth needs to assess the costs and benefits of leasing versus ownership of property for state office use, both in Boston and throughout the state, and articulate a plan which identifies future state office needs.

Nearly a decade later, the state still has no statewide master facility plan identifying the current and foreseeable space needs of state agencies, assessing the costs and benefits of owning or leasing space, and recommending cost-effective strategies for meeting user agency space needs.

On a case-by-case basis -- for each lease of private space for which proposals are solicited -- DCPO sends written inquiries to state agencies that control state-owned space to determine whether suitable state-owned space is available. These frequent mailings rarely generate useful information, principally because DCPO has encountered difficulty in obtaining the necessary information from user agencies, a problem recognized by DCPO. In June 1995, the DCPO Commissioner requested this Office's assistance in obtaining this information from user agencies. In August of this year, DCPO surveyed agencies. This Office intends to assist DCPO in obtaining the necessary information from survey nonrespondents.

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[37] *Final Report to the General Court of the Special Commission Concerning State and County Buildings*, Volume 7, December 1980, p. 108.

User agencies with delegated leasing authority are responsible for determining whether suitable state-owned space is available before soliciting proposals for private leased space. The Leasing Manual contains the following instructions:

> First, the Agency should determine whether there is state space available to meet its needs, by contacting agencies which control state buildings and DCPO, which maintains information on state-owned properties; and by consulting with the Agency's staff with general knowledge of existing state facilities within the targeted geographic area.

The Leasing Manual provides no information on how or from what sources user agencies are expected to obtain reliable information on available and suitable state-owned space, nor does the Leasing Manual explain the assumption, implicit in the above excerpt, that user agency staff are likely to have "general knowledge of existing state facilities within the targeted geographic area." Under these circumstances, user agencies' efforts to locate state-owned space are likely to be scattershot and ineffective. In an April 1996 training workshop for agencies seeking delegated leasing authority, DCPO officials noted that this user agency requirement had been identified by the Property Work Group as an issue meriting further exploration.

Delegating the task of identifying available state-owned space to individual user agencies is neither logical nor efficient. Instead of requiring user agencies to solicit anecdotal information on state space availability every time they procure a lease, DCPO should serve as the central repository for this information. The tasks of tracking usage of state-owned space and locating suitable state-owned space for user agency purposes are central to DCPO's mission as the state's real property manager and coordinator. Effective planning of state-owned space usage is an essential component of an efficient, cost-effective program of real estate and lease management. However, systemwide planning efforts will continue to be inadequate without sufficient investment of DCPO resources and the full cooperation of state agencies occupying state-owned space.

DCPO should accord high priority to developing a statewide master facility plan. In addition to providing comprehensive information on agency space needs and available state space, the master facility plan should establish a long-range policy framework for state leasing activities. By developing a comprehensive statement of objectives as well as a plan for meeting those objectives over time, DCPO would begin to shift the focus of the leasing function from processing short-term transactions to providing policy guidance for state leasing activities. To be useful as a policy guide, the leasing master plan should clarify key assumptions regarding state agency staffing, availability of state-owned space, and new technologies; link DCPO's long-range policies to its day-to-day operational decisions; and incorporate the agency leasing plans contained in their annual facilities statements.

DCPO's post-delegation leasing, oversight, and planning responsibilities may warrant additional resources.

While DCPO's leasing transaction workload will be reduced as user agencies assume leasing responsibilities, DCPO will continue to manage the bulk of the Commonwealth's financial investment in private space under the agency delegation process. The magnitude of DCPO's continued leasing responsibilities is illustrated by the data presented in Table 12. Using data on space leased by the Commonwealth as of April 1996, Table 12 compares the number, square footage, and annual dollar value of existing leases -- both office space leases and non-office space leases -- that would have been eligible for delegation to user agencies with leases that would have been ineligible for delegation.

As Table 12 shows, the 126 leases that were ineligible for delegation to user agencies represented only 25 percent of the total number of leases; however, they accounted for 74 percent of the total square feet of space leased by the Commonwealth and 76 percent of the total annual dollar value of space leased by the Commonwealth. Put another way:

even if all eligible state leases are delegated to user agencies -- an improbable scenario -- DCPO will continue to be responsible for at least three-quarters of the Commonwealth's $97.7 million annual investment in private leased space.

Table 12.

