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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-171019

APR 20 1973

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C/R The Honorable William V. Roth, Jr.
United States Senate

Dear Senator Roth:

Pursuant to your request of October 18, 1972, we looked into the costs of redecorating the Law Enforcement Assistance Administration's (LEAA's) headquarters office in the Indiana Building, 633 Indiana Avenue NW., Washington, D.C. We found no evidence of any violations of applicable laws or regulations.

2 The General Services Administration (GSA) leases the 17 space in the Indiana Building from Indiana Associates at an annual rental of \$506,531.76; LEAA occupies 9 of the 13 floors. The original lease was due to expire on August 31, 1975. On February 1, 1973, a 10-year extension of the lease was entered into, effective on that date.

GSA authorized the renovations in August 1971, even though the original lease did not contain an option-to-renew clause and thus did not provide any guarantee that the owner would renew the lease. GSA told us that it felt justified in authorizing the renovations because the owner had continually assured GSA of his desire to negotiate a reasonably priced extension. GSA further stated that, in the event it could not have satisfactorily negotiated an extension of the lease, the Government could have exercised its right of eminent domain if this was determined to be prudent and necessary. We believe that GSA should not have authorized the renovations at the Indiana Building without more assurance that the lease would be extended.

As of March 21, 1973, the renovation costs amounted to \$391,542--\$7,500 for design services; \$82,585 for carpeting, wallcovering, draperies, and furniture; and \$301,457 for repairs and alterations. An estimated additional \$9,173 is to be spent for a smoke-detection system. GSA records stated that the renovation was necessary to meet LEAA's current space needs. The costs are being paid from moneys appropriated for LEAA administrative expenses.

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Only four of the nine floors occupied by LEAA were renovated. All work on these floors has been completed except for the installation of the smoke-detection system. A GSA official and an LEAA official informed us that the new lease provided that the owners of the building would pay for general renovation of office space, including changes in partitions.

INTERIOR DESIGN SERVICES

3 On June 4, 1971, the Department of Justice initiated 37 action to refurbish LEAA's offices in the Indiana Building. It requested GSA to provide an interior designer and a layout technician to assist in determining the layout of the office space; in designing utilization patterns for placement of walls and partitions; and in selecting furniture, equipment, and colors. GSA informed the Department that the interior design services would cost \$7,500 and that the layout technician's services would be provided at no cost.

In July 1971 the Department entered into an agreement with GSA for the interior design services. Under the agreement the designer developed layouts showing the placement of furnishings in each office; design boards showing samples of fabrics and furniture to be used in each office; ordering data, including color recommendations for carpeting, draperies, wallcovering, and paint; and information on other items that might be required.

CARPETING, WALLCOVERING, DRAPERIES, AND FURNITURE

The Department's July agreement with GSA provided that furnishings--such as tables, chairs, carpeting, draperies, lamps--be selected from standard items available within the Federal supply system. Based on the interior designer's specifications, LEAA purchased the following items.

Draperies	\$ 4,328.00
Carpeting	37,610.38
Wallcovering	6,138.33
Furniture	<u>34,507.98</u>
Total	<u>\$82,584.69</u>

Most items were purchased from Federal supply sources; pictures and wallcoverings were purchased on the open market because GSA did not have a contract with a supplier of such

items; and some of the desks, tables, and chairs being used at LEAA were kept and thus eliminated the need for additional purchases.

REPAIRS AND ALTERATIONS

The GSA layout technician worked with LEAA employees to develop functional layouts for the renovation. On June 22, 1971, the layouts were sent to GSA for approval. GSA approved the layouts on July 30, 1971, and sent them to the contractor for cost estimates. On August 16, 1971, the contractor, Indiana Associates, sent the cost estimates to GSA for approval. GSA approved these estimates, and the contractor began the repairs and alterations during the week of August 23, 1971. As of March 21, 1973, the cost of the repairs and alterations amounted to \$301,457, as follows:

Mechanical	\$ 31,453.00
Electrical	23,233.14
General construction	<u>246,770.83</u>
Total	<u>\$301,456.97</u>

The cost includes \$6,023.30 for a private bath (toilet, lavatory, mirror, and vanity) installed for the Administrator's office. This cost is broken down by the contractor, as follows:

Subcontractor's work:	
Plumbing and mechanical	\$5,135.00
10-percent fee	513.50
General contractor's work:	
6-foot parkwood vanity	\$309.75
10-percent overhead	30.98
10-percent profit	<u>34.07</u>
	<u>374.80</u>
Total	<u>\$6,023.30</u>