Eligibility of State Leases for Delegation
(as of April 1996)

	Eligible for delegation	**%**	**Ineligible for delegation**	**%**	**Total**	**%**
Total leases*	371	75 %	127	25 %	498	100%
Total square feet	1,821,659	26 %	5,182,410	74 %	7,004,069	100%
Total annual cost	$23,856,346	24 %	$73,881,092	76 %	$97,737,438	100%

*Includes leased court facilities and other non-office space leases.
Source: OIG analysis of DCPO data.

The actual value of DCPO's current leasing responsibilities is significantly higher than the $73.8 million figure listed in the "ineligible for delegation" column of Table 12. Seven months after implementation of the agency delegation process, eight of the 50 state user agencies with leases meeting the delegation criteria had received delegation authority for one or more leases. The delegated leases amounted to 177,650 square feet[38] -- less than 10 percent of the square feet of space comprised by all eligible leases. As of December 1996, then, the vast majority of state leases remained DCPO's responsibility. Moreover, DCPO will continue to process amendments to all leases that were originally

[38]This figure includes the two delegated leases exceeding the delegation threshold of 15,000 square feet (discussed earlier in this section).

procured by DCPO, even if such amendments are sought by user agencies with delegated leasing authority.

DCPO will be unable to fulfill its leasing and planning responsibilities efficiently and effectively without adequate resources and a realistic plan for deploying those resources. The plan should identify the project management, legal, and administrative staff as well as other resources DCPO requires in order to safeguard the effectiveness, cost, and integrity of state leasing.

Statutory restrictions reportedly impede cost-effective leasing.

The state's real property law restricts the term of state leases to five years and provides that leases cannot be renewed earlier than six months before they expire. M.G.L. c.7, §40G states, in part:

> The [DCPO] commissioner may rent, for the use of state agencies, through lease, tenancy-at-will or other rental agreement for a term not exceeding five years, premises outside of the state house or other buildings owned by the commonwealth. . . .
>
> Whenever any such lease, tenancy-at-will or other rental agreement contains a renewal clause or an option to renew, any renewal thereof shall not be exercised earlier than six months prior to the expiration of such agreement.

The Office's interviews with user agency and DCPO officials suggest that these provisions of the real property law are unnecessarily restrictive and may increase the cost of state leases. DCPO has in the past filed legislation to address the six-month renewal provision.[39]

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[39]The DCPO bills filed in 1991 and 1993 also sought other changes in the design, construction, and real property statutes, some of which have been opposed by this Office. This Office has recommended to DCPO that it unbundle the noncontroversial items from its legislative proposal to encourage enactment of amendments to allow these changes.

Five-year lease term

In interviews with this Office, several user agency officials cited the five-year lease term as an impediment to competition. They noted that landlords have reported encountering problems obtaining bank loans to finance major construction for some leases because the five-year lease term is so short. One user agency official cited a Worcester landlord who responded to an RFP with a site that the user agency regarded as "ideal," but who proved unwilling to lease the site to the user agency for less than 10 years. After four months of fruitless negotiations, the user agency readvertised for proposals.

An official of another user agency expressed the view that the five-year lease term sometimes limits competition to landlords who don't need to obtain a bank loan in order to finance the required buildout. An official of a third user agency cited the potentially unfavorable impact of the five-year lease term on proposal prices. According to the official, some landlords have claimed that they would be able to lower the user agency's lease prices by $3 per square foot if the leases were signed for 10 years instead of five.
DCPO officials confirmed that the five-year lease limit is an impediment to competition for leases requiring significant buildout. They noted that the state's buildout requirements are often incompatible with private uses and thus have no further value to the landlord after the state has vacated the property.

Six-month lease renewal restriction

Officials of four user agencies advised the Office that the six-month restriction on lease renewals has in some cases prevented them from taking advantage of lease rate reductions offered by landlords seeking lease amendments well before the six months preceding the lease expiration date. Similarly, user agency officials reported that this six-month restriction sometimes prevents them from taking advantage of the availability of additional space in their buildings or capitalizing on dips in market lease rates.

DCPO officials interviewed by this Office confirmed that the six-month statutory restriction impedes the Commonwealth's ability to negotiate cost-effective lease amendments with landlords. They noted that while some user agencies do begin negotiating with landlords before the six-month renewal date, with the understanding that the lease cannot be renewed until that date, most landlords prefer to negotiate a lease extension at least one year prior to the termination date of the lease.

CONCLUSION AND RECOMMENDATIONS

The review by the Office of the Inspector General yielded a mixed assessment of the Commonwealth's leasing process. Interviews with user agencies revealed that DCPO has effectively limited the size and cost of state leases while ensuring that new leases are selected in a fair, competitive, legal manner. In these respects, DCPO's management and oversight of state leasing have fulfilled the Ward Commission's purposes in creating a centralized, professional leasing office for the Commonwealth.

This Office's data analysis and interviews also confirmed the view among state agencies, including DCPO, that leasing transactions take too long. Heavy workloads, DCPO understaffing, internal user agency decision-making, landlord delays, and policy shifts beyond the control of all parties were all major factors contributing to protracted leasing schedules. The recently instituted agency delegation process is intended to streamline state leasing transactions, thereby speeding up processing times for DCPO-procured leases as well as leases procured by user agencies. DCPO has also instituted a series of operational changes designed to simplify the leasing process for user agencies and landlords.

In principle, this Office does not oppose decentralization of state leasing if accompanied by sufficient and effective monitoring and enforcement. In practice, however, this Office has serious concerns about the risks posed by the agency delegation process as currently designed. Although the agency delegation process is intended to promote economical leasing, this Office's analysis suggests that it may have the opposite effect: leasing costs may escalate in the absence of the downward pressure DCPO has historically exerted on the size and cost of space leased by user agencies.

The agency delegation process also fragments responsibility for long-range facility planning. Given that the Commonwealth leases almost four million square feet of office space at an annual cost to state taxpayers of $60 million, planning and coordination of the leasing function are prerequisites to an efficient, cost-effective leasing function. Yet user agencies are required to prepare their own facilities plans, conduct their own searches for suitable state-owned space, and evaluate the costs and benefits of whatever options they are able to generate. From a systemic perspective, this disjointed and unsystematic approach is unlikely to result in sound, cost-effective leasing decisions.

Real estate transactions are more complex and require more specialized expertise than most other types of public procurements, yet user agencies with delegated leasing authority are not required to assign experienced real estate attorneys to represent the Commonwealth in negotiations with private attorneys representing landlords. Insufficient experience or diligence on the part of user agency attorneys could expose the Commonwealth to legal problems as well as favoritism or abuse in leasing transactions. To the extent that user agencies are subjected to inappropriate political pressures from landlords and other interested parties, the risks of waste and abuse will be magnified.

All of these risks will be exacerbated if larger and more expensive leases are delegated to user agencies. The agency delegation process is supposed to permit the delegation of smaller leases -- entailing less than 15,000 square feet -- to user agencies with the demonstrated capacity to handle the necessary administrative and legal work associated with those leases. However, within a few months of implementation of the agency delegation process, two leases exceeding the delegation threshold of 15,000 square feet had been delegated to user agencies. The approval of these so-called "pilot projects" before the agency delegation process has been fully implemented and evaluated is not reassuring. Exceptions to the delegation rules should not be permitted until the untested system of agency delegation has proved workable and cost-effective.

The Ward Commission centralized leasing authority within DCPO to promote professionalism and accountability in the state's leasing transactions. Even if all eligible leases were delegated to user agencies, DCPO would continue to manage at least three-quarters of the Commonwealth's $97.7 million investment in private leased space. Moreover, as responsibility for leasing is shifted to user agencies, DCPO will need to assume important planning, monitoring, and enforcement responsibilities. Current DCPO resources devoted to leasing may well be insufficient to fulfill DCPO's essential responsibilities. The recommendations offered below are intended to safeguard the Commonwealth's investment in leased space.

Several statutory changes also appear warranted. While five-year leases make sense in some cases, they may be too short in cases where the state requires the landlord to finance substantial buildout. In such circumstances, a 10-year lease term is likely to generate more competition and, thus, enable the state to enter into a longer-term lease that fulfills the agency's space requirements at a reasonable price. Increasing the maximum lease term to 10 years would also shrink the volume of leasing transactions by reducing the number of lease renewals processed by user agencies and DCPO.

Long-term leases are often more complex transactions than short-term leases; they require more planning and represent larger financial commitments. Accordingly, long-term lease commitments should be made only after a careful review of current and future space needs and alternatives for meeting those needs. In addition, this Office believes that responsibility for long-term leases should not be delegated to user agencies. Instead, DCPO should be responsible for all state leases that exceed the standard five-year term.

The statutory prohibition on renewing leases more than six months before they expire also appears unnecessarily restrictive. Permitting lease renewals to be exercised up to one year before the expiration date of the lease could increase the Commonwealth's leverage in negotiating lease amendments, improve the Commonwealth's relationships with private landlords and reduce the number of short-term lease amendments initiated in response to incomplete lease renewal transactions.