The plumbing and mechanical work was explained by the contractor, as follows:

"Roughed-in and installed an American Standard White Elongated Bowl and six (6) foot long parkwood finished vanity with bowl and fawcetts [sic] (vanity furnished by other contractor): Cut opening in wall on 12th floor, 6' X 3' for access to 4" existing

waste. Core drill floor deck on 13th floor for new waste and water lines. Channel existing masonry walls for new water lines. Removed ceiling on 12th floor for access to new waste and water lines. Cut walls (masonry) in janitors closet for tapping into existing water lines. Cut off building water and drained lines to make connections to new fixtures. Tested water and drain systems. Installed twenty-six lineal feet of 6" X 6" metal duct complete with auxillary fan for new exhaust system. Cut roof (concrete) and repaired roofing and proper flashing. Installed new waste stack (ventilation) including cutting roof and patching thereof."

The cost also includes \$5,251 for teakwood doors for the 13th floor. The interior designer told us that the design specifications stated that the doors should be a "teak colored finish or teak plastic laminate."

GSA informed us that its policy is to use hardwood solid-core doors in areas requiring them and that, in this case, the teakwood conformed to the office decor. GSA also said that its cost estimators had determined that the cost of the doors was fair and reasonable and not excessive when compared to other types of doors finished in natural wood used in other Government executive offices.

Also included in the cost is \$17,007 for air-conditioning on the 13th floor. GSA informed us that the partition changes requested by the Government as part of the overall renovation created changes in the old air-conditioning system at the time the alterations were made. The building owner was required by the lease to provide adequate heating, lighting, and air-conditioning; however, because the Government requested changes in the partitioning, the lessor had no contractual obligation to change the building's systems without compensation. GSA stated that its customary practice is to compensate the lessor for the fair and reasonable cost of Government-requested alterations made after its initial occupancy.

The balance of the cost for repairs and alterations was for partitioning, floor and ceiling work, and various mechanical and electrical work.

As previously stated, the contractor for the renovation was Indiana Associates which owns the building. A GSA handbook entitled "Acquisition of Leasehold Interests in Real Property" states that:

"Normally, the best interests of the Government will be served by having alterations, improvements, and repairs accomplished by the lessor under original leases or by supplements thereto where the building is owner-serviced."

GSA's Cost Engineering Branch reviewed all the costs and found them to be reasonable.

ECONOMY ACT LIMITATIONS ON ALTERATIONS

Section 278a of title 40 of the United States Code states, in part, that:

"no appropriation shall be obligated or expended * * * for alterations, improvements, and repairs of the rented premises in excess of 25 per centum of the amount of the rent for the first year of the rental term * * *."

According to GSA records, the cost of the alterations, repairs, and improvements as limited by this section should not exceed \$83,203.08, which is 25 percent of the net annual rent of \$332,812.34 (gross annual rental of \$506,531.76 less the cost of lessor-furnished services and utilities of \$173,719.42).

As stated previously, however, the renovation costs amounted to \$391,542 as of March 21, 1973. GSA approved the overrun of \$308,339 under the provisions of 40 U.S.C. 490 (a)(8), which authorizes the Administrator of GSA:

"* * * to repair, alter, and improve rented premises, without regard to the 25 per centum limitation of Section 278a of this title, upon a determination by the Administrator that by reason of circumstances set forth in such determination the execution of such work, without reference to such limitation is advantageous to the Government in terms of economy, efficiency, or national security."

Section 490 (a)(8) further states:

"* * * that such determination shall show that the total cost (rentals, repairs, alterations, and improvements) to the Government for the expected life of the lease shall be less than the cost of alternative space which needs no repairs, alterations, or improvements."

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GSA records showed that the necessary cost determinations had been made and that justification had been provided to show that repairing and altering the Indiana Building would be more advantageous to the Government than renting alternative space.

GSA determined the total cost for the Indiana Building over the remaining term of the lease by multiplying the gross annual contract rent by the remaining term of the original lease and adding the proposed cost for repairs. It determined the total cost for the alternative space by multiplying the annual rent for such space--which needed no repairs or alterations--by the remaining term of the lease. These calculations showed that renovation of the Indiana Building would be more economical than renting alternative space. We verified GSA's calculations and concurred with its findings.

We trust that the information furnished will be of assistance to you.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Rhetts".

Comptroller General
of the United States