To protect the Commonwealth's interest in maintaining the cost-effectiveness and integrity of state leasing, the Inspector General offers the following recommendations to the Legislature:

1. **The Legislature should direct DCPO to prepare and periodically update a statewide master facility plan.** The plan should clarify key assumptions regarding user agency staffing, availability of state-owned space, and the use of new technologies; link DCPO's long-range policies to its day-to-day operational decisions; and incorporate the user agency leasing plans contained in their annual facilities statements.

2. **The Legislature should direct DCPO to prepare a detailed delegation oversight and evaluation plan.** The oversight plan should specify DCPO's leasing oversight priorities, post-transaction review procedures and schedules, and a methodology for tracking state leasing costs.

3. **The Legislature should direct DCPO to prepare a staffing plan and appropriate resources for its implementation.** The staffing plan should identify the project management, legal, and administrative staff resources DCPO requires in order to carry out its leasing responsibilities.

4. **The Legislature should mandate and fund a consultant study, commissioned by DCPO, to design a reliable system within DCPO for collecting and tracking information on usage of state-owned space.**

5. **The Legislature should amend M.G.L. c.7 to require all state agencies to provide information to DCPO on their usage of state-owned space.**

6. **The Legislature should amend M.G.L. c.7, §40G to allow the DCPO Commissioner to lease private space for a term not exceeding 10 years, provided that any lease exceeding the standard five-year term shall be ineligible for delegation.**

7. **The Legislature should amend M.G.L. c.7, §40G to permit lease renewals to be exercised within the 12 months prior to the lease expiration date.**

Appendix
Office Lease Sample Selection

The Office's review focused on leases of office space[40] approved by the DCPO Commissioner between January 1, 1994 and May 12, 1995. This time frame was chosen because it was the most recent period for which detailed schedule information was available, it constituted a reasonable time frame for analysis of leasing schedules, and the number of DCPO staff assigned to the leasing function had not changed during this period, although there were some individual staff changes.

DCPO provided this Office with six databases[41] pertaining to the leasing activities of DCPO. These databases contained lease-specific information regarding the DCPO-assigned project number, agency name, location of the property, begin date and end date of the lease, square footage, lease rate, date of DCPO's receipt of the agency's space request, and date of the DCPO Commissioner's approval of the lease. According to the leasing data provided by DCPO, as of May 12, 1995, the Commonwealth had 352 active office leases.

The Office analyzed the time required to complete the tasks comprising the DCPO leasing process. For each lease, this analysis required, at a minimum, the date of DCPO's receipt of the agency's space request (DCPO Form F1) and the date of the DCPO Commissioner's approval of the lease (DCPO Form F3). The Office's review

[40] The Office's review excluded non-office leases such as leases of warehouse space and court facilities.

[41] The six databases provided by DCPO were as follows: (1) Tracka.dbf, which contained information on lease amendments; (2) Trackn.dbf, which contained information on new leases; (3) Agreeinv.dbf, which contained lease project numbers assigned by DCPO; (4) Rfpreq.dbf, which contained information on RFPs for leased space issued by DCPO; and (5) Rfprecd1.dbf and (6) Rfprecd2.dbf, two databases which contained information pertaining to the receipt of proposals in response to leased space RFPs.

focused on 219 lease transactions completed between January 1, 1994 and May 12, 1995, of which 40 were new leases and 179 were lease amendments.

Sampling Objective and Methodology

It was not feasible for the Office to examine each of the 219 lease transactions in detail. Instead, the Office selected and analyzed a sample of new leases and lease amendments executed during this 17-month period. The Office's objective in selecting the sample was to ensure that the sample was representative of the 219 lease transactions. Accordingly, the Office utilized a statistical method to determine the sample size necessary to represent all office leases executed during this designated time period.

First, the Office split the leasing data into two categories: new leases and lease amendments. The data were split because the processing tasks required for new leases differ substantially from those required for lease amendments, and the mean number of days to complete a new lease transaction was 472 days compared to the mean of 143 days to complete a lease amendment transaction.[42]

Then the Office plotted the two sets of data on a graph to identify any substantial outliers -- that is, any isolated cases in which the number of days to complete a transaction were unusually large or few. The lease amendments data set contained five outliers. The five outliers were removed from the data that were used to determine the sample size, and constituted a judgmental sample for detailed examination by the Office.

The Office then calculated the mean time to complete new leases and lease amendments. The results were 472 days and 128 days, respectively. The Office then tested to determine if there was a significant statistical difference between the average time to complete new leases and lease amendments.

[42]For the purpose of this analysis, the time to complete a transaction is the number of days between when DCPO received an agency's space request (F1) and when the DCPO Commissioner signed the lease approval (F3).

A hypothesis test to determine whether two groups of data are statistically different entails the following steps:

1. Compute the mean (average) number of days to complete the leasing process for new leases, and compute the mean number of days to complete the leasing process for lease amendments.

2. Establish the null hypothesis (H_o) and the alternative hypothesis (H_a):
   H_o: mean number of days are the same for new leases and amendments
   H_a: mean number of days are different for new leases and amendments

3. Reject the null hypothesis if the mean number of days to process new leases differs by too much[43] from the mean number of days to process lease amendments; otherwise, do not reject the null hypothesis.

Performing the hypothesis test at the five percent significance level (which results in a two-tailed test critical value of +/- 1.96), the value of the test statistic is 7.916. This value falls in the rejection region. Thus, the Office rejected the null hypothesis (H_o). There is sufficient evidence to conclude that there is a difference in the mean number of days to complete the leasing process for new leases and lease amendments. As a result, the Office selected random samples separately from the data on new leases and lease amendments.

Using the DCPO data, the Office calculated the average ("mean") number of days it took to complete the leasing process and the standard deviation (a measure of the variation in the data). The mean and standard deviation of each data set were then used in the formula below to determine the size of the sample necessary to adequately characterize the leasing process for new leases and lease amendments.

[43] The determination of whether one mean differs "too much" from another mean is influenced by the standard deviation of the two data sets and the chosen significance level. The significance level is the probability of rejecting the null hypothesis as false when, in fact, it is true (i.e., a "false negative"). The Office selected a five percent significance level, which means there was a five percent chance that the calculation would result in an incorrect rejection of the null hypothesis.

$$n = \frac{[Z\propto/2 \bullet \sigma]}{E}$$

Where:

n =	sample size
$Z\propto/2$ =	area under the standard normal curve for a given confidence interval
σ =	standard deviation of the population (all data)
E =	maximum error of the mean (which, for this calculation, equals 25% of the population mean)

To calculate the sample size from the two data sets, this Office made two judgments concerning the desired confidence level and acceptable maximum error of the estimate.

A confidence level or confidence interval relates to the desired accuracy of the sample mean in relation to the population mean. Since a sample mean will likely never exactly equal a population mean, a confidence interval provides a range around the population mean within which the sample mean should be located. The more confident we wish to be about a sample reflecting the population, the larger the size of the sample required, and/or the greater the length of the confidence interval.

The Office selected a 95 percent confidence level which means that, over time, 95 out of 100 samples selected will have mean values that fall within the range of the confidence interval. Conversely, a 95 percent confidence level means that, over time, five out of 100 samples selected will have mean values that fall outside the range of the confidence interval.

The maximum error of the estimate reflects the precision of the sample (i.e., how close the sample mean is to the population mean) and is equal to half the length of the confidence interval. The maximum error of the estimate may be adjusted to reflect the desired level of accuracy. The Office selected a maximum error of the estimate that was equal to 25 percent of the population mean. The Office could be 95 percent confident that the sample mean is located within 25 percent (plus or minus) of the mean for all leases.

Incorporating these decisions into the sample selection formula described above, the Office could be 95 percent confident that the sample mean is located within 25 percent (plus or minus) of the mean for all leases. The calculations determined that the sample should consist of 18 new leases and 25 lease amendments.

To select the samples, numbers were assigned to each new lease and lease amendment, and a random sample was selected from each category using a QuattroPro random number generator function with replacement.

Table A-1 on the following page displays the mean, standard deviation, and maximum error of the estimate for the sample data, for all new leases and for all lease amendments. Based on the conditions set by this Office, the sample selected appeared to possess traits similar to all leases in the DCPO database.

Table A-1

Statistics for OIG Sample and All Leases
(Transactions completed 1/1/94 - 5/12/95)

Lease Category	Mean	Standard Deviation	Error Range (25%)
All New Leases (n = 40)	489	268	367 - 611
Sample of New Leases (n = 18)	426	221	320 - 532
All Lease Amendments (n = 174)	128	82	96 - 160
Sample of Lease Amendments (n = 25)	138	86	104 - 172

Source: OIG analysis of DCPO data.

According to these data, the samples of new leases and lease amendments drawn by the Office fell within the parameters established; that is, the average times required to complete the leasing process for the new lease and lease amendments in the sample were within plus or minus 25% of the average times required to complete the leasing process for all new leases and lease amendments.

Sources

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